GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

22 April 2016

Commenced: 9.30 am **Terminated:** 11.00 am

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

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

31. DECLARATIONS OF INTEREST

There were no declarations of interest.

32. MINUTES

The Minutes of the meeting of the Employer Funding Viability Working Group held on 12 February 2016 were approved as a correct record.

33. 31 MARCH ACTUARIAL VALUATION

The Working Group welcomed Barry McKay and Steven Law of Hymans Robertson who attended the meeting to present an overview of the valuation process and the potential outcomes.

The LGPS Regulations required each administering authority in England and Wales to undertake an actuarial valuation as at 31 March 2016 and every third anniversary thereafter. The actuary in undertaking the valuation had to have regard to the Authority's Funding Strategy Statement, the desirability of maintaining as constant a contribution rate as possible and a requirement to ensure the solvency of the pension fund and the long-term cost efficiency of the Scheme.

It was explained that the real cost of a defined benefit pension scheme was dependent on the pensions actually paid, which in turn depended on benefit structure, inflation and longevity. A valuation estimated how much money would be needed to pay the pensions and the estimation was based on the assumptions of: projected amounts of benefits payments and projected probability of benefits being paid.

Hymans Robertson followed a two stage valuation process where the financial position of the Fund was measured using economic indicators and the market value of assets at the valuation date. Contribution rates were set using scenario modelling of future investment returns. A high-level valuation timetable was shown to the group that illustrated the key tasks and deadlines over a valuation period.

The key assumptions were highlighted and included discount rate, inflation, salary growth, pensions increases and longevity. The most material assumption was generally the discount rate, which was mostly set as a prudent estimate of the future investment returns on the Fund's assets. Gilt yields were used as the starting point for setting the discount rate and expected returns on other asset classes were set with reference to gilt yields.

It was reported that gilt yields had fallen since March 2013 therefore, all else being equal, the discount rate would be lower at this valuation and the amount of assets required to meet the benefits due would be higher. However, it could be appropriate to increase the expected outperformance of the Fund's assets above gilt yields from 1.8% to 2% per annum in the calculation of the discount rate. Based on modelling Hymans Roberts had undertaken they believed this to be a prudent discount rate assumption.

In making this change and also making a change to the way CPI inflation was estimated would likely mean that the valuation result at a whole fund level was similar to March 2013. However, there would be significant differences at the individual employer level, which would depend on individual employer experience such as the level of salary increases awarded.

It was reported that GMPF was a diverse fund with many diverse employers and it may be appropriate to implement different funding strategies for different employers. A step by step guide to achieving this along with the parties involved was discussed with the group and an employer classification framework was shown.

RECOMMENDED:
That the actuary calculates draft valuation results using the assumptions proposed in the presentation.

34. ADVANCE FUNDING OF PENSION CONTRIBUTIONS

The Executive Director of Pensions submitted a report, which provided an update on the potential benefits to the Fund and employers from employers paying contributions to the Fund in advance.

It was reported that the return available to local authorities on their cash balances was currently approximately 0.5% per annum. The 2013 actuarial valuation assumed an investment return of 4.8% which provided an opportunity on a balance of probabilities for both the Fund and employers to gain if the employer paid contributions in advance and received a discount that was less than the assumed investment return but higher than the current rate received on cash balances.

Since the last meeting officers had progressed discussions with the Fund’s 10 local authority employers, their auditors (KPMG and Grant Thornton) and the Fund’s actuary as part of a review of legislative, regulatory and accounting requirements which must be met. The work remained ongoing and a further update would be provided to the Working Group at a future meeting.

RECOMMENDED:
That the report be noted.

35. 31 MARCH 2016 ACTUARIAL VALUATION - WORK STREAMS HIGHLIGHT REPORT AND RISK LOG

The Executive Director of Pensions 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. Due to the success of the project board and project management framework established during the MoJ assimilation a similar process had been adopted for the Valuation. This framework would help to ensure that the project would be delivered on time and to budget.

The Working Group heard that there were six main work streams with a lead officer appointed to each. The report contained highlight reports from each work stream that provided a brief summary of progress against key milestones and set out any issues that needed further consideration together with any actions required. The report also detailed a risk log documenting the key risks to the success of the project and mitigations to manage these risks.

In order to monitor the progress of the project the Working Group would be provided with regular updates.

RECOMMENDED:
That the report be noted.

36. GMPF AGED DEBT AS AT 19 MARCH 2016

The Executive Director of Pensions submitted a report summarising the aged debt for the Fund as at 19 March 2016. The key trends were that total debt had decreased slightly from December to March, however, debt not in a payment plan had increased.

The report detailed all aged debt (31 days and over) as at 19 March 2016 alongside comparison to the previous quarter and explanations for the main changes. A summary of debt across the four separate areas of Property Main Fund, Property Venture Fund, Employer related and overpayment of Pensions was detailed.

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

RECOMMENDED:
That the report be noted.

37. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 11 MONTHS TO FEBRUARY 2016

The Executive Director of Pensions submitted a report comparing the administration expenses budget against the actual results for the 11 months to February 2016.

Actual expenditure was £17,636,000, less than the estimate of £21,806,000 for the same period. The main reasons for major variations were listed and included travel and subsistence and managers and professional fees.

RECOMMENDED:
That the report be noted.

38. URGENT ITEMS

There were no urgent items.

CHAIR