Public Document Pack

Pensions Committee

Date:	**Tuesday, 22 September 2009**
Time:	**6.00 pm**
Venue:	Committee Room 1 - Wallasey Town Hall

Contact Officer:	Trevor Brassey
Tel:	0151 691 8492
e-mail:	trevorbrassey@wirral.gov.uk
Website:	http://www.wirral.gov.uk

AGENDA

1. DECLARATIONS OF INTEREST

Members are asked to consider whether they have personal or prejudicial interests in connection with any item(s) on this agenda and, if so, to declare them and state what they are.

2. MINUTES (Pages 1 - 8)

To receive the minutes of the meeting held on 18 June 2009.

3. PENSION FUND ACCOUNTS - LATE REPORT

4. AC ANNUAL GOVERNANCE REPORT - LATE REPORT

5. DRAFT ANNUAL REPORT - LATE REPORT

6. LETTER OF REPRESENTATION - LATE REPORT

7. LGPS VALUATION CONSULTATION - LGPS DELIVERING AFFORDABILITY, VIABILITY AND FAIRNESS (Pages 9 - 30)

8. LGPS REFORM UPDATE (Pages 31 - 54)

9. REVIEW OF SCHEME ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) ARRANGEMENTS (Pages 55 - 98)

10. RISK REGISTER (Pages 99 - 106)

11. **FUNDING STRATEGY STATEMENT (Pages 107 - 126)**

12. **BANK SIGNATORIES (Pages 127 - 128)**

13. **CUNARD BUILDING ARCHIVES (Pages 129 - 130)**

14. **POLICY ON PAYMENT OF DEATH GRANT (Pages 131 - 134)**

15. **TRUSTEE TRAINING FUNDAMENTALS (Pages 135 - 136)**

16. **THE FUTURE OF CORPORATE REFORM (Pages 137 - 138)**

17. **LOCAL GOVERNMENT PENSIONS COMMITTEE APPOINTMENT (Pages 139 - 140)**

18. **OCTOBER TRAINING EVENT FOR MEMBERS (Pages 141 - 144)**

19. **ANNUAL EMPLOYERS CONFERENCE (Pages 145 - 148)**

20. **THE LGPS TRUSTEES CONFERENCE (Pages 149 - 150)**

21. **LAPFF CONFERENCE IN BOURNEMOUTH (Pages 151 - 152)**

22. **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

    The public may be excluded from the meeting during consideration of the following items of business on the grounds that they involve the likely disclosure of exempt information.

23. **FUNDING REVIEW (Pages 153 - 204)**

24. **PRUDENTIAL / M&G UK COMPANIES FINANCING FUND (Pages 205 - 208)**

25. **DEATH GRANT CASE (Pages 209 - 230)**

26. **ST NICHOLAS HOUSE, LIVERPOOL - REFURBISHMENT (Pages 231 - 234)**

27. **REVIEW OF POTENTIAL UNFUNDED LIABILITIES FOR ADMISSION BODIES (Pages 235 - 250)**

28. **TRANSFEREE ADMISSION BODY APPLICATION - ANDRON CONTRACT SERVICES (Pages 251 - 252)**

29. **TRANSFEREE ADMISSION BODY APPLICATION - GRAYSONS RESTAURANTS (Pages 253 - 254)**

30. **PROCUREMENT OF INDEPENDENT ADVISERS (Pages 255 - 258)**

31. **RECLAMATION OF EUROPEAN WITHHOLDING TAX (Pages 259 - 262)**

32. **APPOINTMENT OF BOND MANAGERS - LATE REPORT**

33. **IMWP MINUTES**

34. **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

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PENSIONS COMMITTEE

Thursday, 18 June 2009

Present:	Councillor	AR McLachlan (Chair)	
	Councillors	G Watt T Harney W Duffey C Povall	D Knowles G Davies F Doyle
	Councillor Councillor Councillor Councillor	R Oglethorpe, Liverpool City Council N Keats, Knowsley Council G Pearl, St Helens Council A Ibbs, Sefton Council	
		Jayne Brown, Non District Council Employer	
In attendance:	UNISON	Paul Wiggins	
Apologies		Councillor H Smith Phil Goodwin (UNISON)	

1 **MINUTES**

The Director of Law, HR and Asset Management submitted the minutes of the meeting held 6 April 2009.

Resolved – That the minutes be received.

2 **DECLARATIONS OF INTEREST**

Members were asked to consider whether they had any personal or prejudicial interests in connection with any matter on the agenda.

Councillor Ibbs declared a prejudicial interest in minute 26 by virtue of being an elected member with Sefton Council.

3 **APPOINTMENT OF VICE-CHAIR OF THE PENSIONS COMMITTEE**

The Director of Law HR and Asset Management requested nominations for the position of Vice–Chair of Pensions Committee.

On a motion by the Chair and seconded by Councillor Harney it was;

Resolved – That Councillor Harry Smith be appointed Vice-Chair of the Pensions Committee.

4 **PENSION FUND ACCOUNTS YEAR ENDED 31 MARCH 2009**

The Director of Finance submitted a report and presented the accounts and financial statements which in due course would be contained in the Annual Report of Merseyside Pension Fund 2008/2009.

He reported that the accounts were required to be approved by the Pensions Committee prior to presentation to the Audit Commission.

The Director reported that this set of accounts were the first to be produced under the new Pensions Statement of Recommended Practice (SORP), they also took into account the requirements of the Local Authority SORP.

Resolved – That the accounts and financial statements of Merseyside Pension Fund for the year ended 31 March 2009 be approved.

5 **LGPS CONSULTATION PAPER**

The Director of Finance reported verbally upon the LGPS Consultation Paper.

He reported that the document was still awaited to be issued and that a report would be submitted to Pensions Committee in September.

Resolved

That should the consultation paper be issued before the next scheduled meeting of Pensions Committee the Councillor Ann McLachlan, Chair of Pensions Committee be authorised to issue a response to the Local Government Minister responsible and that a report be brought back to this committee on the response given.

6 **TREASURY MANAGEMENT ANNUAL REPORT 2008/09**

The Director of Finance submitted the annual report on Treasury Management within MPF for the 2008/09 financial year, which complied with the reporting requirements of the Code of Practice for Treasury Management in Local Authorities.

Resolved – That the report be noted

7 **AUDIT COMMISSION FEES 2009-2010**

The Director of Finance submitted a report upon the fee levels proposed by the Audit Commission for the current financial year.

Resolved - That the proposed increase in Audit Commission fees for 2009-2010 be approved.

8 **STATEMENT OF RESPONSIBILITIES OF AUDITORS**

The Director of Finance submitted an updated version of the Audit Commission Statement of Responsibilities of Auditors and of Audited Bodies.

He reported that the Audit Commission had asked that this document be presented to Pensions Committee.

Resolved – That the report be noted.

9 **INVESTMENT PERFORMANCE 2008 - 2009**

The Director of Finance submitted a report outlining the investment performance of Merseyside Pension Fund for the year ended 31 March 2009 as reported by the WM Company.

Resolved - That the investment performance of the Fund in the year ended 31 March 2009 be noted.

10 **LGPS REFORM UPDATE**

The Director of Finance submitted a report informing Pensions Committee of progress with the production of regulations and other guidance by the Department for Communities and Local Government (DCLG) following the introduction of the revised LGPS on 1 April 2008.

Resolved – That the draft response to DCLG on Scheme Governance be approved.

11 **FAIR PENSIONS 2008/09 RESPONSIBLE INVESTMENT SURVEY**

The Director of Finance submitted a report informing the Pensions Committee of the result of a national survey of responsible investment practice, wherein Merseyside Pension Fund had been ranked 4th out of its peer group of 30 leading UK occupational pension schemes (2nd of 5 LGPS funds in the survey).

Resolved - That the recognition of the Merseyside Pension Fund responsible investment policy be noted.

12 **CASH MANAGEMENT**

The Director of Finance submitted a report requesting approval of a revision made to the cash management policy agreed by Pensions Committee 14 January 2009.

Resolved - That the proposed change in Treasury Management policy be approved.

13 **REPRESENTATION ON OUTSIDE BODIES**

The Director of Finance submitted a report request the Pensions Committee to review positions held by Elected Members on external bodies on behalf of Merseyside Pension Fund.

Resolved – That Councillor Ann McLachlan be nominated for election to the Executive of LAPFF for 2009-10.

14 **LOCAL GOVERNMENT CHRONICLE INVESTMENT CONFERENCE**

The Director of Finance submitted a report requesting Pensions Committee to consider if it wished to be represented at the Local Government Chronicle (LGC) Investment Conference to be held in Newport on 9 to 11 September 2009.

Resolved – That members notify the Director of Finance of their interest in attending.

15 **JULY TRAINING EVENT**

The Director of Finance submitted a report reminding Members of arrangements made for a training event to be held at the Cunard Building on 2 July 2009.

Resolved – That all members attend the training event.

16 **REFURBISHMENT AND REPAIRS AT CUNARD BUILDING, LIVERPOOL**

The Director of Finance submitted a report advising Members of a major review of the Cunard Building, Liverpool, covering external works and communal areas to be implemented over a period of three years.

Resolved -

1. That Pensions Committee agree to the proposed three year phased programme of refurbishment and repair at the Cunard Building, Liverpool at an estimated cost of £4.02m plus VAT.

2. That Pensions Committee note that another report will be submitted in due course for further refurbishment at the Cunard Building.

17 **REFURBISHMENT AT CROMWELL HOUSE, HOOK, HAMPSHIRE**

The Director of Finance submitted a report advising Members of a comprehensive refurbishment programme at Cromwell House, Hook, Hampshire.

Resolved - That the proposed refurbishment of Cromwell House, Hook, Hampshire be agreed.

18 **GLOBAL CUSTODIAN SERVICES**

The Director of Finance submitted a report setting out the functions performed by the Global Custodian. He recommended the take up of optional years within the existing contract, and proposes the use of a custodian monitoring service.

Resolved

1. That this Committee agrees to extend the existing contract with State Street as Global Custodian to 30 September 2011.

2. That this Committee agrees that a procurement process commence for the selection of a custodian monitoring service.

19 **EXEMPT INFORMATION - EXCLUSION OF MEMBERS OF THE PUBLIC**

20 **ALTERNATIVE INVESTMENTS**

The Director of Finance submitted a report covering the background to the investments in alternatives, an analysis of 2008, portfolio management issues going forward and benchmarking issues.

Resolved - That the report be noted.

21 **PRIVATE EQUITY**

The Director of Finance submitted a report covering the background to the previous private equity plan a cash flow analysis from Capital Dynamics (the Fund advisers on private equity), conclusions and a new programme.

Resolved – That the private equity programme for 2009 be approved.

22 **APPOINTMENT OF A FRAMEWORK LIST OF TRANSITION MANAGERS**

The Director of Finance submitted a report informing Pensions Committee of the results of a procurement exercise to maintain a framework list of transition managers for the purpose of moving assets between investment managers in a cost effective manner following changes in investment strategy.

Resolved - That the framework list of transition managers be approved.

23 **KEEL ROW SHOPPING CENTRE, BLYTH, NORTHUMBERLAND - SECURITY AND CLEANING CONTRACT**

The Director of Finance submitted a report advise Pensions Committee of the acceptance under delegation of the lowest tender for the provision of security and cleaning services at Keel Row, Blyth, Northumberland. The tendering exercise had been conducted on behalf of MPF by CB Richard Ellis (CBRE).

Resolved - That the acceptance under delegation of the lowest tender for the provision of security and cleaning services at Keel Row, Blyth be noted.

24 **CLEANING CONTRACTS FOR LIVERPOOL OFFICES (CUNARD BUILDING, CASTLE CHAMBERS AND ST NICHOLAS HOUSE)**

The Director of Finance submitted a report informing Pensions Committee of the outcome of a tendering exercise in respect of cleaning contracts located in Liverpool for properties owned by MPF as part of the direct property investment portfolio. The tendering exercise had been conducted on behalf of MPF by CB Richard Ellis (CBRE).

Resolved -That the tender submitted by Europa for the sum now reported for cleaning services in the Liverpool offices be accepted.

25 **CUNARD BUILDING LIVERPOOL - PHASE 1 IMPLEMENTATION**

The Director of Finance submitted a report requesting approval by Pensions Committee of the outcome of the recent tendering exercise in respect of refurbishment work for the internal common area (first –sixth floor) to the Cunard Building, Liverpool. He reported that the tendering exercise had been conducted on behalf of MPF by CB Richard Ellis (CBRE).

Resolved - That the lowest tender submitted by Jennor for Phase 1 of the refurbishment work at the Cunard Building, Liverpool be accepted.

26 **TRANSFEREE ADMISSION BODY APPLICATION - CRIME REDUCTION INITIATIVE**

The Director of Finance submitted a report informing Members of his decision taken under delegation to approve the application received from Crime Reduction Initiative (CRI) a Transferee Admission Body for admission to Merseyside Pension Fund. The Company would undertake the Drug Interventions Programme (DIP) formerly provided by the Sefton Drug Action Team.

Resolved - That Pensions Committee notes the approval by delegated authority by the Director of Finance of the application for admission body status received from Crime Reduction Initiative.

27 **TRANSFEREE ADMISSION BODY APPLICATION - VEOLIA ES, MERSEYSIDE AND HALTON**

The Director of Finance submitted a report informing the Pensions Committee of his decision taken under delegation, to approve the application received from Veolia ES Merseyside and Halton (“Veolia”) a transferee admission body for admission to Merseyside Pension Fund. The Company had taken over the provision of the waste management and recycling contract formerly provided by Mersey Waste Holdings a resolution body of MPF since 21 August 1995.

Resolved - That the approval of the application by the Director of Finance under his delegated authority for admission body status received from Veolia ES Merseyside and Halton.be noted

28 **ADMISSION APPLICATION - BRAMALL CONSTRUCTION**

The Director of Finance submitted a report informing Members of his decision taken under delegation, to approve the application received from Bramall Construction a transferee admission body for admission to Merseyside Pension Fund. The Company had been successful in winning the contract to maintain housing stock transferred to Liverpool Mutual Homes a Community Admission Body since 1 April 2008.

Resolved - That the approval of the application for admission body status received from Bramall Construction by the Director of Finance be noted.

29 **MINUTES OF INVESTMENT MONITORING WORKING PARTY 22 APRIL 2009 AND 10 JUNE 2009**

The Director of Finance submitted the minutes of the Investment Monitoring Working Party held on 22 April 2009 and 10 June 2009 respectively.

Resolved – That the minutes be agreed.

30 **INSURANCE OF THE PROPERTY PORTFOLIO**

The Director of Finance submitted a report request the Pensions Committee to accept the lowest priced tender for insuring the 27 properties held by MPF.

He reported that the contract period would be for three years, commencing 25 June 2009. The tender process had been managed by CB Richard Ellis (CBRE), the property management agent and had followed Council procurement procedures.

Resolved - That the lowest tender for property insurance for a three year period from 25 June 2009 for the property portfolio be accepted.

31 **ANY OTHER URGENT BUSINESS APPROVED BY THE CHAIR**

32 **POWER OF ATTORNEY**

The Chair reported that she had accepted this item of business on the grounds that a decision was required before the next scheduled meeting of the Pensions Committee.

The Director of Finance submitted a report recommending that Pensions Committee formally authorise that designated officers of MPF be empowered to sign powers of attorney on behalf of MPF and Wirral Metropolitan Borough Council, and requested a change to the Scheme of Delegation to eliminate any doubt as to its ability to make such a decision.

<u>Resolved</u> –

1. That the following persons be authorised to sign deeds of Power of attorney on behalf of the Pensions Committee and as authorised representatives and signatories of the Administering Authority:

Head of Pension Fund: Peter Wallach
Deputy Head of Pension Fund: Peter George Mawdsley
Financial Controller: Gerard Francis Moore
Chief Investment Officer: Leyland Otter

who are all based at; Castle Chambers, 43, Castle Street, Liverpool, L69 2NW

2. That a minimum of two of the officers delegated mentioned above, are authorised to execute and deliver the deeds of Powers of Attorney.
Asking for additional wording to the scheme of delegation which would state: in section 11 (9)

3. That Pensions Committee requests that the Administering Authority amend its scheme of delegation to include the power "To enter into and grant powers of attorney on behalf of the Administering Authority. The Pensions Committee shall delegate the signing of such powers of attorney to individuals designating in a resolution of the said Pensions Committee."

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

LGPS VALUATION CONSULTATION - LGPS DELIVERING AFFORDABILITY, VIABILITY AND FAIRNESS

1. EXECUTIVE SUMMARY

1.1 This report informs Members of a consultation exercise being conducted by the Department for Communities and Local Government (DCLG). The consultation suggests possible amendments to the LGPS to ensure its stability and viability in view of the current stock market impacts on pension fund liabilities likely to be identified at the forthcoming 31 March 2010 actuarial valuation exercise.

1.2 Members are requested to approve the draft response to the DCLG attached at appendix 2.

2. BACKGROUND

2.1 DCLG circulated a letter on 25 June 2009 (Appendix 1 attached) which sets out how Ministers wish to secure a consensus of stakeholders on a number of amendments to the Regulations to ensure a satisfactory impact on the conduct and outcomes of the 2010 actuarial valuation and to assist in maintaining Scheme viability generally. The deadline for responses on the consultation is 30 September 2009.

2.2 DCLG states that in a later separate consultation exercise consideration is to be given to the longer term future of the Scheme and ways that the Scheme might be further reformed to best respond to changes in the workplace, workforce and economy.

2.3 The letter points out that at the 31 March 2007 valuation, nationally funds total assets were valued at £132 billion with liabilities totalling £159 billion giving a shortfall of £27 billion. This represented a scheme-wide funding level of 83%.

2.4 The position of the Merseyside Pension Fund at 31 March 2007 was as follows:

Total assets	£4,301m
Total liabilities	£5,364m
Deficit	£1,063m

This represented a funding level at that time of 80% relative to the funding target.

2.5 The DCLG letter points out that the last major Scheme reform saw the introduction from 1 April 2008 of changes to a 1/60th accrual rate and tiered employee contributions rates between 5.5% and 7.5% yielding on average about 6.4% of total payroll.

2.6 Employers' contribution rates are currently fixed until 31 March 2011 to meet the balance of the cost of providing the benefits. These will be reassessed at the 31 March 2010 valuation and adjusted to ensure that pension funds are solvent and able to meet their existing and future liabilities.

3. POSSIBLE NEW APPROACH - FINANCING PLANS

3.1 Instead of pension funds producing full (100%) funding recovery plans to make good all past service deficits, as part of the preparation of their Funding Strategy Statements, they would prepare and maintain a Financing Plan to demonstrate how over the short, medium and long term, they will fund pension liabilities for their fund and for each of its employer bodies.

3.2 The Financing Plan would detail and determine local future income streams and how it is proposed to prudently manage the funding of long term liabilities, based on reasonable, realisable assumptions and qualified professional advice. It would also take into account local budgetary constraints and recognise the reality of local resource and other parameters within which each pension fund must operate.

3.3 DCLG suggests that a Financing Plan could include the following key components which could be reflected in the regulations or guidance: -

- base information :-
  - short to medium cash flow projections
  - actuarial estimate of long term funding needs
  - current funds and projected changes
- key assumptions
- risk management analysis
- employing body contribution rates to provide sufficient resources to meet the liability projections for the fund overall and each employing body
- certification of the plan by the fund officer responsible for the administration of the fund and the appointed actuary
- agreement to the Financing Plan by the pension committee, after proper consultation with all interested parties.

3.4 The DCLG states that the policy aim would be to stabilise pension costs at the same time as moving away from rigid, long term 100% funding targets. It recognises however that it is equally important that the Scheme retains the confidence of all stakeholders in being able to meet its statutory-based pension promise.

4. **POSSIBLE NEW APPROACH - LOCAL FUNDING TARGETS**

4.1 An alternative approach could involve essentially retaining the existing Scheme funding regime but additionally would allow an LGPS administering authority to adopt a long-term funding target which would not necessarily always be set at 100%, provided this could be sustained and transparently justified by the administering authority within its Funding Strategy Statement.

4.2 Long term funding targets would, therefore, continue to be an essential feature of the Funding Strategy Statement, as indeed would deficit recovery plans over a locally chosen period. This new adjustment could ensure that any longer-term funding shortfall could be recovered within a prudentially-set, and publicly accountable timescale. It stabilises pension costs without losing sight of the fact that the Scheme must meet its statutory pension promise.

4.3 DCLG confirms that this does not mean that funds are to be given unfettered powers to set funding levels and employer contribution rates. That would be to deny the prudentially critical role of the valuation and subsequent actions by the administering authority. The intention rather is for the normal pre-and post-valuation dialogue between administering authorities, fund actuaries, and other stakeholders to continue with the view to reaching an agreed funding position in the light of the valuation exercise outcome. However, the proposed regulatory changes would put beyond doubt that ultimately it is for each administering authority, and most importantly its elected committee Members, to have the final say on questions of affordability and sustainability and fairness to local taxpayers, within the Scheme regulatory framework.

5. **REVISED EMPLOYEE CONTRIBUTION TARIFF**

5.1 The letter refers to a proposition being considered to amend the existing LGPS tariff which sets the level of employee contributions linked to their pensionable pay, with new, higher tariffs for members who annually earn in excess, say, of £75,000, together with an extension of the lower rate of contributions for the lower paid.

5.2 The Scheme introduced on 1 April 2008 included a new banded contribution arrangement with a top level of 7.5% of pensionable pay for those whose earnings are in excess £75,000. However, according to the DCLG it is now believed that there are many high earners in the local government workforce who are paying a proportionately modest amount towards their pension benefits.

5.3 The figures illustrated in table 1 do not reflect the current tariff in force as they ignore the impact of the annual indexation applied in accordance with RPI increases and actually indicate increases in employee contribution rates for the majority of people earning in excess of £30,000 pa and some of those earning less than £18,000.

5.4 *The overall impact of all these proposed changes would only be a marginal increase in total yield from 6.4% to 6.42% and is more about further redistribution of the cost burden of the Scheme from the lower to the higher paid members than improving the funding position.*

5.5 The DCLG suggests that given the very high proportion of part-time employees in the Scheme, it seems equitable to re-consider the extent, in tariff terms, of the lower rate of 5.5% of pensionable pay. It suggests this help to recruit and retain membership of lower paid employees into the Scheme who, according to recent UNISON research, find the costs of membership prohibitive.

5.6 It is questionable whether the impact of the marginal adjustment to the rates at the lower earnings levels would actually result in any increase in Scheme take up by the lowest paid employees, many of whom do not believe that they can afford any contribution and could be worse off by joining because of loss of means tested state benefits.

5.7 An example of the scope of a possible future regulatory amendment is illustrated in the table. Under this example, members earning over £100,000 per year could pay a contribution rate of 10% of pay, and those in the next band earning over £75,000 a rate of 8.5%. Meanwhile, many members earning less than £22,001 p.a. would benefit from a lower rate. DCLG states that the table is illustrative at this stage and does not represent any firm commitment.

5.8 Those earning between £30,001 and £75,000 per year would also have to contribute more: +0.2% or +0.3%, to avoid “cliff edge” increases in contributions within the tariff.

5.9 Subject to the outcome of any statutory consultation DCLG believes that the new contribution tariff could take effect from 1 April 2010.

5.10 *Until the introduction of the new scheme on 1 April 2008 (other than a small group of protected former manual workers) all members irrespective of earnings paid the same 6% percentage contribution of their pay for their benefits.*

5.11 *Those employees earning £100,000 or more will have already seen a 25% increase in their contributions from 1 April 2008 (from 6% to 7.5% of pay) and these same members would face a further 33% increase in their pension contributions from 1 April 2011 (from 7.5% to 10% of pay).*

Table 1 – Possible New Employee Contribution Tariff			
Band	**New Pay Range (pay per year)**	**Proposed New Contribution Rate**	**Difference from current LGPS rate**
1	£0 - £15,000	5.5%	No change for members earning up to £12,000 per year -0.3% for members earning from £12,001 to £14,000
2a	£15,001 to £18,000	6.0%	+ 0.1% This apparent anomaly is justified by the significant reduction in rate for Band 3 below
2b	**£18,001 to £22,000**	6.0%	**-0.5%**
3	£22,001 to £30,000	6.5%	No change
4	£30,001 to £40,000	7.0%	+0.2%
5	£40,001 to £75,000	7.5%	+0.3%
6	**£75,001 to £100,000**	8.5%	**+1.0%**
7	**£100,001+**	10.0%	**+2.5%**
Yield = 6.42% of payroll			

5.12 Responses to the informal consultation exercise are invited no later than 30 September 2009. The LGPS Policy Review Group will be considering the paper in the course of its deliberations.

6. FINANCIAL IMPLICATIONS

6.1 The outcome of the consultation may well have a significant impact on the future funding arrangements and on employer and employee contribution rates.

6.2 The Actuary will have regard to the outcome of the consultation in carrying out the 31 March 2010 actuarial valuation.

7. STAFFING IMPLICATIONS

7.1 There are no staffing implications in this report.

8. EQUAL OPPORTUNITY IMPLICATIONS

8.1 There are none arising directly from this report.

9. HUMAN RIGHTS IMPLICATIONS

9.1 There are none rising directly from this report.

10. COMMUNITY SAFETY IMPLICATIONS

10.1 There are no specific implications arising from this report.

11. LOCAL MEMBER SUPPORT IMPLICATIONS

11.1 There are no specific implications for any Member or Ward.

12. LOCAL AGENDA 21 IMPLICATIONS

12.1 There are no specific implications arising from this report.

13. PLANNING IMPLICATIONS

13.1 There are no specific implications arising from this report.

14. BACKGROUND PAPERS

14.1 LGPS Delivering Affordability, Viability and Fairness - DCLG June 2009.

15. RECOMMENDATION

15.1. That Members approve the draft response to the DCLG consultation.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/261/09

Dear Colleague,

APPENDIX 1

LGPS Stakeholders in
England and Wales
(Addressees attached)

T B J Crossley
Deputy Director
Workforce, Pay and Pensions
Local Government Finance Directorate
Zone 5/F5 Eland House
Bressenden Place
London SW1E 5DU

Direct line: 020 7944 5970
Fax: 020 7944 6019

Web sites: www.communities.gov.uk

25 June 2009

LOCAL GOVERNMENT PENSION SCHEME DELIVERING AFFORDABILITY, VIABILITY AND FAIRNESS

1. This informal consultation exercise begins a series of steps to consider some possible amendments which initially focus for reasons of Scheme stability and viability on the 2010 Scheme valuation exercise. A later, separate exercise, will consider new ways in which the LGPS could possibly be reformed to provide more workforce - focused provision pension for the 21st century.

2. Ministers wish to see the full engagement of all stakeholders in this particular exercise to secure a consensus quickly on a number of practical and reasonable amendments to the Scheme's regulatory framework to beneficially impact on the conduct and outcomes of the 2010 valuation and to assist in maintaining Scheme viability generally. A parallel, separate consultation exercise on the broader debate, announced when John Healey spoke at the NAPF Local Authority Conference on 19 May, about the longer term future of the Scheme, and how it might best respond to changes in the workplace, workforce and economy will issue shortly.

Background

3. The LGPS, as provided in England and Wales, is a statutory, public service, funded, occupational pension scheme which provides guaranteed pension benefits to local authority employees, and to employees of related and admitted employers.

4. The Scheme's local administering authorities pay benefits and manage its pension funds within the terms set out in secondary legislation made under the Superannuation Act 1972. A prudential regulatory framework provides Scheme pension fund administering authorities with all the necessary powers to manage and invest their pension funds. Investment income generated, as well as the operating and other costs incurred, is the responsibility of the appropriate LGPS administering authority; any surplus is available to reduce employers' liabilities and to re-invest within the authority's investment strategy.

5. At the 31 March 2007 triennial actuarial valuation, funds' total assets were valued at £132 billion with liabilities totalling £159 billion giving a shortfall between assets and liabilities of £27 billion, or a scheme-wide funding level of 83% (up from 74% in 2004).

6. The LGPS provides inflation-linked pension benefits based on a member's final salary at retirement and has some 3.7 million members. Stewardship, policy and regulatory responsibilities for the Scheme in England and Wales rest with the Secretary of State for Communities and Local Government.

7 A major Scheme reform saw the introduction from 1 April 2008 of a new-look LGPS including revised benefit terms. The Scheme's accrual rate was improved from 1/80ths to 1/60ths with the normal retirement age of 65 years being retained and new ill health provisions and other benefit adjustments within a fixed, agreed cost-envelope. Employees currently contribute between 5.5% and 7.5% of their pay on a set tariff which yields about 6.4% of total payroll. Employers' contributions, fixed until 31 March 2011, are adjusted following the triennial valuation of individual LGPS pension funds. Each individual pension fund authority is required to set an employers' level of contribution to ensure its fund is solvent and able to meet its existing and future liabilities.

Scope of consultation

8. This discussion document sets out initial suggestions for stakeholders to consider as a feasible and balanced response to the current stock market impacts on LGPS pension fund liabilities likely to be identified in the forthcoming 2010 valuation exercise. The propositions principally focus on the important regulatory and operational relationship between the actuarial valuation exercise and the requirement on each LGPS administering authority to produce and maintain a Funding Strategy Statement. It would be appropriate also to support the proposals with new advice to stakeholders on the issue of Scheme funding, cost stability and security.

9. In addition, and alongside the introduction of the new LGPS cost-sharing regime, this may be an opportune time also to consider a re-alignment of the employee member pension contribution tariff, and particularly the proportion of pensionable pay being contributed by higher paid members Towards their pension benefits.

10. Ministers wish to see an authoritative, evidence-based debate on a range of elements which fall within the Scheme's current framework. It is proposed to issue a paper shortly which sets out several policy themes for analysis and discussion by Scheme stakeholders about the possible future direction of the LGPS in the medium/ longer terms.

11. Both strands need, to be seen within the broad context of all public service pension schemes. Communities and Local Government remains in close touch with other relevant sponsoring Government Departments, as well as Scheme-specific stakeholders.

Current public service pension policy context

12. The Government's overall commitment to public service pension provision generally and for the Local Government Pension Scheme in England and Wales in particular, is that such schemes remain affordable and sustainable in the long term, be consistent with the principle of fairness for all taxpayers and between generations.

13. Ministers are on record regarding their intentions to ensure that the LGPS can continue to meet the needs of its stakeholders. Their policy for the Scheme is one based on affordable retention within the broad national policy parameters expressed above. At the same time, the guarantees that underpin such arrangements, supported by taxpayers, require the terms of the Scheme to be kept under review, to reflect best practice and continue to be fair and cost-effective in terms of the level of provision and the cost of delivery.

14. The provision of a good quality occupational pension provision is a key part of the total remuneration package of public servants. The Local Government Association see the LGPS as an essential component of the total reward package currently available to recruit, retain and to motivate local authority employees. The local authority trade unions take much the same view.

15. However, in providing any level of public sector benefit provision, it is acknowledged by stakeholders that it remains essential to ensure an equitable balance at all times between the full cost of providing LGPS benefits within that statutory, guaranteed framework, and the standard of the actual pension benefits provided by the Scheme for its membership.

16. In assessing the prospect of any possible regulatory changes to the LGPS in England and Wales, the Government wishes to continue to maintain a viable and affordable Scheme, one that caters for its current and future workforces' needs and which remains fair both to providers and beneficiaries, as well as to taxpayers who ultimately guarantee its pension promise.

Actuarial valuations and Funding Strategy Statements

17. The next LGPS actuarial valuation exercise in England and Wales, required by regulation 36 of the 2008 Administration regulations, takes place as at 31 March 2010. This event, along with the influences of each administering authority's Funding Strategy Statement and Statements of Investment Principles, will determine new rates of Scheme employer contributions from 1 April 2011 until 31 March 2014. The subsequent valuation takes place on 31 March 2013.

18. Many stakeholders believe that unless some adjustments are made to stabilise the treatment of scheme liabilities at the 2010 valuation, and so mitigate any short term adverse impacts of the current economic recession on the Scheme, the effect on members, employers and taxpayers could be disproportionately significant in terms of increased costs and so potentially council tax bills from 1 April 2011, notwithstanding the application of the new LGPS cost share / capping provisions.

19. The actuarial valuation exercise and its attendant regulatory structures involving Funding Strategy Statements and Statements of Investment Principles, are in place to protect taxpayers' interests through the efficient long term management of liabilities within a prudent regulatory framework. Regulation 36 (6)(b) of the LGPS Administration Regulations 2008 requires that contribution increases for employers in general, following each valuation exercise, should be set at as constant a rate as possible, and each LGPS administering authority engages with its actuary to determine how best to focus on the longer term funding plan each LGPS fund authority needs to achieve that position.

20. The 2010 valuation exercise will provide regulatory stability and discipline, and its interaction with funding strategies which continue to statutorily protect taxpayers, and guarantee the pension promise for Scheme members. Nevertheless, there remains the likelihood of an adverse 2010 outcome. Ministers believe that a closer regulatory realignment, therefore, between the two could be useful to counter any risks that might otherwise adversely affect employers costs and taxpayers and the on-going stability of the Scheme.

21. The following paragraphs explore steps to stabilise future Scheme costs arising from the 2010 valuation exercise. The propositions draw on the outcome of views expressed by key national stakeholders in recent discussions. Liaison will continue with the interested parties over the coming months, particularly on the details of actual proposals and any necessary guidance, including the involvement of the LGPS Policy Review Group.

A possible new approach to solvency

22. Consultees are invited to comment on a proposition involving an amendment to the Scheme regulations, which already include a specific (but undefined) solvency requirement (Regulation 36(5) of the 2008 Administration Regulations), and modify it with a provision which requires each fund's actuary, first to take full account of the affordability of employers' liabilities to pay pensions and to meet liabilities when undertaking three-yearly fund actuarial valuations and, second, to ensure consistency with an administering authority's funding objectives as set out in its Funding Strategy Statement.

23. In practice, this will result in new employer contribution rates being set at each valuation at such a level as to ensure that, over time, sufficient monies are available as required to meet all employers' liabilities.

24. Although a shortfall or deficit may be identified by individual fund valuations, it appears to be the case across the Scheme that contribution rates are set by pension actuaries, for each triennial valuation period, to ensure that the fund will be able to meet its pensions promise by achieving 100% funding in the long term, to meet the funding strategy set by the administering authority.

25. Stakeholders have mentioned in recent discussions that a uniform 100% funding target can become artificial and impose significant short term cost pressures on employers during times of economic downturn and falling investment returns. It fails also to take into account the effect on employers' who have to meet cost increases up front, and over the short term, when in every case this is far from justified.

26. For the LGPS, the effect has implications for council tax payers, particularly in the current economic recession. Measuring the Scheme, therefore, against an actuarially-defined notional 100% funding target automatically creates the concept of a deficit-event whenever the funding ratio falls below 100%. This is frequently misinterpreted by commentators as creating an immediate, and global cost penalty for council tax payers. The essence of the proposition in this paper, therefore, is to consider better reflecting in the regulations the actual local funding dynamics of the Scheme and to remove the opportunity for any negative interpretations which can fail to understand the Scheme's inherent funding disciplines and its protections for taxpayers and members, along side its regulatory permanence.

27. Although liquidity is a measure of the ability to pay pensions as they become due, solvency is concerned with the capacity and status of scheme employers to meet the pensions promise. That means having sufficient assets to meet all future pension liabilities. At present, this test often becomes a target of 100% funding but, given the strong liquidity of the Scheme, the constitutional permanence of local government and a strong employers' covenant, it is questionable whether fund authorities need to build up what, in effect, amounts to a financial reserve in the process of achieving that solvency level.

28. Clearly, a financial reserve and investment assets, are needed to meet short-term liquidity requirements but, equally, setting employer contribution rates at a level to achieve long term funding targets can be considered to be a blunt instrument which imposes unrealistic and burdensome short/medium term costs on scheme employers, and, potentially, council taxpayers.

29. Looking ahead, therefore, a more flexible model might be appropriate, to better reflect the individual circumstances of each pension fund authority and which takes full account of the long term constitutional permanence of local government, its employer covenant and its statutory basis. In informal discussions with stakeholders, two separate sets of proposals have emerged. First, involving the introduction of a new Financing Plan underpinned by a completely new funding strategy and secondly, the establishment of funding targets set locally by fund authorities within much of the existing funding and valuation framework.

Financing Plans

30. The first approach would mean that, instead of fund authorities coming forward with full (100%) funding recovery plans to make good all past service deficits, it is suggested that, integral to the preparation of their Funding Strategy Statements, each LGPS administering authority could additionally prepare and maintain a Financing Plan to demonstrate how over the short, medium and then long term, they will fund pension liabilities for their fund and for each of its employer bodies. The Financing Plan would detail and determine local future income streams and how it is proposed to manage the funding of long term liabilities, demonstrating that it has taken a prudent approach, based always on reasonable, realisable assumptions and qualified professional advice. It would also take into account local budgetary constraints and recognise the reality of local resource and other parameters within which each fund must operate.

31. A Financing Plan could include the following key components and these could, in due course, be reflected in the regulations, or in authoritative guidance: -

- base information :-
    - short to medium cash flow projections
    - actuarial estimate of long term funding needs
    - current funds and projected changes
- key assumptions
- risk management analysis
- employing body contribution rates to provide sufficient resources to meet the liability projections for the fund overall and each employing body
- certification of the plan by the fund officer responsible for the administration of the fund's affairs and the appointed actuary

- agreement to the Financing Plan by the authority's formal pension committee, after proper consultation with all interested parties.

32. This approach would require formal amendments to the Scheme's regulations to require the preparation and inclusion of new Financing Plans, within an amended Funding Strategy Statement, no later than 1 October 2010 or another date following the 2010 valuation, and no later than six months after the valuation date specified. This is intended to ensure that strategic decisions taken by individual local administering authorities on funding and contribution levels are prudent and viable, locally transparent and capable of delivering secure, guaranteed payments alongside regular monitoring. It would provide a clear regulatory-based timetable over which individual LGPS funds can meet their own, locally adopted, prudently funded and financed payment plans.

33. However, the Department is mindful that the proposed Financing Plan, whilst having the effect of removing the current actuarially-set long term solvency test involving a "deficit funding" approach, would, at the same time, introduce a funding regime based on a much shorter time frame which may be regarded by some commentators as being inconsistent with current funding best practice. Although the policy aim would be to stabilise pension costs going forward at the same time as moving away from rigid, long term 100% funding targets, it is equally important that the Scheme retains the confidence of all stakeholders in being able to meet its statutory-based pension promise. No changes are envisaged to the Scheme regulations which currently require specific provisions to set employers` contributions to retain a constancy which eliminates any possibility of contributions being reduced and continues to ensure stability.

Local Funding Targets

34. An alternative approach could involve essentially retaining the existing Scheme funding regime but additionally would allow an LGPS administering authority to adopt a long-term funding target which would not necessarily always be set at 100%, provided this could be sustained and transparently justified by the pension fund administering authority within its published Funding Strategy Statement.

35. Long term funding targets would, therefore, continue to be an essential feature of the Funding Strategy Statement, as indeed would deficit recovery plans over a locally chosen period. This new adjustment could ensure that any longer-term funding shortfall could be recovered within a prudentially-set, and publically accountable timescale. It stabilises pension costs going forward, without losing sight of the fact that the Scheme must meet its statutory pension promise.

36. This does not mean that LGPS administering authorities are to be given unfettered powers to set funding levels and employer contribution rates. That would be to deny the prudentially critical role of the valuation and subsequent actions by the administering authority. The intention rather is for the normal pre-and post-valuation dialogue between administering authorities, fund actuaries, and other stakeholders to continue with the view to reaching an agreed funding position in the light of the valuation exercise outcome. However, the proposed regulatory changes would put beyond doubt that ultimately it is for each locally administering authority, and most importantly its elected committee members, to have the final say on questions of affordability and sustainability and fairness to local taxpayers, within the framework set by the Scheme's regulatory framework.

Next steps

37. Discussions with stakeholders are being arranged to consider the merits of these possible new arrangements which could then be carried forward into draft amending regulations to be issued later in the year as a statutory consultation. Detailed guidance could be prepared with the assistance of CIPFA, to help LGPS authorities prepare for any regulatory changes.

38. Consultees are therefore invited to comment on both how a proposed financing plan approach could apply, when read in conjunction with the existing Statements of Investment Principles and Funding Strategy Statements, and also how to ensure that fund authorities are able to adopt favourable short term positions consistent with their long term pension liabilities. Alternatively, consultees are invited to comment on whether there is merit in the other approach involving locally selected funding targets, also within the framework established by existing Funding Strategy Statements and Statements of Investment Principles.

A Revised Employee Contribution Tariff

39. A proposition is also being considered to amend the existing LGPS tariff which set the level of employee contributions linked to their pensionable pay, with new, higher tariffs for members who annually earn in excess, say, of £75,000, together with an extension of the lower rate of contributions for the lower paid.

40. The new LGPS Scheme introduced on 1st April 2008 included a new banded contribution arrangement with a top level of 7.5% of pensionable pay for those whose earnings are in excess £75,000. However, it is now believed that there are many high earners in the local government workforce who are paying a proportionately modest amount towards their pension benefits.

At the same time, given the very high proportion of part-time employees in the Scheme, it is seems equitable to re-consider the extent, in tariff terms, of the lower rate of 5.5% of pensionable pay. This latter step should directly help to recruit and retain membership of lower paid employees into the Scheme who, according to recent UNISON research, find the costs of membership prohibitive.

41. An example of the scope of a possible future regulatory amendment is illustrated below. Under this example, members earning over £110,000 per year could pay a contribution rate of 10% of pay, and those below in the next band (earning over £75,000) a rate of 8.5%. Meanwhile, many members earning less than £22,001 p.a. would benefit from a lower rate. The table is illustrative at this stage and does not represent any firm commitment by Ministers.

42. Those earning between £30,001 to £75,000 per year would also have to contribute more: +0.2% or +0.3%, to avoid "cliff edge" increases in contributions within the tariff.

43. Subject to the outcome of any statutory consultation the new contribution tariff could take effect from 1 April 2010.

Table 1 – Possible New Contribution Tariff

Band	Pay Range (pay per year)	New Contribution Rate	Difference from current LGPS rate
1	£0 - £15,000	5.5%	No change for members earning up to £12,000 per year -0.3% for members earning from £12,001 to £14,000
2a	£15,001 to £18,000	6.0%	+ 0.1% This apparent anomaly is justified by the significant reduction in rate for Band 3 below
2b	**£18,001 to £22,000**	6.0%	**-0.5%**
3	£22,001 to £30,000	6.5%	No change
4	£30,001 to £40,000	7.0%	+0.2%
5	£40,001 to £75,000	7.5%	+0.3%
6	**£75,001 to £100,000**	8.5%	**+1.0%**
7	**£110,001+**	10.0%	**+2.5%**
Yield = 6.42% of payroll			

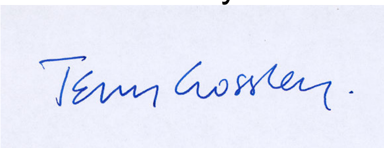
Responses

44. Consultees are invited to respond to this informal consultation exercise no later, please, than 30 September and preferably by the middle of September, if this is at all possible. The LGPS Policy Review Group will be considering the paper in the course of its deliberations.

45. Responses should be sent to Richard McDonagh at the above address, Zone 5/F6, or e-mail to richard.mcdonagh@communities.gsi.gov.uk. Telephone for enquiries is 020 7944 4730.

46. If any consultees would like to meet to discuss the propositions in detail and any other matter which stems from this exercise, could they please contact Diana Abelson at diana.abelson@communities.gsi.gov.uk or by telephone on 020 7944 5971, to make the necessary arrangements.

Yours sincerely



TBJ Crossley

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APPENDIX 2

Our Ref: PS/PM

Your Ref:

Direct Line: 0151 242 1390

Please ask for: Peter Mawdsley

Date: 23 September 2009

Mr Richard Mc Donagh
Communities and Local Government
Workforce, Pay and Pensions
Zone 5/F5, Eland House,
Bressenden Place,
London,
SW1E 5DU

Dear Richard,

LOCAL GOVERNMENT PENSION SCHEME

DELIVERING AFFORDABILITY, VIABILITY AND FAIRNESS

I refer to your letter dated 25 June 2009 and am grateful for the opportunity to respond to the issues raised for consultation.

I attach below comments on behalf of Wirral Council in its role as Administering Authority of the Merseyside Pension Fund.

In preparing this response the Council has taken advice from the Fund Actuary, Mercer. This response is submitted on behalf of the Council and has been agreed by the Pensions Committee at a meeting on 22 September 2009.

- Two possible new mechanisms are put forward in the consultation; **local funding targets (LFT)** and **financing plans (FP)**. However, we note that there is no "in principle" reason why a choice should necessarily be made between adopting either one or the other – both approaches could potentially be applied as part of agreed funding mechanisms flowing from the 2010 actuarial valuation process. In other words, the two approaches put forward are not mutually exclusive.

- In fact the two approaches could in certain applications work together in tandem. If for example, say, a 90% funding target was adopted via the LFT mechanism then this would result in the actuarial valuation setting contribution rates only intended to deliver 90% of scheme benefit payments. As (of course) the actual benefits to members of the Scheme would continue to be paid in full as they fall due, irrespective of what LFT might be adopted, a financing plan approach could then be applied, using a cash-flow methodology, to determine how the remaining, unfunded, 10% of benefits would be provided for.

  Although we have referred above to the possibility of applying a LFT of less than 100%, for practical and presentational reasons the Fund does not favour such an approach with the inevitable criticism of softening funding bases this involves. Irrespective of this, the Local Funding Target approach should in our view be recognised as more broad than simply just the possibility of adopting a funding target not equal to 100%.

There are many mechanisms already open to administering authorities (with their actuaries) to determine the funding target and objectives, via the Funding Strategy Statement (FSS) process. In this context the LFT concept might be viewed as only a relatively minor tweaking of the mechanisms already in place through the FSS process, including the consultation with employers which that process already requires.

- If either or both of LFTs or FPs are to be implemented it is clear that further and additional guidance will be required by administering authorities to assist them. This will hopefully provide a consistent framework across Funds in both interpreting any new regulatory requirements and determining their individual plans and strategies.

  The Consultation makes no reference to how admission bodies and other shorter term or less secure employers should be dealt with. The Fund would request further guidance from CLG on how any change in the funding framework can be sufficiently flexible to cater for the different circumstances of different employers, including their ability to pay a required level of contributions and the strength of their funding covenant.

- The Fund believes that the financing plan approach is, potentially the more useful of the two options put forward. Nevertheless, we would not wish to close off the possibility of considering further any potential new flexibilities which the implementation of the LFT concept could possibly allow.

- As regards the Funding Plan concept, we would request further clarification from CLG on how it is envisaged it would work in application. Would it represent either:

  a. An approach which the fund actuary may adopt, in consultation with the Fund, as part of determining and certifying the contributions payable by employers which are set out in the actuarial valuation report. This would imply that the year on year financial commitment of employers to the Fund continues to be determined solely via the actuarial contributions certificate, albeit now set in conjunction with a “Financing Plan”.

  or

  b. Whether the financing plan is in some sense a response from the administering authority/employers to the actuary’s valuation report and contributions certificate. In this case the implication would be that financing the scheme is only partly via contributions in accordance with the certificate, with the financing plan perhaps stating how benefits will be delivered (in the short, medium and long term) if contributions are not to be paid in full, for example due to affordability constraints. This might include a range of scenario projections with an exploration of how each possible out-turn would then be managed and financed. Clearly, in this case, the risk management analysis as envisaged in the consultation note would be particularly important.

- There is a concern that the new options, but perhaps particularly the Financing Plan approach, will make an already difficult and complex process even more complicated and lengthy, and this could be particularly so it seems if the intention of the Financing Plan concept were to follow the lines of b above.

In summary Wirral Council, as Administering Authority of the Merseyside Pension Fund, welcomes the proposals to give greater flexibility for determining contribution rates, but at the same time it is concerned that the new arrangements should not lead to any weakening of the overall funding principles for the LGPS.

It believes that it is also important to ensure that funding plans are workable and transparent for employers, thereby enabling employers to have a clear understanding of the necessary funding costs of the Scheme, so that the balance between scheme benefits and costs can be set to meet the key objectives for the LGPS, namely “affordability, viability and fairness”.

<u>Revised Employee Contribution Tariff</u>

The consultation paper suggests an amendment to the employee contribution rate tariffs introduced from 1 April 2008 to increase the percentage of pay rates for those earning above £30,000 per annum and to reduce the rates for the lower paid. The fact that the consultation paper refers to the original earnings bands introduced in April 2008 rather than the current revalued bands introduced from April 2009 is a potential cause of unnecessary confusion. It is understood by the Fund that the rationale for the further changes proposed is to make the scheme “fairer for the lower paid”, many of whom currently opt out of the scheme and that total employee contributions to the scheme are not intended to change.

The Fund is not supportive of the proposed amendments to the employee contribution rates for the following reasons:

further changes so soon after the introduction of tiered rates with annual indexation of earnings bands are likely to cause disproportionate administrative costs, headaches and member confusion and without delivering any improvement in the funding level of the Scheme; .

the Fund is not aware of the existence of any evidence that a marginal (0.3%) p.a. reduction in the employee contribution rate for those earning between £12,001 and £15,000 would have any effect in terms of encouraging those who have opted out of the scheme to join it; .

given the existence of means-tested state pension benefits it is debatable whether CLG should be trying to encourage lower paid members into the scheme, further analysis is required; and

the Fund understands that the biggest differential in earnings between the public and private sector is amongst those on the highest grades.

At the same time as the Government is reducing the tax relief available on pension contributions for high earners further increases in employee contribution rate of 1% for those earning over £75,000 and 2.5% for those earning over £100,000 may well either make it more difficult to recruit and retain officers at the highest level or may lead to increased pressure on pay levels which, if it leads to higher pay, would increase past service liabilities and hence extra pension costs for employers.

The Fund would also note with regard to the issue of “fairness” that it could be argued that the final salary structure of the scheme favours those who enjoy the benefit of high pay “increases” rather than the higher paid per se.

The Fund would therefore support the suggestion that further improving the “fairness” of the scheme should only be tackled in a further stage of CLG’s review of the LGPS and only after detailed empirical investigation as part of efforts to improve the future funding position and the agreement of the new cost sharing arrangements.

Acceptance of non club transfers into the Scheme

Although not specifically raised in the consultation document the Fund Actuary has raised the question whether administering authorities should consider adopting the policy of refusing to allow employees to transfer in previous rights from non transfer club employers under Regulation 83 of the Administration Regulations, in order to minimise the risk of increasing funding requirements.

This proposed policy change would appear to be at variance with the current clear and explicit employee right to choose to request such a transfer set out in the existing LGPS Regulations and the Fund would request CLG to either consider amendment of the relevant regulation if such action is advisable or to at least provide guidance to authorities on this question.

If you require any further information or assistance please do not hesitate to contact me.

Yours sincerely

Director of Finance

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

LGPS REFORM UPDATE

1. **EXECUTIVE SUMMARY**

1.1. This report informs Members of developments and outstanding issues following the introduction of the revised LGPS on 1 April 2008 by the Department for Communities and Local Government (DCLG).

2. **RECENT DEVELOPMENTS**

2.1 The Pensions Committee last considered progress in implementing the new regulations as part of the reform of the LGPS, on 18 June 2009 (Minute 10 refers).

2.2. **Ill Health Retirement Regulations**

2.2.1 The further data on the experience of the new ill health regulations in practice requested by the Ill Health Monitoring Group from employers and Administering Authorities was provided by the 30 June 2009 deadline.

2.2.2. The analysis of the results by the Government Actuary's Department was scheduled to be completed by August and their findings are awaited.

2.2.3. Supplementary guidance for Independent Registered Medical Practitioners clarifying their role in dealing with the new ill health retirements provisions was circulated by DCLG on 3 August 2009.

2.2.4 The table below confirms details of the relatively small number of ill health retirements dealt with by MPF annually since 2004/2005:

Financial Year April to March	Number of Ill Health Retirements in MPF
2004-05	217
2005-06	241
2006-07	222
2007-08	177
2008-09	137
2009-10	44 (To 31/7)

2.2.5. The figure for 2008-2009 (the first year of the new scheme) shows a continuation in the general trend of reductions in the number of ill health retirement cases.

2.2.6. For comparison the following table shows the number of ill health retirements between 2000/2001 and 2003/2004:

Financial year April to March	Number of Ill Health Retirements in MPF
2000-01	423
2001-02	390
2002-03	263
2003-04	205

2.3. **Affordability and Sustainability Consultation**

2.3.1 A letter was circulated by DCLG on 25 June 2009 dealing with proposed short term measures designed to avoid unnecessarily large increases in employer contribution rates due to the global economic and financial situation at the forthcoming 31 March 2010 actuarial valuation. The letter which also gives details of possible further changes to employee contribution bands and rates is the subject of a separate report to this Committee.

2.3.2. The DCLG letter also referred to a further separate consultation to take place on the possible need for a more fundamental review of the future benefits package and financing of the LGPS. This document is still awaited.

2.4. **Amendment of Accounts and Audit Regulations 2003**

2.4.1 The DCLG issued a further letter dated 12 June 2009 in connection with the consultation on proposed changes to the above regulations. The proposed changes contain a requirement to provide information on pension entitlement and compensation awards which if agreed may result in additional work for MPF. Copies of the responses submitted to the DCLG by MPF and by the Local Government Employers' Organisation are attached for information at Appendix 1.

2.5. **Pension Fund Annual Report & Accounts Guidance**

2.5.1 An advisory note and a draft copy of the Pension Fund Annual Reports statutory guidance (Appendix 2) was circulated by DCLG on 23 July 2009. Although the statutory deadline for publication of the Fund Annual Report is 1 December and the fact that the content and production of the 2008-09 report is at an advanced stage, efforts are being made to comply as far as is possible with the published draft guidance. The DCLG has confirmed that it will do whatever is necessary to ensure that a final version of the statutory guidance is issued for formal consultation within the next few weeks.

3. **OTHER OUTSTANDING MATTERS**

3.**1. Pensions Administration Strategy Plan**

3.1.1 A draft Pensions Administration Strategy Plan to formalise administrative arrangements and service standards between the Pension Fund and participating employers has been circulated to scheme employers and trade unions.

3.1.2. The closing date for responses to the document is 30 September 2009 and after taking account of representations received, it is planned to bring a report to the 17 November 2009 meeting of the Committee seeking approval of the Strategy.

3.2. **Cost Sharing Mechanism - The LGPS (Amendment) Regulations 2009**

3.2.1. MPF provided the actuarial data by the 30 June 2009 deadline to enable the creation of a National Model Fund in connection with future cost sharing.

3.2.2. The Local Government Pensions Committee (LGPC) has written to the DCLG with a number of observations on the methodology and assumptions being proposed for the National Model Fund. The key points of the letter are:

a. transparency is required, with a need for the Government Actuary to fully explain the methodology and assumptions being proposed so that members of the policy Review Group can assess their reasonableness;

b. without transparency it is difficult to endorse, in any way, the proposed assumptions;

c. a suggested discount rate of 3.5% appears to be too high;

d. there is a lack of consistency in the mechanism used to calculate the cost envelope for the LGPS 2008 scheme and the proposed mechanism for the Dummy Model Fund and the National Model Fund

3.2.3. Meetings of the LGPS Policy Review Group are still continuing, to discuss various issues including agreement on the assumptions to be used and details of how the cost sharing mechanism will operate.

3.3. **85 Year Rule Protection**

3.3.1 The final decision on the possible extension of full “85 year Rule” protection to those members who would satisfy the requirements by 31 March 2020 rather than 31 March 2016 is still awaited from DCLG.

3.4. **Councillors Pensions**

3.4.1 The new 2008 Scheme regulations still do not include Councillors' pensions and provision remains subject to the 1997 Regulations**.**

3.4.2. Although the Pay and Pensions division of the DCLG confirmed that it intends to carry out consultation later this year on proposals for future pension arrangements for Elected Members nothing further has been announced to date.

4. **ADMITTED BODY STATUS REVIEW**

4.1. Final proposals are still to be formulated by DCLG which will be the subject of a future statutory consultation in advance of changes to the regulations.

4.2. Draft statutory guidance was circulated by DCLG on 21 July 2009 and MPF has responded to welcome the additional guidance and to raise questions on a number of technical points.

5. **FINANCIAL IMPLICATIONS**

5.1 There are none directly arising from this report.

5.2 A number of the issues referred to in this report may well have implications on future funding, including cost sharing, the final costs of "85 Year Rule" protection depending on whether full protection is extended to 2020 and changes to yields from employee contributions.

6. **STAFFING IMPLICATIONS**

6.1. There are none directly arising from this report.

7. **EQUAL OPPORTUNITY IMPLICATIONS**

7.1. There are none arising from this report.

8. **COMMUNITY SAFETY IMPLICATIONS**

8.1. There are none arising from this report.

9. **HUMAN RIGHTS IMPLICATIONS**

9.1. There are none arising from this report.

10. **LOCAL AGENDA 21 IMPLICATIONS**

10.1. There are none arising from this report.

11. **PLANNING IMPLICATIONS**

11.1. There are none arising from this report.

12. MEMBER SUPPORT IMPLICATIONS

12.1. There are none arising from this report.

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13. BACKGROUND PAPERS

13.1. DCLG letters dated 12 and 25 June, 21 and 23 July and 3 August 2009.

14. RECOMMENDATION

14.1 That Members note the report.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/241/09

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APPENDIX1

Ms Kirsty Austin
Communities and Local Government
Pay and Pensions
Zone 5/F5
Eland House,
Bressenden Place,
London SW1E 5DU

Our Ref: PS/PM

Your Ref:

Direct Line: 0151 242 1390

Please ask for: Peter Mawdsley

Date: 16 July 2009

Dear Kirsty,

Consultation on Accounting and Audit Regulations 2003 and Reporting of remuneration of senior officers in public bodies

I refer to your letter dated 12 June 2009 and the draft statutory instrument that was attached.

I submit the following comments on behalf of the Merseyside Pension Fund in its role as administering authority under the Local Government Pension Scheme.

The Fund is concerned at the lack of clarity in respect of the proposals on the valuation of pension benefits, in that we understand that some such arrangements have been in place in respect of a number of public sector organisations for some time and in fact some local authority funds including the Environment Agency have provided annual figures for some time.

The Executive Director of the Local Government Employers organisation has drafted a detailed response on behalf of the LGPS nationally and I attach to this letter a copy of the draft circulated by him to this Fund which sets out many of the questions and concerns that we have.

This Fund would support limiting disclosure on pensions to rights built up by an individual up to 31 March each year - not those projected to retirement.

On barriers and costs of reporting, we do not believe that the information likely to be required will be readily available, as none of the values will be included in the annual benefit statements produced by the Fund and these statements are only usually produced towards the second half of the year after data is supplied by employers.

The contributory nature of the LGPS with employees paying variable basic contributions of up to 7.5% plus various optional additional contributions and the fact that employer contribution rates vary considerably and do not relate predictably to the contribution from the employee needs to be considered.

Please let me know if you require any further information or assistance

Yours sincerely

Deputy Head of Pension Fund

Appendix - Local Government Employers Draft Response

Pension Entitlement

This proposes that the pension entitlement should be reported which, "*for these purposes, means the total value of an individual's pension benefits based on their accrued length of service and pensionable pay, at the beginning and end of the year, and projected to the individual's normal retirement age.*"

Further clarification is, however, needed i.e:

1. In order to avoid unnecessary work, it seems to us that the pension should be valued at the end of the year and at the end of the previous year. So, for example, if the year end is 31st March, the pension should be valued at 31st March 2010 and 31st March 2009. The following year, only one additional calculation would then have to be performed (i.e. at 31st March 2011) as the figure for 31st March 2010 is already held. Such an approach would negate the need for extra valuations on each 1st April.

2. How is the value of the accrued pension entitlement to be calculated? Is it in accordance with how benefits are valued:

a) for the Lifetime Allowance under the Finance Act 2004, or

b) for the Annual Allowance during the Pensions Input Period for the purposes of the Finance Act 2004, or

c) for the FRS17 statement (i.e. using the same methodology for the individual as used for the overall FRS17 statement), or

d) for the purpose of calculating a transfer value in accordance with the Pension Schemes Act 1993

The whole point of this exercise, it seems to us, is to make pay transparent. As pensions are deferred pay, they should rightfully be included as part of the reward package.

However, the latter two options above have a disadvantage in that the value will vary depending on market conditions and so could rise or fall from one year to the next. Using a FRS17 methodology would, however, show the proportion of the overall FRS17 amount attributable to each high earner.

The existing Pension Input Amount calculation as used in the Annual Allowance HMRC check (see 2(b) above) seems to be, perhaps, a more relevant method of showing how much a person has seen their pension pot grow over the year.

All of the above methods, however, suffer from the fact that they do not recognise that any increase in value of the pension has not wholly been paid for by the employer as part of the remuneration package. The employee has paid contributions too from their salary. To recognise this, one could, for example, reduce any growth by the amount of contributions paid by the employee or multiply the growth by the employee contribution rate and divide by the combined employee/employer contribution rate. If this is not done, the representation of the increase in value of the pension element of the remuneration package could be misleading, depending on what this disclosure is really meant to achieve.

3. When valuing the pension entitlement, should the value of benefits purchased by the member alone (with no contribution from the employer) be excluded e.g. should we exclude benefits from purchased added years, purchased family benefits, Additional Voluntary Contributions (AVCs), Additional Regular Contributions (ARCs), and membership bought from AVCs. It would seem logical to exclude these as they will have been paid for solely by the employee (in the same way as if the employee had paid into a separate stakeholder pension scheme, or an ISA etc). However, the standard methodologies in 2(a), (b) and (d) above include these items, and 2(c) would include some of the items. The standard methodologies would, therefore, have to be tweaked if the items are to be excluded.

4. If the employee holds a separate deferred pension in the pension scheme which they have not aggregated with their current period of membership in the pension scheme, should this be added to the valuation of the pension entitlement.
One assumes not as:

a) the benefits are held in relation to a separate, earlier employment

b) the benefits could well, in the case of the Local Government, Police and Firefighters' Pension Schemes be in a scheme administered by a different authority which would necessitate obtaining a valuation from the previous administrator

5. Whilst the employer will be responsible for making the relevant disclosure in their annual statement of account, the employer does not hold the pension information. This is held:

a) by the relevant administering authority/Pension Fund (or the outsourced provider), in the case of members of the Local Government Pension Scheme;

b) by Teachers' Pensions (an outsourced provider), in the case of members of the Teachers' Pension Scheme**;

c) by whomever is providing (if outsourced) the pensions administration service to Police and Fire authorities, in the case of members of the Police Pension Scheme and the Firefighters' Pension Scheme.

Only those bodies will, it seems to us, be in a position to calculate the value of the pension benefits (having been supplied with the relevant final pay figure by the employer). Is there to be a legal requirement placed on those bodies to provide the employers with the relevant pension valuation by a specified date? Will this be tied in with the FRS17 timescale? Will the bodies be able to charge for providing the pension valuation in the same way as for the provision of FRS17 data? What about cases where the pensions administration function has been outsourced (as there is unlikely to be a provision in the contract with the provider of the pensions administration function for the provision of the pension valuation, and this could lead to extra charges being levied under the contract).

**Note: it is not only teachers who are members of the Teachers' Pension Scheme. For historical reasons, there may be some LEA officers who are still members of the Teachers' Pension Scheme.

6. What is the purpose of valuing a person's projected pension entitlement to their normal retirement age (given that there is no guarantee the person will remain an employee or in the Scheme until then)?

Compensation / ex gratia payments

For those employees subject to the Local Government Pension Scheme would this include:

a) an Injury Allowance paid under the Local Government (Discretionary Payments) Regulations 1996 and, if so, how should this be valued (given that the Injury Allowance is an ongoing payment)?

b) augmented membership in the LGPS granted under regulation 12 of the LGPS (Benefits, Membership and Contributions) Regulations 2007 as part of an employee's termination package? If so, the augmented membership would need to be excluded when valuing the pension benefits under the heading above (as, otherwise, it would be double counted). If it is to be included under the compensation heading, rather than the pension heading, how is it to be valued?

c) additional pension granted under regulation 13 of the LGPS (Benefits, Membership and Contributions) Regulations 2007 as part of an employee's termination package? If so, the extra pension would need to be excluded when valuing the pension benefits under the heading above (as, otherwise, it would be double counted). If it is to be included under the compensation heading, rather than the pension heading, how is it to be valued?

d) lump sum compensation under regulation 5 and 6 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 paid as part of an employee's termination package? We assume that the "value" is simply the amount of lump sum paid.

For those employees subject to the Teachers' Pension Scheme would this include:

a) mandatory compensation under Part IV and discretionary compensation under Part II, Part III or Part V of the Teachers (Compensation for Redundancy and Premature Retirement) regulations 1997 as part of an employee's termination package? If so, the mandatory compensation would need to be excluded when valuing the pension benefits under the heading above (as, otherwise, it would be double counted). If it is to be included under the compensation heading, rather than the pension heading, how is it to be valued? How would the discretionary compensation under Part II, Part III and, in particular, Part V be valued?

b) additional pension granted under regulation C3C of the Teachers' Pension Scheme Regulations 19997 as part of an employee's termination package? If so, the extra pension would need to be excluded when valuing the pension benefits under the heading above (as, otherwise, it would be double counted). If it is to be included under the compensation heading, rather than the pension heading, how is it to be valued?

For those employees subject to the Police Pension Scheme of the Firefighters' Pension Scheme would this include:

a) an Injury Award paid under Police (Injury Benefits) Regulations 2006 or the Firefighters' Compensation Scheme (England) Order 2006. If so, the Injury Award would need to be excluded when valuing the pension benefits under the heading above (as, otherwise, it would be double counted). If it is to be included under the compensation heading, rather than the pension heading, how is it to be valued?

Other

How are employees who leave / retire part way through a year to be dealt with? It appears that any compensation payment would have to be shown but would the value of the pension also have to be shown, given that by the end of the year they are no longer an employee but are, instead, a pensioner?

Although the consultation document is limiting the pension disclosure to what it refers to as senior officers / officials, it is not clear whether this is meant to extend to officers / officials such as

a) Head Teachers, Deputy Head Teachers and other teaching and non-teaching staff in schools
b) Chief Constables, Deputy Chief Constables and other uniformed and non-uniformed staff in Police Authorities
c) Chief Fire Officer, Deputy Chief Fire Officer and other uniformed and non-uniformed staff in Fire Authorities

who earn in excess of £50,000. It is for this reason (i.e. the lack of clarity / certainty) that we have included comments above relating to the Teachers', Police and Firefighters' Pension and Compensation Schemes. Perhaps the matter can be clarified in the final regulations.

It also strikes us that a sum of £50,000 will catch far more than Heads, Chiefs and Deputies of services. A number of employees who earn £50,000+ would not be considered to be senior officers / senior officials. For example, there may be a few examples of manual staff who, with bonuses, earn in excess of £50,000 a year.

Terry Edwards LGE

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GUIDANCE ON PUBLICATION OF PENSION FUND ANNUAL REPORTS

PART I : INTRODUCTION

This guidance is issued to all administering authorities in England and Wales with statutory responsibilities under the Local Government Pension Scheme (Administration) Regulations 2008 SI 2008 No 239 ("the Administration Regulations") and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) SI 1998 No 1831, and other stakeholders, including employers and members. The purpose of the guidance is to assist administering authorities and others with the preparation and publication of the annual pension fund report required by Regulation 34 of the Administration Regulations. It is important to stress from the outset that the Guidance represents a general framework within which fund authorities are expected to comply and is not to be seen as limiting in any way the way in which the information is to be presented in terms of formatting and presentation. It is important that individual funds continue to adopt their own house style to ensure that the annual report is consistent with other publications and documents published in their name.

The Guidance uses a combination of descriptive text and cross-references to existing guidance to explain how each of the requirements for publication listed in the pension fund annual report provisions should be achieved.

The Secretary of State will keep the content of the Guidance under review in the light of administering authorities' and other stakeholders' experiences of applying the guidance. The Guidance will be updated as necessary to reflect this and any subsequent legislative changes.

PART II - STATUTORY BACKGROUND

Provision for the publication of the pension fund annual report commencing with the financial year 2008/09 and for subsequent years is covered by regulation 34 of the Administration Regulations as shown below.

> "Pension fund annual report
>
> 34.—(1) An administering authority must, in relation to each year beginning on 1st April 2008 and each subsequent year, prepare a document ("the pension fund annual report") which contains—
>
> (a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;
>
> (b) a report explaining the authority's investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;
>
> (c) a report of the arrangements made during the year for the administration of each of those funds;
>
> (d) for each of those funds, a statement, by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 77 (actuarial valuations and certificates), of the level of funding disclosed by that valuation;
>
> (e) the current version of the statement under regulation 31 (governance compliance statement);

(f) for each of those funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;

(g) an annual report dealing with—

(i) the extent to which the authority and the employing authorities in relation to which they are the administering authority ("relevant employing authorities") have achieved any levels of performance set out in the pension administration strategy in accordance with regulation 65(2)(b); and

(ii) such other matters arising from their pension administration strategy as they consider appropriate;

(h) the current version of the statement under regulation 35 (funding strategy statement);

(i) the current version of the statement under regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (statement of investment principles);

(j) the current version of the statement under regulation 67 (statements of policy concerning communications with members and employing authorities (including non-Scheme employers)); and

(k) any other material which the authority considers appropriate.

(2) The authority must publish the pension fund annual report on or before the 1st December following the year end.

(3) In preparing and publishing the pension fund annual report the authority must have regard to guidance given by the Secretary of State.

PART III – BACKGROUND

The pension fund annual report provision was primarily introduced to address concerns, raised initially by the Audit Commission, about the standard of LGPS pension fund audits and, in particular, the need for these funds to be audited separately as distinct from the general local authority audit. Section 7 of the Superannuation Act 1972 confers various powers on the Secretary of State to make regulations on pensions for local authority employees, but this does not extend to the way in which LGPS pension funds are audited. Within the remit of the Secretary of State's regulation making powers under the 1972 Act, it was agreed that the main scheme regulations should be amended to require administering authorities to publish an annual pension fund report comprising the various reports and statements so that external auditors could conduct a comprehensive, separate audit of the pension fund.

The new provision was introduced on the basis that a significant majority of administering authorities already published comprehensive annual reports, including most of the items listed at regulation 34(1)(a) to (j). Care has also been taken to ensure that the administrative burden and cost of preparing and publishing these new reports is kept to a minimum, in the main, by allowing a number of different ways in which the report may be published. In this respect, it should be explained that the term "publish", where it appears in regulation 34(2), can be taken to include publication by electronic means, for example, on the administering authority's web site, or by a separate document that directs users to where each of the items listed in the regulation can be obtained. However, it is expected that administering authorities will also continue to publish hard copies of either a summary or the composite report in the way that they have published annual reports in the past and to make those documents available upon request to fund members and fund employers or any other important stake holder groups they may identify.

Under regulation 34(1), the period to be covered by the first of these new pension fund reports is the financial year commencing 1 April 2008, which, by virtue of regulation 34(2), must be published by 1 December 2009.

For 2008/09, the Audit Commission will require auditors to treat the LGPS pension fund as a separate audit engagement, agreeing a separate audit plan and fee for the audit of the pension fund accounts and providing a separate report to those charged with the governance of the scheme. Consideration is also being given to the form of the audit opinion on the accounts. Some administering authorities will not see significant changes arising from these arrangements because of existing practices. However, the new arrangements will provide for transparent audit reporting on the pension fund accounts on a consistent basis across all funds.

It is expected that the annual report will be formally signed off by the Chairman of the Pensions Committee and the Director of Finance (or equivalents).

PART IV – GUIDANCE

A: MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

The first of these statements falls to be published under regulation 34(1)(a) of the 2008 regulations by 1st December 2009.

Scheme management and advisers

The report should list the names and contact details for:

- Officials responsible for the fund
- Investment managers
- Custodian/s
- AVC providers
- Fund actuary
- Legal advisors
- Bankers
- Accountant/Director of Finance
- Auditor
- Scheme administrators
- Any independent advisors (e.g. investment and governance)

Risk management

The report should contain a commentary on the arrangements for the management of fund administrative, management and investment risk. This should explain:

- how risk management is integrated within the governance structure
- how risks are identified, managed and reviewed
- a summary of the key risks and what actions are being taken to mitigate those risks
- the approach taken to managing third party risk (such as late payment of contributions; how assurance is sought over third party operations (eg AAF 01/06 and SAS 70 reports)
- how investment risk is managed:
    - appropriate advice sought
    - action taken to review performance against the investment strategy on a regular basis (see the statutory requirements set out in the LGPS (Management & Investment of Funds) Regulations 1998).

Financial performance

Pension Funds will normally construct an annual and three year budget for the forecast of income and expenditure into and out of the fund. This report should identify performance against budget and highlight and explain any significant variances. The budget should cover both the net operational expenses of administering the fund, identifying as a minimum staff, premises, IT, supplies and services, costs of democracy and any other costs and income, together with the main constituents of the Fund Accounts including benefits payable, transfers out, operational and investment management expenses, other expenses, plus income from contributions from members and employers, transfers in and investment income, showing a net inflow or outflow to the fund.

The report should provide

- A brief commentary on the movement in assets and liabilities (in a valuation year) (further detail on the asset movements will be contained in the Investment Report).
- An analysis of amounts due to the fund from employers:

    - an analysis of the timeliness of receipt of contributions (value and percentage received on or before the due date; aging of overdue contributions etc)

    - whether the option to levy interest on overdue contributions has been exercised and if so on whom and how much

- A budget v outturn report on the administrative costs of the fund during the year.

- A forecast v outturn report on the fund cashflows

- (Optionally) A 5-year analysis of pension overpayments, recoveries and any amounts written off, including the results of participation in NFI exercises (data matches; overpayments identified; actions taken etc).

Management performance

Management performance should incorporate the key administration performance indicators, such as the number and trend of the top 10 case types, and other cases and percentage completed on time against targets. Other management performance indicators might include trends and performance against targets for satisfaction levels of employers and members, numbers of complaints and the numbers of complaints as a percentage of workload.

In addition, management performance should incorporate the key staffing indicators, such as staff numbers and trends, staff / fund member ratios and average cases per member of staff. The membership numbers and trends should be reported, including numbers and trends of contributors, deferred members, pensioner members and dependants.

The report should contain a 5 year analysis of the funds membership data (active, deferred and pensioner) with an analysis of pensioners in receipt of enhanced retirement benefits (ill-health/early retirement enhancements).

The membership analysis should also include an age profile of members within 5 year bandings.

The report should contain a list of contributing employers and the amount of contributions received from each (split by employers and employees – employees to be split by contribution band).

B : INVESTMENT POLICY AND PERFORMANCE REPORT

The first of these statements falls to be published under regulation 34(1)(b) of the 2008 regulations by 1st December 2009. Pension Funds may wish to state their principles and beliefs which underpin their investment and funding strategies. The asset allocation strategy should be stated along with the actual asset allocation for the beginning and end of the financial year in question, together with explanations for significant changes in the year. Asset allocations should be split by major asset classes, such as equities by major global regions (UK, Europe, US, Japan, other Far East and Emerging Markets and any passive currency hedging), fixed income by government and corporate bonds, Diversifying or Alternative Assets (including Property, Private Equity, Hedge Funds, Absolute Return Funds, Infrastructure Funds, Commodities, Active Currency and any others) and Cash. Investment performance should be disclosed for each major asset class and fund manager against the benchmarks set, both for 1 year, 3 years and 10 years.

The largest holdings of the Pension Fund should be disclosed together with the largest directly held equity holdings.

The Fund's policies in respect of Responsible Investment and any Environmental, Social and Governance issues should be disclosed along with voting arrangements, and other initiatives such as engagement with companies and any collaborative ventures with other funds. The report should also list any bodies of which the fund is member or subscriber such as the NAPF, LAPFF, UKSIF, IIGCC etc. This might also include any concordats to which the scheme is signatory such as the UNPRI.

In addition to including a commentary on the implementation and application of their Funding Strategy Statement during the period in question, funds should also describe their strategy for managing risk, both in its wider sense for the Fund as a whole and in its narrower sense on investment mandates.

Funds may also wish to take the opportunity to consider future developments and anticipate how their funding and investment policies may develop in the future.

This report should include details of investment administration and custody, providing more detail than in A above and describing who looks after which part of the portfolio. Other matters to be disclosed are:

- where and how voting rights have been exercised
- where a commitment to responsible investment is stated, what actions have been taken to pursue these aims
- what actions the fund has taken to demonstrate compliance with the Myners principles

C: SCHEME ADMINISTRATION REPORT

The first of these statements falls to be published under regulation 34(1)(c)of the 2008 regulations by 1st December 2009. CIPFA has previously published guidance on Pension Fund Decision Making; see CIPFA – Pension Fund Decision Making Guidance Note (2006)

(http://www.cipfa.org.uk/panels/pensions/download/LGPS_guidance_notes.pdf)

The guidance covers both the Governance Policy Statement (see section E below), the reporting structures of a Pensions Committee within a Council, Representation on Pension Committees, Voting Rights of Committee members and Trustee Training.

CIPFA provides further guidance on training by way of a Knowledge and Skills Framework for Councillors operating in a Trustee capacity and officers involved with the Fund.

In addition, the scheme administration report should incorporate a review of administration during the year by the Committee Chairman and senior officer, together with a description of the key uses of technology including information available on websites, self service options and information sources.

This section of the report should also include details of scheme administration costs, either in total or per scheme member, as reported in the SF3 annual statistical return for the period in question.

The report should detail, for each of the following, a broad outline of the arrangements for (including who undertakes the activity and where responsibility lies) for:

- Scheme member administration (including data quality) and if outsourced, to whom it is outsourced and why
- Pensioner administration

The report should contain an outline of the fund's internal dispute resolution procedure including an analysis of new dispute cases raised during the reporting period and their resolutions (where applicable).

D: ACTUARIAL REPORT ON FUND(S)

The first of these reports falls to be published under regulation 34(1)(d) of the 2008 regulations by 1st December 2009. All LGPS Funds are required to commission and publish a valuation of all of their Funds on a specified date every three years.

For the purposes of the Annual Report, Funds should publish an executive summary of the last formal triennial valuation report and in the intervening years, the results of any interim valuation that has been carried out and any monitoring of key variables such as longevity experience, ill-health retirements and use of discretionary powers impacting on the Fund's solvency.

E: GOVERNANCE COMPLIANCE STATEMENT

The first of these statements fell to be published under regulation 73A of the 1997 regulations by 1st December 2008. With effect from 1st April 2008, the requirement was carried forward by regulation 31 of the administration regulations.

The annual report should include:

- An outline of the governance structure and the roles and responsibilities of each element within the structure (including whether the element is executive or advisory
  - Pensions Panel/Pensions Committee
  - Any related sub-committees

- Membership of Pensions Panel/Committee and any associated sub-committees within a matrix showing for each member:

  - Voting rights
  - Attendance at meetings
  - Training received during the reporting period

- Policy and processes of managing conflict of interest.

Regulation 31(3) prescribes the content of the statement which, by virtue of regulation 34(1)(e), must be published in compliance with statutory guidance issued by the Secretary of State. Regulation 34(1)(e) of the 2008 Regulations only requires fund authorities to include a copy of their latest statement in their Annual Report but it is expected that some form of commentary and additional information will also be given to illustrate the policy in everyday terms for the general reader. That apart, administering authorities have a wide discretion as to how the information is to be presented and in what format. It is suggested therefore that in preparing their pension fund annual report, administering authorities should adopt their own house style in presenting this, and other sections of the report.

F: FUND ACCOUNT AND NET ASSETS STATEMENT

Regulation 34(1)(f) requires an administering authority to prepare for each of its pension funds a fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices. These statements must be included in the pension fund annual report for 2008-09 (which must be published by 1st December 2009) and then for each subsequent year.

Administering authorities have for some years produced fund accounts and net asset statements for their pension funds for inclusion in the annual report of the local authority as a whole. These statements are drawn up in accordance with the Code of Practice on Local Authority Accounting issued by CIPFA (which sets out proper practices to be followed) and with the guidelines set out in the Statement of Recommended Practice (SORP): 'Financial Reports of Pension Schemes'.

The most recent revision of the SORP was published in May 2007 for application to accounting periods starting on or after 6 April 2007 and therefore, unless authorities chose early adoption, will not have been used in drawing up the financial reports of their pension funds for 2007-08. The main changes from the previous (2002) edition are that: the SORP has been updated to take account of the financial reporting standards issued in respect of investments (in particular the presentation requirements of FRS 25 'Financial Instruments: Disclosure and Presentation and parts of FRS 26 'Financial Instruments: Recognition and Measurement); derivatives are now required to be valued on a fair value basis; investments are required to be valued at their fair value and, where there is an active market, the bid price is usually the appropriate quoted market price; and there are amended and increased disclosure requirements.

Appendix 1 to the SORP provides at pages 63 to 70 an illustrative format of the accounts for a defined benefit scheme. The 2007 revision also makes reference to further guidance to be found in the document 'Accounting for Derivatives in Pension Schemes' published by PRAG.

The accounts should be accompanied by the independent auditor's report and by a statement of responsibilities signed by the Director of Finance (or equivalent).
This should cover the Authority's Responsibilities, stating the following.

The authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (usually that officer is the Director of Finance);

- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;

- To approve the statement of accounts.

The Director of Finance's Responsibilities

The Director of Finance is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts, the Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

This statement is normally placed next to the audit report.

G: BENCHMARKING REPORT

The first of these statements falls to be published under regulation 34(1)(g)of the 2008 regulations by 1st December 2009. Funds should seek to benchmark both their investment performance (see B above) and their administration performance (see A and C above). This report could logically be included as part of A, B and C above.

The report should describe the service standards agreed in any service level agreements with fund employers and any use of the powers to seek compensation from employers in respect of any breaches of such standards.

H: FUNDING STRATEGY STATEMENT

Since 2004, administering authorities have been required to prepare, publish and maintain funding strategy statements, initially under regulation 76A of the 1997 regulations, but, since 1st April 2008, under regulation 35 of the administration regulations. Under that regulation, the authority is required to keep its statement under review and to make such revisions as are appropriate following a material change as described in regulation 35(2)(b). It is possible therefore that an authority may publish a number of statements throughout the reporting period but, for the purposes of the pension fund annual report, it is recommended that the statement as it stood at the beginning of the reporting period, for example, 1 April 2008, should be reproduced in full with any revisions either shown in a separate section, if the revisions are major, or as highlighted text in the published statement itself, if minor.

In March 2004, the CIPFA Pensions Panel published Guidance on Preparing and Maintaining a Funding Strategy Statement (Issue No 6), details of which can be found at

http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/LG027.

This was followed by supplementary advice in November 2004, a copy of which can be found at

http://www.cipfa.org.uk/panels/pensions/funding_strategy_supplementary_comments.doc.

I: STATEMENT OF INVESTMENT PRINCIPLES

The requirement for administering authorities to prepare, maintain and publish Statements of Investment Principles (SIPs) was introduced in January 2000 into the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (Regulation 9A). The first of these reports was to be published by July that year. Later, in August 2002, administering authorities were further required to state the extent to which they complied with the ten investment principles recommended in the Myners review of institutional investment in the UK. In November 2008, the government published a second set of investment principles and established a new Investment Governance Group (IGG) to oversee the implementation of the new principles. Because of the special nature of the LGPS, a separate LGPS sub group of the IGG was set up to examine the need for scheme specific principles and to report to the IGG on its findings. At the time of writing, the LGPS principles have yet to be agreed, but when they are, the Scheme's regulations and the associated CIPFA guidance will need to be revised.

Authorities should report their compliance against the six new principles published by the government in 2008. Authorities may wish to include reference to the fact that those new principles may be subject to future change. For ease of reference, the principles are outlined below.

Principle 1: Effective Decision-Making

Trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation.

Trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Principle 2: Clear Objectives

Trustees should set out an overall investment objective(s) for the scheme that takes account of the scheme's liabilities, the strength of the sponsor covenant and the attitude to risk of both the trustees and the sponsor, and clearly communicate these to advisers and investment managers.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, trustees should take account of the form and structure of liabilities.

These include the strength of the sponsor covenant, the risk of sponsor default and longevity risk.

Principle 4: Performance Assessment

Trustees should arrange for the formal measurement of the performance of the investments, investment managers and advisers

Trustees should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Principle 5: Responsible Ownership

Trustees should adopt or ensure their investment managers adopt the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities.

Principle 6: Transparency and Reporting

Trustees should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives.

Trustees should provide regular communication to members in the form they consider most appropriate.

Since 2000, administering authorities will have developed their own individual style for maintaining and publishing these statements and there is no reason why their approach should change in the light of this latest requirement to include the SIP as part of the new pension fund annual report. However, for reference purposes only, an example of a SIP that fully satisfies the requirements of Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 is attached at Annex xx.

The report should contain a commentary on how any commitments made in the Statement of Investment Principles have been progressed during the reporting period (and would link to Section I) :

J: COMMUNICATIONS POLICY STATEMENT

Regulation 106B of the 1997 Regulations, introduced in December 2005, required administering authorities to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. The first statement had to be published by 1 April 2006.

On 1st April 2008, regulation 67 of the administration regulations carried forward this requirement into the 2008 scheme. Again, the requirement to include this statement in the new annual pension fund report is not intended to have any effect on the way in which individual administering authorities have chosen to publish the statement in the past under Regulation 106B. An example of a communications policy statement is attached at Annex B. [West Midlands example to be included]

The report should contain a commentary on how the fund has met the commitments set out in the communications policy statement it is required to publish under the provisions of regulation 67 of the Local Government Pension Scheme (Administration) Regulations 2008, in particular:

- how scheme information has been provided to members, their representatives and employers.
- in what format and how frequently information has been provided
- what steps the fund has taken to promote scheme membership to prospective members

K : ANY OTHER APPROPRIATE MATERIAL

Although regulation 34 of the administration regulations prescribes what must be included in the pension fund annual report, this needs to be seen as a minimum requirement with administering authorities free to include other information as they see fit. For example, Funds may wish to publish a list of contact points and a glossary of commonly used Pension Fund terms to aid readers. Some schemes may wish to provide the following

- Outline of benefits and contributions structure; accrual rates; commutation options and the extent to which they have been exercised
- Ill-health and early departure provisions
- Permitted discretions and a commentary on how discretions have been exercised in the reporting period

Others may simply provide a name and address from whom and where details of benefits can be obtained.

For changes to benefits during the period, schemes may put in details or simply refer to member communications listing the changes. Future changes can be addressed in the same way.

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

REVIEW OF SCHEME ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) ARRANGEMENTS

1. EXECUTIVE SUMMARY

1.1 This report updates Members on arrangements for the provision of Scheme Additional Voluntary Contributions (AVCs).

2. REQUIREMENT TO PROVIDE AVC FACILITY

2.1 Pension Funds have been required to offer a Scheme Additional Voluntary Contribution facility since 6 April 1988. This money purchase type arrangement is in addition to the new Additional Regular Contributions (ARCs) option available within the Scheme. The requirements in respect of AVCs are currently set out in Regulation 25 of the LGPS (Administration) Regulations 2008.

2.2. The Pension Fund has a responsibility to ensure that the AVC arrangements made available to members are reasonable and it has carried out regular periodic reviews of providers' performance to satisfy this responsibility.

2.3 A review of the MPF Scheme AVC provision has recently been carried out by HSBC Actuaries and Consultants. Periodical reviews of the continued suitability of the AVC providers have previously been undertaken by Mercer the Actuary. The most recent reviews were carried out in August 2005 and June 2006 and the results reported to the 21 September 2005 (Minute 21 refers) and 27 June 2006 (Minute 6 refers) meetings of the Pensions Committee.

2.4. Merseyside Pension Fund currently has three AVC providers as detailed in the table below, although Equitable Life is now not offered as a choice to new members:

Company	Date Appointed	Value of Funds Held
Equitable Life	April 1988	£3,329,444 (At 1/7/2008)
Standard Life	March 1991	£6,471,463 (At 30/9/2008)
Prudential	March 2003	£3,619,321 (At 31/3/2008)
Total		£13,420,228

3. REVIEW OF AVC PERFORMANCE OF PRESENT PROVIDERS

3.1 Following a competitive tender process HSBC was appointed to complete a review of the continuing suitability of the existing AVC providers; Equitable Life, Standard Life and Prudential to ensure that they continue to offer arrangements which are competitive and reasonable for Scheme members. Although Equitable Life is no longer recommended or offered as an AVC choice for future contributions a substantial number of members still have funds invested with the Company in its With-Profits Fund and a number of other funds.

3.2. The findings of the latest AVC review are contained in the report from HSBC dated June 2009, attached (Appendix 1). The findings can be summarised as follows:

a. **Equitable Life**

Of the 16 funds currently used by members the largest holding is in the With-Profits Fund in which 59% of the money is held (£1,959,000 in total) with nearly all the remaining holdings being within the Building Society Fund (19%) and the Managed Fund (19%).

HSBC report that for those members with Equitable Life With-Profits benefits, they are unlikely to be able to match the guaranteed value available at retirement if they choose to transfer their benefits away and it is therefore appropriate to maintain it as a closed scheme.

b. **Standard Life**

HSBC has confirmed that taking into account the specific requirements of Merseyside Pension Fund, and based on their assessment of relative administration capabilities, investment options, online capabilities and charging levels, they conclude that Standard Life remains suitable as an AVC provider.

The Standard Life Scheme has the highest total money held within it (approximately £6,471,463). It offers a range of both internally and externally managed investment funds.

For those members investing in the Standard Life With-Profits Fund, the current bonus rates remain relatively low and the prospects for these to increase in the short term are reasonably poor. However the fund continues to offer security of capital value provided the benefits are held to retirement. The Merseyside Pension Fund ceased to offer the With-Profits option for any new investors a number of years ago because of concerns about lack of transparency on how With-Profits policy returns are determined.

c. **Prudential**

HSBC has confirmed that taking into account the specific requirements of Merseyside Pension Fund, and based on their assessment of relative administration capabilities, investment options, online capabilities and charging levels, they conclude that Prudential remains suitable as an AVC provider. The Merseyside Fund does not allow members to invest in the Prudential With-Profits plan.

Prudential has confirmed that members are currently investing in 21 different funds in total, including four which are externally managed. The total money held is however concentrated in a small number of funds. Some 73% of the total holdings are held in one fund, the Deposit Fund, which is used by 585 of the 826 members. Of the externally managed funds, the largest holding was £43,406.90 (1% of total holdings) and the investment in the four external funds was by only 13 members of the Scheme.

4. FURTHER REVIEW RECOMMENDED OR ACTION REQUIRED

4.1. The report identifies a number of areas that MPF should consider for further action or review including; nomination of AVC default funds in the event of members failing to make a positive AVC fund selection, Life-style options made available, choices of funds made available and a number of member communication exercises recommended.

a. **Default Fund Provision**

At present the only AVC fund default option in use is the Prudential Deposit Fund, which offers members a secure investment with minimum risk but poor longer term growth prospects. HSBC has recommended that consideration be given to introducing a default fund with Standard Life. This has not been done to date as the default option is seen as a short term measure only until the member makes a positive decision and because no Standard Life option offered the same minimum investment risk as the Prudential Deposit Fund.

b. **Life-style options**

A review of the Life-style options on offer is recommended to ensure that the choices available are appropriate to the particular circumstances of the LGPS regulations and members preferred investment choices.

c. **Choices of individual funds made available**

Although both Standard Life and Prudential nationally offer a wide range of investment choices for AVCs the choice available to MPF members from Prudential is more restricted. The majority of Scheme members in this Pension Fund currently choose to invest in a relatively small number of the funds available to them.

Ongoing monitoring of the performance of these funds would be simpler if the choice on offer was restricted to a selection of the most popular and successful available. Further advice is to be sought from HSBC on this issue to ensure that the choice of AVC funds available to members is the most appropriate.

d. **Communication issues**

A number of member communication issues are identified mainly in connection with the suitability of the default fund and life-style options which are being addressed.

5. INLAND REVENUE REFORMS INTRODUCED FROM 6 APRIL 2006

5.1 The Local Government Pension Scheme is unusual in that members are permitted to take up to 100% of the value of their AVC pot on retirement as tax free cash, providing that this together with any other lump sum amount does not exceed 25% of the capital value of their total pension benefits.

6. FINANCIAL IMPLICATIONS

6.1 The cost of the AVC review undertaken by HSBC was £7,500 plus VAT.

6.2 An estimate of the charge for some supplementary advice has been requested on the design of bespoke life-style options appropriate to members needs and on specific AVC funds that should or should not be offered to members from the full range available from the providers.

7. STAFFING IMPLICATIONS

7.1 There are none arising directly from this report.

8. EQUAL OPPORTUNITY IMPLICATIONS

8.1 There are none arising directly from this report.

9. HUMAN RIGHTS IMPLICATIONS

9.1 There are none rising directly from this report.

10. COMMUNITY SAFETY IMPLICATIONS

10.1 There are no specific implications arising from this report.

11. **LOCAL MEMBER SUPPORT IMPLICATIONS**

11.1 There are no specific implications for any Member or Ward.

12. **LOCAL AGENDA 21 IMPLICATIONS**

12.1 There are no specific implications arising from this report.

13. **PLANNING IMPLICATIONS**

13.1 There are no specific implications arising from this report.

14. **BACKGROUND PAPERS**

14.1 Additonal Voluntary Contribution Schemes Review – HSBC Actuaries and Consultants June 2009.

15. **RECOMMENDATION**

15.1 That Members note the report.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/238/09

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Merseyside Pension Fund

June 2009

Additional Voluntary Contribution (AVC) Schemes Review

Robin Armer
Development Consultant
DC Consulting

Direct Line: 0161 253 1131
Fax No.: 0161 253 1169

Email: robin.armer@hsbc.com

HSBC Actuaries and Consultants Limited

HSBC

Contents

1. Introduction

This report is to review the three existing Additional Voluntary Contribution (AVC) contracts currently in place for the Merseyside Pension Fund; these are held with Standard Life, Equitable Life and Prudential. The report will consider a range of relevant issues; in particular, the following: the current AVC market, the terms of the existing contracts, the investment ranges available and the performance of the investments.

The information contained within the report is based upon the 2008 scheme information provided to HSBC Actuaries and Consultants Limited (HACL) by yourselves and additional information either obtained from the AVC scheme providers or, in the case of some investment performance information, third parties.

The purpose of the report is to review the existing schemes and to highlight areas of interest/concern for further discussion.

General Notes

This report is written based on the information supplied and on our understanding of current Law and HM Revenue & Customs (HMRC) practice, which may be subject to change. Any subsequent recommendations made as a result of this report are also made on this basis.

2. Additional Voluntary Contribution (AVC) Overview

AVC contracts have traditionally played an important part in the provision of Occupational Pension schemes to allow members to make additional pension savings to either top up or supplement the pension accrued in their main scheme.

The opportunity to increase pension savings has appealed to a wide range of individuals including: members with a small number of years service; members with gaps in service; members looking to fund tax-free cash lump sums (without reducing main scheme benefits) or members just keen to boost their level of income in retirement. What has linked all of these members, and continues to do so, is a desire to improve their financial prospects in retirement and a monetary commitment to achieve this.

Whilst the tax advantages of saving via a pension remain, Income Tax relief on contributions at the marginal rate (albeit now reduced for those earning over £150,000 p.a.) and virtually tax-free investment growth, the requirement for specific AVC schemes has been reduced by the changes made to Pensions legislation on 6 April 2006 (A-Day). These changes opened up the opportunity for Occupational scheme members to make additional savings to other pension arrangements rather than just designated AVC or Free Standing AVC (FSAVC) contracts.

However, AVC schemes can continue to offer important and valuable benefits to members beyond simply being a tax-efficient savings vehicle. It is these scheme specific advantages that mean that AVC schemes remain an important part of pension provision in the UK. In particular, the advantages available include:

- The ability to use an AVC fund to buy additional benefits in the main scheme at retirement.
- The option to use the AVC scheme to fund a member's tax-free lump sum (thus, not reducing main scheme benefits).
- The opportunity to provide beneficial scheme terms through collective purchasing power.
- The opportunity for the Trustees to take a paternalistic stance in ensuring members' contributions are held in an appropriate contract with suitable investment options.

Thus, taking the above into account, the provision of an AVC scheme remains a key issue for any employer providing an Occupational Pension scheme to its employees. In addition, given members' monetary commitment to an AVC arrangement, the employer also has to consider its responsibility to ensure that such arrangements are suitable and appropriate for members and to consider its role in educating and guiding members to help them understand and hopefully achieve their retirement objectives

3. Market Overview

HACL has a great deal of experience in establishing insured pension plans. Consequently, we have formulated panels of approved providers for differing insured pension contracts based upon specific criteria. The purpose of the panels is to identify the insurers best equipped to provide these long-term products.

The fundamental requirements for all new arrangements are the same; we should look to recommend a provider from our relevant panel based upon the criteria described below.

- Investment choice
- Charges
- Administration
- Financial strength, name awareness and commitment to the pensions market

Investment Choice

Any new contract should provide a wide range of both internally and externally managed investment funds for the client. This is essential in order that they can have access to market leading funds that match their investment requirements. The potential new contract should also allow free switching between funds as the client wishes. The ability to be able to switch the accumulated fund value and/or the ongoing contributions into other funds will give the individual the freedom to change the fund to match their attitude to investment risk.

It is also essential that the contract offers either a range of possible default selections or the ability to bespoke a default solution from the available fund range. This should include the ability to provide a 'life-styled' default option, where the level of investment risk the member is exposed to reduces over a set number of years approaching the members Selected Retirement Date (SRD).

Charges

Charges have an impact on an individual's ultimate benefits and need to be reviewed to ensure 'value for money' is being achieved. It is therefore appropriate that the charges made on the contract are competitive against the general market place.

The key to a charging structure is that there is clarity for Trustees and members as to the full cost of the contract and the majority of modern contracts achieve this through a single Annual Management Charge (AMC) structure. The AMC applicable is derived from the investment fund or funds selected by a member, with different funds making different charges to reflect the complexity and costs of the investment strategy. Thus, the AMC may differ from member to member, but only in reflecting the costs of their differing investment fund selections.

The general AMC guideline is a charge of 1% of the fund value per annum for internal investment funds (those managed by the insurer providing the contract) with higher charges for externally or third party managed funds. Any group arrangement of significant size (100+ lives) would expect to receive a reduction on these standard terms, usually achieved by a rebate of part of the applicable AMC.

Administration

It is vital that any provider should have a good track record in administration so neither the Trustees or members are faced with a significant additional burden in this area. This often means that many aspects of communication are via the Internet and individual members will be able to view and amend their pension details using this route.

At the simplest level, it is vital that a system is established which allows the employer to deduct and remit contributions with minimum manual intervention. All of the providers we recommend offer an electronic payment facility. If a robust payment system can be established from the outset, there is every chance that administration will be simple and efficient on an ongoing basis, with resultant time/cost savings.

In particular, it is essential that the provider has experience and expertise in the processes involved in dealing with large employers, and the scale of any such arrangement and are able to offer dedicated service and communication for both trustees and members.

Financial Strength/Name Awareness

As a consequence of changes in legislation, and increasing competition for market share over the last decade, the pension's marketplace has seen lower charging structures become common place for pension contracts. The low charging bases now prevalent mean that a provider must be able to demonstrate good financial strength in order to operate in this market long-term.

Financial strength gives an indication of the long term viability of a company, as well as its potential ability to meet its future financial commitments.

Given current market and consumer concern over a number of financial institutions, in the wake of the continued repercussions of the global 'credit crunch', the importance of using a company with a sound financial strength rating is increasingly clear.

Market Review

The providers currently forming our Group Pension Panel are as follows:

- AEGON Scottish Equitable
- AXA
- Norwich Union
- Legal & General
- Scottish Life
- Scottish Widows
- Standard Life

Since the A-Day changes to UK Pension Provision, the need for AVC contracts (as opposed to a Group Personal or Group Stakeholder Pension contract) has not been as apparent. Thus, not all providers are currently offering a group AVC contract and we have approached the above (except for Standard Life who already provides one of the existing schemes) for confirmation of whether they are able to do so and, if so, for details of the contract.

Of the other 6 providers above, only AXA is not currently offering a Group AVC contract. The remaining 5 providers are all able to offer such a contract and all confirmed that the contract would include: a range of internal and external investment funds, a range of possible default investment funds (including either pre-designed or bespoke default funds) and Internet access for members. However, none of the providers are able to offer the option of discretionary life cover for members through the AVC scheme, as is currently available to members via Prudential and Equitable Life.

Thus, the contracts available would mirror the style of the current Standard Life scheme, with differentiation provided via: the fund range available, the default investment choices, the AMCs applicable, the administration support provided and the level of member Internet capability available.

4. Existing AVC Provision – Contract Review

As stated earlier, there are 3 AVC schemes currently in operation and these are held with Standard Life, Equitable Life and Prudential. Each scheme has its own unique features and, as such, it is appropriate to consider each in isolation. In this section of the report, I will focus on each scheme in turn considering: the size and membership, charging structure and investment range and default selection (including the weighting of member's investment selections). I will look at the performance of the 5 most popular funds within each scheme in the following section of the report.

The table below details the number of members, active and deferred, and the size of the fund holdings and contribution levels as per the 2008 data you provided.

Provider	No. of Members	No. of Active Members	No. of Deferred Members	Scheme Size in £	Contribution Level in £
Standard Life	857	363	494	£6,471,463.43 (as at 30/09/08)	£604,013.79 (as at 30/09/08)
Prudential	826	357	469	£3,619,321.61 (as at 31/03/08)	£605,092.53 (as at 31/03/08)
Equitable Life	907	885	22	£3,329,444.34 (as at 01/07/08)	£53,314.82 (as at 01/07/08)

I would make the following comments regarding each scheme:

STANDARD LIFE SCHEME

Whilst having a lower total number of members than the Equitable Life scheme (857), the Standard Life scheme has by far the highest total of monies held within it (approximately £2,850,000 more than the Prudential scheme and over £3,000,000 more than the Equitable scheme). The scheme is also receiving almost identical contribution levels to the Prudential scheme (approx £605,000 p.a.).

In terms of product features, the scheme offers an on-line employee-zone for members, which enables them to obtain policy information and make fund switching decisions (although switches are not 'real-time' automated switches but produce a request to be processed). The scheme does not offer a Life Assurance Option for members, unlike the other AVC schemes currently in place.

Charges

The charges applicable to this contract are detailed below.

- An AMC is applied for the management of the selected investment funds. This is a percentage of the fund value invested, ranging between 1% and 2% dependent upon the fund selected. For the majority of Standard Life's own funds, the charge is 1% p.a.; for more specialist or externally managed funds, the charge is higher.

- An AMC reduction is applied to the contract by the creation of additional units each month. Thus, Standard Life adds units to each member's contract to the value of 0.375% of the fund value each month. This has the effect of reducing the applicable base AMC from 1% to 0.625%. The additional units are also added if an externally managed fund is selected, reducing the applicable AMC accordingly.

It should also be noted that Standard Life does not currently charge for investment switches, however, they reserve the right to charge for any second or subsequent switches in a 12 month period.

Investment Choice and Default Fund

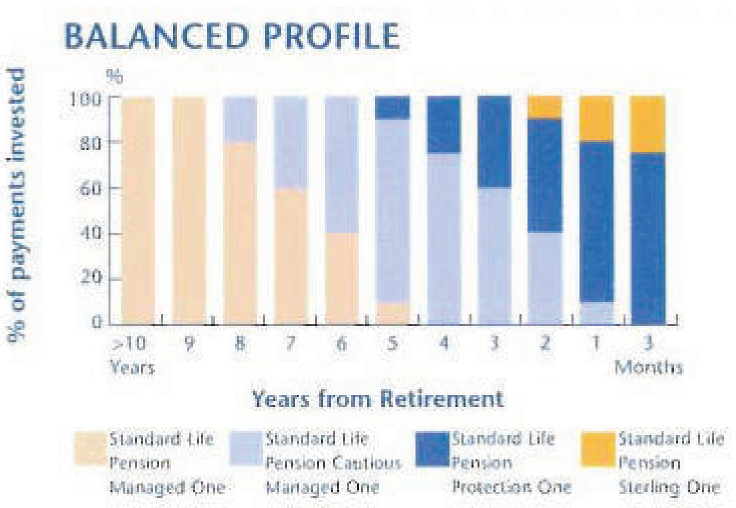
The Standard Life contract offers a range of both internally managed and externally managed investment funds. These are split between what Standard Life describes as their 'hands-off' and their 'hands-on' ranges.

The 'hands-off' range consists of multi-asset type funds of either a cautious, balanced or opportunity (previously referred to as adventurous) investment style. These are designed for members who do not wish to make active decisions in managing their pension fund. The 'hands-on' range consists of single asset, geographically specific funds from which a member can choose to create their own portfolio should they wish. Both ranges include actively and passively managed funds. Actively managed funds are where the fund manager makes the investment decisions (within the parameters of the fund's guidelines); passively managed funds (or tracker funds) are where the fund is invested to mirror a specific Index or mix of Indices and performance should follow that of the target Index.

Active fund managers aim to outperform sector averages through stock selection decisions; passive funds aim to mirror Index performance through asset replication.

Within the 'hands-off' range, there are 19 opportunity funds, 20 balanced funds and 20 cautious funds available, plus the With Profits option. Included within these options are Standard Life's Lifestyle Profiles, which are designed to amend a member's investment strategy to reflect their approach to retirement and the general wish to reduce risk as doing so.

Standard Life offers 4 Lifestyle Profiles, 3 internally managed profiles (cautious, balanced and global equity) and one externally managed profile run by Barclays Global Investors (BGI). The table below highlights how the Standard life Balanced Profile operates.



New versions of the 3 Standard Life Profiles are now also available, which offer the Standard Life Managed Cash Fund as an alternative to the Standard Life Sterling Fund.

Within the 'hands-on' range, there are a total of 105 different funds available, covering a range of different asset classes and geographical regions and offering a choice of investment house and style for the majority of asset classes.

I can confirm that from the data provided from Standard Life, scheme members are currently investing in 31 different funds in total; 8 of which are externally managed. However, approximately 75% of the total holdings are held within two funds: the With Profits One Fund (approximately 50%) and the Managed One Fund (approximately 25%).

Of the externally managed funds, the largest total held in any of the 8 funds (as at 30 September 2008) was £13,720.63 (0.2% of the total holdings) and the investment in the 8 external funds was by only 6 members of the scheme (0.7% of the membership).

At present, there is no nominated default fund on this scheme; as such, all members are required to actively select their own investment strategy, be that from the 'hands-on' or 'hands-off' range.

PRUDENTIAL SCHEME

Despite being the newest of the schemes, the Prudential scheme has a similar number of total members (826) to the other two schemes; just 81 less than the Equitable Life scheme and 31 less than the Standard Life scheme. However, of these, the majority are not active members, with only 357 actively contributing to the scheme. In my discussions with Prudential, they indicated that a key reason for this is the targeted transfer exercises they have undertaken to attract members to transfer benefits from the Equitable Life scheme. The number of active members and level of contributions to the scheme are almost identical to those for the Standard Life scheme.

Within the scheme is the option for members to purchase additional life cover at up to 2 x Salary level (subject to a minimum of £5,000). At present, 9 of the scheme members are utilising this facility.

Charges

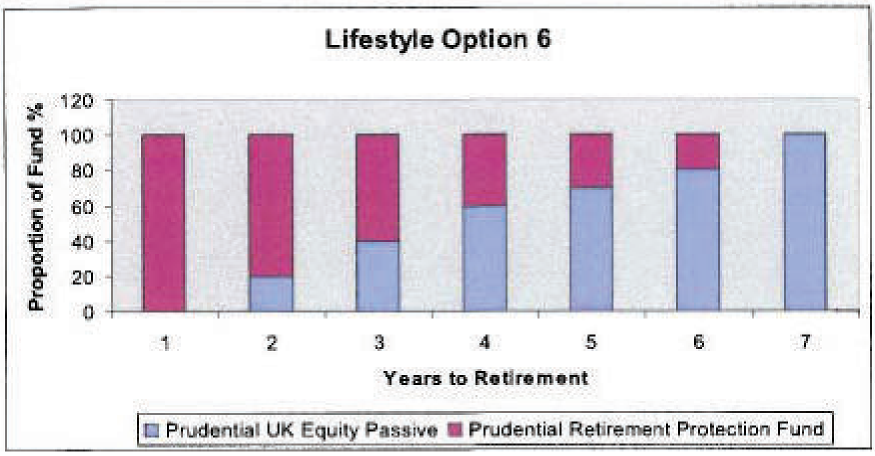
The charges applicable to this contract are detailed below;

- An AMC is applied for the management of the selected investment funds. This is a percentage of the fund value invested, ranging between 0.65% and 0.85% dependent upon the fund selected. For the majority of Prudential's own funds, the charge is 0.75% p.a.; for a few passively managed or lower risk funds, the charge is 0.65% and for those actively and externally managed funds available, the charge is 0.85%.

Investment Choice and Default Fund

The Prudential contract offers a range of predominantly internally managed investment funds with only a very few externally managed funds currently available. There are currently 19 funds available under this contract of which 17 are internally managed by Prudential. Of the 19 funds available, 16 are actively managed with 3 passively managed, 1 by an external manager. A further 33 investment funds are available from Prudential but these have not been authorised for use by the Trustees and, as such, are not open to the scheme members. Of these additional funds, 11 are managed by Prudential, including the With Profits Fund, and the other 22 are from a range of 6 different investment houses. These include another 11 passively managed funds; some by Prudential and some by external managers.

Within the contract, Prudential currently offers 3 Lifestyle strategies. All 3 strategies utilise the same 2 investment funds but vary the length of time from retirement that they begin to switch from the investment element to the protection element of the process. It is this number of years from retirement that is used for the fund's name and, as such, there is a 6 year, 8 year and 10 year option. The 2 funds used to provide the lifestyle investment are: the Prudential UK Equity Passive Fund for the investment option and the Prudential Retirement Protection Fund for the protection element. The table below highlights how the Lifestyle Option 8 Strategy operates.



It should be noted that Prudential has confirmed that it is possible to bespoke a lifestyle option to suit the needs of your members utilising a range of the funds available under the contract.

I can confirm that, from the data provided by Prudential, scheme members are currently investing in 21 different funds in total, 4 of which are externally managed. You will note that the number of funds is actually greater than that currently available and this is because some members continue to hold monies in two externally managed funds that are no longer open to new investors.

However, as with the Standard Life scheme, although there are 21 funds being used by members, the total monies held are concentrated in a very small number of funds. Indeed, approximately 73% of the total holdings are held in one fund, the Deposit Fund, which is used by 585 of the total 826 members. The Deposit Fund operates in the manner of a bank or building society account, guaranteeing that the total amount of a member's investment cannot fall and that any interest payments added to the fund are also guaranteed.

The rate of interest on the fund is not guaranteed and will fluctuate each month in line with the Bank of England Base Rate, which is currently 0.5% p.a.

Of the externally managed funds, the largest total held in any of the 4 funds (as at 31 March 2008) was £43,406.90 (1% of total holdings) and the investment in the 4 external funds was by only 13 members of the scheme (0.5% of the membership).

The Prudential Scheme does currently have a nominated default fund and this is the Deposit Fund. Whilst the Deposit Fund is by far the most populated of the investment options available through the scheme, Prudential was keen to stress that very few members held the investment as a result of the default option and, indeed, the vast majority had actively selected the fund.

EQUITABLE LIFE SCHEME

The Equitable Life scheme is the original AVC contract that the scheme offered and has been closed to new entrants for a number of years (with the exception of members transferring from another local authority who already have an Equitable AVC and wish to continue with this). Equitable Life classes the scheme as having 885 active members, however, this is not the actual number still contributing to the scheme, which is significantly lower. I have asked Equitable Life to confirm the number of members currently contributing to the scheme but am still awaiting this data.

Equitable Life has confirmed that this information should be available from the Investment Benefit Summary which has been recently issued to the Trustees. However, having now seen a copy of this, it is not possible from the information provided to accurately ascertain the number of members actively contributing to the plan. The ongoing contributions to this scheme are significantly below those being made to Standard Life and Prudential at only £53,300 p.a..

The Equitable Life scheme offers no on-line support for members, nor any dedicated administration contact for either members or Trustees. The scheme did offer additional life cover for members and a number of these are continuing to pay premiums to maintain this cover; the last figures available from Equitable Life showed this to be 135 members.

Charges

The charges applicable to this contract are detailed these below.

- An administration charge of 2% is taken from each contribution to the With Profits Fund before the contribution is applied. This has the effect of reducing the amount of each contribution that is used to buy units to 98% of the original amount paid.

- A 2% bid/offer spread is applied to all contributions to Unit Linked Funds. The bid/offer spread is the difference between the price at which units are purchased (offer price) and sold (bid price). This effectively reduces the value of each contribution made by 2% upon purchasing units. Thus, the value of a contribution after units have been purchased is approximately 98% of the actual monetary amount paid to the contract.

- A charge of 2% of the fund value would be made on any monies switched out of the Building Society Fund, to reflect the fact that no charges are made on investing in this particular fund.

- An AMC is applied for the management of all selected investment funds with the exception of the Building Society Fund. This is a percentage of the fund value invested and is 0.5% for all funds.

In addition to the charges detailed above, it should be noted that Equitable Life will apply a charge in the event of switching or transferring benefits away from the With Profits Fund, except on retirement or death. This charge is currently 5% of the fund value, although it may change at any time without notice.

Investment Choice and Default Fund

The Equitable Life contract offers a relatively small range of internally managed investment funds. The scheme offers both the With Profits Fund and the Building Society Fund, plus a range of 19 unit linked investments managed by Equitable Life. Of these 19 funds, 2 are passively managed; the remainder actively managed. In addition, a further 7 unit linked funds managed by Clerical Medical can be made available to members, if Trustees wish.

The Equitable Life plan does not offer a life-styling option for members and it is not possible to put one in place for the scheme, as they do not allow this facility.

Of the 21 funds available, 16 are currently being used by members, although, again, investment is dominated by a small number of funds. The largest holding is in the With Profits Fund in which approximately 59% of the monies are held and 535 members are invested (60% of membership). Nearly all of the remaining holdings are within the Building Society Fund (19% of monies) and the Managed Fund (19% of monies). The Building Society Fund operates on a similar basis to the Prudential Deposit Fund, effectively behaving like a bank or building society account in protecting capital and adding interest. The interest rate applicable to this fund is the compound rate of interest offered by the Nationwide Building Society; at present, I believe this rate is also 0.5% p.a.

There is currently no default option in place for this scheme and as the scheme is closed to new members, it is unlikely that one can be put in place.

5. Existing AVC Providers – Investment Performance Review

In the following, I will review the performance of the most popular fund selections within the 3 AVC schemes with Standard Life, Prudential and Equitable Life.

By far, the largest fund holdings with both Standard Life and Equitable Life are the With Profits Funds available and given this and the unique nature of With Profits investments, I will focus on these first. Although the Prudential With Profits Fund is not currently available for members of the AVC (at the request of the Trustees), I have included details of their offering for comparative purposes.

With Profits Funds are a unique style of investment and, as such, I have attached an Appendix (Appendix I) looking at the exact manner of how this type of fund works, which you may wish to read before proceeding.

With regard to the specific With Profits Funds in question, I would make the following comments:

Standard Life – With Profits One Fund

According to the data provided by Standard Life, currently, 66% of the members in the Standard Life Scheme are investing in the With Profits One Fund, with a total holding of approximately £3,264,000.

The underlying assets of the fund are invested in line with Standard Life's Asset Mix 3, which as at 31 December 2008 was as follows;

Asset Class	% Held
Equities	33.5%
Property	18.8%
Fixed Interest	42.7%
Cash & Money Market	5.0%
Total	**100%**

Based upon the above, this gives the fund an Equity Backing Ratio (EBR) of 52.3%. Of the equity investment, 66% is in the UK, 16% in the US and the remainder split between other global equity markets. Of the Fixed Interest holdings, 65% is in Government Bonds and 35% in Corporate Bonds.

The current annual bonus rate for the fund, as declared on 1 February 2009, is 2%. The bonus rates declared for the fund over the last 5 years are detailed below.

	Annual Bonus Rate Paid for the year to 31 January				
Standard Life Fund	**2009**	**2008**	**2007**	**2006**	**2005**
Pension With Profits One	2.5%	2.0%	2.0%	2.5%	3.25%

Source: Standard Life Investment Bulletin – May 2009

The actual investment returns of the underlying assets over the last five years can be seen below;

	Discrete Annual Performance for Each Year Ending 31 December				
Standard Life Fund	**2008**	**2007**	**2006**	**2005**	**2004**
Asset Mix 3	-12.9%	5.6%	11.4%	17.8%	12.3%

Source: Standard Life Investment Bulletin – May 2009

Please note that past performance is no guarantee of future performance; the value of units can fall as well as rise.

Equitable Life – With Profits Fund

According to the data provided by Equitable Life, currently, 60% of the members in the Equitable Life Scheme (535 members) are investing in the With Profits Fund, with a total holding of approximately £1,959,000.

The underlying assets of the fund are invested in line with Equitable Life's asset allocation guidelines which are currently as follows:

Asset Class	Range as a %
Gilts & Corporate Bonds	75-90%
Property	0-15%
Equities	0-15%
Cash	0-5%

Based upon the above, this allows the fund a potential maximum EBR of 25% (the minimum fixed interest holding being 75%). However, at present, the fixed interest holding is likely to be nearer the top of the range (90%), leaving the EBR likely to be less than 10% of the fund's assets. Of the Fixed Interest holdings, Government Bonds (Gilts) are the core investment class, as the nature of these ties with the liability driven view of the fund management.

Each premium paid to Equitable Life, after the deduction of charges, secures a guaranteed benefit at retirement; the aggregate of these benefits is the minimum amount payable at the original SRD. Unlike the Standard Life Fund, the Equitable Life With Profits Fund has a guaranteed investment return; the rate by which the guaranteed benefit level increases each year, which is 3.5% p.a. for policies issued before 1 July 1996. In addition to this guaranteed investment return, the fund may provide reversionary bonuses which are also guaranteed. Equitable Life has stated that there are no reversionary bonuses currently payable or likely to be payable for the short to medium term future.

As well as the guaranteed value, each policy also has a second value, called the 'Policy Value'. Unlike the guaranteed value the policy value can increase or decrease and is designed to represent a policy's fair share of the investment fund. This value is the starting point for calculating any pay-out from the fund. Upon death or retirement at the original SRD, the higher of the guaranteed value or the policy value will be paid; on exiting the fund at any other time, the guaranteed value will not apply and the policy value, minus any applicable penalty or plus any final bonus, will be the value used. Equitable Life has confirmed that a 5% penalty currently applies on exiting the fund at any time other than the original SRD or on death.

The most recent data available from Equitable Life on the overall rates of return declared for the fund is detailed below.

	Overall Rate of Return for Calendar year				
Fund	**2007**	**2006**	**2005**	**2004**	**2003**
Pension With Profits	5.0%	5.0%	4.5%	3.5%	2.0%

Source: Equitable Life PPFM – July 2008

Please note that past performance is no guarantee of future performance; the value of units can fall as well as rise.

Prudential - With Profits Fund

As stated above, the Prudential With Profits Fund is not currently available via the scheme, however, it could be made available at Trustee discretion.

The underlying assets of the fund are invested in line with Prudential's published guidelines and as at 31 December 2008 were as follows:

Asset Class	% Held
Equities	51%
Property	14%
Fixed Interest	29%
Cash & Money Market	6%
Total	**100%**

Based upon the above, this gives the fund an EBR of 65%. Of the 51% invested in Equities, 34% is in the UK, with the other 17% split between other global equity markets.

The current annual bonus rate for the fund, as declared on 15 March 2009, is 2.75%. The bonus rates declared for the fund over the last 5 years are detailed below.

	Annual Bonus Rate Paid for the year to 14 March				
Prudential Fund	**2009**	**2008**	**2007**	**2006**	**2005**
Pension With Profits One	3.25%	3.00%	3.00%	3.00%	3.00%

Source: Prudential Investment Bulletin – March 2009

Please note that past performance is no guarantee of future performance; the value of units can fall as well as rise.

Unit Linked Performance

The following table highlights the performance of the most popular unit linked fund selections from the 3 providers. Where appropriate, I have grouped similar funds together and compared these to the appropriate sector averages. All data used in the table is taken from Trustnet – A Financial Express Website.

Fund	Discrete Performance for the Calendar Year 2008	2007	2006	2005	2004
Standard Life Managed One	-20.8%	7.5%	12.3%	22.0%	10.8%
Equitable Life Managed	-17.6%	3.9%	8.5%	17.5%	10.2%
Balanced Managed Sector Average	**-20.8%**	**5.5%**	**10.4%**	**19.6%**	**9.8%**
Standard Life Cautious Managed One	-8.9%	4.0%	9.6%	16.4%	10.3%
Cautious Managed Sector Average	**-15.7%**	**1.2%**	**8.1%**	**13.2%**	**8.5%**
Standard Life Stock Exchange One	-24.6%	8.3%	15.7%	26.1%	10.6%
Prudential Discretionary	-19.0%	6.2%	10.6%	21.7%	11.1%
Flexible Managed Sector Average	**-24.6%**	**6.6%**	**11.7%**	**22.4%**	**11.2%**
Standard Life Property One	-20.8%	-13.0%	18.2%	15.8%	18.6%
Prudential Property	-16.8%	-9.6%	12.4%	14.1%	14.1%
Property Sector Average	**-19.8%**	**-12.2%**	**15.9%**	**15.6%**	**16.1%**
Prudential Cash	0.2%	4.7%	3.9%	4.4%	4.2%
Money Market Sector Average	**4.3%**	**4.7%**	**3.8%**	**4.0%**	**3.5%**
Prudential Retirement Protection	13.1%	1.9%	-0.7%	10.1%	8.0%
Sterling Long Bonds Sector Average	**4.6%**	**1.2%**	**-0.5%**	**10.8%**	**7.7%**
Prudential UK Equity Passive	-29.9%	4.3%	14.7%	21.0%	12.5%
UK All Companies Sector Average	**-31.7%**	**2.4%**	**16.8%**	**21.3%**	**13.5%**
Equitable Life Ethical	-20.7%	15.4%	6.6%	22.2%	8.2%
Global Equities Sector Average	**-24.1%**	**9.5%**	**7.5%**	**24.1%**	**8.1%**
Equitable Life High Income	-25.6%	5.4%	14.9%	22.6%	13.7%
UK Equity Income Sector Average	**-28.2%**	**-0.1%**	**17.9%**	**20.7%**	**16.4%**

I would make the following comments regarding these funds:

Standard Life Managed One

This fund has a stated aim of providing long term capital growth by investing in a wide portfolio of assets including equities, fixed interest securities and property that are domiciled both within the UK and overseas. The fund currently holds approximately 71% of assets in equities with the largest holdings in UK equities (approximately 40%).

This is in keeping with the norm for the Balanced Managed sector. In performance terms, the fund has consistently matched or bettered the sector average over the last 5 calendar years.

Equitable Life Managed Fund

The fund aims to maximise returns from a range of investments including equities, fixed interest and property. The fund currently invests predominantly in the fixed interest markets, taking a lower risk profile than is the norm within the Balanced Managed sector. This lower risk strategy is reflected in the fund's performance, which has been below the sector average in years when markets were rising (2005, 2006 and 2007) but above the sector average in the falling markets of 2008.

Standard Life Cautious Managed One Fund

The fund aims to provide long term growth through investing in a range of assets, whilst looking to reduce risk (in comparison to a balanced managed fund) by increasing the investment in lower risk assets. The fund currently invests approximately 55% in fixed interest investments, predominantly in the UK (44.5%), with approximately 32% in equity holdings; again, mainly in the UK (27%). The fund has consistently outperformed the sector average in each of the last 5 calendar years, often significantly so.

Standard Life Stock Exchange One Fund

The fund is actively managed with a bias towards equity investment, although the fund can also hold fixed interest investments. The fund currently holds approximately 75% in equities with the largest holding again in the UK (37%). The fixed interest holdings are currently at the higher end of the potential range of holdings, reflecting the uncertainty of markets in recent times. The fund is rated as being in the Flexible Managed Sector, which allows a higher equity holding than the classification for the Balanced Managed Sector. The fund has consistently performed either at or above the sector average with only 1 year's performance below the sector average (2004). As with the Standard Life Managed One Fund, the fund's performance against its peer group has been strongest in rising markets and poorest in falling markets.

Prudential Discretionary Fund

The fund aims to achieve capital growth through investing in a range of assets with a weighting towards equities (75%) and in particular UK equities (39%). The fund is rated as being in the Flexible Managed Sector (allowing up to 100% investment in equities) but appears to take a more cautious approach than the investment limits would allow with a consistently high (comparatively for the sector) holding in lower risk assets. This approach is reflected in performance below the sector average in years of rising markets but significant out-performance during 2008 when the markets were falling.

Standard Life Property One Fund

The fund aims to provide long term returns from direct investment in UK commercial property, however, it may also invest in European properties and derivatives to achieve efficient portfolio management. Due to the nature of property as an asset class, it may at times be difficult for the fund to liquidate assets and, as such, the fund manager has the right to impose delays on investor's encashing their holdings. Following sustained and significant falls in the property market, Standard Life is currently imposing a 180 day waiting period on withdrawals from this fund. The fund has exhibited out-performance versus the sector average in rising markets and under-performance in subsequent falling markets.

Prudential Property Fund

As with the Standard Life Fund, this aims to achieve long term returns through direct investment in property. The fund has recently altered its permitted investments to also allow indirect investment and the use of derivatives. This opens the fund manager's mandate and provides him with the opportunity to make shorter term investments to try and combat longer term market issues. Potentially, this could change the investment structure of the fund, although I expect that direct property investment will remain the core element to the fund. In performance terms, the fund has produced returns on the cautious side of the sector average, under-performing in rising markets and out-performing in falling markets.

Prudential Cash Fund

The fund is a money market fund, aiming to provide security to investors with returns ahead of those available on deposit. Whilst entitled a 'Cash Fund', the manager will not only use deposits within the fund but will also invest in money market instruments, both short and longer dated, such as Floating Rate Notes and Asset Backed Securities. These investments carry both a default risk and the risk that the market value of the investment can fluctuate during the period of holding the investment. Thus, it is possible that if the manager is forced to encash these investments before maturity, they may return a lower value than at maturity.

This risk, and the market valuation of these investments, can lead to not only falls in returns to the fund but also falls in the value of existing holdings in the fund. As such, the fund is not as secure as the Deposit Fund offered by Prudential, but does potentially offer greater returns. The fund has significantly under-performed the sector average over 2008 (0.2% growth versus the average of 4.3%) and this is likely to be as a direct result of the holdings in these longer term investments. The fund currently holds approximately 15.5% of its assets in Asset or Mortgage Backed Securities. It should be noted that it was holdings in these types of assets that caused the well documented problems in the Standard Life Sterling Fund earlier this year, although the levels of these assets in the Sterling Fund were far higher than those in the Prudential Fund.

Prudential Retirement Protection Fund

The fund is passively managed and invests wholly in UK Gilts with over 15 years to maturity. It is designed to provide a low risk, safe return environment for investors and, as such, is used as the protection element of Prudential's life-styling process. The fund has historically performed at or around the average for the sector, but in 2008, vastly out-performed the sector average. The Gilt market at this time was a high demand sector, due to a flight to safety attitude to investment, and clearly, the fund benefited from this. However, investment in long dated Gilts does offer greater volatility than a Deposit Fund and this can be highlighted by the fact that the year to date performance for the fund (at 27 May 2009) has been -9.3% (against a sector average of -5.9%). This reflects the changing view of the Gilt market as the UK Government undertakes a process of 'quantitative easing' to increase the money supply in the economy.

Prudential UK Equity Passive Fund

This fund is designed to passively track the FTSE All Share Index, providing long term growth through exposure to UK equities. The fund tracks the Index by fully replicating the FTSE 100 and using representative sampling of the remainder of the Index. By not fully replicating the full Index, the fund will produce some tracking errors in comparison to the Index; depending upon the performance of the sampled stocks selected, this may be a positive or negative variance. The fund is wholly invested in UK equities and, as such, has produced the most volatile returns of the funds reviewed, which is in keeping with the expectation for a fund focusing on one higher risk asset class.

Equitable Life Ethical Fund

The fund aims to achieve long term growth through investment in a range of global equities, whilst applying an ethical screening criterion to stock selection. The majority of holdings are based in the US (53%) with the second highest holdings being in the UK (15%). The fund has produced volatile results as would be expected from a fund that invests approximately 92% in equity markets. Performance has swung from under-performing the global equities sector for 2005 and 2006 to significantly out-performing the sector in 2007 and 2008.

Equitable Life High Income Fund

The fund aims to produce a high level of income and some capital appreciation through holding a portfolio of UK stocks which produce regular dividends and fixed interest holdings, predominantly corporate issues. The fund has out-performed the market over the last two years, as values have fallen, but generally under-performed in the rising markets. Again, this would indicate a more cautious approach in stock selection and asset allocation than the sector average.

6. Areas of Interest

Having fully considered the 3 schemes available, I feel that the areas detailed below are those that the Trustees should be considering for further review or action.

1) Default Fund Provision

The Trustees should give serious consideration to the introduction of a default fund with Standard Life and a review of the appropriateness of the Deposit Fund for a default fund with Prudential. Whilst the Prudential Deposit Fund offers members a secure investment (which has looked attractive over the last 2 years), the long term growth prospects for the fund are well below those of equity based funds. Whilst equity based funds carry higher risk levels, members with a medium to long term to retirement (5 years+) generally have sufficient time to make the investment risk less relevant due to the potential term for recovery.

If properly communicated to members (both new and existing), a default fund can offer a valuable guide for members to an appropriate investment strategy and can be used to provide members with a strategy that develops and changes with their changing needs.

When establishing a default fund, HACL would advocate that life-styling is used to enable the investment strategy to maximise potential returns in the early years and then reduce risk automatically (without the need for member activity) as the member approaches retirement. The key to any life-styling strategy is the appropriateness of the underlying investments and the time period used to phase investments from the performance element to the protection element of the strategy.

A particular issue for the scheme is the likelihood that many members will be aiming to use all of their AVC fund to provide a tax-free cash lump sum and, as such, any life-styling process used should look to phase 100% into cash investments, as opposed to the standard 25% cash holding of most existing life-style systems. As such, it would appear appropriate to look to bespoke default solutions with both Standard Life and Prudential to meet this design (the ability to bespoke a default fund with Standard Life would require discussion with them, but given the size of the fund, they should be prepared to be flexible in the provision).

A further consideration would be the most suitable funds for use in providing the life-styling and whether a passive or active management style is most appropriate. A number of studies have shown that over the longer term, passively managed funds outperform the vast majority of actively managed funds, although active management offers the potential for short term out-performance. The crux of this being that a single manager is unlikely to consistently beat the market year in, year out, over a 10 year+ period, although they may well have periods where they do so over a shorter period (perhaps 3-5 years). When considering that many pension investors are looking at a 30+ term to retirement, the indicators are that unless active managers are to be regularly reviewed and replaced when deemed necessary (which can be costly, time consuming and difficult to achieve) then passive management appears the more appropriate style. The use of a passive manager for the underlying investments would also potentially allow a degree of uniformity to be struck between the Standard Life and Prudential schemes by selecting the same underlying funds.

2) Available Fund Ranges

At present, all 3 schemes offer a range of investment choices to members, albeit the range available with Standard Life is considerably larger than that with the other two providers. The opportunity exists with Prudential and, to a lesser extent, Equitable Life to expand the fund range available; alternatively, there is the option to limit the range available with each of the 3 providers.

It is clear from the investment information provided by each insurer that the monies with each are heavily concentrated in a very small number of funds and this would indicate that only a very small proportion of members would be affected by the restriction of the fund ranges to a small range, of perhaps 5 funds per scheme. However, this would be in contrast to the industry norm which is currently to offer greater range and choice to members to allow those who wish to have the opportunity to make their own decisions to do so. The main reason for restricting the investment choice would be to prevent members investing in low quality, high risk or niche funds without sufficient knowledge to support the decision. Given the data available, it appears that this is not the case with the scheme, as the majority of investors are sticking to mainstream funds.

I would suggest that, in the main, the funds being heavily used by members are competitive against their peer groups as shown in the previous section (any exceptions will be covered in points later in this section) but that the greater issue is one of whether members are investing in the right assets.

My view is that rather than the restriction of the fund ranges, members would gain greater benefit from communication exercises on the investment options available and the potential returns from different asset classes. Such communication could be tied to any decisions taken regarding introducing default funds and there are a number of options available regarding the form of communication to best suit the scheme membership. One option could be a regular (annually or more frequent) AVC investment update, covering the most popular of the investment funds, providing basic performance details and some commentary. Other options can include: articles in your internal newsletters, payslip inserts, targeted written communications or member presentations.

3) With Profits Funds

There are significant numbers of members with holdings in With Profits Funds with both Standard Life and Equitable Life.

The reality is that for those members with Equitable Life With Profits benefits, they are unlikely to be able to match the guaranteed value available at retirement if they choose to transfer their benefits away. As the guaranteed benefit provides a guaranteed investment return also, these members will continue to receive a 'return' on their monies, although the actual value at retirement is highly unlikely to exceed the guaranteed sum. The Trustees could choose to undertake a transfer review process of the Equitable Life With Profits holdings (comparing transfer values coupled with projected potential growth rates against the guaranteed values) but this exercise is likely to be expensive and it is unlikely that many members would be expected to benefit from a transfer.

For those members investing in the Standard Life With Profits Fund, the current bonus rates remain relatively low and the prospects for these to increase in the short term are reasonably poor given the underlying investment performance; however, the fund continues to offer security of capital value provided the benefits are held to retirement.

Given current investment conditions, many members of the scheme are now likely to be in a position of facing Market Value Reductions (MVRs) should they wish to exit the fund at the present time, although this could only be established by obtaining member by member fund and transfer values. I would suggest that a targeted communication could be provided to all members in the Standard Life With Profits Fund highlighting the pertinent issues of With Profits investment and looking to clarify the potential problems and benefits members may have.

4) Equitable Life – Members still contributing

Whilst Equitable Life has been unable yet to confirm the number of members still contributing to the scheme, it is at least 130 who continue to pay for life assurance cover. Given that the Equitable Life scheme has additional charges applicable to contributions that the other schemes do not, it may be worth undertaking a full review of the contributing membership to establish if there are any members who may benefit from switching their contributions elsewhere.

Whilst those Equitable Life members paying into the With Profits Fund are likely to benefit from continuing to do so (as commented on above), it may be possible to review whether those members continuing to pay contributions to maintain life assurance could achieve a comparative deal from the Prudential scheme. Comparisons of the levels of cover and costs would need to be undertaken between the two schemes to establish if those members would benefit or not from switching providers.

If there are any members who are still paying to Equitable Life who are not With Profits investors and do not have life assurance cover through the AVC, they are highly likely to benefit from switching their contributions to one of the other providers.

5) Prudential Cash Fund

There are a small number of investors (16) with holdings in this fund. As detailed previously, the fund is not a Deposit Fund but is, indeed, a money market fund, which holds some investments with potentially volatile values, thus the value of the fund can fall as well as rise.

It is quite possible that the investors in this fund are aware of this distinction, however, equally they may mistakenly believe they are invested in the Deposit fund. As a precautionary measure the trustees may wish to use a targeted communication to highlight this point to the affected members.

6) Standard Life Sterling One Fund/Managed Cash Fund

As with the Prudential Cash Fund, the Standard Life Sterling Fund has a number of investors holding money within it (figures indicated approximately 21 members holding £166,622) who may be unaware that the fund is not a Deposit Fund but in fact has a variable capital value which may fall as well as rise. Standard Life has now made the Managed Cash Fund available which is a lower risk money market fund, without the longer dated investments of the Sterling Fund, as an alternative investment for members looking for security. Again, a targeted communication to these members could be appropriate to ensure that they are aware of the distinction between the funds.

7) Provider Support to members

We understand that there is a significant difference between the support to members provided by Prudential and Standard Life. Whilst Prudential has financial advisers available to meet with scheme members, Standard Life support is on a remote basis via helpdesks and on-line services.

Face-to-face contact is generally preferred by scheme members and this is clearly reflected in the numbers of new joiners to Prudential; significantly outstripping those choosing Standard Life. We understand from Standard Life that there is no intention currently to make field advisers available to support their AVC schemes.

Whilst this may not be a major concern for the Trustees at the current time, there are some issues which should be considered:

a) Over time, AVC provision is likely to be dominated by Prudential, as their direct support clearly influences joiner behaviour. This is only an issue if the Trustees feel members should make choices from a level playing field.

b) Although members have a choice of AVC providers, the Prudential adviser is only allowed to advise on the Prudential scheme. It is therefore important that members understand that they will not be advised about all available AVC options, just those available from Prudential.

7. Conclusion

I believe that this report is a fair and accurate review of; the need for AVC schemes, the AVC marketplace, the existing schemes in place and the investments available through those schemes.

Comparison to the current market place indicates that the two schemes still open to new entrants are competitive in their charging structure, investment options and performance and website provision. The Equitable Life scheme is not competitive with the current marketplace but due to the constraints on With Profits holders and members with Life Assurance cover, it appears appropriate to maintain as a closed scheme.

Whilst the schemes in general appear 'fit for purpose', the previous section of the report (Section 6) aims to draw out the specific issues I expect to be of particular relevance for the Trustees. I feel it appropriate to draw attention to these, having considering the arrangements in place and my understanding of the Trustees' aims and objectives. These points are intended to highlight issues or anomalies that may be of concern or interest for the Trustees and to propose rough guidelines on how these areas could be approached.

Should the Trustee group wish to pursue any of these points further, or discuss the issues or suggestions raised, I would of course be happy to assist in doing so. For the majority of these issues, further discussion and investigation of specific aspects would be required before proceeding with any course of action.

Appendix I – With Profits Funds

With Profits Funds are a form of collective investment, where investors pool their funds together for the fund manager to invest into a diverse range of investments, including company shares, Government securities, fixed interest securities and property.

The aim of the investment manager is to smooth the investment returns by declaring annual bonuses, which are then added to the value of the policy. Once these annual or reversionary bonuses have been added to the policy, they cannot then be taken away and so With Profits Funds have a certain level of security not available in some other types of fund. However, this extra security comes at a price; the investment manager will not apply the full value of increases on the underlying investments as an annual bonus because the aim is to hold back part of the profits made in the good years in order to support bonus payments in years when investment conditions prove more difficult.

A Terminal Bonus may also be paid when benefits are taken, transferred from the With Profits Fund and in the event of earlier death or surrender. Terminal Bonus is generally expressed as a percentage of the fund at maturity or claim date; the level of this bonus reflects the underlying values of the fund's assets and is reviewed regularly and is designed to ensure that policyholders receive their fair share of the fund.

Although the fund is designed to smooth major fluctuations in investment values, a shortfall may arise if the value of the assets underlying the fund is reduced by unfavourable market conditions at the time of encashment. This is particularly so if large numbers of investors withdraw their investments in unfavourable market conditions. With Profits providers, therefore, reserve the right to apply a Market Value Reduction (MVR) to their With Profits Funds, which could reduce the cash value of any funds transferred thus protecting those investors remaining in the With Profits Fund.

As with all asset backed investments, the nature of the With Profits Fund means that its underlying value (i.e. the assets into which the fund invests) can vary and this will determine the fund managers view of terminal bonus and MVRs. If the fund value on a member's annual statement includes the terminal bonus, their fund can be worth less at the end of a year when compared to the beginning.

MVRs may or may not be present on a member's investment at any time and it is important that individuals check whether one is imposed on them before transferring or switching their fund, or withdrawing their investment altogether.

Fund managers will impose MVRs when they need to but will also reduce them or withdraw them when market conditions allow. So, in some circumstances, it may be appropriate to wait until an MVR is withdrawn rather than having it reduce the value of an investment (if timing is not an issue).

Should the member keep their With Profits investment until the stated retirement age then they would not be penalised by the application of an MVR at that specific time. However, they would lose this guarantee if they transfer their fund or take benefits from the With Profits Fund, either before or after the selected retirement age.

All With Profits providers publish a guide as to how they manage these policies; this is known as the 'Principles and Practices of Financial Management (PPFM)'. The full document can normally be viewed on the provider's website.

A key component of the PPFM is confirmation of the funds intended investment strategy and its current asset split. The proportion of assets held in equities and property is known as the Equity Backing Ratio (EBR). Equities and, to a lesser extent, property assets generally have more variable values but, over the longer term, are expected to provide higher returns. Fixed interest and cash deposits have more stable values but, over the longer term, are expected to provide lower returns.

A Word of Caution

i) All information contained herein is based on HSBC Actuaries and Consultants Limited's understanding of current tax law and HM Revenue & Customs practice, which may of course be subject to future changes.

ii) The value of unit linked investments and the income from them may fall as well as rise, and you may not get back your initial investment in some circumstances.

iii) Changes in rates of currency exchange may have an adverse effect on the Sterling value or price of overseas linked investments.

iv) Bonuses accruing on With Profits contracts are dependent upon the life office's policy as regards their distribution, whether this be at maturity, death or early surrender. Bonus rates may change and past performance is no guarantee of future returns.

v) You are advised to read any instructions, Key Features documents, Terms and Conditions, Notes and Technical Details attached which give fuller information on products. In particular, I would draw your attention to the sections on risks, commissions, charging structure and cancellation rights.

vi) Past Performance is no guarantee of future returns. Following the Budget of July 1997, pension funds can no longer reclaim the tax credit of UK equity dividends. Please consider this when reviewing past performance.

vii) Please note that at times, funds invested in property can be difficult to sell, so you may not be able to sell/cash in your investment when you want to. We may have to delay acting on your instructions to sell your investment. Also, the value of property is generally a matter of a valuer's opinion rather than fact.

Issued by HSBC Actuaries and Consultants Limited
36 Ridgmont Road
St Albans
Hertfordshire AL1 3AB
www.hacl.hsbc.com
info.hacl@hsbc.com

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WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

RISK REGISTER

1. EXECUTIVE SUMMARY

1.1 This paper presents the MPF risk register.

2. BACKGROUND

2.1 On 23 July, 2009 the Department for Communities and Local Government (DCLG) issued an advisory note and draft, 'Guidance on Publication of Pension Fund Annual Reports'. Although DCLG has yet to consult on the draft guidance, it has been issued in response to advice from the Audit Commission to external auditors "to check the progress Funds are making with publication of the 2008/09 Pension Fund Annual Report". Amongst other things, the draft guidance requires that "the report should contain a commentary on arrangements for the management of fund administrative, management and investment risk".

2.2 In order to comply with the guidance, MPF will be publishing the risk register as a part of the arrangements for the management of risk. I am bringing the register to Members for consideration.

2.3 The risk register is attached at Appendix A.

3. FINANCIAL AND STAFFING IMPLICATIONS

3.1 There are none arising from this report.

4. EQUAL OPPORTUNITY IMPLICATIONS

4.1. There are none arising from this report.

5. COMMUNITY SAFETY IMPLICATIONS

5.1. There are none arising from this report.

6. LOCAL MEMBER SUPPORT IMPLICATIONS

6.1. This report has no particular implications for any Members or wards.

7. LOCAL AGENDA 21 IMPLICATIONS

7.1. There are none arising from this report.

8. PLANNING IMPLICATIONS

8.1. There are none arising from this report.

9. BACKGROUND PAPERS

9.1 Draft Guidance on Publication of Pension Fund Annual Reports – DCLG July 2009.

10. RECOMMENDATION

11.1 That Members agree the risk register.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/249/09

Risk Register: Merseyside Pension Fund (Updated on 26/03/09)

Sectional Objective/Departmental Aim		Responsible Officer	

Risk Register

Summary							Scores									
Risk Factor No.	Date Raised	Date Last Reviewed	Risk Owner	Risk Category	High/ Medium/ Low	Description of Risk	Gross Scores			Net Scores			Existing Controls	Additional Controls	Target Date	Status
							Likelihood	Impact	Total	Likelihood	Impact	Total				
1	28.01.09	26.03.09	GH	Information/ Technological	Medium	**Failure to keep abreast of technological innovations and maintain development of appropriate systems** (We do not exploit all available resources, including technology) **Refer to detailed IT risk register per Operations** (attached)	Refer to the detailed risk register per operations						Refer to attached register.			
2	28.01.09	26.03.09	PJW	Physical	Low	**Destruction of or inability to access premises** (Key council services are not resilient to disruption and business continuity arrangements are inadequate)	2	5	**10**	1	5	**5**	IT continuity planning in place	MPF continuity Plan to be formalised	Dec 09	Started
3	28.01.09	26.03.09	PJW	Operational	Low	**A significant loss through internal fraud damages the Fund's reputation.**	3	4	**12**	2	3	**6**	1. Internal controls 2. Compliance manual 3. Procedure manual	Regular monitoring kept up-to-date		
4	28.01.09	26.03.09	PJW	Regulatory	High	**A significant loss through external fraud damages the Fund's reputation.**	3	4	**12**	2	3	**12**	Appropriate operational due diligence on appointment	Ongoing review of SAS 70	Dec 09	
5	28.01.09	26.03.09	PJW	Regulatory	Low	**The Fund's investment policies generate adverse media coverage/publicity.**	3	4	**12**	2	3	**6**	Clear policies in SIP LAPFF/PIRC affiliations P.R. Officer/media protocol in place.	Develop website to enhance information on policies and activities	Dec 09	Ongoing
6a	28.01.09	26.03.09	LO PGM GFM GH	People	Medium	**Key skills / knowledge may be lost if key staff leave the Division** • Need to recruit and retain staff • Investments • Administration • Accounting • Operations	3	4	**12**	3	3	**9**	KIE Pay scales are competitive and training & staff development is encouraged and supported	HR staff Development Policies Greater sharing of knowledge including Fire Pensions to be developed and central filing system making use of Civica General Filing module.	Implement general policy by Dec 09	
6b	28.01.09	26.03.09	LO PGM GFM GH	People	Medium	**Staff are not given appropriate training and development to ensure appropriate technical knowledge and understanding of their roles** • Investments • Administration • Accounting • Operations	3	4	**12**	3	3	**9**	KIE/Training Training undertaken by Team Leaders with assistance from Training Officer & use of external expertise when needed (LGE). Information circulated widely at Team briefs and by email.	Attendance & Participation at conference/seminar Detailed procedure manuals to be developed for reference purposes	Ongoing Ongoing Dec 2009	

Summary							Scores									
Risk Factor No.	Date Raised	Date Last Reviewed	Risk Owner	Risk Category	High/ Medium/ Low	Description of Risk	Gross Scores			Net Scores			Existing Controls	Additional Controls	Target Date	Status
							Likelihood	Impact	Total	Likelihood	Impact	Total				
7	28.01.09	26.03.09	PGM	People	Medium	**Fund Employers do not play their parts fully, in time and to the required standards**	5	4	**20**	3	3	**9**	Training courses provided PLOG meetings with large employers and Update circulated with important information AEC Annual Report	Employers Guide to be updated and circulated Service Standards Agreement to be consulted on and produced	June 2010	7
8	28.01.09	26.03.09	PJW PGM	People	Medium	**Departments / regulators do not play their parts fully, in time and to the required standards** • Wirral • Procurement • CLG	3	4	**12**	2	4	**8**	Oversight by DMT Oversight by DMT Oversight by LGE	Corporate performance management by DMT and Internal/external audit	Ongoing	8
9	28.01.09	26.03.09	LO	Financial	Medium	**Adverse microeconomic factors hinder the Fund from achieving its projected investment returns.**	4	4	16	3	3	**9**	Triennial ALM FSS./SIP Asset Allocation External and Internal Investment Manager Monitoring Performance Benchmarks WM Performance data Independent Advisers IMWP FOG	Heightened due diligence Re: External Managers.		
10	28.01.09	26.03.09	LO GFM	Financial	Medium	**Management of Investment risks** (including operational and counter-party investments) (Factors mainly beyond our control).	4	4	16	3	3	**9**	Triennial ALM Asset Allocation External and Internal Investment Manager Monitoring Performance Benchmarks WM Performance Independent Advisers IMWP FOG	Heightened due diligence Re: External Managers.		

Summary							Scores									
Risk Factor No.	Date Raised	Date Last Reviewed	Risk Owner	Risk Category	High/ Medium/ Low	Description of Risk	Gross Scores			Net Scores			Existing Controls	Additional Controls	Target Date	Status
							Likelihood	Impact	Total	Likelihood	Impact	Total				
11	28.01.09	26.03.09	PJW	Operational	Low	**Failure of suppliers to perform to the required standards** (non-IT/Investments) Actuary, AVC's, Custodian, Bank, Europlan, Bloomberg, WM, Inalytics, PIRC, Capital Dynamics, CBRE, Savills, Colliers, Brabners.	2	4	8	2	3	**6**	Procurement procedures Monitoring of service standards & delivery			
12	28.01.09	26.03.09	PJW	People	Low	**Decisions taken by members without appropriate support or sufficient knowledge and experience.**	3	5	15	2	3	**6**	IMWP Pensions Committee Internal training events Seminars/Conferences Induction pack	New training needs analysis in Induction pack		
13	28.01.09	26.03.09	PGM	Regulatory	Low	**Failure to comply with Administration regulations**	3	5	**15**	3	3	**9**	Specific responsibilities & Compliance requirements clearly defined. Checks built in to workflow processes. Internal checking of entitlements and payments	Detailed Procedures Manuals to be produced	Dec 09	Work Started
14	28.01.09	26.03.09	GFM	Regulatory	Low	**Failure to comply with Accounting regulations**	3	5	**15**	3	3	**9**	Annual accounts cross checked against Pensions SORP Annual accounts cross checked against DCLG guidance Liaison with Wirral Chief Accountant re: LA SORP Action participation in CIPEA Pension Network Investment accounting from Custodian	Awaiting final DCLE guidance re: Annual Report Use of Oracle for accounts	Oct 09 Oct 09	Awaiting guidance Ongoing
15	28.01.09	26.03.09	LO	Regulatory	Medium	**Failure to comply with Investment regulations**	3	5	**15**	3	3	**9**	Triennial ALM Asset Allocation External and Internal Investment Manager Monitoring Performance Benchmarks WM Performance Independent Advisers Specific responsibilities & Compliance Requirements clearly defined			

Summary							Scores									
Risk Factor No.	Date Raised	Date Last Reviewed	Risk Owner	Risk Category	High/ Medium/ Low	Description of Risk	Gross Scores			Net Scores			Existing Controls	Additional Controls	Target Date	Status
							Likelihood	Impact	Total	Likelihood	Impact	Total				
16	28.01.09	26.03.09	PJW	Operational / people	Medium	**Failure to communicate MPF objectives and tasks to staff.**	3	4	**12**	2	4	**8**	KIE FOG Investment Meetings Post FOG meetings Team Brief	Working with DMT to raise profile of departmental and divisional plans.		
17a	28.01.09	26.03.09	PJW	Operational / people	Medium	**In respect of R.F. 16 above, failure to monitor and implement MPF objectives and tasks.**	3	4	**12**	2	4	**8**	KIE FOG Investment Meetings Post FOG meetings Team Brief Compliance monitoring Managers Assurance Statement			
18	28.01.09	26.03.09	PJW	Operational	Medium	**Failure to communicate and implement Corporate Policy e.g. HR, Diversity, H&S, Data Protection Act, FOI**	3	4	**12**	2	4	8	Attendance at internal training events Team Brief to publicise changes and initiatives.		Ongoing	
19	28.01.09	26.03.09	GFM	Operational	Medium	**Failure to communicate, implement and monitor Internal Compliance Manual.**	3	4	**12**	2	4	8	Regular review of Compliance Manual.	Regular quarterly monitoring undertaken	Dec 09	Not yet in place
20	28.01.09	26.03.09	PGM GFM	Operational	Medium	**Failure to deliver agreed levels of service. Pensioner Payroll, HMRC, VAT**	4	5	20	3	3	**9**	Performance targets clearly defined, responsibilities separated and performance monitored	Service Standards Charter to be developed into new Service Standards Policy	Dec 09	To be started
21	26.02.09	26.03.09	GFM	Operational	Medium	**Failure to implement Investment Accounting System.**	3	5	15	2	4	**8**	Strong project management. Regular review meetings. Wirral involvement/support		Dec 2009	ongoing

ID	Risk	Updated	Description	Gross Score			Net Score			Mitigation	Further actions planned	Status
				Likliehood	Impact	Total	Likliehood	Impact	Total			
IT-R1	Connection with Birkenhead	25/10/05	access to	4	4	**16**	2	4	**8**	Backup microwave comms link		Monitored
IT-R2	Pensions4 - hardware fault	21/01/08	Windows based database+image servers with optical disk backup for images.	3	4	**12**	2	4	**8**	hardware refreshed as of 2007, part of Wirral Corporate IT contract with HP		Monitored
IT-R3	Pensions4 - software fault	25/10/05	No further development planned on Pensions4 (although it is supported).	2	4	**8**	2	4	**8**	Test system with rollback	Move to Pensions5 in Q2 2009	Monitored
IT-R4	Axis-e - hardware fault	01/04/07	IBM AIX specialist server in Birkenhead server room.	3	4	**12**	2	4	**8**	Specialist contract with bluechip for maintenance with provision for replacement server of similar spec on loan or permanent basis.		Monitored
IT-R5	Axis-e software fault	25/10/07	Pensions administration software including pensioner payroll. Heywoods core product although Altair being developed.	2	4	**8**	2	4	**8**	Test system with rollback	Planned tender for replacement Q3/4 2008 with proposed go live 01/01/2010	Monitored
IT-R6	Email (slow or downtime)	02/06/06	Corporate email system	2	3	**6**	2	3	**6**	Wirral have updated email infrastructure	WITS moved to cluster approach	Monitored
IT-R7	Axis Financials - software fault	25/10/05	Heywoods financial system is no longer being actively developed, but is maintained for any bugs/issues that occur.	2	3	**6**	2	3	**6**	No updates - relying on position that it has worked for a number of years with no development.	Planned replacement during 2008/09	Open
IT-R8	Telephone - downtime	25/01/08	Mitel digital telephone exchange held on 8th Floor, serviced by BT ISDN30. Hardware maintained by Wirral ITS.	2	3	**6**	2	3	**6**	Standalone BT phone lines exist for outgoing calls, if no foreseeable fix could arrange BT to redirect leased line to a dedicated reception phone.	ITS considering a new exchange switch under corporate resilience strategy.	Open
IT-R9	Website - downtime	11/09/06	Internet presence www.merseysidepensionfund.org.uk	2	4	**8**	2	2	**4**	Moved website from Demon to ZEN the foremost web hosting company in the UK - platinum support contract		Monitored
IT-R10	Website - corruption/attack	23/02/06	Could the internet website be compromised by "denial of service" or by maliciously changing the text.	2	4	**8**	2	2	**4**	Password security and software patching. ZEN also provide level of security to avoid denial of service attacks to its network.		Monitored
IT-R11	Data security	23/02/06	Includes data access and backup.	2	5	**10**	2	3	**6**	Multi-level passwords changed every 42 days; Full daily backups stored offsite; quarterly archive of a good backup (historic reference)		Monitored
IT-R12	Data integrity	23/02/06	Errors in data entered or imported into the systems.	4	5	**20**	2	3	**6**	Double entry; Quality control checking; In system checks; QA exception reporting		Monitored
IT-R14	Hazard - server room	28/04/06	8th floor of castle chambers.	2	4	**8**	2	4	**8**			Monitored
IT-R15	Hazard - electricity	28/04/06		2	4	**8**	2	4	**8**			Monitored
IT-R16	Staff - loss of key staff/skills	25/01/08	Operations IT Support Team - 4.8 FTE	3	4	**12**	3	2	**6**	Training and documentation. Create opportunities to share knowledge and responsibilities within the team.	Proposed integration with Wirral ITS.	Monitored
IT-R17	Data transportation	25/01/08	Providing data to employers and collecting data from employers.	2	5	**10**	2	5	**10**	Password protected floppy disks and CDROMs	Investigation of secure email solution	Open
IT-R18	Bloomberg - market monitoring	03/09/08	provides realtime market data for investment decision making (requires access to Wirral network so related to IT-R1)	4	4	**16**	2	4	**8**			Monitored
IT-R19	State Street - custodian	03/09/08	provides data and management tools required for investment management	2	4	**8**	2	2	**4**	internet delivered - requires internet connection	backup internet connections installed at Castle Chambers	Monitored
IT-R20	Europlan - shareholder	03/09/08	investment accounting system that supports in-house monitoring and consolidation of investment activities and holdings.	2	4	**8**	2	2	**4**	single user system backed up every night	Looking at implementation of OpenAIR (networked version with enhancements)	Monitored

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WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

FUNDING STRATEGY STATEMENT

1. EXECUTIVE SUMMARY

1.1 This report amends the Funding Strategy Statement (FSS) to reflect updated advice on dealing with termination assessments on the cessation of an employer's participation in the Scheme.

1.2 Members are recommended to approve the proposed amended Funding Strategy Statement attached at Appendix 1.

2. CURRENT FUNDING STRATEGY STATEMENT

2.1 The previous Funding Strategy Statement (FSS) was approved by the Pensions Committee on 28 January 2008 (Minute 80 refers).

2.2 The **Local Government Pension Scheme (Administration) Regulations 2008** require that each Administering Authority revise and publish a funding strategy statement wherever there is a material change in either the policy on matters set out in the FSS or the Statement of Investment Principles (SIP).

2.3 The FSS was amended to confirm that the details of the methodology to be used by the Actuary in carrying out a termination assessment in the event of the cessation of an employer's participation in the Scheme was set out in the separate termination policy report dated 28 January 2008. At that time it was envisaged that where it was appropriate to use a more cautious basis to assess the final liabilities for an employer the financial assumptions to be used would be consistent with the equivalent assumptions adopted for the FRS17 accounting standard.

3. REVISED FUNDING STRATEGY STATEMENT

3.1 The position of the corporate bond market over the past year and as at the 31 March 2009 actuarial review means that the ongoing valuation assumptions are in fact much more prudent than those based on corporate bond yields used for the FRS17 calculation basis.

3.2 Having regard to the 2009 Interim Review carried out by the Actuary, and consistent with his recommendations, the wording of Section 5 of the FSS has therefore been amended to clarify that the use of FRS17 assumptions in a termination calculation would be subject to them being no less cautious than the equivalent valuation assumptions.

4. FINANCIAL IMPLICATIONS

4.1 There are none arising out of the changes to the FSS or otherwise arising directly from this report.

5. STAFFING IMPLICATIONS

5.1 There are none arising directly from this report.

6. EQUAL OPPORTUNITY IMPLICATIONS

6.1 There are none arising directly from this report.

7. HUMAN RIGHTS IMPLICATIONS

7.1 There are none rising directly from this report.

8. COMMUNITY SAFETY IMPLICATIONS

8.1 There are no specific implications arising from this report.

9. LOCAL MEMBER SUPPORT IMPLICATIONS

9.1 There are no specific implications for any Member or Ward.

10. LOCAL AGENDA 21 IMPLICATIONS

10.1 There are no specific implications arising from this report.

11. PLANNING IMPLICATIONS

11.1 There are no specific implications arising from this report.

12. BACKGROUND PAPERS

12.1 Letter dated 29 June 2009 from Mercer in connection with the 31 March 2009 Actuarial Review.

13. RECOMMENDATION

13.1. That the Committee approve the revised Funding Strategy Statement.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/243/09

APPENDIX 1

DRAFT

Merseyside
PENSION FUND

Merseyside Pension Fund Funding Strategy Statement 2009

This Statement has been prepared by Wirral Metropolitan Borough Council (the Administering Authority) to set out the funding strategy for the Merseyside Pension Fund (the Fund), in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (as amended) and the guidance paper issued in March and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

WIRRAL

Amended: 22 September 2009

Merseyside Pension Fund

Funding Strategy Statement (FSS)

1. Introduction

The Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004 provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement. The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish their funding strategy;

- In preparing the FSS, the Administering Authority must have regard to :-

    - the guidance issued by CIPFA for this purpose; and

    - the revised Statement of Investment Principles (SIP) for the Fund dated ***26 November 2007*** published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended);

- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit final salary scheme under which the benefits are specified in the governing legislation:

the LGPS (Administration) Regulations 2008,
the LGPS (Benefits, Contributions & Membership) Regulations 2007 and
the LGPS (Transitional Provisions) Regulations 2007, “the Regulations”.

The required levels of employee contributions are also specified in the Regulations.

Employer contributions are determined in accordance with the Regulations (currently principally Regulation 39 and 36) which requires that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the Fund should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- **to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;**
- **to support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and**
- **to take a prudent longer-term view of funding those liabilities.**

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. Aims and purpose of the Pension Fund

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

- manage employers' liabilities effectively

- ensure that sufficient resources are available to meet all liabilities as they fall due, and

- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and

- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses,

as defined in the various Local Government Pension Scheme Regulations:

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).
The Local Government Pension Scheme (Administration) Regulations.
The Local Government Pension Scheme (Benefits, Contributions & Membership) Regulations, and
The Local Government Pension Scheme (Transitional Provisions) Regulations 2007.

4. Responsibilities of the key parties

These are as set out in the relevant regulations as amended from time to time – The LGPS (Administration) Regulations, the LGPS (Benefits, Contributions & Membership) Regulations and the LGPS (Transitional Provisions) Regulations 2007, “the Regulations”.

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- manage the valuation process in consultation with the actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the Fund’s performance and funding and amend FSS/SIP.

The Individual Employer should:

- deduct contributions from employees’ pay correctly
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- exercise discretions within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers’ contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. Solvency issues and target funding levels

The funding objective

To meet the requirements of the Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing basis including allowance for projected final pay.

Determination of the funding target and recovery period

The principal method and assumptions to be used in the calculation of the **funding target** are set out in the Appendix.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

- LEA Schools and certain other employers within the Fund have been grouped with the respective Council.

- A maximum deficit recovery period of 25 years will apply for scheme employers and a 15 year maximum period will apply to admitted bodies. For employers who do not admit new members, the recovery period will be limited to the future working lifetime of the membership. Shorter periods will also be applied for employers who have a limited participation in the Fund. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may also be applied in respect of particular employers where the Administering Authority considers this to be warranted **(see Deficit Recovery Plan below).**

- Where the employer contribution rate required from 1 April 2008 increases by 1% of pay or more following completion of the 2007 actuarial valuation, the increase from the rates of contribution payable in the year 2007/08 may be implemented in steps, over a maximum period of 3 years.

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

  Depending on the circumstances of the termination event this assessment and in particular whether another Fund employer is prepared to act as guarantor to the residual liabilities will incorporate a more cautious basis of assessment of the final liabilities for the employer. Where it may be appropriate to use a more cautious basis the financial assumptions used will be derived to be consistent with the equivalent assumptions adopted for the FRS17 accounting standard. This is subject to the financial assumptions used being no less cautious than the equivalent valuation assumptions updated appropriately based on the advice of the actuary. Full details of the approach to be adopted for such an assessment on termination are set out in the separate termination policy report dated 28 January 2008.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit recovery plan

If the assets of the scheme relating to an employer are less than the **funding target** at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as a level percentage of pensionable payroll or as a monetary lump sum.

In determining the actual recovery period to apply for any particular employer to employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer;
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

For those employers with no guarantor or bond arrangements in place, a higher **funding target** will be adopted. The contribution rate for these employers will be determined to target a funding position of 120% for the liabilities of the current active membership. The **funding target** for the non-active liabilities will be as defined earlier.

The normal cost of the scheme (future service contribution rate)

In addition to any contributions required to rectify a shortfall of assets below the **funding target** contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in the Appendix.

Funding For Non-Ill Health Early Retirement Costs

Employers are required to meet all costs of early retirement strain either by immediate capital payments into the Fund or in certain circumstances by agreement with the Fund, by instalments over a period not exceeding 5 years or if less the remaining period of the body's membership of the Fund.

6. Link to investment policy set out in the Statement of Investment Principles

The results of the 2007 valuation show the liabilities to be 80% (compared to 76% at 31 March 2004) covered by the current assets, with the funding deficit of 20% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for asset out-performance as described in the **Appendix**, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments. On this basis of assessment, the assessed value of the Fund's liabilities at the 31 March 2007 valuation would have been significantly higher and the declared funding level would be correspondingly lower at 63%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

Proposed Benchmark Investment Strategy and Asset Allocation

MPF MULTI ASSET PORTFOLIO		
Asset Class	**Bench mark**	**Benchmark index**
UK Equities	**30**	FTSE ALL SHARE INDEX
Overseas Equities	**29**	
US Equities	8	FTSE AW NORTH AMERICA
European Equities	10	FTSE WORLD EUROPE EX UK
Japan	4	FTSE AW JAPAN
Pacific ex -Japan	3	FTSE AW DEV ASIA PAC EX JAPAN
Emerging Markets	4	MSCI EMERGING MARKETS FREE
Fixed Interest	**20**	
UK Gilts	4	FTSE A ALL STOCKS
Overseas Gilts	0	JPM GLOBAL GOVT EX UK
UK Index Linked	12	FTSE UK GILTS INDEXED ALL STKS
Corporate Bonds	4	ML £ NON GILTS
Property	**10**	IPD ALL PROPERTIES INDEX
Venture Capital/ Other Investments	**10**	GBP 7 DAY LIBID
Cash	**1**	GBP 3 MONTH LIBID
TOTAL	**100**	SPECIFIC BENCH MARK

The proposed benchmark investment strategy and asset allocation to be set out in the SIP is shown in the table above.

The funding strategy adopted for the 2007 valuation was based on an assumed asset out-performance of 2% in respect of liabilities pre-retirement, and 1% in respect of post-retirement liabilities. Based on the liability profile of the Fund at the valuation, this equated to a long term overall asset out-performance allowance of 1.4% p.a.

The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP.

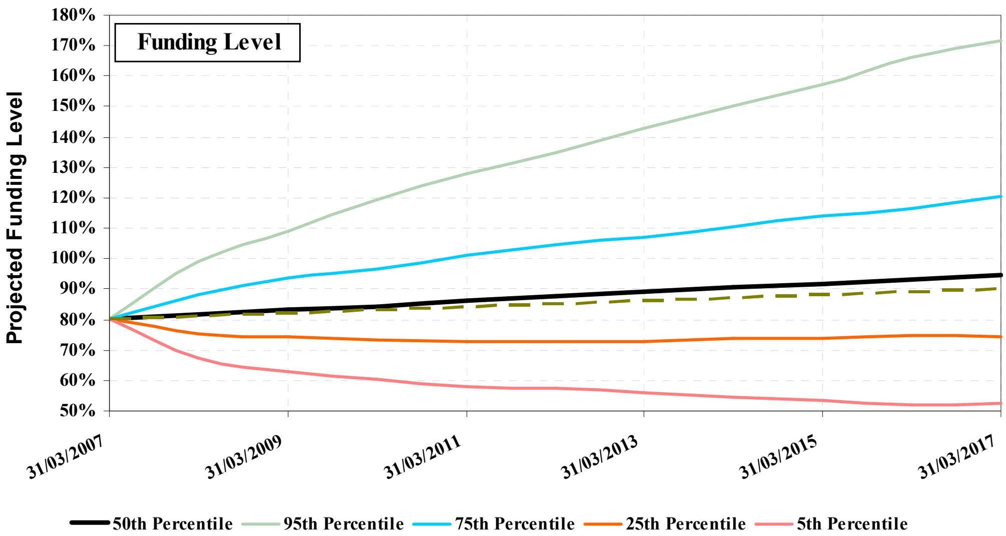
7. Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 1.4% per annum assumed in the long term.

The chart below shows a "funnel of doubt" funding level graph, which illustrates the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the projected funding level at each point in time being better than the funding level shown and a 95% chance of the funding level being lower). The graph adopts the 2007 actuarial valuation results as a starting point, and allows for the expected contributions into the Fund assuming a 25 year recovery period. An overall out-performance over and above gilts yields has been assumed in line with best estimate market expectations, together with a continuation of the current investment strategy as outlined above.

Projected Future Funding Levels:



The following key risks have been identified.

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements

Regulatory

- Changes to Regulations, e.g. more favourable benefits package, potential new entrants to Fund, e.g. part-time employees
- Changes to national pension requirements and/or Inland Revenue rules

Governance

Wirral Borough Council as the administering authority for Merseyside Pension Fund has delegated responsibility and accountability for over seeing the Fund to the Pensions Committee.

The Pensions Committee is made up of ten Members nominated by Wirral, one nominated from each of the other four metropolitan authorities and a representative of the other admitted and scheduled bodies elected by ballot. Aside from the representative Member, changes to Committee membership are subject to the political leadership of the Councils, although efforts are made to limit rotation where possible.

The Committee meets 4-5 times a year and has set up an Investment Monitoring Working Party which meets at least 4 times a year to monitor investment performance and developments.

The Committee has delegated powers to the Director of Finance for the day to day running of the Fund.

There is a clear decision making process for the operations of the Fund, major decisions are taken and minuted at monthly Fund Operating Group meetings attended by the Director and Deputy Director of Finance and senior MPF managers.

There is a significant resource dedicated on an annual basis for Member training which is provided both internally and externally.

There are service level agreements between the administering authority and employers which set out the requirements for the two way flow of information. The employer should notify the administering authority of the following events.

- *Structural change in employer's membership e.g. large fall in employee numbers or large number of retirements.*
- *A closure in accessibility of the scheme to new entrants.*
- *An employer ceasing to exist.*

It is the responsibility of the Director of Finance to monitor information flows identifying risks to the Fund and to inform the Pensions Committee / take appropriate action where required.

8. Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- if there have been significant changes to the Fund membership, or LGPS benefits
- if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- if there have been any significant special contributions paid into the Fund.

APPENDIX

Actuarial Valuation as at 31 March 2007

Method and assumptions used in calculating the funding target

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, unless specifically agreed otherwise, an alternative method is adopted (The Attained Age method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of 2% p.a. for the period pre-retirement and 1% p.a. post-retirement.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities. This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

Individual Employers

Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in the Fund will have different mixes of active, deferred and pensioner members, adopting a different pre/post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with the Fund practice, as set out in the FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption of 1.4% p.a. has been calculated which, for the Fund as a whole, gives the same value of the funding target as the separate pre and post retirement AOAs.

Inflation (Retail Prices Index)

The inflation assumption will be taken to be the investment market's expectation for inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.25% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

Pension increases

Increases to pensions are assumed to be in line with the inflation (RPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Mortality

The mortality assumptions will be based on the most up-to-date information published by the Continuous Mortality Investigation Bureau, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are PA92 Year of Birth tables with medium cohort improvements, with an age rating reflecting Scheme specific experience of +2 years.

Members who retire on the grounds of ill heath are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 5 years older.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below. The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and

- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions In relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.75% per annum, with a long term average assumption for price inflation of 2.75% per annum. These two assumptions give rise to an overall discount rate of 6.5% p.a.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the “Common Rate” of contributions. In market conditions at the effective date of the 2007 valuation this approach gives rise to a somewhat more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2007 actuarial valuation

Long-term gilt yields	
Fixed interest	4.4% p.a.
Index linked	1.3% p.a.
Implied RPI price inflation	3.1% p.a.
Past service Funding Target financial assumptions	
Investment return pre-retirement	6.40% p.a.
Investment return post-retirement	5.40% p.a.
Salary increases	4.35% p.a.
Pension increases	3.10% p.a.
Future service accrual financial assumptions	
Investment return	6.5% p.a.
RPI price inflation	2.75% p.a.
Salary increases	4% p.a.
Pension increases	2.75% p.a.
Demographic assumptions	
Non-retired members' mortality	PA92 MC YoB tables + 2 years (+7 years for retirements in ill health)
Retired members' mortality	PA92 MC YoB tables + 2 years (+7 years for retirements in ill health)
Commutation	One half of members take maximum lump sum, others take 3/80ths
Withdrawal	Increased allowance compared to 2004 valuation for younger members to leave service
Other demographics	As for 2004 Valuation

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WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

BANK SIGNATORIES

1. EXECUTIVE SUMMARY

1.1 This report seeks approval to amend the personnel nominated on the existing bank mandates with Royal Bank of Scotland and State Street, the Global Custodian.

2. BACKGROUND AND PROPOSAL

2.1. Transactions on the Royal Bank of Scotland, Liverpool, and State Street accounts have to be authorised by an approved signatory, and this is satisfied by cheques bearing the pre-printed signature of the Director. Under current arrangements, payments in excess of £10,000 on the Pension Fund account require a second signature on the cheque. The Fund also issues daily BACS/BACSTEL and CHAPS instructions for the payment of benefits and for investment transactions. Other instructions to the Banks generally require two signatures.

2.2. Copies of the list of bank and cheque signatories are usually required by all counter parties to money market and investment transactions.

2.3 It has become necessary to add to the approved list a further signatory based at Castle Chambers. It is therefore proposed that Kevin J. Greenough, Benefits Manager, becomes an authorised signatory.

2.4. Therefore, the list of approved signatories would be:-

Director of Finance	Ian E. Coleman
Deputy Director of Finance	David L. H. Smith
Head of IT Services	John O. Carruthers
Head of Revenues, Benefits and Customer Service	Malcolm J. Flanagan
Head of Financial Services	Thomas W. Sault
Head of Support Services	Stephen J. Rowley
Head of Change	Jacqueline Roberts
Deputy Head of Pension Fund	Peter G. Mawdsley
Financial Controller	Gerard F. Moore
Benefits Manager	Kevin J.Greenough

2.6 For reasons of internal control, the Head of the Pension Fund, Peter Wallach, and Senior Investment Manager, Leyland Otter, who are authorised to make investment decisions, are not empowered to authorise a consequential money transfer.

3. FINANCIAL AND STAFFING IMPLICATIONS

3.1 There are none arising from this report

4. EQUAL OPPORTUNITY IMPLICATIONS

4.1. There are none arising from this report.

5. COMMUNITY SAFETY IMPLICATIONS

5.1. There are none arising from this report.

6. LOCAL MEMBER SUPPORT IMPLICATIONS

6.1. This report has no particular implications for any Members or wards.

7. LOCAL AGENDA 21 IMPLICATIONS

7.1. There are none arising from this report.

8. PLANNING IMPLICATIONS

8.1. There are none arising from this report.

9. BACKGROUND PAPERS

9.1 None.

10. RECOMMENDATIONS

10.1 That the Royal Bank of Scotland, Liverpool, and State Street be authorised to accept cheques and other instructions on behalf of MPF signed in accordance with existing mandates by the following:-

Director of Finance	Ian E. Coleman
Deputy Director of Finance	David L. H. Smith
Head of IT Services	John O. Carruthers
Head of Revenues, Benefits and Customer Service	Malcolm J. Flanagan
Head of Financial Services	Thomas W. Sault
Head of Support Services	Stephen J. Rowley
Head of Change	Jacqueline Roberts
Deputy Head of Pension Fund	Peter G. Mawdsley
Financial Controller	Gerard F. Moore
Benefits Manager	Kevin J. Greenough

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/223/09

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

CUNARD ARCHIVES

1. EXECUTIVE SUMMARY

1.1 This paper recommends that Members approve a loan or gift of certain miscellaneous documents currently in the basement of the Cunard Building to the Merseyside Maritime Museum and various local authorities' archives services.

2. BACKGROUND

2.1 The Cunard Building basement area is used partially for storage but there is unoccupied space which holds miscellaneous books and papers abandoned by previous occupants of the building. These documents are disorganised, not protected from deterioration and not available to the public. MPF does not have the expertise or resources to catalogue these items and store them appropriately.

2.2 In order to determine whether the items had any intrinsic value, I arranged for the archivist of the Maritime Museum to visit the Cunard Building to assess them.

2.3 The assessment concluded that there was no intrinsic value in the items but that the Museum would be interested in certain items. The Cunard Line (now Carnival) has loaned the Museum technical drawings for all the Cunard vessels from Britannia to the QE2. Of particular interest to the Museum is extensive correspondence in relation to the fitting out of the Queen Mary and specifications for the panelling, furnishings and decorative fittings ordered from Waring & Gillow as well as various trade and transport agreements.

2.4 There are many other non-maritime papers, microfiche and other records. An architectural practice left a number of architectural drawings which are likely to be of interest to the relevant Local Authority archives services.

3. MARITIME MUSEUM

3.1 The Museum has offered to take and catalogue all the records. Those pertinent to the Museum would be held in its archive/library and other items would be the Liverpool Records Office, Liverpool University, or the appropriate Local Authority archives service. This would ensure that all documents of interest were recorded, appropriately stored and available to researchers.

3.2 The Museum is willing to accept a loan of the items but this is administratively onerous as it would require them to renew the loan every three years, seek permission for any restoration work and complicate the dispersion of non-relevant items to other archives. Hence, a gift of the items would be preferred.

4. FINANCIAL AND STAFFING IMPLICATIONS

4.1 There are none arising from this report.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1. There are none arising from this report.

6. COMMUNITY SAFETY IMPLICATIONS

6.1. There are none arising from this report.

7. LOCAL MEMBER SUPPORT IMPLICATIONS

7.1. This report has no particular implications for any Members or wards.

8. LOCAL AGENDA 21 IMPLICATIONS

8.1. There are none arising from this report.

9. PLANNING IMPLICATIONS

9.1. There are none arising from this report.

10. BACKGROUND PAPERS

10.1 None were used in the preparation of this report.

11. RECOMMENDATION

11.1 That Members determine whether the Cunard Building records should be gifted or loaned to the Maritime Museum and the relevant Local Authority archives services.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/222/09/09

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

POLICY ON PAYMENT OF DEATH GRANT

1. **EXECUTIVE SUMMARY**

1.1. This report recommends a change to the policy on payment of death grant following the death of a member of the Scheme.

1.2 The Committee is recommended to approve a revised policy regarding payment of death grant as a consequence of the introduction of Nominated Co-Habiting Partners benefits into the Scheme from April 2008 and in order to expedite the payment of these benefits to the appropriate beneficiaries.

2. **EXISTING POLICY**

2.1. The Policy was considered by the Pensions Committee on 19 January 2006.

2.2 Since 1 April 2008 the LGPS Regulations have recognised Nominated Co-Habiting Partners for the purpose of the payment of pension benefits. It would ensure consistency if MPF also recognised them as regards the policy discretion on the payment of any death grant due.

2.3 The policy should be amended to reflect that in the absence of a valid death grant nomination, payment will normally be made to the deceased's surviving Spouse or Civil Partner or Nominated Co-Habiting where one exists.

3. **REVISED POLICY STATEMENT**

The following Policy Statement is submitted for approval and confirmation by the Committee: -

Payment of Death Grants

(i) If a member dies, the Administering Authority at their absolute discretion may make payments to or for the benefit of the member's nominee or personal representatives or any other person appearing to the Authority to have been his relative or dependant at the time.

(ii) In exercising this discretion the Authority will normally pay a death grant to or amongst the deceased's nominated beneficiaries.

(iii) Where no nomination has been made, payment of the death grant will normally be made to the deceased's spouse or surviving civil partner or nominated co-habiting partner.

(iv) In all other cases payment would normally be made to the deceased's personal representative named in the Grant of Probate or Letters of Administration.

(v) In the absence of a valid nomination or surviving spouse or registered civil partner or nominated co-habiting partner, or when other persons are claiming all or some of the death grant the Authority will pay the grant as it sees fit to such persons appearing to it to have been a relative or dependant at the time of death.

4. FINANCIAL IMPLICATIONS

4.1. There are none directly arising from this report.

5. STAFFING IMPLICATIONS

5.1. There are none directly arising from this report.

6. EQUAL OPPORTUNITY IMPLICATIONS

6.1. There are none arising from this report.

7. COMMUNITY SAFETY IMPLICATIONS

7.1. There are none arising from this report.

8. HUMAN RIGHTS IMPLICATIONS

8.1. There are none arising from this report.

9. LOCAL AGENDA 21 IMPLICATIONS

9.1. There are none arising from this report.

10. PLANNING IMPLICATIONS

10.1. There are none arising from this report.

11. **MEMBER SUPPORT IMPLICATIONS**

11.1. There are none arising from this report.

12. **RECOMMENDATION**

12.1. That Committee confirm the revised wording of the policy statement on payment of death grants.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/237/09

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WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

TRUSTEE TRAINING FUNDAMENTALS

1. EXECUTIVE SUMMARY

1.1 The fundamentals course is run on an annual basis and provides an insight into Local Government Pension Scheme (LGPS) “trusteeship” for newly Elected Committee Members. The course is of three days duration, spread over a number of months.

2. BACKGROUND

2.1 Fundamentals is an A-Z bespoke LGPS training course for Elected Members. The 2009 event will incorporate the recent changes to the LGPS and all sections of the course are being refreshed to keep them up-to-date, relevant and interesting.

2.2 The aim is to deliver a single training course covering all aspects of the LGPS including both “benefits” and “fund” administration, as well as, investments.

2.3 The course is being delivered in Leeds on the following days

Day 1	29 October
Day 2	26 November
Day 3	15 December

or in Cardiff on the following days

Day 1	20 October
Day 2	18 November
Day 3	08 December

It is possible to attend the course by visiting different locations should delegates diaries not allow attendance on all three days at a particular location.

3 CERTIFICATE OF ATTENDANCE

3.1 Attendees at all three sessions will receive an attendance certificate signed on behalf of the Local Government Pensions Committee. It is believed that attendance at all three days of the course will satisfy at least the minimum requirement of training required to satisfy the first CIPFA principle "Effective decision-making".

4. FINANCIAL AND STAFFING IMPLICATIONS

4.1 The delegate rate for each session, inclusive of lunch, refreshments and all delgate materials is £199, making the cost of the three-day course £597. In addition there would be travel and may be accommodation costs.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1. There are none arising from this report.

6. COMMUNITY SAFETY IMPLICATIONS

6.1. There are none arising from this report.

7. LOCAL MEMBER SUPPORT IMPLICATIONS

7.1. This report has no particular implications for any Members or wards.

8. LOCAL AGENDA 21 IMPLICATIONS

8.1. There are none arising from this report.

9. PLANNING IMPLICATIONS

9.1. There are none arising from this report.

10. BACKGROUND PAPERS

10.1 None were used in the preparation of this report.

11. RECOMMENDATION

11.1 That new Members of the Committee consider whether they wish to avail themselves of this training opportunity.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/226/09

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

THE FUTURE OF CORPORATE REFORM

1. **EXECUTIVE SUMMARY**

1.1. This report informs the Pensions Committee of the attendance of the Chair of the Committee at a conference on the Future of Corporate Reform on 8 to 10 September 2009.

2. **BACKGROUND**

2.1. A conference on The Future of Corporate Reform was organised by the Corporate Library in San Diego, California on 8 to 10 September 2009. In August, an invitation to attend the conference was received from Coughlin, Stoia, Geller, Rudman and Robbins (CSGRR) who are the retained US Lawyers acting for MPF.

2.2. During the conference a case meeting has been arranged for one of the cases for which CSGRR is currently representing MPF.

2.3. The Chair of the Committee attended the conference accompanied by an officer of the Council. Attendance was approved by the Cabinet Executive Member under delegation prior to attendance at the Conference and, obviously, in advance of the next available meeting of the Pensions Committee.

3. **FINANCIAL IMPLICATIONS**

3.1. The cost of travel, accommodation and conference fees was met by CSGRR.

4. **STAFFING IMPLICATIONS**

4.1. There are none arising from this report.

5. **EQUAL OPPORTUNITY IMPLICATIONS**

5.1. There are none arising from this report.

6. **COMMUNITY SAFETY IMPLICATIONS**

6.1. There are none arising from this report.

7. **LOCAL MEMBER SUPPORT IMPLICATIONS**

7.1. There are none arising from this report.

8. **PLANNING IMPLICATIONS**

8.1. There are none arising from this report.

9. **BACKGROUND PAPERS**

9.1. None were used in the preparation of this report.

10. **RECOMMENDATION**

10.1. That Pensions Committee note the attendance of the Chair at a conference on the Future of Corporate Reform.

FNCE/228/09

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

LOCAL GOVERNMENT PENSIONS COMMITTEE

1. EXECUTIVE SUMMARY

1.1. This report recommends that the Chair of the Pensions Committee be appointed to the Local Government Pensions Committee (LGPC) of the Local Government Association (LGA).

2. BACKGROUND

2.1. A vacancy has arisen on the Local Government Pensions Committee and the Local Government Association has invited the Chair of the Pensions Committee to fill the vacancy.

3. FINANCIAL IMPLICATIONS

3.1. There is a Members Allowance for sitting on the LGPC of £1,284 per year which is paid by the LGA.

4. STAFFING IMPLICATIONS

4.1. There are none arising directly from this report.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1. There are none arising directly from this report.

6. COMMUNITY SAFETY IMPLICATIONS

6.1. There are none arising directly from this report.

7. LOCAL AGENDA 21 IMPLICATIONS

7.1. There are none arising directly from this report.

8. PLANNING IMPLICATIONS

8.1. There are none arising directly from this report.

9. **ANTI-POVERTY IMPLICATIONS**

9.1. There are none arising directly from this report.

10. **HUMAN RIGHTS IMPLICATIONS**

10.1. There are none arising directly from this report.

11. **SOCIAL INCLUSION IMPLICATIONS**

11.1. There are none arising directly from this report.

12. **LOCAL MEMBER SUPPORT IMPLICATIONS**

12.1. There no particular implications for any Member or Ward.

13. **BACKGROUND PAPERS**

13.1. There were none used in the preparation of this report..

14. **RECOMMENDATION**

14.1. That the Pensions Committee agree to the Chair becoming a member of the Local Government Pensions Committee.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/230/09

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

OCTOBER TRAINING EVENT

1. EXECUTIVE SUMMARY

1.1 This purpose of this report is to inform Members of the training event at the Cunard Building arranged for 19 October 2009.

2. BACKGROUND

2.1 On 14 January 2009 Pensions Committee were advised of the training events for 2009, which included two internal training days. The second event has been arranged for 19 October 2009.

3. THE TRAINING DAY

3.1 The agenda is attached as Appendix 1 to this report. Invitations have been extended to neighbouring local authorities.

3.2 The focus of the day will be on the process of investment manager search and selection. This process is a fundamental part of how the MPF investment strategy is implemented. It encompasses forward-looking assessment of requirements, formal review of incumbent managers, wide-ranging market testing of investment management products and rigorous examination of tenders using quantitative and qualitative measures.

3.3 The speakers will include Dave Lyons (a Director of HSBC Actuaries & Consultants), who will present a case study based on the search he led earlier this year, which led to the recommendation to appoint Unigestion to manage a European equity mandate for MPF. Steven Oxley of PAAMCO, one of the hedge fund-of-funds managers will discuss the manager search techniques integral to their investment process, with a particular focus on the operational due diligence undertaken.

4. FINANCIAL AND STAFFING IMPLICATIONS

4.1 The costs of the programme are included in the training budget.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1. There are none arising from this report.

6. COMMUNITY SAFETY IMPLICATIONS

6.1. There are none arising from this report.

7. LOCAL MEMBER SUPPORT IMPLICATIONS

7.1. This report has no particular implications for any Members or wards.

8. LOCAL AGENDA 21 IMPLICATIONS

8.1. There are none arising from this report.

9. PLANNING IMPLICATIONS

9.1. There are none arising from this report.

10. BACKGROUND PAPERS

10.1 None were used in the preparation of this report.

11. RECOMMENDATION

11.1 That Members attend the training day.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/246/09

APPENDIX 1

MPF - Internal Training Day

Cunard Building, 6th floor Banqueting Suite

19 October 2009

Agenda

10.00 Coffee and registration

10.10 Opening remarks: The role of manager search & selection within a rolling investment monitoring programme
Paddy Dowdall, Investment Manager, MPF

10:30 Case study: MPF's search for a European equity fund manager
Dave Lyons, Director of HSBC Actuaries & Consultants

11.30 Coffee break

11:45 Manager selection techniques in the hedge fund-of-fund sector – focusing on due diligence
Steven Oxley, Pacific Atlantic Asset Management Company (PAAMCO)

12:45 Round Up and Questions
Peter Wallach Head of Merseyside Pension Fund

13.00 Lunch

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WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

ANNUAL EMPLOYERS CONFERENCE

1. EXECUTIVE SUMMARY

1.1 This report informs Members of the arrangements for the annual Employers Conference to be held on Wednesday 25 November 2009.

2. BACKGROUND

2.1 The value of holding an annual conference was recognised following the successful re-introduction of this event in November 1997, with attending representatives appreciating the opportunity to hear presentations on topical issues, and receive reports on current activity and performance.

2.2 Previous conferences have taken as their themes; Control of Early Retirement Costs, Ill Health Retirement Procedures, Stakeholder Pensions and Pensions Sharing on Divorce, the Stocktake Review of the LGPS and the role of the Pensions Ombudsman.

3. DETAILS OF THE AGENDA

3.1 The 2009 conference will again be held at Aintree Racecourse on Wednesday 25 November 2009.

3.2 In addition to the annual reports in respect of investment performance and administration of the Fund over the previous year, presentations will be given by Michelle Lewis from the Personal Accounts Delivery Authority (PADA) and by Bob Holloway from the Department for Communities and Local Government (DCLG) on the latest reform proposals and developments. Paul Middleman from Mercer the Fund Actuary will also provide an update on the latest funding position and be in attendance to answer employers' questions on valuation and liability issues.

3.3 The conference will be an opportunity for MPF with the assistance of the external speakers to update employers on developments during the past year and the latest information on the implementation of the revised LGPS introduced on 1 April 2008.

3.4 The draft programme commences with coffee and registration at 9.30 a.m. My welcome and introduction will be followed by speakers from Merseyside Pension Fund with the Annual Investment and Administration reports, the Actuary, PADA representative and Bob Holloway from the DCLG. After an Open Forum session the Conference should close at 1:30 p.m. Lunch is to be provided.

3.5 Members are invited to attend the Conference and further details will be circulated to all Members of this Committee as soon as arrangements are finalised.

4. FINANCIAL IMPLICATIONS

4.1 The cost of holding the Conference is estimated at £4,500, provision for which is contained within the budget.

5. STAFFING IMPLICATIONS

5.1 There are no staffing implications in this report.

6. EQUAL OPPORTUNITY IMPLICATIONS

6.1 There are none arising directly from this report.

7. HUMAN RIGHTS IMPLICATIONS

7.1 There are none rising directly from this report.

8. COMMUNITY SAFETY IMPLICATIONS

8.1 There are no specific implications arising from this report.

9. LOCAL MEMBER SUPPORT IMPLICATIONS

9.1 There are no specific implications for any Member or Ward.

10. LOCAL AGENDA 21 IMPLICATIONS

10.1 There are no specific implications arising from this report.

11. PLANNING IMPLICATIONS

11.1 There are no specific implications arising from this report.

12. BACKGROUND PAPERS

12.1 No background papers were used in preparing this report.

13. RECOMMENDATION

13.1. That Members note the arrangements for the annual Employers Conference.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/235/09

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WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

THE LGPS TRUSTEES CONFERENCE

1. **EXECUTIVE SUMMARY**

1.1. This report requests that the Committee consider attendance at the LGPS trustees conference organised by the Local Government Employers to be held in Cardiff on 22 and 23 October 2009.

2. **BACKGROUND**

2.1. The Local Government Pensions Committee staged an inaugural trustees' conference in York in September 2003. The conference was specifically aimed at elected members with responsibility for the Local Government Pension Scheme. The conference has been held every year since 2003.

3. **CONFERENCE**

3.1. The theme for the 2009 conference is 2010 Is the Writing on the Wall? The conference is scheduled for 22-23 October 2009, commencing with a buffet lunch at 12.30 and afternoon session commencing at 13.50. The second day consists of a morning programme concluding with a buffet lunch at 12.30.

3.2. Attendance at this seminar has traditionally been open to all Members.

4. **FINANCIAL IMPLICATIONS**

4.1. Conference costs including accommodation and all meals are £459 plus VAT per person, with travel an additional expense. The cost can be met from the Pension Fund budget.

5. **STAFFING IMPLICATIONS**

5.1. There are no staffing implications in this report.

6. **EQUAL OPPORTUNITY IMPLICATIONS**

6.1. There are none arising directly from this report.

7. **COMMUNITY SAFETY IMPLICATIONS**

7.1. There are none arising directly from this report.

8. **LOCAL MEMBER SUPPORT IMPLICATIONS**

8.1. There are no specific implications for any Member or Ward.

9. **LOCAL AGENDA 21 IMPLICATIONS**

9.1. There are none arising directly from this report.

10. **PLANNING IMPLICATIONS**

10.1. There are none arising directly from this report.

11. **BACKGROUND PAPERS**

11.1. None were used in the preparation of this report.

12. **RECOMMENDATION**

12.1. That Members consider the appropriateness of attendance at this event and, if so, determine the number and allocation of places.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/208/09

WIRRAL COUNCIL

PENSIONS COMMITTEE

22 SEPTEMBER 2009

REPORT OF THE DIRECTOR OF FINANCE

LAPFF CONFERENCE

1. EXECUTIVE SUMMARY

1.1 This report recommends the Committee to approve attendance by the Chair at the Local Authority Pension Fund Forum (LAPFF) Annual Conference, organised by PIRC, to be held in Bournemouth on 2 – 4 December 2009.

2. THE CONFERENCE

2.1 MPF is a member of LAPFF and its Annual General Meeting and annual conference provides a forum for topical issues, affecting Local Authority Pension Funds, to be discussed and addressed.

2.2 Attendance at this seminar has traditionally been by the representative on the LAPFF accompanied by an officer. The Chair of the Pensions Committee is a member of the Executive Committee of LAPFF.

3. FINANCIAL IMPLICATIONS

3.1 LAPFF membership allows for two free conference places. Accommodation costs of £210 per person and travelling costs will be met from the existing budget.

4. STAFFING IMPLICATIONS

4.1 There are no staffing implications in this report.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1 There are none arising directly from this report.

6. COMMUNITY SAFETY IMPLICATIONS

6.1 There are none arising directly from this report.

7. LOCAL MEMBER SUPPORT IMPLICATIONS

7.1 There are no specific implications for any Member or Ward.

8. LOCAL AGENDA 21 IMPLICATIONS

8.1 There are none arising directly from this report.

9. PLANNING IMPLICATIONS

9.1 There are none arising from this report.

10. BACKGROUND PAPERS

10.1 None were used in the preparation of this report.

11. RECOMMENDATION

11.1 That attendance at the LAPFF conference by the Chair be approved.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/254/08

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 23

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Agenda Item 25

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Agenda Item 26

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Agenda Item 29

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Agenda Item 30

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