WIRRAL COUNCIL

CABINET

9 DECMEBER 2010

REPORT OF THE DIRECTOR OF FINANCE

MERSEYSIDE PENSION FUND - FUNDING STRATEGY STATEMENT

1. EXECUTIVE SUMMARY

1.1 This report presents the amended Funding Strategy Statement (FSS) reflecting updated advice received from the Actuary on dealing with arrangements for funding employer contributions and the revised Statement of Investment Principles (SIP) following completion of the 31 March 2010 actuarial valuation. The FSS was agreed by the Pensions Committee on 16 November 2010. It is presented to the Cabinet as best practice as recommended by the Department for Communities and Local Government.

2. CURRENT FUNDING STRATEGY STATEMENT

2.1 The previous Funding Strategy Statement (FSS) was approved by the Pensions Committee on 22 September 2009.

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).

3. REVISED FUNDING STRATEGY STATEMENT

3.1 Following consultation with Scheme Employers the assumptions and methodology set out below were used in completion of the valuation and determination of employer contribution rates.

3.2 Mortality

3.2.1. Assumptions 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 LGPS.

3.3 Future Ill Health Experience & Other Demographics

3.3.1. Following an analysis carried out by the Actuary, the ill health and proportions married assumptions have been modified from the 2007 valuation.

3.4 Recovery Plan and period for deficit repayment

3.4.1. 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 or 15 years if shorter. Shorter periods will also be applied for employers who have a limited participation in the MPF.

3.4.2. 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.

3.4.3. The revised FSS reflects the recommendations of the Actuary that in current circumstances, as a general rule, it would not be appropriate for contribution reductions to apply where substantial deficits apply. As a result in addition to the maximum deficit recovery period of 25 years, MPF will operate a default deficit recovery period, set at 20 years for scheduled and resolution bodies and 10 years for non -Transferee admission bodies at the 2010 valuation. All employers in deficit will be required to adopt a deficit recovery period in line with the default period (or shorter) before any reduction in overall contributions would be allowed.

3.5 Method of expressing, and payment of, employer contributions

3.5.1. With effect from 1 April 2011 employer contributions will be expressed and certified as two separate elements:

(1) a percentage of pensionable payroll in respect of future accrual of benefits, and

(2) a schedule of fixed amounts over 2011/14, building in an allowance for increases annually in line with the valuation funding assumption for long term pay growth, in respect of the past service deficit or surplus subject to review from April 2014 based on the results of the 2013 actuarial valuation.

3.6 **New Community Admission Body (CAB) admissions**

3.6.1. For new Community Admission Body (CAB) admissions only, from 1 April 2011, who do not have a guarantor of sufficient financial standing based on the assessment of the Administering Authority, the basis of assessment for both the contributions and termination will be on a gilts or “least risk” basis. The employer’s assets will then be deemed to be invested in Government bonds of the appropriate duration to the liabilities and be credited with the returns derived from such assets based on the advice of the Actuary.

3.6.2. Where a guarantor is available the assessment will be on the normal valuation basis if the guarantor agrees to underwrite the obligations of the employer in the long term.

3.7 **Optional funding basis for other Admission Bodies**

3.7.1. From 1 April 2011 all existing admitted bodies up to that date, will have the option of adopting a funding basis in line with the existing termination approach based on corporate bond yields. The employer’s assets will then be deemed to be invested in corporate bonds of the appropriate duration to the liabilities and be credited with the returns derived from such assets on the advice of the Actuary.

3.7.2. In all cases the Administering Authority will reserve the right to apply a different approach at its sole discretion taking into account the risk associated with an employer in proportion to the Fund as a whole.

4. FINANCIAL IMPLICATIONS

4.1 There are none 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 Merseyside Pension Fund 2010 Actuarial Valuation – Mercer

13. **RECOMMENDATION**

13.1. That the Cabinet note the revised Funding Strategy Statement.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/235/10