

ITEM NO: 6(b)

Report To:	Pension Fund Management Panel and Advisory Panel
Date:	4 March 2011
Reporting Officer:	Peter Morris, Executive Director of Pensions
Subject :	ACTUARIAL VALUATION
Report Summary:	This is the final stage of the 2010 Actuarial Valuation. The Actuary will present his report to the Panel.
Recommendations:	(i) To approve the Funding Strategy Statement. (ii) To receive the 2010 Actuarial Valuation Report.
Financial Implications: (Authorised by the Borough Treasurer)	The 2010 valuation report determines employers' contribution rates for the 3 year period commencing 1 April 2011 to 31 March 2014. Employers have been advised of their indicative rates.
Legal Implications: (Authorised by the Solicitor to the Fund)	It is a statutory requirement for an actuarial valuation of the Fund to be undertaken every 3 years. The valuation report must comply with all the relevant regulations and professional standards.
Risk Management:	A key risk in administering the LGPS is that an employer fails whilst its "sub fund" is in deficit. The valuation adjusts employer contribution rates with the aim of matching asset and liability values in the future, in line with the Panel's Funding Strategy Statement.
ACCESS TO INFORMATION:	NON-CONFIDENTIAL This report does not contain information which warrants its consideration in the absence of the Press or members of the public.
Background Papers:	For further information please contact Peter Morris, Executive Director of Pensions, Greater Manchester Pension Fund, Wellington Road, Ashton-Under-Lyne, Tel 0161 342 3438, email peter.morris@tameside.gov.uk

1. INTRODUCTION

- 1.1 Regular updates have been submitted to the Panel throughout the year outlining progress on the 2010 actuarial valuation in which employer contributions are set for the 3 year period 1 April 2011 to 31 March 2014.
- 1.2 The Actuary will present his final report at the meeting.

2. FUNDING STRATEGY STATEMENT

- 2.1 The Regulations require administering authorities to consult on and publish a Funding Strategy Statement (FSS). The Ethics and Audit Working Group gave consideration to the FSS in July 2010. It was also considered by the Panel at its December 2010 meeting. A copy of the updated Funding Strategy Statement can be found on the Fund's website at a http://www.gmpf.org.uk/pdf/FSS_consultation_ver_12.pdf. Alternatively a copy can be obtained from Loretta Stowers (0161-342-2952).
- 2.2 The purpose of the FSS is:-
 - (i) to establish a clear and transparent fund specific strategy which will identify how employers' pension liabilities are best met going forward;
 - (ii) to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
 - (iii) to take a prudent longer term view of funding those liabilities.
- 2.3 In determining employer contribution rates the Actuary must have regard to:-
 - (i) the existing and prospective liabilities of the Fund;
 - (ii) the desirability of maintaining as nearly constant a rate as possible; and
 - (iii) the Funding Strategy Statement which drives many of the key assumptions in the valuation.
- 2.4 There have been no material changes from the version considered by the Panel at its last meeting with the approved amendments incorporated into the updated version. It is recommended that the Panel approves the FSS.

3. ACTUARIAL VALUATION

- 3.1 The Actuary has now finalised his report, subject to the formal approval of the Funding Strategy Statement. The Executive Summary is attached at **Appendix A** and a full copy of his report has been published on the Fund's website at www.gmpf.org.uk or alternatively a copy can be obtained from Loretta Stowers (0161-342-2952).
- 3.2 The financial assumptions approved by the Panel at its last meeting have been applied and the outcome at the Whole Fund level in terms of funding level and average employer contribution rate is as previously reported and detailed in the Executive Summary.
- 3.3 The outcome at the individual employer level can result in very different contribution rates and rate of change. The factors influencing the outcome include:
 - Different membership profiles (average age, sex, employee/pensioner mix etc)
 - Different experience (pay increases, mortality, retirement experience, transfers)
 - Previous contributions paid to recover the deficit
 - Security/guarantees
 - Deficit recovery period

- Cash flow

Most employers having a funding level between 80% and 110% reflecting individual employer experience. Those employers recently joining the Fund on a fully funded basis (early 2009) are likely to be very well funded reflecting the material improvement in fund value in 2009/10.

- 3.4 Employers have been advised of their indicative outcomes.
- 3.5 The final stage in the process is to confirm (or revise) the indicative rates previously advised to employers and advise them of their “provision” for early and ill health retirements to meet the capital costs/strain costs arising from such retirements. Additional payments will be required from employers if they exceed their “provision”.
- 3.6 The next 3 years will see material changes in membership with fewer employee members and more deferred and pensioner members. There will be a need to monitor the implications at the “Whole Fund” level, and also understand the liability and cash flow implications at the individual employer level. Clear communication with employers on the implications of these changes will be a critical task and where possible action taken to mitigate the risk.
- 3.7 The monitoring of the ongoing viability of employers without a local authority guarantee will need to be developed and ensuring appropriate bonds and indemnities are in place where the admission agreement allows.

4. SUMMARY

- 4.1 The actuarial valuation process has operated effectively.
- 4.2 The outcome for employers has been materially better than that envisaged in April 2010. The need to apply the “stabilisation arrangements” has not been necessary at this valuation but for a number of employers, a risk analysis has been undertaken by the Actuary to provide evidence of the appropriateness of the contribution rate strategy being applied.
- 4.3 The changes in membership expected over the next 3 years will require increased monitoring of employers.
- 4.4 Regular updates on the funding implications of these changes and other factors will be reported to the Panel.

5. RECOMMENDATIONS

- 5.1 To approve the Funding Strategy Statement.
- 5.2 To receive the valuation report.