

Action	To approve
Purpose	This report provides an update on the latest developments relating to the GMC's pension arrangements and main areas on ongoing work
Decision trail	This is the first update on pensions arrangements following the reports to Council as part of the valuation process last year.
Recommendation(s)	<ul style="list-style-type: none"> a To note the current funding update on the scheme and the plans to meet the Chair of the Board of Trustees. b To note the ongoing work to support 'Member Options and Independent Advice'. c To note that the contract for Actuarial, Administration and Employer Advice has been awarded. d To agree to progress work on changes to life assurance cover to maximise the benefits for scheme members survivors/dependants.
Annexes	Annex A – Scheme Funding Update to Trustees
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Pension Scheme Funding Position

- 1** In 2019, the GMC and Trustees agreed a recovery plan in response to the 2018 triennial valuation. As part of this process we agreed to more regular meetings with Trustees.
- 2** Ahead of meeting the Chair of Trustees later in 2020 this report sets out the very latest funding position.
- 3** The latest formal funding report as at 30 June 2020 (annex A) shows an ongoing funding level of 96.6% and deficit of £10.7M. Based on indexed returns since 1 July, the funding level has since recovered a little more to the position it was at the start of the year (97%).
- 4** The advisers view is that scheme has coped extremely well with the impact of the Covid-19 crisis thanks to the actions taken by the Trustees over recent years.
- 5** The investment framework put in place by the Trustees has meant that the Scheme has been very successful in navigating the unprecedented level of volatility in investment markets.
- 6** Whilst we have seen bond yields falling to record lows, the liability hedging arrangements put in place by the Trustees have meant that the Scheme's LDI assets have tracked the increase in value of liabilities. Furthermore, the Trustees choice to appoint a fiduciary manager has meant that a wide range of investments has been available (including those which do not rely on general market direction) and investment ideas have been implemented both nimbly and opportunistically.
- 7** For instance, having been concerned about stock market valuations during the run up to the end of 2019, the Scheme's equity exposure was de-risked by around one-third which helped mitigate the impact of the fastest bear market in history during March-April 2020. The Trustees have also been able to benefit from this volatility as the delegated framework enabled the equity exposure to be subsequently increased close to the 2020 market trough - this has added further value since implementation.
- 8** Further discussions on funding are scheduled to take place following the next triennial valuation, due 31 December 2021.

Member options and independent financial advice

- 9** As part of the 2018 valuation process Trustees and the employer considered the potential beneficial impact on the scheme's funding position of providing additional guidance and support for scheme members on the options available to them on accessing their benefits.
- 10** For Trustees (and ultimately the Employer) these options can reduce risk and costs. Transfer's out can be the best option for some scheme members and can also result in a funding gain for the scheme.
- 11** There is an increasing trend for Pension schemes to provide their members with more options at retirement, including transfer values at retirement, online modelling tools and Independent Financial Advice to support member decision making. Trustees have decided to proceed with introducing an improved at retirement process with online portal access and option for paid IFA advice,
- 12** Advice is key in raising levels of member understanding and engagement which will likely result in a higher take up on transfers out, but with the safeguard that scheme members can access appropriate advice before taking up a transfer option. These options are already available, and scheme members can access their own advice.
- 13** Given the benefits to the funding position the costs associated with this enhanced member options exercise will be met by the Scheme.
- 14** A process to appoint Independent Advisers is scheduled for September/October with a provisional start date of January 2021.
- 15** Providing this support to scheme members from the scheme ensures an appropriate standard of support that can be monitored.
- 16** While this enhanced service is in the interests of scheme members pension transfers have attracted adverse publicity. To reassure scheme members we will have an extensive set of communications and significant safeguards will be in place, this includes paying advisers at an agreed rate and not on a commission basis.

Pension Scheme Advisors

- 17** All our pension arrangements are currently supported by advisers from AON.

- 18** We recently completed a tender process for actuarial, administrative and employer advice services. This was supported by the procurement team and the Assistant Director – Finance cover the employer's requirements. Following this process AON were reappointed.

Excepted life assurance cover

Existing arrangements

- 19** Currently we have a death in service/life assurance arrangements in place for our employees, who are members of the GMC Pension Plan or the DB scheme. This is referred to as a registered life assurance scheme and the insurer is Zurich.
- 20** The lump sum death benefit is designed not to form part of the member's estate and consequently is not be subject to inheritance tax. It is paid via a trust arrangement. We currently do this via the DB scheme, which is a trust, or, in the case of the DC scheme, a separate trust set up when we introduced the DC arrangement.
- 21** Our information provided to GMC colleagues (in both schemes) describes the lump sum as a tax-free benefit.
- 22** The provision of a death in-service tax-free lump sum is based on a multiple of salary at date of death, with the multiple dependant on the staff members pension scheme membership:
- a** 4 x salary for members of the GMC Staff Superannuation Scheme (final salary).
 - b** 6 x salary for members of the GMC Group Personal Pension Plan (Aviva scheme) members.
- 23** The multiple is lower for members of GMC Staff Superannuation scheme as they have spouse/dependant's benefits in the event of their death. The higher personal plan lump sum reflects the absence of these benefits and likely size of any pension pot on death (typically quite small).
- 24** The premiums for the life assurance cover are paid by the Employer on an annual basis and they are treated as an allowable business expense. The premiums are not treated as a benefit in kind for staff.

Rationale for change

- 25** Our professional advisers have now advised us that our current insurance arrangements could see an element of any life assurance payment be subject to tax. This is because the death of an employee would be treated a pension crystallisation event.
- 26** To give an example:
- An employee has a DC pot of 0.3m.
 - They have a salary of £150,000.
 - They die in service and a death in service lump sum is payable. This totals £900,000 (150,000 x 6).
 - Their GMC pension benefits are now worth 1.2m and a 55% tax charge would be applied on the amount above the lifetime allowance (currently 1.073m).
- 27** For a DB member the same situation could arise as their lump sum is added to the value of their pension benefits.
- 28** While we already have trust arrangements in place for both schemes, because the benefits are delivered via registered schemes, the lifetime allowance would apply. The move to excepted cover delivers the life assurance element outside the schemes.
- 29** Our commitment is to provide a tax-free lump sum and to deliver this in these circumstances we would need to move to what is called an 'excepted cover' insurance arrangement. This allows the insurance payment not to be included in the crystallisation of scheme benefits.
- 30** This does not affect our insurance costs as we are covering the same risks and the costs of doing this are very small (£2,500). As well as an adjustment to our insurance policy we have been advised that we would need to set up a new trust arrangement (in addition to what we have already).

- 31** The arrangement does not need individual trustees. The GMC as a corporate body can set up the trust and the decision-making process on making payments can be set out separately. These arrangements are increasingly common, and we have discussed these with both our legal and pensions advisers who are implementing these arrangements for other clients. If we proceed Field Fisher Waterhouse would provide a template and ensure that our arrangements were legally secure.
- 32** With this in place we could then identify the most suitable arrangement for all colleagues. For most GMC colleagues existing arrangements remain suitable.
- 33** Individuals potentially affected include some Assistant Directors and Directors. If the Executive Board are content with making these changes for GMC staff below Director level in principle, we would report to Remuneration Committee seeking approval for using this approach for SMT prior to implementation.

Scheme Funding Update to Trustees



General Medical Council Staff Superannuation Scheme

Funding Update Report as at 30 June 2020

Prepared for The Trustees of GMC Staff Superannuation Scheme
Prepared by James Miller, FIA and Peter Foad, FIA
Date 23 September 2020

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Funding update at 30 June 2020

Overall View

At 30 June 2020



Your funding level has worsened slightly since the last update;

*LDI assets dropped by £10.7M between 30th and 31 March which is not captured within these figures

The Scheme funding position remains broadly in line with 2018 recovery plan;

but there is a deficit.

No action is needed at this time. The next report will be as at 30 September 2020.

At 30 June 2020

Funding level

96.6%

At 30 June 2020

Deficit

£10.7M

Compared to

At 31 March 2020

Funding level

97.2%*

Compared to

At 31 March

Deficit

£7.7M*

Compared to

At valuation date

Funding level

95.2%

Compared to

At valuation date

Deficit

£11.6M

Long-term target (G+0.25%)

Funding level

83.9%

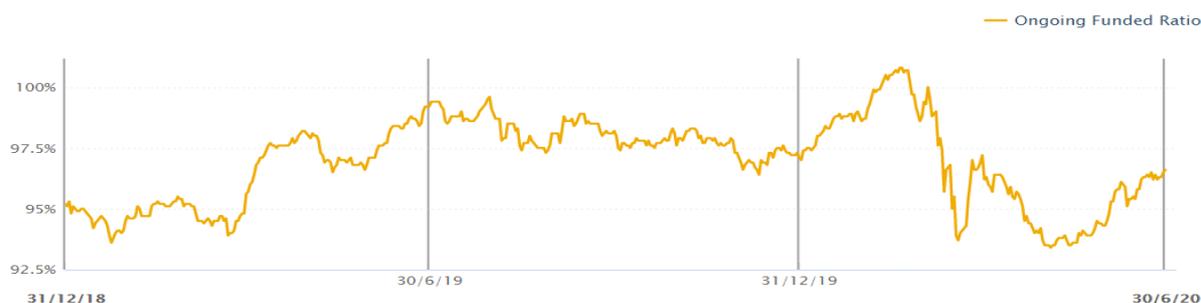
Next de-risking trigger is 88%
Return for 2028 Target: 2.1%

Long-term target (G+0.25%)

Deficit

£57.6M

Funded Ratio



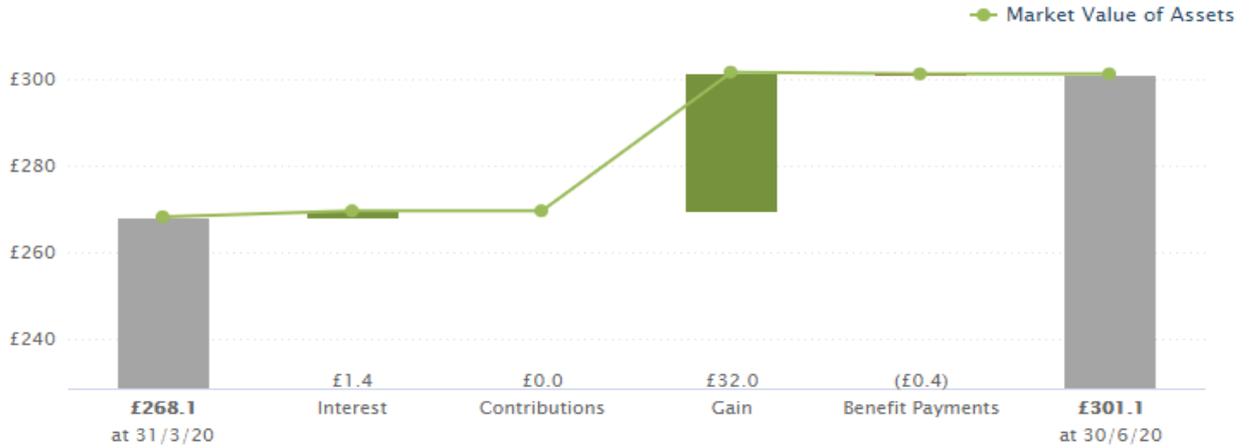
	31/12/18	30/6/19	31/12/19	30/6/20
Ongoing Funded Ratio	95.2%	99.2%	97.1%	96.6%

Analysis

Reasons for change since 31 March 2020

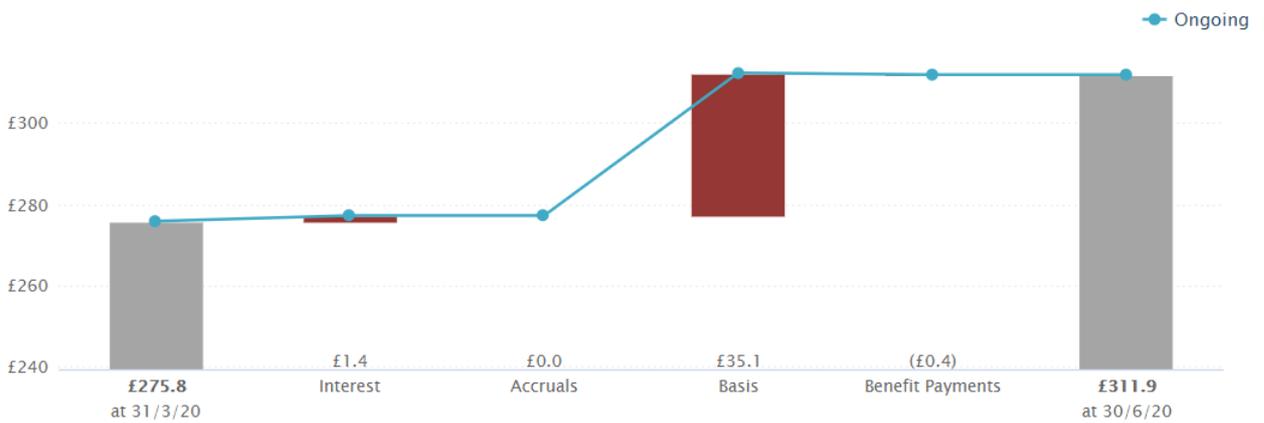
Asset Attribution

Values in £1,000,000

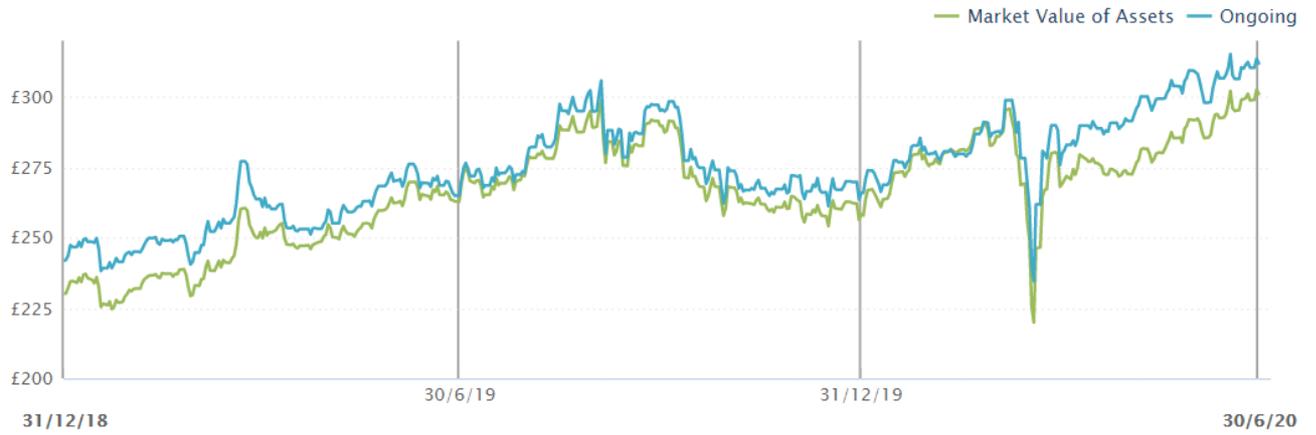


Liability attribution

Values in £1,000,000



Asset and Ongoing liability changes since the valuation at 31 December 2018



Background information

Method

This funding update is consistent with the **technical provisions** calculations for the formal actuarial valuation as at 31 December 2018. The assumptions used have been modified only insofar as is necessary to maintain consistency with the statement of funding principles dated 6 November 2019, reflecting the change in the effective date and in relevant market conditions.

The funding update is projected from the results of the formal actuarial valuation as at 31 December 2018 and is therefore approximate. Since the update is not based on up to date membership data, it becomes more approximate the longer the period of time that has elapsed since the last actuarial valuation.

The funding update takes account of the following over the period since the last formal actuarial valuation:

- Cashflows into and out of the Scheme;
- Actual price inflation and its impact on benefit increases;

Demographic experience since the last formal actuarial valuation has been assumed to be in line with the statement of funding principles.

This update is designed to give a broad picture of the direction of funding changes since the actuarial valuation but does not have the same level of reliability as, and therefore does not replace the need for, formal actuarial valuations.

It does not reflect any changes to assumptions which would be made if a full actuarial valuation were to be carried out to reflect, for example, changes to the covenant of the sponsoring employer, investment strategy or economic outlook, particularly for RPI/CPI.

Assets

For the purpose of this funding update, I have used an un-audited value of the assets (excluding AVCs, which are invested separately) as at 30 June 2020.

Making decisions

The update and projections in this report are intended for information only and do not contain all the information you would need to make a decision on the contributions payable or investment strategy.

You should therefore not rely on the information in this report when making any decision about scheme funding or the investment strategy, without first talking to your usual consultants.

Glossary

Funding level/ratio is the ratio of the value of assets to the value of liabilities.

Surplus / Deficit displays the value of assets less the value of the liabilities. If the value of the liabilities is greater than the value of the assets, then the difference is called a deficit.

Technical Provisions represent the funding target for a scheme agreed as part of the actuarial valuation.

Interest reflects the asset and liability values increasing at the interest rate used to value the liabilities.

Contributions / Accruals show the expected increase in assets and liabilities due to employer contributions and new benefit accruals, respectively.

Gain / Basis displays the actual increase in assets and liabilities due to actual returns achieved on the assets differing from assumed interest, and the impact of a change in the actuarial valuation basis, respectively.

Benefit Payments displays the expected decrease in assets and liabilities due to benefit payments (including transfers out) during the period.

Actuarial compliance and terms of reference

Requirement for report

This report has been requested by the Trustees of GMC Staff Superannuation Scheme. It has been prepared under the terms of the agreement between the Trustee and Aon on the understanding that it is solely for the benefit of the addressees.

TAS compliant

This report and the work relating to it comply with 'Technical Actuarial Standard 100: Principles for Technical Actuarial Work'.

This report should be read in conjunction with:

- The report on the most recent actuarial valuation of the Scheme dated 6 November 2019
- The statement of funding principles dated 6 November 2019

The compliance is on the basis that the Trustees of General Medical Council Staff Superannuation Scheme are the addressees and the only users of this report and that the report is for information only and is not to be used to make any decisions on the contributions payable or investment strategy.

Further information

Questions about this update

Your Aon consultant will take you through this report, and will be very happy to answer your questions at your next meeting.

If you have questions before then, please ask us – our contact details are below.

Your Aon team

Here are the contact details of your regular team, or of consultants who would be pleased to help with aspects of integrated funding for your pension arrangements.

Trustee advice

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Peter Foad (01727 888 645)

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Employer advice

Ian Graham (01727 888 267)

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More funding information

Risk Analyzer can show you funding updates:

- On funding assumptions
- On solvency assumptions
- On accounting assumptions
- On different scenarios
- As often as you like

If you have access to Risk Analyzer, you can log in at <https://riskanalyzer.aon.com>

Investment advice

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