Greater Manchester Pension Fund

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Ask for Peter Morris
Direct Line 0161 342 3438
Date 25th September 2009

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Dear Richard,

Local Government Pension Scheme – Delivering Affordability, Viability and Fairness

Thank you for your letter of 25th June 2009 advising of the informal consultation exercise focussing on the outcomes of the 2010 actuarial valuation.

At GMPF, we have always recognised the importance of stability of cost to the employer together with maintaining the solvency of the Fund. As we all recognise, these are exceptional times. For pension funds, falling asset values, low interest rates and improving life expectancy all have adverse impacts on funding levels. The Management Panel's response to the difficult economic environment and the expectation of substantial deficits at the 2010 valuation was to commission some risk assessment work from the Actuary. This scenario analysis helped the Panel evaluate alternative contribution rate strategies against measures of stability, prudence, stewardship and affordability. The outcome of such work is a proposal to introduce a cost stabilisation mechanism on which we will consult as part of 2010 revisions to the Funding Strategy Statement. For tax raising employers, this would limit changes in employer contribution rates year on year. We believe that the current regulatory regime supports such an approach.

A core belief of the Management Panel is the targeting of (at least) 100% funding. The rationale for such a belief is based on:-

(i) long term affordability (we have seen the effect on those funds that moved towards 75% funding in the past)

(ii) prudence and stewardship, and

(iii) equity between generations.

Thus we do not believe that there is a need to introduce further regulatory change to ensure stability of local authority contributions following the 2010 valuation.

The approach for community admission bodies with no guarantor will be more complex.

To encourage good practice, CLG could review the guidance regarding the content of Funding Strategy Statements to ensure that administering authorities and their employers have considered the risks inherent in their strategies for employer contribution rates. CLG could also, having considered other consultees response, look to introduce other elements of the Financing Plan into the guidance with the aim of striking the right balance between improved transparency compared to the cost and use of such information by employers and other stakeholders.

On the question of employee contribution rates, the Panel does not support the proposed changes. The reasons for this view are:-

(i) new bands took effect in 2008 after extensive consultation, thus to change rates so soon after the new scheme has been implemented and with a further consultation paper expected soon regarding new scheme design should require compelling reasons to do so;

(ii) in a recent GMPF survey of non-members, the main reasons for not joining were they were part time/earned too little to justify membership. Thus the changes are unlikely to have a material impact on the rate of membership; and

(iii) the key factor in determining employer costs is the rate of increase rather than absolute level of pay. Thus if CLG is looking to reduce “inequalities in the pension reward” this could be dealt with by looking at scheme design, e.g. the determination of final pensionable pay.

In conclusion, the GMPF Management is very supportive of the principle of stability of cost, albeit this needs to be balanced against other objectives. It is fundamental to GMPF that it targets 100% funding. We believe the current regulatory framework supports such an approach. The guidance on the content of the Funding Strategy Statement could be developed to require more risk assessment to be incorporated in the FSS.

With regard to employee contributions, there is a risk that increasing employee contributions could have a counter productive effect. On balance, it is considered that the concerns raised by CLG could be better dealt with in the second phase of consultation regarding New Scheme Design.
Thus it is proposed that the current employee rates are maintained.

If you require any further information or clarification please contact me.

Yours sincerely,

Peter Morris
Director of Pensions