GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

Friday, 28 October 2016

Commenced: 9.30 am **Terminated:** 11.05 am

Present: Councillors J Fitzpatrick (Chair), Cooney, Patrick, Mr Allsop and Mr Llewellyn

Apologies for Absence: Councillors Reid, Mitchell and Ms Herbert

11. DECLARATIONS OF INTEREST

There were no declarations of interest.

12. MINUTES

The Minutes of the Employer Funding Viability Working Group meeting held on 29 July 2016 were approved as a correct record.

13. VALUATION HIGHLIGHT REPORT

The Assistant Executive Director of Pensions (Funding and Business Development) submitted a report detailing the 31 March 2016 Actuarial Valuation work streams highlight report and risk log.

It was reported that the triennial valuation of the Fund at 31 March 2016 required formal completion of the process no later than 31 March 2017. As agreed at a previous meeting of the Working Group, a project management and reporting framework had been used by the valuation team to ensure the project was delivered on time and to budget.

It was confirmed that several of the work streams were now largely complete therefore the six individual reports had been consolidated into a single report. The highlight report provided a brief summary of progress against key milestones and set out any issues that needed further consideration together with any actions required. The main outstanding task of the project was to finalise contribution rates and communicate these to employers.

RECOMMENDED:
That the report be noted.

14. EMPLOYER RISK MONITORING

The Assistant Executive Director of Pensions (Funding and Business Development) submitted a report detailing the process Greater Manchester Pension Fund (GMPF) was undertaking to implement a structured employer risk monitoring framework to go alongside the 2016 actuarial valuation. This would assess the funding risk for all employers and also support the Actuary's contribution setting approach as detailed in the Funding Strategy Statement.

The report outlined that all LGPS funds relied on employers to meet the balance of cost of providing benefits. Should experience be less favourable than assumed by the Actuary then a shortfall of assets was likely, which would need to be met by additional employer contributions. One of the key principles underpinning GMPF's funding strategy was to ensure that individual employers met their share of the cost and cross-subsidy between employers was minimised. The increasing diversity and maturity of the employer base was also likely to increase the incidence of employer terminations.

Analysis had been undertaken to tie-in with the 31 March 2016 actuarial valuation process where employer contribution rates for the three year period commencing 1 April 2017 were set. It was noted that employer risk was one factor that determined contribution rates therefore the report was considered in conjunction with the other actuarial related reports on the agenda.

It was reported that there were approximately 470 contributing employers, around half of which were scheduled bodies with the remainder falling under the 'admitted bodies' category, who required a guarantor from a scheduled body to join the Fund.

The Working Group heard that the risk monitoring process had been split into two parts: the assessment of the security provided to GMPF and the assessment of the funding risk. The security risk was only reviewed for admitted bodies and the analysis looked at factors such as the existence of a guarantee or bond, pooling, admitting new entrants and termination provision. A score was awarded to each employer with a low score indicating a low security risk and a high score indicating a high security risk. The views of the Actuary would be sought on appropriate weightings.

A funding risk was analysed for all GMPF employers covering two factors; the funding level of each employer and the cash flow of each employers' section of the Fund. A chart showing a plot of the scores for each employer based on the two factors was shown. Following discussion it was agreed that for future reports further detail on the risk of each employer based on the two factors be provided with a separate diagram focussing specifically on pooling. Those employers whom scored high on both the security risk and funding risk would undergo further detailed analysis.

RECOMMENDED:
(i) That the report be noted; and
(ii) A full analysis of the output of the employer risk review be brought to a future meeting of the Employer Funding Viability Working Group.

15. FUNDING STRATEGY STATEMENT

The Assistant Executive Director of Pensions (Funding and Business Development) submitted a report detailing the updates that had been proposed to the Greater Manchester Pension Fund (GMPF) Funding Strategy Statement (FSS).

It was reported that regulation 58 of the LGPS Regulations 2013 required each administering authority to prepare and maintain a FSS, the purpose of which was to "establish a clear and transparent fund specific funding strategy which would identify how employers' pension liabilities were best met going forward." The FSS was updated every three years and was done in conjunction with the actuarial valuation process.

CIPFA had produced guidance in order to support the FSS, which was periodically updated. The most recent update (September 2016) detailed the changes in which the LGPS operated, in particular the introduction of the 2014 Scheme, changes to the LGPS Investment Regulations, the changing maturity profile of the LGPS, the growth in the number of employers, the investment landscape and public sector austerity and the effects on fund membership, scheme maturity and cash flow.

In order to reflect the new CIPFA guidance and changes to the administration of GMPF an updated FSS had been produced, which was appended to the report. The main changes were highlighted and included amending the 'common contribution rate' to a 'primary rate' for active employers and a 'secondary rate' for individual employers, a 'risk-based' contribution setting approach, additional regulators and the calculation of cessation debts.

The Working Group were informed that the FSS would be issued to employers for consultation in November, at the same time as the notification of provisional contribution rates, with a two month period for comments. An updated FSS would be brought to the next meeting of the Working Group and a final version would be submitted to the GMPF Management Panel in March 2017 for formal approval.

RECOMMENDED:
(i) That the report be noted; and
(ii) That an updated version of the Funding Strategy Statement, following the consultation with employers, be brought to the next Employer Funding Viability Working Group meeting.

16. CONSIDERATION OF EMPLOYER CONTRIBUTION RATES

The Assistant Executive Director of Pensions (Funding and Business Development) submitted a report, which provided a detailed analysis of potential outcomes for individual employers and the factors that would influence employer contribution rates for the three year period beginning 1 April 2017.

Provisional valuation assumptions were recommended at the April meeting of the Working Group. The financial assumptions used in the 2013 valuation and the assumptions proposed for the 2016 valuation were summarised in the report. Whilst the funding level and deficit had improved since the previous valuation, the cost of providing future service benefits had increased largely due to falls in long-term interest rates which reduced the level of expected investment returns. It was explained that the Funding Strategy Statement provided guidance to the Actuary in undertaking the actuarial valuation.

In respect of the Outlook for Employer Contributions, the Working Group were informed that the contribution rate was comprised of two components; the estimated cost of providing future service benefits and an allowance towards repaying the deficit over a period of time. The Actuary and the Working Group needed to consider the risks to protect the Fund and balance this with the affordability challenge for employers.

With regards to setting contribution rates, the Actuary was looking to adopt a 'risk-based' approach, which allowed for thousands of possible future economic scenarios. Greater Manchester Pension Fund (GMPF) and the Actuary needed to consider the employers funding target, how long it would take the employer to reach this target and an appropriate likelihood of meeting the target. Due to the increase in active employers, they had been considered in groups, with focus on individual employers when necessary, and allocated a time horizon and risk category. The provisional valuation results were appended to the report and outlined to the Working Group.

Barry McKay and Steven Law of Hymans Robertson, Actuary to the Fund, presented the whole fund valuation results. The headline was that the funding level had increased to 92.5% as at 31 March 2016, a 2% increase on the 31 March 2013 result, and there had been an increase in cash deficit. The risk based approach to setting contribution rates and its impact on contribution outcomes was detailed and discussed.

They also outlined individual employer results including risk profiling, funding levels and contribution rates for MBC's, the effects of different time horizons and risk profiles for different employers. The next steps required to communicate contribution rates with employers was explained.

Mr McKay and Mr Law concluded that a prudent approach had been maintained during another challenging three year period. It was explained that, whilst very few valuations had reached a conclusion, the expectation was that GMPF would maintain its position as one of the better funded local authority schemes and its employers' average contribution rate would again be at the lower end of the range. Careful consideration would need to be given to the proposed contribution rate for each employer to ensure it reflected the risk posed to the Fund whilst remaining affordable for the employer.

RECOMMENDED:
(i) That the report be noted; and
(ii) That the use of a risk-based approach to calculate employer contribution rates by the Actuary be approved.

17. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 5 MONTHS TO AUGUST 2016

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report comparing the administration expenses budget against the actual results for the five months to August 2016.

Actual expenditure was £1.241 million less than the estimate of £11,168 million for the same period. The main reasons for major variations were listed and included staff costs and managers and professional fees.

RECOMMENDED:
That the report be noted.

18. GMPF AGED DEBT AS AT 19 SEPTEMBER 2016

The Assistant Executive Director of Pensions (Local investments and Property) submitted a report summarising the aged debt for the Fund as at 19 September 2016. Aged debt typically consisted of rent arrears from tenants of GMPF property, outstanding contributions and overpayment of pensions to members, which have not yet been repaid.

The report detailed all aged debt (31 days and over) alongside comparison to the previous quarter and explanations were provided for the main changes. Total aged debt had fallen in comparison to the previous quarter to £1.671 million as at 19 September 2016 from £2.292 million as at 19 June 2016.

A summary of debt across the four separate areas of Property Main Fund, Property Venture Fund, Employer Related and Overpayment of Pensions was detailed. The largest component of Employer Related aged debt was unpaid contributions, much of which was in respect of strain costs associated with early retirement or member transfer.

The key trends were highlighted and included, property aged debt had increased from £0.315 million in June 2016 to £0.331 million at September 2016 and Employer and Overpaid Pension Aged Debt had decreased from £1.977 million to £1.339 million. For the 12 months to September 2016 2.7% of debt was outstanding, the risk of non-payment across total annual debts was 0.3%.

Tables which showed the highest value invoices within the Employers, Property Main Fund and the Property Venture Fund category were appended to the report.

RECOMMENDED:
That the report be noted.

19. URGENT ITEMS

There were no urgent items.