Arts Council Retirement Plan (1994)

Statement of Funding Principles

This statement has been prepared by the Trustees of the Arts Council Retirement Plan (1994) ('the Plan') to record its objectives and policies in relation to the funding of the Plan.

The statement has been prepared after consultation with Arts Council England, The Arts Council of Wales, Creative Scotland, Creativity, Culture and Education, Tŷ Cerdd – Music Centre Wales, and The Crafts Council ('the Participating Employers') and after taking the advice of Bill Barnes ('the Scheme Actuary').

It replaces the previous statement dated 31 March 2017 and will be reviewed, and if necessary revised, by the Trustees no later than 15 months after the effective date of each future actuarial valuation.

Statutory funding objective

The Trustees are required to adopt a 'statutory funding objective'. The statutory funding objective is that the Plan must have 'sufficient and appropriate' assets to meet the expected cost of providing members' past service benefits, which we refer to as 'technical provisions'[1].

Policy for achieving the statutory funding objective

Funding method and assumptions

To assess the expected cost of the benefits payable from the Plan, the Trustees will obtain regular actuarial valuations of the Plan. The Trustees will choose an appropriate funding method for this actuarial valuation, together with a prudent[2] set of actuarial assumptions. The Trustees have sought the advice of the Scheme Actuary and have consulted of the Participating Employers before determining the method and assumptions.

- Funding method – The method to be used in the calculation of the expected cost of members' past service benefits is an accrued benefits funding method which takes full account of expected future salary growth.
- Assumptions – The actuarial assumptions are either financial (interest rates, inflation, investment returns, etc.) or demographic (Plan membership experience – retirement patterns, mortality rates, etc.). Legislation requires the Trustees to select assumptions prudently for this calculation. Therefore, the approach taken is to set the assumptions used in the projection of the benefit cashflows on a broadly 'best estimate' basis, with a margin of prudence in the discount rate. This allows the Trustees to explicitly identify the level of prudence within the basis and meet the legislative requirements to set assumptions prudently. Taken together the assumptions adopted at a particular date will be prudent. Details of the assumptions chosen are set out in the appendix.

Rectifying a funding shortfall

The Trustees will seek contributions from the Participating Employers at such rates as the Trustees determine, on the advice of the Scheme Actuary, to be sufficient to meet the expected cost of the benefits payable from the Plan. If the amount of the Plan's assets is less than the technical provisions at the effective date of any actuarial valuation, a recovery plan will be put in place which requires additional contributions from the Participating Employers. The recovery plan will aim to eliminate the shortfall over an appropriate period in a manner tailored to both Plan and Participating Employers' circumstances.

[1] The phrase used in the legislation to refer to the expected cost of providing members' past service benefits.
[2] In this context, 'prudent' means that when taken as a whole, the actuarial assumptions are expected to have a better than 50% chance of being them borne out over the long term.

In determining the actual recovery period at any particular valuation, the Trustees' principles are to take account of the following factors:

- the size of the funding shortfall;
- the business plans of the Participating Employers and affordability of contributions;
- the Trustees' assessment of the strength of the financial covenant of the Participating Employers (and in making this assessment the Trustees may make use of appropriate covenant advice); and
- any contingent security offered by the Participating Employers.

In particular, the Trustees have taken into account:

- the guarantee period by the Scottish Government in relation to the liabilities accrued by employees of the Scottish Arts Council, dated 26 February 2013;
- the management agreement between Arts Council England and the Department for Culture, Media & Sport (DCMS), which confirms that if the Arts Council England were to be wound up, the assets and liabilities (which by implication includes any shortfall of assets relative to the Arts Council England liabilities of the Plan) would be passed to the successor organisation or revert to DCMS in the event that there is no successor organisation.

Frequency of valuations and circumstances for extra valuations

A full actuarial valuation will, in normal circumstances, be carried out every three years. A short form actuarial report, using approximate methods, will be obtained each year a full valuation is not obtained.

The Trustees will seek advice from the Scheme Actuary as to whether to obtain an out of sequence actuarial valuation should anything occur which the Trustees determines may have a material impact on the Plan's finances, e.g. actual financial and/or demographic experience turns out to be significantly worse than allowed for in the most recent actuarial valuation.

The Trustees will consult the Council before commissioning an out-of-cycle valuation, and may agree not to commission such a valuation if agreement can be reached with the Participating Employers to revise the Schedule of Contributions in a way satisfactory to the Trustees, on the advice of the Scheme Actuary.

Other policies

Payments to the Plan

In addition to the Participating Employers and employee members, the following may make payments to the Plan:

- other schemes paying transfers-in in respect of employee members;
- insurance companies paying claims in respect of benefits which the Trustees have insured under the Plan; and
- under Rule 42, the Trustees may accept donations or bequests from any person or body to be applies for the purposes of the Plan.

Payments from the Plan

The Plan's assets may be used to meet benefit payments to members and their beneficiaries and to pay expenses and pension scheme levies. There is no power to make payments from the Plan to the Participating Employers, other than if the Plan is being wound up. The requirements of Section 37 of the Pensions Act 1995 must be satisfied before any such payment is made.

Discretionary benefits

The Plan rules provide for pensions to be reviewed on a regular basis, and permit increases to be awarded at the discretion of the Council. Historically, discretionary increases have been consistently applied to benefits accrued prior to 6 April 1997 in excess of Guaranteed Minimum Pension, and to benefits accrued from 6 April 2005 in line with the increase paid on pension accrued between 6 April 1997 and 5 April 2005. Provision has been made in the funding of the Plan for future discretionary increases in the calculation of expected cost of member's past service benefits.

In practice, this means that there is significant reserve being built up to pay future discretionary increases, which could be used by the Trustees for other purposes if necessary as a result of adverse conditions for the Participating Employers.

Transfer values

Members who are at least 12 months from their normal retirement age may elect to leave the Plan and take a transfer value to another pension arrangement. Members older than this may also be offered a transfer value at the discretion of the Trustees.

The Trustees are not reducing transfer values below the full 'cash equivalent' value[3]. The Trustees will review this position from time to time having regard to the funding position of the Plan, the volume of transfer payments, any legislation or regulatory guidance affecting these matters, legal advice, actuarial advice, and any other factors which the Trustees consider to be relevant.

Prepared by the Trustees of the Plan

Signature	C Daykin	on behalf of the Trustees	
Print name	Christopher Daykin	Position	Chair of Trustees
Date	31 March 2020		

Acknowledged by Arts Council England

Signature	Darren Henley	on behalf of the Arts Council England	
Print name	Darren Henley	Position	Chief Executive
Date	31/03/2020		

The Plan is a multi-employer scheme. Under the Plan rules, Arts Council England is nominated to act as the employer representative on behalf of all the employers participating in the Plan for the purpose of Section 229(1) of the Pensions Act 2004.

This Statement is provided to meet the requirement of section 223 of the Pensions Act 2004,.

[3] Legislation permits the Trustees to reduce the transfer value if a report from the Scheme Actuary shows underfunding in the Plan if all eligible members were to request a transfer value. The Trustees have not commissioned this report.

Appendix – Actuarial assumptions

Financial assumptions

In general, financial risks will be quantified on a market-consistent basis where suitable investable assets exist. The financial assumptions used for the calculation of the estimated cost of providing members' past service benefits in the actuarial valuation will be derived as follows.

Assumption	Derivation
Discount rate (past service)	Assumed to be 1.25% p.a. above the yield on fixed interest government bonds
Discount rate (future service)	Assumed to be 1.60% p.a. above the yield on fixed interest government bonds*
Price inflation (RPI)	Market expectation of future inflation with a 0.3% p.a. deduction to allow for an inflation risk premium
Price inflation (CPI)	Assumption for RPI inflation less 1.0% p.a.
Pension increases	With the exception of pre-88 GMP (which receives no increases), and post-88 GMP (which receives CPI increases with a cap of 3.0% and a floor of 0.0%), pension increases are assumed to be in line with CPI inflation (other than for certain Crafts Council members for whom pension increases are assumed to be in line with RPI inflation)
Salary increases**	In line with CPI inflation
Expenses	3.0% of salary loading to Employer future service contribution rate (Crafts Council and CCE pay fixed contribution instead to reflect their low, potentially zero, ongoing participation)

* Employers with only one active member at the valuation date (i.e. Crafts Council and Creativity, Culture & Education) use the past service discount rate to determine the cost of future service.

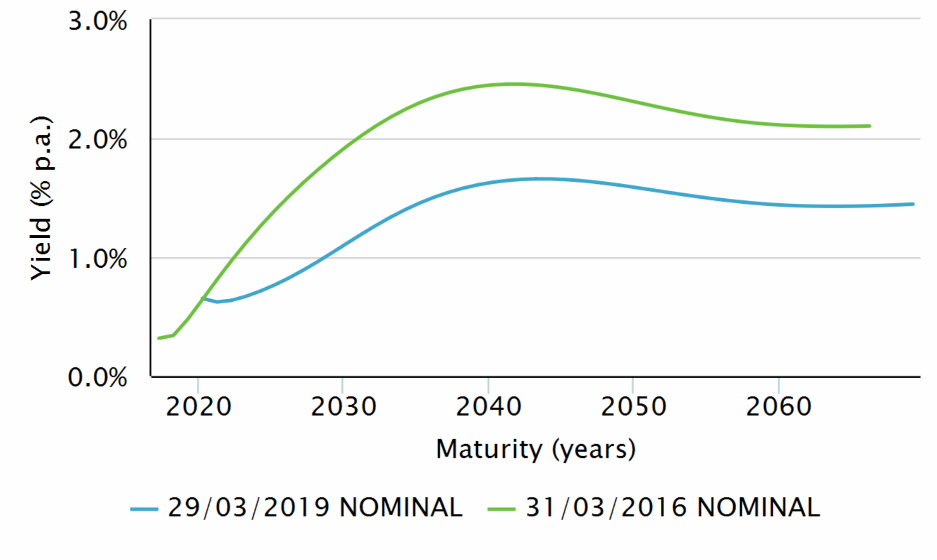
** Including an allowance for promotional pay increases.

Yield curves

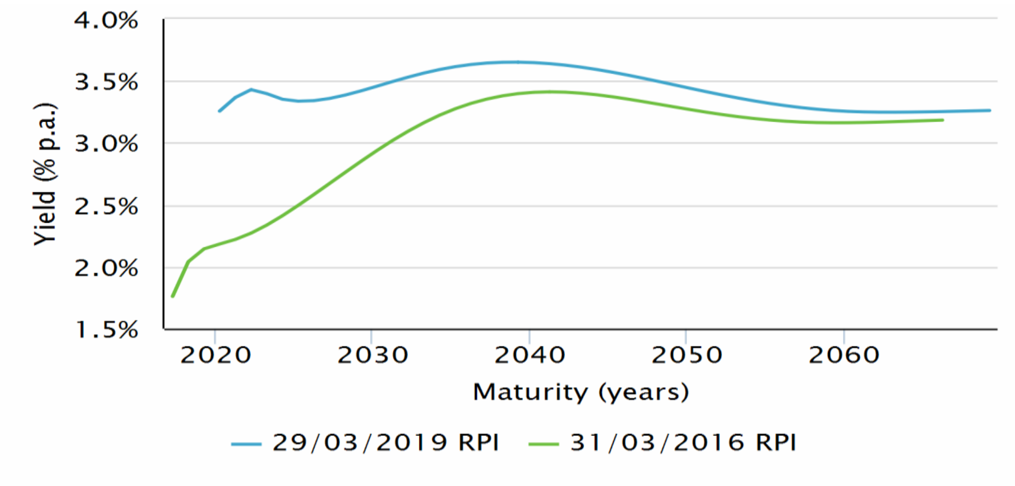
The information used for nominal and implied inflation-linked gilts curves is obtained from the Bank of England. For the valuation of pension fund liabilities, it is necessary to interpolate between, and extrapolate from, the maturities which are observable in the interest rate and inflation market. Although the Bank of England only provides rates to a maximum term of 40 years, the Bank of England curves are extended in such a way as to provide a close fit to observed prices of long dated bonds and beyond the maturities of the longest fixed and index linked gilts in issue, the nominal and real rate curves are extended towards long term forward rates.

The relevant curves as at 31 March 2019 and 31 March 2016 are shown in the charts below.

Nominal curves



Implied inflation curve (before application of inflation risk premium)



Return on assets over recovery period

In determining the level of additional contributions required to eliminate the shortfall over the recovery period, an assumed rate of return on assets is required. This rate is assumed to be 2.3% p.a. above the yield on fixed interest government bonds.

Longevity assumptions

The Trustees take account of the most up-to-date longevity research and analysis in setting longevity assumptions.

Base tables

The post-retirement mortality base tables will be a suite of bespoke assumptions which reflect the characteristics of the Plan membership. The “VitaCurves” adopted will be based on pooled experience from occupational pension Plans during the period 2015 to 2017 as collated by Club Vita. They will make allowance for observed variations in mortality according to age, gender, reason for retirement (illness or normal health), pension amount, salary, and postcode-based lifestyle group.

The pre-retirement mortality of future pensioners is assumed to be 100% of the standard S3PMA/S3PFA tables published by the CMI[4] of the actuarial profession.

Future improvements

Future improvements in longevity (pre- and post-retirement) will be assumed to be in line with the CMI 2018 model, with an initial addition (factor A) of 0.50%/0.25% p.a. for males/females, a long-term rate of improvement of 1.50%/1.25% p.a. for males/females, and other CMI parameters as per the core model.

Sample life expectancies

Life expectancies	Males	Females
Average future life expectancy (in years) for a pensioner aged 65 in 2019	22.3	23.7
Average future life expectancy (in years) at age 65 for a deferred member aged 65 in 2039	23.7	25.5
Average future life expectancy (in years) at age 65 for an active member aged 65 in 2039	23.4	25.2

Other demographic assumptions

Retirements in normal health	No allowance is made for retirements before normal pension age
Retirements in ill health	No allowance is made for ill-health retirements before normal pension age
Withdrawals	Age-related allowance for withdrawals from service for members aged 20 to 50.
Family details	80% of male members and 70% of female members are assumed to be married (or have an adult dependant) at retirement or on earlier death. Husbands are assumed to be 3 years older than wives.
Commutation	An allowance is made for 50% of members to take the maximum tax-free lump sum at retirement, on existing rates.
Transfers out	No allowance is made

[4] Continuous Mortality Investigation