GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

Friday, 12 February 2016

Commenced: 9.30 am **Terminated:** 10.40 am

Present: Councillors J Fitzpatrick (Chair), Reid, Mitchell, Mr Allsop and Mr Llewellyn

Apologies for Absence: Councillors Cooney, Patrick, Ms Herbert and Mr Flatley

21. DECLARATIONS OF INTEREST

There were no declarations of interest.

22. MINUTES

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 30 October 2015 were approved as a correct record.

23. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 8 MONTHS TO NOVEMBER 2015

The Executive Director of Pensions submitted a report, which compared the administration expenses budget against the actual results for the 8 months to November 2015.

It was reported that actual expenditure was £3,757,000 less than the estimate of £15,765,000 for the same period and a similar scale of underspend was anticipated at the outturn. The main reasons for major variations were outlined and included premises and a rebate received from an investment manager.

RECOMMENDED:
That the report be noted.

24. GMPF AGED DEBT AS AT 19 DECEMBER 2015

The Executive Director of pensions submitted a report, which summarised the aged debt of the Fund as at 19 December 2015. It was noted that there had been a reduction in aged debt over the 3 months to December. The Working Group was notified that many of the most significant outstanding debts which appear in the report had since been paid in full.

Details of all aged debt (31 days and over) as at 19 December 2015 was provided to the Group alongside comparison to the previous quarter and explanations for the main changes. Appendices which showed the highest value invoices within the Employers, Property Main Fund and Property Venture Fund category were highlighted.

RECOMMNEDED:
That the report be noted.

25. PENSIONS INCREASE ON GUARANTEED MINIMUM PENSIONS

The Executive Director of Pensions submitted a report, which provided information about a potential change regarding how pensions increase is funded, which is a potential consequence of the end of contracting-out of the 2nd State Pension. The report is similar to a report that was considered by the Pensions Administration Working Group.

It was reported that on 6 April 2016 contracting-out would end and consequently the legislation that provides for the State to pay the bulk of pensions increase on Guaranteed Minimum Pensions would be changing, potentially meaning that this would need to be paid by LGPS funds.

The Local Government Association has raised this matter with the Department of Communities and Local Government and the Treasury since 2013 and are awaiting an announcement regarding alternative funding for pensions increase on guaranteed minimum pensions.

It was also noted that the end of contracting-out in April would result in additional costs for employers and a reduction in take home pay for members of the Scheme.

RECOMMENDED:
That a letter be sent to the Department of Communities and Local Government seeking an urgent resolution of this matter.

26. INTEGRATING RISK MANAGEMENT

The Executive Director of Pensions submitted a report, which outlined the introduction of guidance issued by the Pensions Regulator on integrating risk management for defined benefit schemes, although this guidance will be non-statutory in the LGPS.

It was reported that following the Public Sector Pensions Act 2013 the LGPS 2014 had fallen under the remit of The Regulator, although its remit does not currently extend to scheme funding. The Working Group had given consideration to some of the key principals relating to scheme funding in the private sector at its August 2014 meeting and this will be considered further during the actuarial valuation process.

RECOMMENDED:
That the report be noted.

27. BESPOKE INVESTMENT STRATEGIES

The Executive Director of Pensions submitted a report, which provided an update on the discussions held with Transport for Greater Manchester (TfGM) to implement a bespoke investment strategy for its section of the Fund. The liabilities of the TfGM sub-fund were very mature with approximately 75% of members being pensioners.

It was reported that one element of the potential solution for TfGM was to use pooled funds designed to provide protection against the impact of higher than expected inflation. Following further discussions with TfGM and its advisors, GMPF officers were obtaining final advice on the implementation of the pooled funds from Hymans Robertson including an assessment of current market pricing and confirmation of the final allocation.

RECOMMENDED:
That consent be given to officers to begin implementation of the agreed strategy subject to receiving confirmation from Hymans Robertson on market pricing remaining acceptable.

28. EMPLOYERS CEASING TO PARTICIPATE IN THE FUND

The Executive Director of Pensions submitted a report, which provided details of employers making enquiries regarding the cost of voluntarily ceasing participation in the Fund.
It was reported that LGPS Regulations state that when an employer ceases to participate in the Scheme at a time when their sub-fund is in deficit, it is liable to pay an exit debt. The exit debt calculation method was at the discretion of the actuary/administering authority of the Fund with the general approach set out in the Funding Strategy Statement.

The Working Group were informed that the enquiries were being driven primarily by cost pressures and a desire to standardise pension benefits across the workforce. It is increasingly likely that over the next few years the Fund will experience employers ceasing to participate as a result of their last active member either retiring or leaving employment. The Fund's approach to calculating cessation debts will be considered as part of the review of the Funding Strategy Statement during the valuation process.

RECOMMENDED:
That the report be noted.

29. ADVANCE FUNDING OF PENSION CONTRIBUTIONS

The Executive Director of Pensions submitted a report, which examined the potential benefits to the Fund and employers of making advance payment of contributions.

It was reported that some employers would have cash balances and reserves and with interest rates exceptionally low, balances would be getting an investment return/interest of approximately 0.5%. The actuarial assumption for investment returns by the Fund in the 2013 valuation was 4.8%. There is scope to agree arrangements with employers to give them a discount on their contributions for early payment that is greater than their return on cash balances. The basic principles and risks associated with this approach were outlined to the Group.

The Working Group were notified that more detailed work was required on legislative, regulatory and accounting matters to confirm the feasibility and further consideration was required on the practical issues.

RECOMMENDED:
That the Working Group support in principle the offer to employers to pay contributions in advance.

30. URGENT ITEMS

The Chair reported that there were no urgent items for consideration at the meeting.

CHAIR