

## WIRRAL COUNCIL

### PENSIONS COMMITTEE

1 JULY 2014

|                        |  |
|------------------------|--|
| <b>SUBJECT:</b>        | <b>ACTUARIAL SERVICES</b>                                  |
| <b>WARDS AFFECTED:</b> | <b>ALL</b>   |
| <b>REPORT OF:</b>      | <b>STRATEGIC DIRECTOR<br/>TRANSFORMATION AND RESOURCES</b> |
| <b>KEY DECISION</b>    | <b>NO</b>  |

#### 1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to inform Members of a 3 year extension of the contract with the Fund's actuary, Mercer, which was due to terminate on 30 September 2014.

#### 2.0 KEY ISSUES

##### Background

2.1 All Funds are required to obtain suitable actuarial advice and services to enable the discharge of a range of duties under the Local Government Pension Scheme regulations.

2.2 In 2011, a procurement exercise took place for the provision of actuarial services inline with the Public Contracts Regulations 2006. This was a joint procurement with Cumbria and Lancashire County Councils.

2.3 The contract period was for an initial 3 years, commencing 1 October 2011, with an option for an additional 3 years. The total value of the contract over the period of 6 years was scoped as approximately £1,000,000 for Merseyside Pension Fund.

2.4 Following a joint evaluation of the responses, officers recommended the appointment of Mercer on the basis of the most economically advantageous tender, taking into consideration the award criteria of quality of services, price, risk managements and financial status.

2.5 The recommendation to appoint Mercer as the Fund Actuary was agreed by Pensions Committee on 27 June 2011.

2.6 Cumbria County Council and Lancashire County Council also appointed Mercer as the provider of actuarial services through their own local governance arrangements.

##### Review – increasing use of actuarial services

2.7 The amount of actuarial work in relation to employers has exponentially increased in the last 2 years. Particularly in the areas of:

- the number of Academy Schools requesting admittance into the LGPS;
- actuarial assessments of employers as a result of closure;
- work in regard the re-letting of large council contracts.

Whilst a significant proportion of incurred actuarial costs are recharged back to the individual employers concerned, there is still an increased cost to the Fund due to the growth in activity. This is without consideration of the work incurred by officers in managing these employer related activities.

- 2.8 Members are already aware of the fundamental reform to the Scheme's structure with further legislation required to complete the governance and cost control framework.

The Actuary has been involved in supporting officers in assessing the impact of the changes, providing advice and also tools to allow officers to actively engage with employers. Particularly to agree contribution schedules that reflect individual employer characteristics within the parameters of the Funding Strategy Statement

- 2.9 The 2013 Triennial Actuarial Valuation has been a significant undertaking, requiring considerably more resource than previous valuations both within the Fund and from the actuary. This was largely due to the requirement to undertake additional actuarial modelling to mitigate the impact of low bond yields and to allow for subsequent changes in financial conditions since the valuation date, exacerbated by the increased number of employers in the Fund.

This was compounded by the introduction of the new career average benefit design and the complicated protections built into the 2014 LGPS.

The key focus of the actuarial modelling was to achieve affordable employer contributions aligned to budgetary constraints whilst ensuring the long term solvency of the Fund

The Fund also held more meetings and discussions with individual employers than were held previously as employers required much more information resulting from this valuation due to affordability constraints. Significant bespoke analysis and modelling was carried out for certain specific employers as part of an increased governance process for the Fund and in order to mitigate any risk of unpaid deficits on exit and to tie in with budgeting at an employer level.

### **Review – quality of actuarial services**

- 2.10 The quality of actuarial advice and service from Mercer remains at a high standard.
- 2.11 There is an effective working relationship between Fund officers and Mercer staff.
- 2.12 Mercer has been able to respond positively to the increase use of their services without noticeable detriment to the quality or timeliness of work.

### **3.0 RELEVANT RISKS**

- 3.1 The quality and timely provision of these services is critical to the Fund as the effective assessment of liabilities and certification of contribution funding plans is as crucial as the Fund's asset allocation and management of fund performance.

As such inadequate actuarial advice can have a detrimental impact on the stability of the scheme.

3.2 The impact of errors in actuarial calculations can have a disproportionate impact on the Fund and/or its participating employers compared with the level of fees charged for the advice. Consequently, a transparent working relationship between a suitably qualified Actuary and officers is fundamental to the successful administration of the Fund.

#### **4.0 OTHER OPTIONS CONSIDERED**

4.1 The contractual arrangement of an initial 3 year period provided an opportunity to re-tender for alternative suppliers if this met Fund requirements.

#### **5.0 CONSULTATION**

5.1 Not relevant for this report.

#### **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 Actuarial costs from 1 October 2011 to 31 March 2014 are as follows:

| <b>Year</b>                 | <b>All actuarial services</b> | <b>Employer costs [recharged]</b> | <b>Fund Costs</b> |
|-----------------------------|-------------------------------|-----------------------------------|-------------------|
| <b>01/10/11 to 31/03/12</b> | <b>93,195</b>                 | <b>46,235</b>                     | <b>46,960</b>     |
| <b>01/04/12 to 31/03/13</b> | <b>290,380</b>                | <b>149,443</b>                    | <b>140,937</b>    |
| <b>01/04/13 to 31/03/14</b> | <b>474,935</b>                | <b>163,061</b>                    | <b>311,874</b>    |
|                             | <b>858,510</b>                | <b>358,740</b>                    | <b>499,770</b>    |

7.2 The increasing use of actuarial services in both activity and complexity are reflected in the above figures. The total contract costs incurred by the Fund to 31 March 2014 are £499,770. The contract value in 2011 was scoped at approximately £1,000,000 for the whole period of six years.

7.4 Projected actuarial costs for the Fund are contained within the budget setting process.

#### **8.0 LEGAL IMPLICATIONS**

8.1 None arising from this report

#### **9.0 EQUALITIES IMPLICATIONS**

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

(b) No because there is no relevance to equality.

**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 extension of the contract with Mercer for an additional three years as permitted under the original tender documentation.

**13.0 REASON/S FOR RECOMMENDATION/S**

13.1 The review of contractual arrangements for actuarial services by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

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**SUBJECT HISTORY (last 3 years)**

| <b>Council Meeting</b>                                 | <b>Date</b>         |
|--|---------------------|
| <b>Pensions Committee – Actuarial Services Tenders</b> | <b>27 June 2011</b> |