WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**FUNDING STRATEGY STATEMENT**
WARDS AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR** **TRANSFORMATION AND RESOURCES**
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 This report amends the Funding Strategy Statement (FSS) in accordance with updated advice received from the Actuary. The FSS aims to secure the long term solvency of the Fund and will have a direct impact on the level of employer contribution rates set during the period of the 2013 Triennial valuation.

1.2 The revisions to the financial and demographic assumptions take account of the LGPS reform from 1 April 2014, market movements, the demographic experience of the Fund membership and will reflect changes to the Statement of Investment Principles (SIP).

2.0 KEY ISSUES

CURRENT FUNDING STRATEGY STATEMENT

2.1 The previous FSS was approved by the Pensions Committee on 16 November 2010 (Minute 52 refers).

2.2 The Local Government Pension Scheme (Administration) Regulations 2008 require that each Administering Authority, following consultation with appropriate stakeholders, revise and publish a FSS, when there is a material change in the policy matters set out in either the FSS or a related area of the SIP.

REVISED FUNDING STRATEGY STATEMENT

2.3 Merseyside Pension Fund actively encouraged engagement with the Funding Strategy Consultation process by organising a number of employer forums during October.

The objective was to consider employer affordability as the provisional valuation results had indicated a substantial increase in pension liabilities and employer costs due to the fall in gilt yields since the 2010 valuation.

The events were attended by the Fund Actuary, who provided an update of the provisional valuation results and an explanation of the impact of the financial and demographic stressors on the funding plan.

The information at the provided at the forums and the opportunity for questions will have assisted those who attended in making an informed response to the consultation.

2.4 Following due consideration of the comments received the draft FSS is presented as attached (Appendix 1)

The assumptions and methodology set out below are to be used by the Actuary in completing the 2013 Triennial Valuation and determining individual employer contribution rates.

2.5 **MORTALITY**

The Actuary has analysed increases to life expectancy based on the Fund's mortality experience and membership profile – he has also taken account of the wider trends in future life expectancy improvements using aggregate data from 21 other LGPS Funds.

From this analysis, the Actuary has recommended increasing the long term rate of future improvements to life expectancy from 1% to 1.5% per annum, for both past and future service based on data sourced from the Continuous Mortality Investigation 2012 model.

2.6 **FUTURE ILL HEALTH EXPERIENCE & OTHER DEMOGRAPHICS**

The actual number of Ill Health retirements over the 2010/13 period was greater than the 2010 valuation allowed for, and the number of incidents within the Merseyside Authorities was consistently higher than the aggregate LGPS Fund data over the same period.

The Actuary has therefore recommended an increase to the expected frequency of ill health retirements informed by the actual Fund experience over the preceding three years, resulting in an increase in both past and future service liabilities.

The number of members with dependant benefits has also increased following the extension of pensions to civil and unmarried partners which has also resulted in an increase to the determination of both past and future service liabilities.

On a more positive note, the incidence of deaths in service are fewer and members are retiring on average at age 63, one year later than previously assumed - this will mean an offset reduction to past and future service liabilities.

2.7 FINANCIAL ASSUMPTIONS

The Financial assumptions used to calculate the past service liabilities are directly linked to market conditions at the Triennial Valuation date (31 March 2013). As the long term outlook is depressed relative to the 2010 market position, the discount rate to determine the liabilities has been rebased from 5.9% to 4.6% resulting in a substantial increase to the market cost of providing pension benefits.

The discount rate set for future accrual is not directly linked to market conditions at the valuation date and allows for a higher level of investment outperformance than assumed for the past service liabilities. However, the expected return over CPI has been reduced from 3.75% to 3% since the last valuation resulting in a substantial increase to the Future Service Rate.

2.8 RECOVERY PLAN AND PERIOD FOR DEFICIT REPAYMENT

The revised Funding Strategy has been updated to reflect a maximum deficit recovery period of 22 years for Scheme employers and a 12 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 12 years if shorter. A shorter period may also be applied in respect of particular employers where the Administering Authority considers this to be warranted.

2.9 In addition, the following measures have been incorporated into the funding plan for application during the 2013 Triennial Valuation:

- No reductions in the indexed monetary value of each employer's deficit contributions from the 2010 levels;

- The ability to reduce recovery periods in recognition of improvements to the funding position or evidence from an individual employer on affording increased deficit contributions;

- To provide the Administering Authority the discretion to vary the funding parameters subject to an assessment of the financial covenant of an individual employer.

2.10 STABILISATION OF CONTRIBUTIONS

The LGPS regulations prescribe that the valuation of the Fund's assets and liabilities must be evaluated at 31 March 2013, and the actuary must set contribution rates at a near as constant rate as possible. These prescriptions can prove to be challenging when market factors are depressed at the valuation date.

2.11 In acknowledgement of reduced public sector funding, Officers are aware of the need to engage with employers in actively considering the parameters set within budgets for pension costs over the coming valuation period. The intention is to provide mechanisms to stabilise contributions which balance the long term solvency of the Fund against employer affordability.

2.12 Consequently, the Administering Authority having received advice from the Actuary, is satisfied that it is reasonable to take a longer term view when certifying employer contribution rates; the following measures may be built into the funding plan:

- some allowance for interest rates and bond yields to revert to higher levels over the medium to long term;

- allowance for an increased investment return over the agreed recovery period.

It should be noted that funding levels would be declared to reflect the position at the valuation date with the contributions reflecting the above easements.

2.13 The FSS now includes provision to vary individual employer contribution rates as a result of any costs being insured with a third party or internally within the Fund.

3.0 RELEVANT RISKS

3.1 If stabilising mechanisms are not introduced to recognise the recovery in the market position post valuation then the Actuary would be required to set unaffordable employer contribution rates.

Given budget pressures, this would likely result in the reduction of a number of local services and could lead to a number of charitable organisations exiting the Fund, leaving unrecoverable debt. This places considerable risk on the Fund as unrecoverable debts are spread amongst the remaining scheme employers

3.2 The maximum recovery period for all employers has been reduced by three years. Officers and the Fund Actuary believe that it would be imprudent to maintain the recovery period at the 2010 rate. Not reducing the maximum recovery period would actually be detrimental to an employer’s long term funding of pension costs, as they will further delay repayment of the principal debt and the opportunity of gaining investment returns on contributions.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 MPF has formally consulted with its constituent employers on the proposals to revise the Funding Strategy Statement and has taken into consideration those comments received.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are none arising from this report.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 The revised financial and demographic assumptions within the Funding Strategy Statement will have a direct impact on funding levels and the employer contributions certified for the financial period 1 April 2014 to 31 March 2017

7.2 The cost savings related to the LGPS Reform from 1 April 2014 will vary between constituent employers of the Fund, depending upon the demographic profile of the workforce.

8.0 LEGAL IMPLICATIONS

8.1 The Local Government Pension Scheme Regulations prescribe that all Pension Funds have a statutory obligation to produce a FSS.

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

The differing characteristics and financial strength of employers have been reviewed to ensure the Funding Strategy is applied equitably across all employers with limited adverse risk falling on any individual employer.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 None arising from this report

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None arising from this report

12.0 RECOMMENDATION/S

12.1 Members are recommended to approve the proposed amended Funding Strategy Statement attached at Appendix 1 and note the report. Any subsequent revisions by the actuary will be reported to this committee.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 The Local Government Pension Scheme Regulations prescribe that all Pension Funds have a statutory obligation to produce a FSS.

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APPENDICES

Appendix 1

SUBJECT HISTORY (last 3 years)

Council Meeting	Date