WIRRAL COUNCIL

PENSIONS COMMITTEE

1 JULY 2014

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

1.0 EXECUTIVE SUMMARY

1.1 This report informs Members that the Funding Strategy Statement (FSS) which was approved by Committee on 19 November 2013, (Minute 55 refers) has now been revised to incorporate the Fund's termination policy for exiting employers.

1.2 The inclusion of the termination policy raises awareness of the governance arrangements and promotes transparency to the approach of valuing liabilities on the cessation of an employer's participation in the Scheme. It also outlines the methodology used to assess financial guarantees and bond requirements.

1.3 The FSS, in conjunction with the strategic asset allocation and the Statement of Investment Principles, is the key statutory policy document in determining the actuarial valuation process. It has a direct impact on the actuarial assessment of the Fund's assets against the current value of the pension benefit liabilities, and the resultant funding level declared at the valuation date.

2.0 KEY ISSUES

PRINCIPAL OBJECTIVE OF THE FUNDING STRATEGY STATEMENT

2.1 The principal objective of the FSS is to secure the long term solvency of the Fund by achieving and maintaining sufficient assets to cover 100% of projected accrued liabilities assessed on an ongoing basis, including an allowance for projected final pay.

2.2 The FSS defines the parameters and actuarial assumptions to determine the valuation of the funds liabilities and the appropriate plan for making up any shortfall if assets are less than liabilities. It also has a direct impact on the setting of individual employer contributions required to cover the cost of the benefits that active members will build up in the future.

ACTUARIAL ASSUMPTIONS

2.3 The most significant actuarial assumptions are around:

a) **financials** - expected investment returns, discount rates for liabilities, projected salary growth, pension increases

b) **demographics** - mortality, ill health retirements, commutation rates

c) **funding strategy** - length of recovery period, phasing of contributions, and segmentation of employers.

2.4 The assumptions used to complete the 2013 Triennial Valuation are consistent with those detailed in the draft FSS reported to Committee on 19 November 2013. The revised FSS with the incorporated termination policy can be accessed from the following link; http://mpfmembers.org.uk/pdf/fssnov13.pdf

TERMINATION POLICY

2.5 The Admission Bodies Termination Liabilities Calculation Policy, reported to Pension Committee on 28 January 2008 (Minute 80 refers) has been updated to reflect the revised regulatory references following the enactment of the 2013 LGPS Regulations and is now included within the content of the FSS.

2.6 The amalgamation of both the ongoing funding and termination policies within a single core document improves transparency and disclosure to interested parties, thus enabling better scrutiny and understanding of Fund policies.

FINAL VALUATION RESULTS

2.7 The final valuation results are in accordance with the provisional results reported to Committee on 19 November (Minute 54 refers). The completed valuation report along with the certified Rates and Adjustment Certificate can be accessed from the following link; http://mpfmembers.org.uk/pdf/valuation_report13.pdf

2.8 For the ease of reference – the Market value of the Fund has increased from £4,706m as at 31 March 2010 to £5,819m at 31 March 2013.

2.9 The past service liabilities have been assessed as follows:

	£million
Active member' accrued benefits	2,975
Deferred pensioner	1,187
Pensioners (including dependants)	3,526
Total	**7,688**

2.10 This gives a deficit of £1,869m and a funding level of **76%** at 31 March 2013; in comparison to the previous deficit position of £1,310m and a funding level of 78% at 31 March 2010.

2.11 The experience over the inter-valuation period has been positive due to increased investment returns and lower than expected pay increases for active members. Unfortunately, the deficit has significantly increased due to the reduction in gilt yields.

2.12 The funding deficit is in respect of benefits for past service liabilities and must be recovered from employers as cash sums in line with the recovery periods determined within the FSS.

2.13 The Future Service Rate has increased to 13.3% of pensionable pay from the baseline position of 11.6% at the 2010 valuation. This is despite an average whole Fund cost saving of 1.8% emerging from the introduction of the new career average Scheme. This rate increase has also been driven by the significant falls in gilt yields.

2.14 In recognition of the deterioration in market conditions, culminating in increased pension costs, coupled with reduced public sector funding, a number of agreed stabilising mechanisms were built into the funding plan.

Fund officers have actively engaged with employers to reach an affordable schedule of contributions, taking account of the agreed stabilising mechanisms within the FSS and with appropriate reference to the strength of employer covenant

2.15 Employers have been notified of the contribution funding plan for the financial period 1/4/2014 – 31/3/2017.

3.0 RELEVANT RISKS

3.1 It is imperative that the Administering Authority take a prudent view when negotiating the financial and demographic assumptions for the FSS, in order to secure the long term solvency of the Fund.

However, to achieve a successful outcome to the valuation there is a clear need to consider affordability of contributions and build in flexibility to the funding of employer contributions. There is a tangible risk that certifying unaffordable cash payments will lead to a number of employers exiting the Fund prematurely leaving irrecoverable debt that must be met by all the remaining employers.

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.

7.3 The 2013 valuation has required a significant amount of additional resources, resulting from the introduction of appropriate stabilising measures and the employers' expectation that pension costs would reduce following scheme reform.

Compared to previous valuations, there has been an increased dialogue between officers and employers, along with the necessity for additional actuarial modelling work to be carried out in order to reach affordable contributions within the parameters of the funding framework.

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 and obtain an actuarial valuation of the Fund triennially as at 31 March.

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 That Members note the revised FSS and the Funding Report of the Actuarial Valuation as at 31 March 2013.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 There is a requirement for Members to be kept up to date on the completion of statutory policies and employer contribution schedules; in their role as quasi-trustees who are responsible for ensuring the solvency and appropriate administration of the Pension Fund.

REPORT AUTHOR: **Yvonne Caddock**
Principal Pension Officer
Telephone: 0151 242 1333

email: yvonnecaddock@wirral.gov.uk

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Provisional Actuarial Valuation As At March 2010	16 November 2010
Draft Funding Strategy Statement 2010	16 November 2010
Draft Actuarial Valuation As At March 2013	19 November 2013
Provisional Funding Strategy Statement 2013	19 November 2013