# GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

**20 April 2018**

**Commenced:** 10.30 am **Terminated:** 11.20 am

| | | |
|---|---|---|
| **Present:** | Councillors J Fitzpatrick (Chair), Cooney, Patrick, Jabbar, Mr Flatley and Mr Llewellyn | |
| **In Attendance:** | Sandra Stewart | Director of Pensions |
| | Tom Harrington | Assistant Director of Pensions (Investments) |
| | Euan Miller | Assistant Director of Pensions (Funding and Business Development) |
| | Tracey Boyle | Head of Pensions Accountancy |
| | Daniel Hobson | Senior Investments Manager |
| | Emma Mayall | Pensions Policy Manager |
| | Victoria Plackett | Pensions Operations Manager |
| **Apologies for Absence:** | Councillor Mitchell and Ms Herbert | |

## 25. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 26. MINUTES

The Minutes of the Employer Funding Viability Working Group held on 2 February 2018 were approved as a correct record.

## 27. BESPOKE EMPLOYER INVESTMENT STRATEGIES

The Working Group welcomed Steven Law and Elaine Torry of Hymans Robertson who attended the meeting to present the design principles of employer specific investment strategies. The presentation focussed on the construction of the respective growth, income and protection buckets, employer groupings, governance and high level action plan.

The different combinations of the core building blocks of growth, income and protection buckets for employers to adopt were highlighted in addition to the strategies that could be offered. In relation to employer groupings, the factors that needed to be taken into consideration when grouping employers included maturity profile, covenant strength, status (i.e. open / closed to new members) and size of the liabilities. A diagram detailing the draft framework for grouping employers was shown and explained to the Group along with an investment strategy map and funding map.

Mr Law outlined the governance structure of the offering based on generic strategies, semi-bespoke strategies and a fully bespoke strategy. Examples were given on a range of investment strategies that would achieve a good balance between retaining the Main Fund as the highest risk / highest expected return component, offering employers a way to better manage their risks (both in terms of a growing deficit and keeping contributions affordable) and retaining a pragmatic offering that was not overly onerous on governance.

The next steps were outlined and included:-

- Agreeing investment principles for the income and protection buckets.
- Agreeing the number and approach to employer categories.
- Undertake asset liability modelling for two large employers.

**RECOMMENDED:**
**That the content of the presentation be noted.**

## 28. GMPF STATEMENT OF ACCOUNTS 2017-2018 GOVERNANCE ARRANGEMENTS

The Assistant Director of Pensions (Local Investments and Property) submitted a report informing Members of the governance arrangements for approval of the GMPF accounts as part of the accounts for Tameside MBC as the administering authority. Members also considered the key assumptions for estimates used in the production of GMPF accounts.

It was reported that the timescales for approval of the accounts had been brought forward last year as a consequence of the changes to the statutory deadlines for Local Authorities to produce their accounts in 2018. The plan was for the pre-audit accounts for both GMPF and the Council to be signed off by 31 May 2018 and for the process to be completed by 31 July 2018. The provisional timetable for approval of the accounts and audit reports by these bodies for 2018/19 was outlined. It was noted that this would be the final year of Grant Thornton LLP as the external auditor.

The continued key assumptions used in the production of the accounts would include accruals basis, fair value for investments, market prices at bid where possible, compliance with accounting standards and best practice, liabilities in compliance with International Accounting Standard 19 and continued phased implementation of CIPFA's guidance on accounting for management costs in the LGPS.

**RECOMMENDED:**
**(i) That the governance arrangements for the approval of GMPF accounts be noted; and**
**(ii) That the assumptions for estimates used in the GMPF accounts be noted.**

## 29. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 11 MONTHS TO FEBRUARY 2018

The Assistant Director of Pensions (Local Investments and Property) submitted a report comparing the administration expenses budget against the actual results for the 11 months to February 2018.

It was reported that there was an under-spend of £3.124 million against the budget of £25.736 million. The main reasons for the variation related to lower than expected investment management fees, lower than expected professional and legal costs associated with the ongoing pooling exercise and lower than budgeted staffing costs.

**RECOMMENDED:**
**That the report be noted.**

## 30. GMPF AGED DEBT AS AT 19 MARCH 2018

The Assistant Director of Pensions (Local Investments and Property) submitted a report summarising the aged debt for the Fund as at 19 March 2018. 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 March 2018 alongside comparison to the previous quarter; total aged debt was £2.315 million at 19 March 2018 compared to £3.369 million at 19 December 2017. The majority of this debt related to invoices issued to participating employers in the Fund. Payment plans had been agreed for some of the outstanding debt.

The key trends were highlighted; property aged debt had increased from £0.264 million at December 2017 to £0.321 million at March 2018 and Employer and Overpaid Pension Aged Debt had decreased from £3.105 million to £1.994 million.

For the 12 months to March 2018 3.49% of debt was outstanding, the proportion of the debt considered at risk of non-payment was 0.4%. Tables that 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.**

## 31. POOLING ILL-HEALTH RETIREMENT EXPERIENCE AND COSTS BETWEEN EMPLOYERS

The Assistant Director of Pensions (Funding and Business Development) submitted a report outlining how strain costs arise, current arrangements in GMPF for meeting strain costs and potential alternative approaches that could prove more effective for both GMPF and its employers.

It was explained that the majority of outstanding employer debt was due to the late payment of invoices for strain costs that were issued to employers. Pension strain costs can occur when there was a shortfall in the assumed level of funding needed to provide a particular pension benefit, often when a member drew their benefits earlier than expected. They also can occur when a member died and dependent's benefits were payable and when a member transferred pension benefits into GMPF and the transfer payment did not match the liabilities payable. The formula for calculating strain costs were devised by the actuaries and updated after each triennial valuation.

The LGPS regulations required scheme employers to pay into the Fund any strain costs that arose due to the payment of benefits paid early on ill health grounds and to make additional payments for other types of early retirement where reductions did not apply. GMPF's policy was to charge employers for all retirement strain costs that arose, which was communicated to all new employers joining the Fund and featured in the Funding Strategy Statement, employer bulletins and on the Fund's website. Despite this, many employers were often unaware of the potential for strain costs to arise. GMPF were continually seeking to improve employer understanding and to look for ways to manage the issues.

With the exception of the probation service employers, all active GMPF employers had an allowance in their contribution rate for the potential costs of ill health retirement and deaths in service. However, for small employers not in an actual pool, the allowance was negligible when compared to the actual ill health retirements strain cost. Some employers paid an additional percentage to create an early retirement budget and others had taken out a Legal and General insurance policy.

The continued increase in the number of employers and a fall in the proportion that were in pools had led to an increase in the number of strain cost invoices issued to employers. A potential solution currently under consideration was to allow groups of non-pooled employers to contribute jointly to provide an ill health budget, which would be treated like an internal insurance arrangement. Employers would pay regular premiums to create a sum of money that could be used to meet the cost of ill health strains. It was proposed to test this arrangement with the sixth form colleges, who were formerly an actuarial pool, in order to test its effectiveness. If it was successful it could be extended to other employers at the next actuarial valuation.

**RECOMMENDED:**
**(i) That the report be noted; and**
**(ii) That the proposal to trial an internal ill-health insurance arrangement for the sixth form colleges be noted.**

## 32. SECURITY ARRANGEMENTS FOR ADMITTED BODIES

The Assistant Director of Pensions (Funding and Business Development) submitted a report outlining an employer's proposal to provide GMPF an alternative security arrangement to the existing bank / insurance company bond, which would make a payment to GMPF should the admission agreement terminate prematurely whilst in deficit.

It was reported that GMPF's current policy, introduced in 2012, was to allow admission arrangements to be made where a local authority or other Scheme Employer agreed to be a guarantor. However, prior to 2012 some community admission bodies were granted entry to the Fund with security provided via a bond with a bank or insurance company. Significant costs could be incurred by the employer obtaining cover and it was administratively burdensome for the Fund to monitor bonds.

One of GMPF's housing association employers had approached the Fund with a proposal to grant GMPF a first charge over its new head office instead of renewing their bond. Although this was a first for GMPF it is understood that other LGPS funds had implemented such arrangements in broadly similar circumstances. GMPF would need to obtain legal advice and a valuation of the asset would need to be undertaken. The employer would be expected to meet any costs incurred by the Fund in implementing a security arrangement of this type.

Following a detailed discussion Members agreed to the idea in principle on the proviso that it was in the interests of and suitable for the Fund.

**RECOMMENDED:**
**That approval be given to implement alternative security arrangements to employers renewing a bond, subject to the receipt of appropriate legal and actuarial advice and a satisfactory valuation of the asset.**

## 33. CURRENT EMPLOYER ACTIVITY

The Assistant Director of Pensions (Funding and Business Development) submitted a report that provided the Working Group with a summary of employers that had joined or exited GMPF for the year ending 31 March 2018. Lists detailing employer admissions and exiting employers from 1 April 2017 to 31 March 2018 were appended to the report and considered by the Group. It was noted that employers that no longer had any active members contributing to the Fund but where discussions were still ongoing with the guarantor regarding the calculation of any exit debt, were not included.

**RECOMMENDED:**
**That the report be noted.**

## 34. URGENT ITEMS

There were no urgent items.