Greater Manchester Pension Fund

2016 valuation – Initial results

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- 23 September 2016

2016 progress report

Event	Timescale	Progress
Assumptions agreed with Employer Working Group	June 2016	
Data received and cleansed	24 August 2016	
Whole Fund results presented at Panel/AGM	23 September 2016	
Submission of results to Scheme Advisory Board	30 September 2016	
Contribution strategies tested using modelling	Early October 2016	
Employer results issued to officers	Early October 2016	
Funding strategies reviewed with Pensions Committee	22 November 2016	
Finalise employer results and Funding Strategy Statement	February/March 2017	
Sign off valuation report and R&A	31 March 2017	

Valuation assumptions

Key assumptions for funding target

	2013 valuation	2016 valuation	Derivation of assumption
Discount rate (assumed future investment return)	4.8%	4.2%	Change in approach: Gilts plus asset out-performance assumption (AOA) At 2013: AOA = 1.6% p.a. At 2016: AOA = 2.0% p.a.
Pension increases (CPI)	2.5%	2.1%	Change in approach: At 2013: CPI = RPI - 0.8% At 2016: CPI = RPI - 1.0%
50:50 take up	10%	1%	Lower than anticipated take up
Longevity	Bespoke fund analysis, peaked improvements, CMI 2010 model for future improvements	Bespoke fund analysis, peaked improvements, CMI 2013 for future improvements	2013 adopted as more representative of trend

Key assumptions – salary growth

	2013 valuation	2016 valuation	Derivation of assumption
Long term salary growth	3.55%	2.9%	Change in approach: At 2013: RPI + 0.25% At 2016: RPI – 0.25%
Short term salary growth	N/A	1%	Change in approach Allow explicitly for local authority pay award where appropriate
Single equivalent rate (for local authorities)	3.55%	2.2%	Change in approach: At 2013: RPI + 0.25% At 2016: RPI – 0.95%

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Whole fund results

Whole fund valuation results (Provisional)

	31 March 2013	31 March 2016
Active	5,145m	6,409m
Deferred	2,261m	3,322m
Pensioner	6,501m	9,004m
Total liabilities	**13,907m**	**18,735m**
Assets	**12,590m**	**17,325m**
Deficit	**(1,317m)**	**(1,410m)**
Funding level	90.5%	92.5%

Funding level improved but deficit increased

Why has the funding position improved?

- **Asset returns**
  - Stronger than expected,18.4% cf 14.5%, + £200m
- **Assumptions**
  - Lower investment return, lower inflation, (£270m)
- **Contributions**
  - Excess contributions paid, + £55m
- **Membership experience**
  - Salary, pension increases, other, + £500m
  - MoJ transfer, (£580m)

Positive outcome in a difficult market

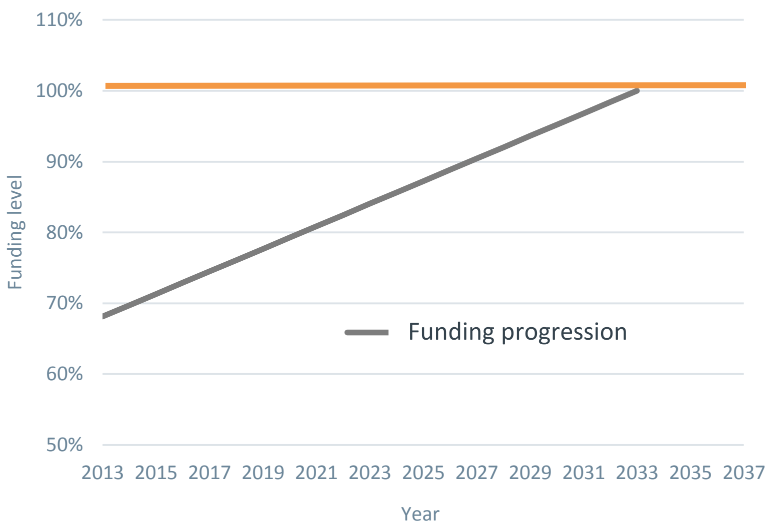
Setting contributions

Risk based approach

- The future is uncertain
- A single set of assumptions is ineffective
- Important to understand level of risk
- Increased number and diversity of employers so….
- One size fits all strategy is not appropriate
- Tailored strategies reduces risk and achieves better outcomes
- Increased scrutiny

Bespoke employer funding strategies

Setting contribution rates



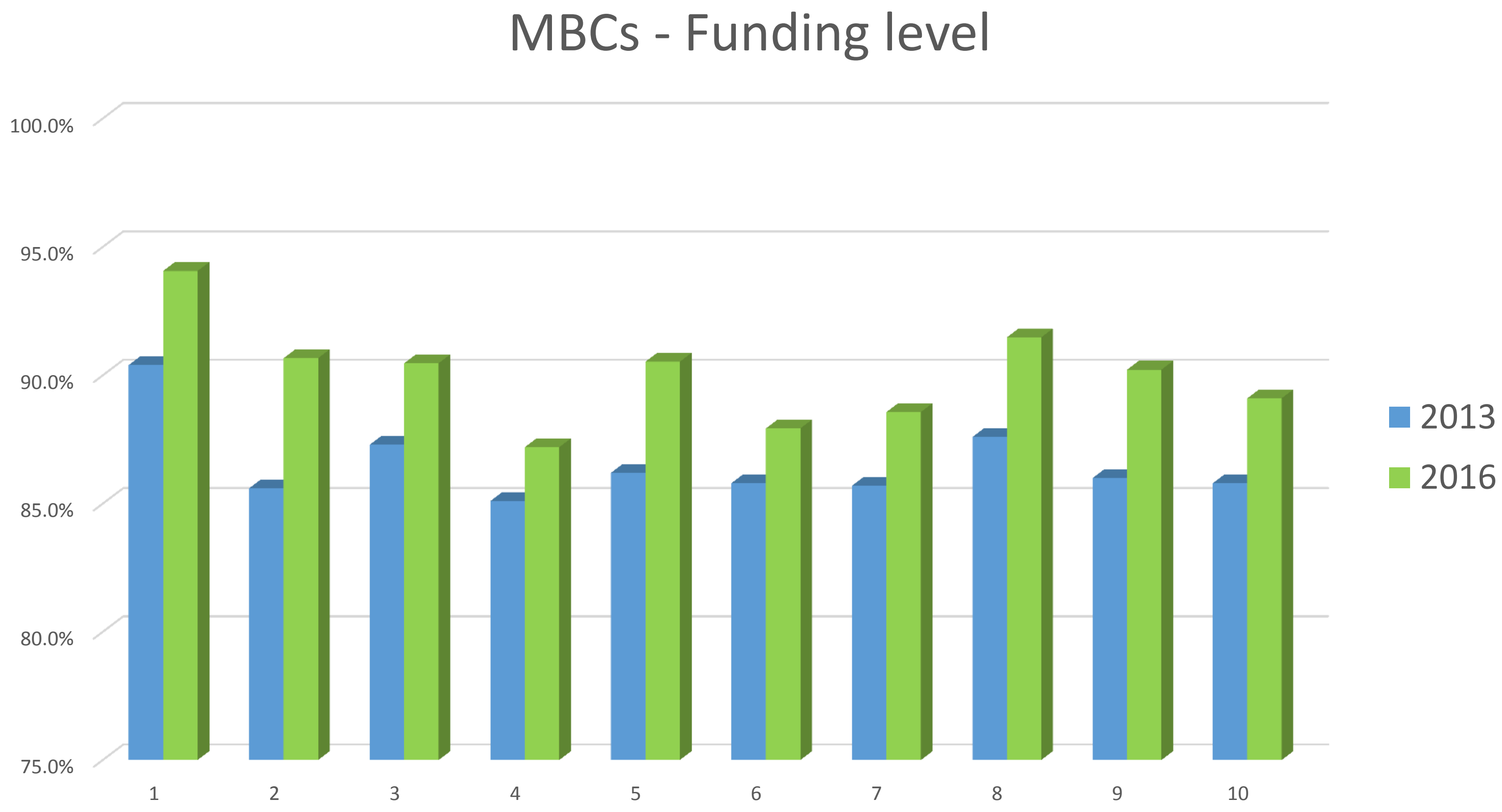
The 'old' world

The 'new' world

CONTRIBUTION STRATEGY	LONG TERM LIKELIHOOD OF SUCCESS	AVERAGE OF THE WORST 5% OF FUNDING LEVELS IN 2035
Strategy 1	58%	39%
Strategy 2	77%	55%
Strategy 3	67%	45%

Bespoke risk based contribution rate strategies set for selected high risk employers

Funding level (provisional)



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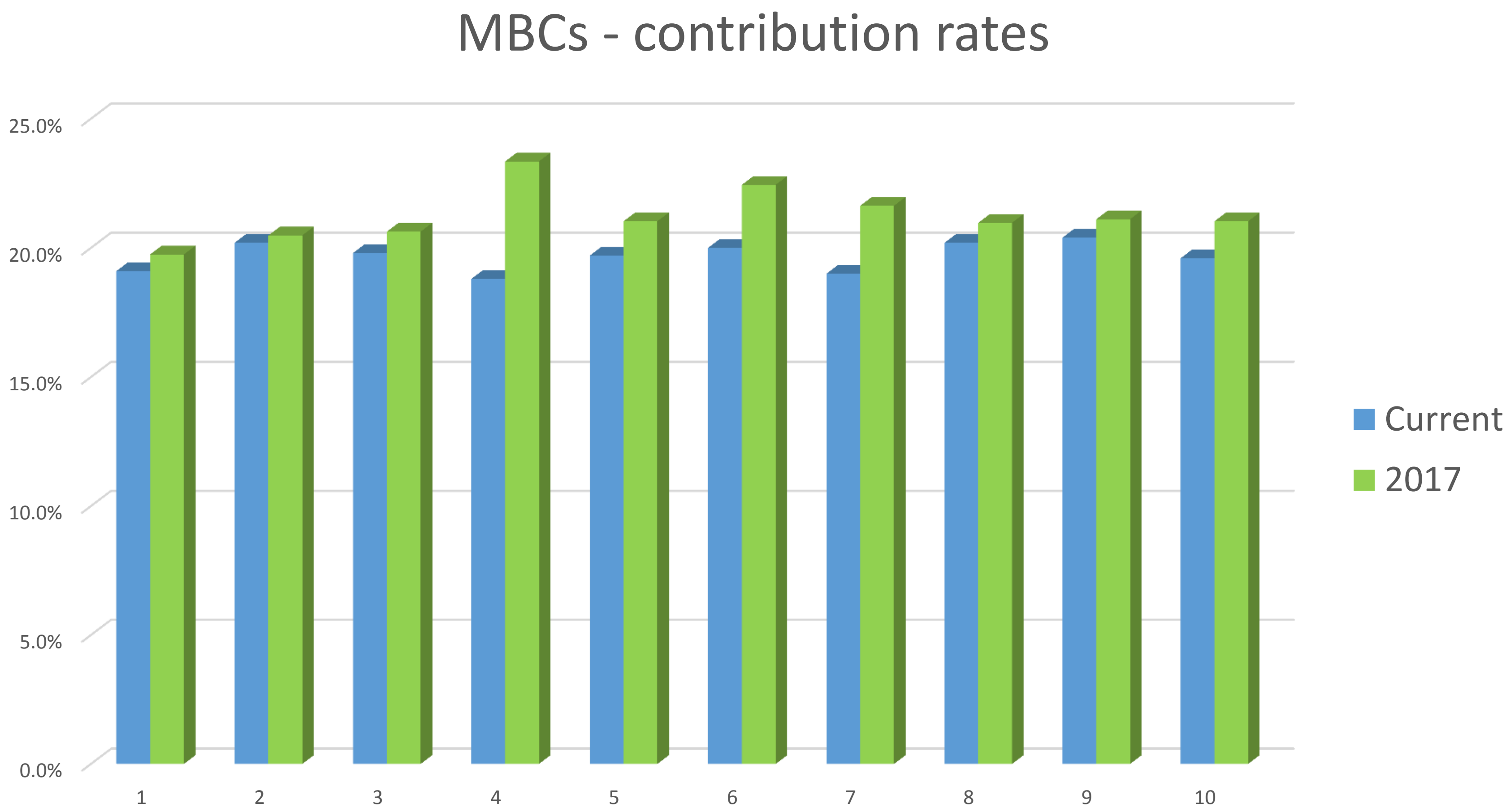
Contribution rates (provisional)



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Conclusions

- Another challenging 3 year period
- Retained prudent approach
- Increase in funding level
- Increase in cash deficit
- Contributions similar for MBCs
- Variations at employer level likely

Thank you