GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

Friday, 27 October 2017

Commenced: 10.30 am **Terminated:** 11.55 am

Present:	Councillors J Fitzpatrick (Chair), Cooney, Mitchell, Mr Allsop, Mr Flatley and Mr Llewellyn	
In Attendance:	Sandra Stewart	Director of Pensions
	Paddy Dowdall	Assistant Director of Pensions (Local Investments and Property)
	Euan Miller	Assistant Director of Pensions (Funding and Business Development)
	Tracey Boyle	Head of Pensions Accountancy
Apologies for Absence:	Councillors Patrick and Jabbar	

9. DECLARATIONS OF INTEREST

Member	Subject Matter	Type of Interest	Nature of Interest
Councillor Ged Cooney	Item 5 – Employer Activity	Prejudicial	Director of New Charter Housing Trust Ltd

* Councillor Cooney left the room during consideration of this item.

10. MINUTES

The Minutes of the Employer Funding Viability Working Group meeting held on 28 July 2017 were approved as a correct record.

11. BESPOKE EMPLOYER INVESTMENT STRATEGIES

The Assistant Director of Pensions (Funding and Business Development) submitted a report, which summarised the process for analysing the benefits of bespoke investment strategies.

It was reported that a bespoke investment strategy was currently being implemented for Transport for Greater Manchester and consideration was being given to explore developing bespoke investment strategies for other employers. This was a significant piece of work and it would therefore be split over two meetings of the Working Group.

In order to assess the potential benefits of bespoke investment strategies Hymans Robertson had undertaken an Asset-Liability Modelling exercise for the GMPF Main Fund as a whole and for six individual employers / employer pools as follows:-

- Wigan MBC Pool (chosen as a typical local authority pool)
- MoJ Pool (covering the National Probation Service, the Community Rehabilitation Companies and their subcontractors)
- Academy Schools Pool

- A typical housing association
- Manchester University (an example of an employer that is closed to new entrants and has predominantly pensioner members)
- The 'Dead Pool' (no active members and not part of another actuarial pool)

The exercise involved simulating approximately 5,000 different outcomes, which were then ranked from best to worst. A graph detailing the results was shown and explained to the Group. The outcomes considered relevant were the likelihood of GMPF being fully funded in 20 years' time and the size of any deficit at the 2019 actuarial valuation. This aimed to give a balance between seeking high returns in the long-term and minimising the risk of short to medium term underperformance.

The range of potential investment strategies considered were a mixture of the following strategic building blocks:-

1. Equities
2. Enhanced Yield
3. Credit
4. Hedging and Protection

The Asset-Liability Modelling output set out which combination of building blocks provided the best chance of success against the criteria. If the optimal strategy was significantly different than the Main Fund this suggested that there may be merit in exploring a bespoke strategy for that employer. However, the number of different strategies would be constrained by the need to ensure the governance arrangements remained manageable.

RECOMMENDED:
(i) That the report be noted; and
(ii) That a further report summarising the results of the asset-liability modelling work and next steps for delivering Bespoke Employer Investment Strategies be brought to a future meeting of the Working Group.

12. EMPLOYER ACTIVITY

The Assistant Director of Pensions (Funding and Business Development) submitted a report, which provided the Working Group with a summary of current employer activity. There had been a significant increase in the amount of time Officers had been spending on non-standard employer related matters such as Project Magpie, college / university mergers, changes to the legal status of housing associations, employers ceasing to employ active members and free school closures.

With regards to Project Magpie, it was reported that First Bus Group participated in three LGPS Funds and wished to move the pension's liabilities from the West Yorkshire and South Yorkshire Passenger Transport LGPS Funds into GMPF. The process of receiving a transfer of member data and payroll information from First Group's operating companies was underway. GMPF would become the administering authority for the transferring members from 1 November and make the November pension payments. The assets would be transferred in tranches with South Yorkshire expected to be completed over the next couple of months and West Yorkshire to be completed by 31 March 2019.

In relation to college / university mergers, a consultation was currently ongoing regarding the proposed merger between two of the Fund's further education colleges. A university employer was also currently in discussions about a possible merger with a further education college.

The Working Group was informed that a number of GMPF's housing associations were seeking to become Community Benefit Societies. It was reported that some banks, which lent to housing associations, had concerns that this conversion may impact the priority order of creditors in an insolvency scenario (where the Fund would be a significant creditor) and had requested that GMPF sign a letter confirming that they remained subordinated behind the bank after the conversion. This was an imprudent thing for a pension scheme to do given the fiduciary duty that was in existence unless it could be clearly demonstrated that it was in the scheme's interests to do so (for example if the scheme were receive additional contributions).

Where requested to do so, the Fund had issued 'comfort' letters to banks in accordance with the GMPF Legal Team's understanding of the relevant regulations. However, the view of the Legal Team was that the Fund should not agree to requests from banks to enter into a contractual agreement. Following discussion, members fully agreed that the Fund should not enter into a contract and that the issuing of a 'comfort' letter was an acceptable and reasonable course of action.

RECOMMENDED:
(i) That the report be noted; and
(ii) That the Fund should not enter into a contract with banks / building societies with regards to the conversion of Housing Associations employers to Community Benefit Societies, but will issue a comfort letter if requested to do so.

13. GMPF AGED DEBT AS AT 19 SEPTEMBER 2017

The Assistant Director of Pensions (Local Investments and Property) submitted a report summarising the aged debt for the Fund as at 19 September 2017. Aged debt typically consisted of rent arrears from tenants of GMPF property, outstanding contributions and overpayment of pensions to members, which had not yet been repaid.

A summary of debt across the four separate areas of Property Main Fund, Property Venture Fund, Employer Related and Overpayment of Pensions was detailed. A 'red' status was currently in place for Employer Related aged debt as the outstanding amount was above the agreed threshold of £100,000. 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. It also included fees for the production of actuarial work and administration fees charged to newly admitted bodies to the fund.

The report detailed all aged debt (31 days and over) as at 19 September 2017 alongside comparison to the previous quarter; total aged debt was £2.647 million at 19 September 2017 compared to £3.301 million at 19 June 2017. The key trends were highlighted; property aged debt had increased from £0.309 million at June 2017 to £0.367 million at September 2017 and Employer and Overpaid Pension Aged Debt had decreased from £2.992 million to £2.279 million. The bulk of Employer debt related to invoices that had been issued in respect of early retirement strain costs.

For the 12 months to September 2017 4.36% of debt was outstanding, the proportion of the debt considered at risk of non-payment was 0.4%. Tables which showed the highest value invoices within the Employers, Property Main Fund and the Property Venture Fund category were appended to the report and were discussed with the Group.

RECOMMENDED:
That the report be noted.

14. EMPLOYER DEBT RECOVERY

The Assistant Director of Pensions (Funding and Business Development) submitted a report, which summarised the current procedure for collecting aged debt. A review had been carried out into how debt collection issues could be escalated and a number of recommendations had been made to amend GMPF's policies to improve the recovery of employer debt.

It was reported that aged debt typically consisted of rent arrears from tenants of GMPF property, outstanding contributions from employers and overpayment of pensions to members, which had not been repaid. The largest proportion of these was unpaid contributions from employers, in particular strain costs associated with early retirement of members and ill-health early retirement, which could be a substantial amount.

As at 19 September 2017, there was £2.647 million of debt outstanding, £2.052 million related to invoices issued to participating employers in the Fund. A graph detailing the amount of outstanding debt by employer and debt type was shown to the Group. Almost 83% of the outstanding debt belonged to one employer type, the majority of which related to ill-health retirement strain costs. A history of employer outstanding debt since 2013 had been illustrated in a chart to identify any possible trends and was explained to the Group. There had been peaks in 2015 and 2017.

The current procedure for the recovery of employer debt was outlined, which was in accordance with The Pensions Regulator's Code of Practice #14.

Regulation 73 of the LGPS Regulations 2013 provided administering authorities with the discretion to charge interest on overdue contributions or payments with payment due one month from the date specified by the administering authority at a rate of 1% above base rate, which currently equated to 1.25%. This rate of interest was unlikely to act as a significant deterrent to employers paying late and was less than the investment return assumed in the calculation of the strain costs. Applying interest to late payments created additional work for the Pension Accountancy Team and the current rate of interest equated to an immaterial amount. It was recommended that GMPF did not apply interest to outstanding employer debts but instead engaged at an earlier stage with employers regarding the timing of payment and considers earlier escalation where appropriate.

The Working Group was informed that employers could be given the option of entering into a payment plan to pay costs via instalments if they could demonstrate to the Fund's satisfaction that they were unable to meet the cost in full. The instalments due under the payment plan would be calculated assuming a future investment return equal to the assumption made at the most recent actuarial valuation, which was 4.2% per annum at the 2016 valuation. This would avoid the Fund incurring a loss due to the delay in receiving payment. It was noted that this approach was a recalculation of the strain cost rather than applying interest under Regulation 73 and the actuary was comfortable with this proposed approach.

Other initiatives were currently underway to try and reduce the number of invoices issued to employers, such as the potential introduction of an internal insurance arrangement. A number of smaller employers would pay regular premiums to create a sum of money to be used to meet the cost of ill-health strains. This approach could be piloted with a group of employers and if successful be extended to other smaller employers at the next actuarial valuation. Officers continued to try and raise employer awareness around the potential risk of incurring significant ill-health retirement strains and the mitigation options available.

RECOMMENDED:

(i) That the report be noted;

(ii) That the GMPF Accountancy Team contact employers that have outstanding employer debts to discuss the reasons for late payment prior to issuing a second reminder letter;

(iii) That the Fund offer a payment plan with an interest rate of 4.2% p.a. if an employer can demonstrate to the Fund's satisfaction that it has insufficient cash reserves to pay the debt immediately; and

(iv) That the issue of non-payment be escalated to a higher level at the employer should an employer not wish to enter into a payment plan, with a reminder that the Fund may report late contributions to The Pensions Regulator.

15. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 5 MONTHS TO AUGUST 2017

The Assistant 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 2017.

It was reported that there was an under-spend of £1.652 million against the budget of £12.090 million. The main reasons for the variation related to lower than expected investment management fees and lower than budgeted staffing costs.

RECOMMENDED:
That the report be noted.

16. URGENT ITEMS

There were no urgent items.