

# Merseyside Pension Fund Report & Accounts 2018/19

including Policies



# Contents

---

Management Structure	<b>2</b>
Chair's Introduction	<b>3</b>
Management Report	<b>5</b>
Pension Board Report	<b>8</b>
Membership Statistics	<b>11</b>
Scheme Administration Report	<b>13</b>
Investment Report	<b>23</b>
Financial Performance	<b>30</b>
Financial Statements	<b>34</b>
Statement of Responsibilities	<b>60</b>
Audit Report	<b>61</b>
Consulting Actuary's Statement	<b>62</b>
Fund Policies	<b>67</b>
Appendix A - Scheme Employers with Active Members as at 31 March 2019	<b>181</b>
Appendix B - Pensions Committee Items	<b>188</b>
Appendix C - Information Contacts	<b>190</b>

# Management Structure At 31 March 2019

## Administering Authority

Wirral Council

## Pension Fund Management Committee

Chair:

Cllr Paul Doughty

Wirral

Vice Chair:

Cllr George Davies

Wirral

Cllr Pat Cleary  
Cllr Andrew Gardner  
Cllr Pat Hackett  
Cllr Kathy Hodson  
Cllr Tony Jones  
Cllr Brian Kenny  
Cllr Cherry Povall, JP  
Cllr Irene Williams  
Cllr Jane Aston  
Cllr Ian Byrne  
Cllr Pauline Lappin  
Cllr John Fulham

Wirral  
Wirral  
Wirral  
Wirral  
Wirral  
Wirral  
Wirral  
Wirral  
Knowsley  
Liverpool  
Sefton  
St Helens

## Employee Representatives (Non-voting)

Roger Bannister  
Sarah Brunskill

UNISON  
UNISON

## Officers of the Fund

Yvonne Murphy

Head of Pensions  
Administration

Shaer Halewood

Director of Finance &  
Investments

Colin Hughes  
Donna Smith  
Peter Wallach

Group Solicitor  
Head of Finance & Risk  
Director of Pensions

## Advisors to Investment Monitoring Working Party

Director of Pensions  
Senior Portfolio Manager  
Aon Hewitt  
Noel Mills  
Rohan Worrall

## Local Pension Board

Independent Chair:

John Raisin

Employer Representatives:

Kerry Beirne  
Geoff Broadhead  
Mike Hornby  
Lynn Robinson

Member Representatives:

Roger Irvine  
Patrick Moloney  
Donna Ridland  
Paul Wiggins

## Advisors to Governance and Risk Working Party

Director of Pensions  
Head of Pensions Administration  
Head of Finance and Risk

## Others

### Auditor

Grant Thornton

### Bankers

Lloyds Banking Group

### Consultant Actuary

Mercer HR Consulting

### Strategic Investment Consultant

Aon Hewitt

### Custodian of Assets

Northern Trust

### Responsible Investment Advisors

Pensions and Investment Research  
Consultants Ltd

### Property Advisors

CBRE Capital Advisors

### Property Managers

CBRE Asset Services

### Property Valuers

Savills

### Performance Measurement

Northern Trust

### Solicitor

Wirral Council

### AVC Providers

Equitable Life Assurance Society  
Standard Life  
Prudential

### LGPS Investment Pool

Northern LGPS (with GMPF and WYPF)

# Chair's Introduction

---

As Chair of Pensions Committee, I am pleased to present Merseyside Pension Fund's Annual Report for the year ended 31 March 2019. The aim of the report is to highlight the important issues affecting the Fund over the last twelve months, as well as providing general information regarding the pension scheme.



## The Overall Aim of the Fund

The principal aim of the Fund is to provide secure pensions, effectively and efficiently administered at the lowest cost to contributing employers. This requires the Fund to strike a balance between achieving the most from its investments and the need to exercise prudence and caution in considering its future liability profile. The Pensions Committee reviews the Fund's investments, administration, strategies and policies at regular intervals, with the help of its various professional advisors, to ensure that they remain appropriate.

## Investments and Performance

Robust global growth supported the investment climate over the year; however volatility was a prominent feature. Changing perceptions over US interest rate policy, uncertainty around the resolution of trade tensions, ongoing Brexit concerns and other global political events all worked to influence investors' appetite for risk. Looking across the year to the end of March 2019, the major asset classes on the whole delivered a positive performance with the Fund gaining 5.64% overall. More detail is provided in the **Investment Report** including information on the distribution of assets and performance.

Sustainability continues to be a very important investment consideration. The Fund has been evolving its Responsible Investment policy in order to bring it into line with the goals set out in the 2015 Paris Agreement on climate change. We are now implementing the next stage of our Climate Risk Strategy which entails reducing exposure to investments that are connected to climate change. In January 2019, the Fund joined forces with global index, data and analytics providers, FTSE Russell, to develop a more sustainable and environmentally-equitable investment strategy.

This collaboration resulted in the creation of a bespoke index; the FTSE All-World Climate Balanced Comprehensive Factor Index, which sits within FTSE's Smart Sustainability Index series. £400 million was invested into this new strategy.

As part of the review of our investment strategy, the Fund is using climate scenario analysis to further articulate its investment beliefs on climate and to shape these into investment strategy goals. We welcome the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (TCFD) (recently presented formally to the G20) and have committed to including a TCFD statement in our financial reporting.

Merseyside Pension Fund continues to engage appropriately with the fossil fuel companies in its ownership to require that they adequately review and align their business models towards transition to a low carbon economic future. The engagement is carried out collaboratively, and informed and shaped by Carbon Tracker and the Transparency Pathway Initiative.

The Fund continues to deploy capital at scale into renewable energy, primarily through its investments in Infrastructure and has more than £200 million invested in wind, solar, hydro and energy-from-waste projects in the UK and overseas.

## Actuarial Valuation

A triennial valuation commenced at 31 March 2019. Whilst calculations of the Fund's liabilities are still being finalised by the actuary, initial indications are that the funding level has improved significantly from the March 2016 level of 84.8%. The Fund's assets have increased in value to £8.88 billion. Strategies to 'lock in' some of the gains that have been achieved are being implemented.

## Communication with Fund Employers and Members

Effective communication continues to be very important to the Fund as it seeks to deal with issues arising from new legislation and the ever evolving Scheme.

We have offered a variety of courses to members and employers during the year in addition to regular newsletters for employers, employees, deferred members and pensioners. The Fund's websites continue to be updated regularly and we are encouraging greater use of electronic media to enhance security and efficiency of information exchange.

The Annual Employers' Conference was held at Aintree Racecourse in November 2018. The event was well attended and featured speakers from the Scheme Advisory Board, the actuary and officers of the Fund.

## Past Changes and the Future

Investment Pooling remains a primary focus for the Fund. Good progress has been made in the development of the Northern LGPS. In January, the Ministry of Housing, Communities & Local Government informally consulted on new draft guidance which will now be the subject of a formal consultation.

Pooling is a significant undertaking, and will result in fundamental changes to the oversight of LGPS assets. It is essential that appropriate governance arrangements are in place.

LGPS Amendment Regulations became operational on 14 May 2018. One principal provision afforded members with deferred benefits, solely related to the former final salary scheme, early access to their benefits from age 55. Another permits the payment of exit credits to 'exiting employers' in certain, specified circumstances.

In September, the government announced proposals to align the existing LGPS triennial Scheme valuation cycle with the quadrennial valuations of other public service pension schemes, which is the mechanism used to assess and manage the costs of pensions. Significantly, the Treasury's cost management process was 'paused' whilst an application to appeal the McCloud case to the Supreme Court was considered. It has recently been announced that the government has failed in its appeal and we await a decision on the remedies that will need to be offered which will undoubtedly increase the cost of benefits.

Further details of current and proposed legislative changes are provided in the ***Scheme Administration Report***.

As ever, the continued success of the Fund depends on the combined efforts of all those concerned with its operation. In conclusion, I should like to thank the Committee, the Scheme employers and their staff, the financial advisors, the external investment managers and all of the Fund's staff for their considerable work in delivering the service to Scheme members.

## Preparation of Report

This Annual Report has been produced in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013. In preparing and publishing the Pension Fund Annual Report, the Administering Authority must have regard to guidance issued by the Secretary of State.



**Councillor Pat Cleary**  
Chair, Pensions Committee  
June 2019



# Management Report

---

## Management of the Fund

The overall responsibility for the management of the Fund rests with the Pensions Committee chaired by Councillor Pat Cleary who succeeded Councillor Paul Doughty when he relinquished the role at the May 2019 elections.

In 2018/19, the Committee comprised Councillors from the Wirral Labour group (6), Conservatives (3), Green Party (1), representatives of the four other District Authorities (Liverpool, St. Helens, Knowsley and Sefton) and employee representatives (3). The Director of Finance & Investment, the Director of Pensions and other officers of the Fund also attend Committee, which meets around five times a year to review the administrative and investment issues affecting the Fund.

The Committee ensures the administration of the Fund accords with the statutory framework within which the LGPS operates. The Fund publishes a Governance Compliance Statement confirming that it complies fully with best practice guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG). Committee also ensures that the management of the Fund's assets falls within the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. These regulations require the Fund to have regard to both diversification and suitability of investments and stipulate the requirement to take proper advice when making investment decisions. The Fund's Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS) provide further information on the Fund's investment philosophy and investment framework.

The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party (IMWP). The IMWP meets at least four times a year to review investment strategy and to receive reports on investment activity undertaken in the prior period. The Working Party comprises representatives from the Pensions Committee, two independent advisors, Aon Hewitt and members of the in-house investment team.

Another of its important tasks is to monitor the performance of the Fund's external and internal investment managers, which is undertaken

in conjunction with professional advisors and Fund officers. External and internal investment managers have been given specific benchmarks against which performance is measured and monitored quarterly. In addition, internal investment managers report to the Director of Pensions through regular Fund Operating Group meetings and follow procedures laid down in an internal Compliance Manual.

With regard to its investment management activities, the Fund uses a combination of internal and external management and active and passive strategies across the various asset classes in which it invests. More comprehensive details of the Fund's investment managers, mandates and advisors are set out in its ISS.

Governance, pension administration and policies, risk management and related matters are scrutinised by the Governance and Risk Working Party (GRWP) which meets twice a year.

An additional source of assurance is provided by the Local Pension Board. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme in securing compliance with legislation and ensuring the effective governance and administration of the Fund. A separate report on the Board's activities is contained in this report.

## Risk Management

The Fund's governance arrangements, set out in the preceding section, ensure that the management of Fund administrative, management and investment risk is undertaken at the highest levels.

The Fund recognises that risk is inherent in many of its activities and makes extensive use of external advisors and industry best practice in assessing and establishing policies to identify and mitigate those risks.

The principal Fund documents relating to risk management and control are:

- Governance Policy
- Communications Policy
- Funding Strategy Statement
- Investment Strategy Statement
- Investment Monitoring Policy
- Health & Safety Policy

Copies of these documents are available from the Fund and are published on the Fund website at: [mpfund.uk/risk](http://mpfund.uk/risk)

In addition, the Fund maintains a risk register and a compliance manual for its employees.

These documents are all subject to regular scrutiny by the Pensions Committee and officers, and provide details of the key risks and explanations of the policies and controls adopted to mitigate them. These arrangements are assessed at least annually by the Fund's external and internal auditors.

Additionally, and where applicable, the Fund adheres to the Administering Authority's constitution in managing its operations. Legal opinion and advice is provided by Wirral Council's legal team and from external sources where appropriate.

## Knowledge and Skills

Merseyside Pension Fund recognises the importance of ensuring that all staff and members charged with the financial management and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities assigned to them. It therefore seeks to appoint individuals who are both capable and experienced and provides/arranges training for staff and members of the Pensions Committee, to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

Our training plan sets out how we intend the necessary pension finance knowledge and skills are to be acquired, maintained and developed. The plan reflects the recommended knowledge and skills level requirements set out in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

The Pensions Committee has designated the Director of Pensions to be responsible for ensuring that policies and strategies are implemented.

## Activity in Year

Merseyside Pension Fund has conducted a training needs assessment and, based on the outcome, formulated a training plan. This plan is reported to, and approved by the Pensions Committee. The Fund develops its Pensions Committee members and officers, through training and education. This includes regular meetings, ad hoc seminars and conferences, bespoke training and e-learning.

The Pensions Committee receives updates on legislative changes, benefit administration changes, procurement, actuarial and investment matters. These are supplemented by regular working parties. The IMWP includes a minimum of two presentations which cover all aspects of investment; asset allocation, asset classes, economics, performance measurement, risk management and responsible investment. The GRWP enables matters relating to other risks, governance and pensions administration to be covered in greater depth, as necessary.

This year, the Fund has been evolving its Responsible Investment policy in order to bring it into line with the goals set out in the 2015 Paris Agreement on climate change. It also undertook surveys of its stakeholders including members of the Pensions Committee and the Pension Board to inform revisions to its Investment Beliefs and development of its Climate Risk Strategy. Climate change and climate risk were identified as areas of development and Members received a range of presentations and briefings on the topic including from FTSE Russell, Aon and the internal UK equity manager.

Presentations were also received on Liability Driven Investment in preparation for the implementation of a bespoke LDI mandate for a Scheme employer.

Bespoke training includes the LGE Trustee Fundamentals training and other conferences and seminars as detailed in **Appendix B**.

The Fund is a member of the Local Authority Pension Fund Forum and the Chair of the Pensions Committee has traditionally been a member of the Executive Board, attending regular meetings covering many aspects of responsible investment.

Training opportunities provided during the year were as follows:

Month	Event
June	FTSE Russell Carbon Risk Management
June	CEM Performance, Risk & Cost Measurement
September	Climate Change
November	Liability Driven Investment
November	Climate Risk - Decarbonisation
March	Aon - RI survey feedback/ investment strategy review process

As the officer nominated by the Pensions Committee responsible for ensuring that the Fund's training policies and strategies are implemented, the Director of Pensions can confirm that the officers and members charged with the financial management of, and decision making for, the pension scheme, collectively possessed the requisite knowledge and skills necessary to discharge those duties and make the decisions required during the reporting period.



# Pension Board Report

---

Local Pension Boards (LPB) were established across the Local Government Pension Scheme with a requirement to become operational from 1 July 2015 to assist Administering Authorities in their role as managers of the Scheme.

## Statement of Purpose for the Merseyside Local Pension Board

The purpose of the Board is to assist the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:

- secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pension Regulator (TPR) in relation to the Scheme and;
- ensure the effective and efficient governance and administration of Merseyside Pension Fund.

The Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by TPR. There is also the necessity to provide information to the Scheme Manager to demonstrate that board representatives do not have a conflict of interest.

The Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively, but not less than four times in a year. There is also the provision for special meetings to be convened at notice.

## Constitution/Management Arrangements

The Pension Board consists of nine members and is constituted of:

- four employer representatives: two nominated from Local/Police/Fire/Transport authorities or Parish Councils; one from Academies/Further/Higher Education bodies; one from Admitted bodies;
- four scheme member representatives; two representing active members; two representing deferred and pensioner members;
- one independent, non-voting Chair who has responsibility for the co-ordination and operation of the Board.

Additional information is included in the Board's Terms of Reference available on the Fund's website at [mpfund.uk/lpbterms](http://mpfund.uk/lpbterms)

## Executive Summary

The Board has worked with officers to provide Wirral Council with additional assurance regarding the operation of the Fund. As evidenced in the Board's work plan, the Board has undertaken a rigorous assessment of pooling developments and its implications for the Administering Authority.

It continues to remain abreast of regulatory developments, the activities of TPR and to scrutinise the performance of the Fund, particularly in relation to its administrative functions.

The Chair made a presentation on the Board's activities to the Pensions Committee.

Three meetings were held during the year. In addition, a detailed training programme was undertaken involving internal and external training. Board members have attended Working Parties to gain greater familiarity with the activities and procedures of the Pensions Committee in managing the governance and structural arrangements of the Fund. Details are set out in the tables on pages 9 and 10.

## Board Changes

After the end of the financial year end, both Ms Kerry Beirne and Mr Mike Hornby decided to step down from the Board. Both made a significant contribution to the effectiveness of the Board and we would want to record our thanks to them.

## Issues considered by the Pension Board 2018 - 2019

Agenda Item	13 Jun	16 Oct	27 Mar
LGPS Update	•	•	•
Administration KPI Report	•	•	•
Pooling Update	•	•	•
Draft Funding Strategy Statement		•	
Member Development Programme			•
Pension Fund Budget		•	•
Interim Actuarial Valuation		•	
Treasury Management Strategy			•
Treasury Management Annual Report		•	
Working Party Minutes	•	•	•
Fair Deal Consultation			•
Draft Annual Board Report	•		
Liability Risk Management			•
Audit Findings Report, Annual Report & Accounts		•	•
Management of Carbon Risk		•	•
Draft Communications Strategy	•		
Audit Plan	•		•
Draft Data Protection Policy and GDPR Update	•		
Engagement with the Pensions Regulator	•		
Gifts and Hospitality	•		
Monitoring of Investment Mandates and Governance	•		
Property Arrears	•		
Audit Programme	•		
Pension Board Revised Terms of Reference			•

A work plan for 2019/20 has identified a number of key areas where the Board will provide assurance to the Administering Authority as to compliance with regulations and policies.

## Pension Board Work Plan 2019 - 2020

Agenda Item	17 Jul	12 Nov	5 Feb	1 Apr
LGPS Update	•	•	•	•
Administration KPI Report	•	•	•	•
Pooling Update	•	•	•	•
Audit Plan				•
Member Development Programme			•	
Pension Board Development Programme			•	
Working Party Minutes	•	•	•	•
Pension Board Annual Report		•		
Investment Performance		•		
Audit Findings Report	•			
Annual Report and Accounts	•			
Pension Fund Budget	•		•	
Actuarial Valuation (outcome)				•
Revised Funding Strategy Statement				•
Business Plan	•			
Governance Statement				•
Internal Audit Annual Report	•			

## Attendance & Training Record

ATTENDANCE RECORD 2017-18	Pension Board Public Sector	LGPS Trustee Training Day	Trustee Steps Training	PLSA Conference	Trustee Training Birmingham	LGPS Local Pensions Board Conference	Trustees Knowledge Seminar	Celtic Manor LGC Investment Summit	PLSA Annual Conference and Exhibition 2018	Local Authority Update	CIPFA Annual Pension Conference	MPP Annual Conference	LGPS Governance Conference	RI Event Aintree	Investment Conference	Pension Board Meetings		
		OCT/ NOV/ DEC	17 MAY	21-23 MAY	15 JUN	27 JUN	4 SEP	6-7 SEP	17-19 OCT	6 NOV	22 NOV	29 NOV	17-18 JAN	23 JAN	6 MAR	13 JUN	16 OCT	27 MAR
John Raisin (Chair)	•					•					•	•		•		•	•	•
Geoff Broadhead	•											•				•		•
Kerry Beirne	•						•					•				•	•	
Mike Hornby	•							•				•		•		•	•	•
Roger Irvine	•		•	•	•		•		•	•		•			•	•	•	•
Pat Moloney	•	•							•			•	•	•		•	•	•
Donna Ridland	•			•					•			•	•	•		•	•	•
Lyn Robinson	•	•														•	•	•
Paul Wiggins	•											•				•		•

## Costs of Operation

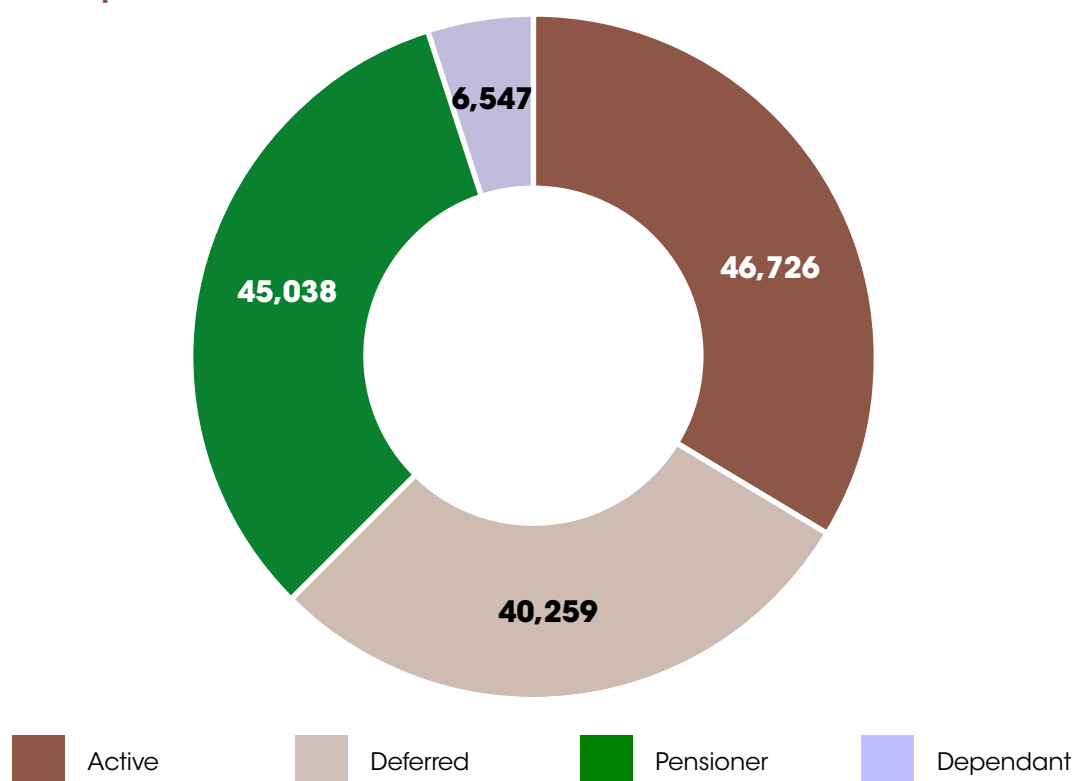
	2018/19 £
Conference	3,712
Travel	1,589
Allowances	13,309
Other	1,019
<b>Total</b>	<b>19,629</b>

There have been no matters of concern to raise with Wirral Council, the Administering Authority.

A detailed review of the activities of the Pension Board will be undertaken by the Independent Chair and reported to Pensions Committee on 3 February 2020.

# Membership Statistics

## Membership as at 31 March 2019



## Number of Members by Age Band

Status (age in years)	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54
Active				367	1,666	2,985	3,759	4,641	4,797	6,850	8,352
Deferred				9	287	1,641	3,735	4,652	4,711	6,619	8,927
Pensioner							4	14	28	177	422
Dependant	2	12	53	95	66	7	18	15	24	73	150

Status (age in years)	55-59	60-64	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+	Total
Active	7,778	4,385	963	183							46,726
Deferred	7,413	1,949	254	53	9						40,259
Pensioner	3,227	9,119	10,520	9,285	5,712	3,749	1,938	688	143	12	45,038
Dependant	318	445	660	947	999	1,099	939	481	130	14	6,547
<b>Total</b>											<b>138,570</b>

## Key Membership Statistics 2015 - 2019

Year	Active	Deferred	Pensioner	Dependant	Total
31 March 2019	46,726	40,259	45,038	6,547	138,570
31 March 2018	49,151	38,376	43,495	6,665	137,487
31 March 2017	47,206	38,368	42,194	6,571	134,339
31 March 2016	46,221	37,136	41,136	6,588	131,081
31 March 2015	45,420	36,237	39,915	6,682	128,254





# Scheme Administration Report

---

## The Administration Team

The main focus over the year has been to engage with our stakeholders in order to comply with regulatory requirements, adhere to principles of industry best practice, and to increase operational capacity to improve outcomes for the membership and employer base.

A number of advances have been made to our digital transformation programme to deliver efficiencies and improve customer experience in accessing Fund services. This has been achieved through the further development of bulk information exchanges and investment in our online 'MyPension' portal to assist the internal administration team and the Fund's employers to comply with the Pensions Administration Strategy.

Aligned with the objective of improving customer experience, work has been scheduled to review our customer surveys and the Fund's website to ensure we provide the information and support necessary to meet customer needs.

Over the reporting period the Fund has experienced an increase to its employer base, as many employers continue to undergo organisational change and restructure their workforces in response to financial pressures, leading to changes in service delivery models. We have worked closely with a number of employers on change initiatives such as mergers and significant outsourcing/insourcing. Our employer base is now in excess of 200, with the number growing further as academisation of schools and outsourcing continues at pace.

Furthermore, the increase in the number of third-party HR and payroll providers, favoured by a number of local education authority schools, has added a further layer to the processing and provision of data. A list of the participating employers is shown at **Appendix A**.

The Administration team is accountable to the Pensions Committee, the Pension Board, participating employers and Scheme members with regard to the effectiveness and demonstrable value for money of the administrative function.

## Statutory Framework of LGPS

The Scheme is a public service pension scheme regulated by statute through the Ministry of Housing, Communities and Local Government (MHCLG). It is a contributory defined benefit scheme which is exempt approved for tax purposes, providing pensions and lump sums for members and their dependants; along with ill health, redundancy and death cover.

The Scheme was formerly contracted-out of the additional State Pension until the introduction of the new single-tier State Pension on 6 April 2016, which as a matter of course, resulted in the ending of the Scheme's contracted-out status and an increase in National Insurance costs for both employers and members.

## LGPS2014 - Scheme Design

On 1 April 2014, the career average revalued earnings (CARE) scheme was implemented and replaced the final salary scheme in respect of future accrual of pension benefits.

The LGPS:

- has a normal pension age equal to State Pension Age (minimum age 65)
- gives a pension for each year at a rate of 1/49 of pensionable pay received in that year
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (although benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation-proofed in line with the Consumer Prices Index while the member is still paying in
- requires members to have at least 2 years' membership to qualify for pension benefits.

Additionally, protection is given to members who were contributing prior to 1 April 2014 including the following key provisions:

- preserve member benefits accrued under the former LGPS regulations
- retain the final salary benefits and Normal Pension Age of 65 in respect of pre-2014 membership
- provide an 'underpin' for people born before 1 April 1957 to ensure they do not suffer any detrimental loss from the introduction of the new Scheme
- carry forward the member protections under the '85 Year Rule' for voluntary retirement from age 60
- The ability for employers to switch on the '85 Year Rule' in regard a members' benefits if they voluntarily retire between age 55-60.

## Legislative Change

During 2018, two sets of amendment regulations were issued to update a number of technical provisions, extend automatic access of deferred benefits and to improve survivor benefits as a result of challenges in the Supreme Court. In addition the regulations introduced a number of changes with regard to the management, governance and funding of employers.

### The Local Government Pension Scheme (Amendment) Regulations 2018

The Amendment Regulations came into force on 14 May 2018 with the key revisions relating to the administration of members' benefits as follows:

- The extension of automatic entitlement to deferred benefits from age 55 for members who left the Scheme between 1 April 1998 and 1 April 2014 in parity with those who left the Scheme on or after 1 April 2014.
- The harmonisation of AVC contracts entered into before 1 April 2014 with those entered into post April 2014, excluding AVC provisions where the member left the Scheme prior to April 2014.

- The technical amendments include provisions to clarify the definition of local government service and the calculation of assumed pensionable pay in accordance with the policy intent.

The main change relating to Fund employers is:

- The potential for payment of an exit credit where an employer ceases participation of the Scheme and the final actuarial assessment results in a funding surplus. Consequently there will need to be greater engagement with employers accessing the Scheme by virtue of an outsourced service relating to the terms of the commercial arrangements and attribution of pension risk.

### The Local Government Pension Scheme (Miscellaneous Amendment) Regulations 2018

The Miscellaneous Amendment regulations came into force on 10 January 2019 and provided measures to:

- introduce a general power for the Secretary of State to issue statutory guidance
- make a technical amendment to allow early access to benefits from age of 55 for deferred members who left before 1 April 1998
- address the challenges in the Supreme Court relating to the inequitable payment of survivors' benefits to registered civil partnerships or same sex marriages and uprate benefits in relevant cases to replicate those provided to widows.

### Cost Management and Review of Benefit Structure

Following the Hutton Review of public sector pensions, a cost management mechanism was implemented in all public sector schemes to ensure the cost of providing pensions is retained within an agreed range of costs.

The Scheme Advisory Board (SAB) is responsible for facilitating the review of the cost of the Local Government Pension Scheme and for advising the Secretary of State on any proposed changes to the benefit structure to maintain the ongoing sustainability of the Scheme.

The review of the 2016 Valuation Results by the Government Actuary Department determined that the cost of the LGPS is now below the 19.5% future service target cost. In line with the process, changes were proposed to the benefit structure which would take effect from 1 April 2019.

It is expected that the proposals will result in an increase to the average employer contribution rate across the Scheme of approximately 0.9% of payroll costs, although the impact on individual employers will vary and will be dependent on the 2019 valuation process.

On 30 January 2019 the government announced a pause in the HM Treasury cost cap process within the public sector due to uncertainty caused by a court ruling on transitional protections given to members of the Schemes who in 2012 were within 10 years of their normal retirement age (McCloud case). Following this, the SAB paused the LGPS cost management process pending the outcome of the case. On 15 July 2019, the Chief Secretary to the Treasury published a written statement confirming that the McCloud case will apply to all public service pension schemes with transitional protections, including the LGPS. What is not clear at this stage is how wide reaching any remedy for the LGPS will be and how this will interact with the Cost Cap process in the long term.

### **Impending Changes**

Further Scheme-wide change is imminent due to the introduction of the £95k 'exit cap' and the outcome of the SAB review of the LGPS cost management process. In addition, the result of the Board's review of the merits in standardising the administration and funding of academies, along with the appropriate arrangements for the risk management of Tier 3 employers, is expected shortly. The Fund will continue to plan and adapt to changes as they are introduced, keeping members and employers updated through a program of regular briefings and customer engagement.

### **Scheme Consultations**

Over the year the Fund continued to respond to consultations on policy matters relating to the amendment of the Scheme's design, including the most recent consultation on the Fair Deal provisions, along with the implementation of new late retirement factors.

### **New Fair Deal**

Originally introduced in 1999, New Fair Deal proposes to protect the rights of public sector employees on transfer to a private sector employer as a result of the outsourcing of services. In January 2019, a further consultation was issued on the assimilation of New Fair Deal policy into the LGPS. The proposals present significant change including a new category of employee known as a "protected transferee" whereby the contracting employer will be required to enter into an admission agreement with the LGPS Fund, along with a new status of a "deemed employer" as an alternative to an admission body.

The Fund's response highlighted its agreement with the intent to provide guaranteed access to the LGPS for members transferred under TUPE, but noted the need for prescriptive guidance to deal with the administrative, funding and accounting implications in order that decisions reached by employers can be implemented effectively.

### **Late Retirement Factors**

MHCLG launched a short consultation on the implementation of new late retirement factors and methodology during March 2019.

The Fund responded to the consultation, raising concern that the formula was overly complex and would pose a challenge in communicating the additional benefit in remaining in the Scheme after normal pension age.

In addition, it was highlighted that, if the formula is retained, the implementation date should be arranged to ensure system providers have had enough time to deliver software updates to avoid the necessity of manual calculations.

## Key Projects and Developments

### Statutory Disclosure Exercise

In compliance with statutory disclosure requirements, a bulk communication was issued mid-July to all deferred beneficiaries informing members of the material change in the Amendment Regulations permitting early access rights for deferred benefits built up in the final salary scheme, from 14 May 2018; along with information relating to the amendments to equalise pre and post 2014 AVC arrangements.

The letter raised awareness that the 2018 Deferred Annual Benefit statement was available on My Pension online and encouraged members to register for access to the system.

### Interim Valuation Position

In the years between full actuarial valuations, the Fund's actuary is asked to undertake interim valuations to assess the approximate financial position of the Fund. As part of the interim assessment, key factors such as asset values, and liabilities based on current market conditions, are updated from the last full Valuation.

The estimated funding level at 31 August 2018 was 96% which is materially ahead of the declared funding position of 85% at 31 March 2016. The improved position is largely due to the upward trend in equity markets since 31 March 2016. However as the future market outlook is less certain there is a strong likelihood of a higher future service rate being certified at the 2019 valuation.

The analysis undertaken by the actuary revealed a number of data anomalies and a collaborative exercise between the Fund and employers commenced in year to resolve the data gaps. This activity will reduce the requirement for the actuary to take conservative margins when certifying the contribution schedules for the 2019 triennial valuation.

### Data Quality and Preparation for Triennial Valuation

The Fund's data team has worked closely with the actuary, Mercer, to undertake comparative analysis on how both parties evaluate data held at the Fund, to identify any data gaps which

would have an adverse impact on the robustness of the final valuation extract and the production of statutory statements.

This partnership proved highly beneficial for the Fund and highlighted areas where working practices could be improved, along with further measures to introduce greater robustness in reporting practice and engagement with employers on data matters, including improvement plans.

A data reconciliation exercise was undertaken in September, providing all employers with a snapshot of active memberships, an overview of outstanding queries and documentation identified by the Fund.

Action plans have been agreed with large employers in regard any material data gaps and Fund officers have committed to support employers in aligning their systems to electronically interface with the Fund's pension administration system.

In parallel to requesting outstanding data, the Fund is addressing the high number of outstanding deferred cases and death cases without contingent benefits to ensure the liability position is accurate at the Valuation date.

### Annual Return Process and Statutory Annual Benefit Statements

A key objective during the year was to ensure the timely receipt of employer contribution returns and the production of Annual Benefit Statements within the 31 August deadline.

As a result of proactive engagement between the Fund and employers there was a significant increase in the number of employers submitting timely annual return files. Although ten employers were subject to financial penalties for failing to submit a completed year-end return in accordance with timescales documented within the Pension Administration Strategy.

The Annual reconciliation of member data makes it difficult to achieve the 31 August deadline to produce benefit statements. This is due to the processing of large volumes of data within a limited timeframe and the need to identify gaps in information provided by employers.

Unfortunately, following instruction by the Pension Board in October 2018, it was necessary to file a report with the Pension Regulator (TPR) as we only issued 90% of annual benefit statements to active members.

In engaging with the Regulator we shared the ongoing work streams being undertaken to improve data quality and to demonstrate our commitment to meet the statutory deadline to issue all members with a statement in the future. As a result, TPR was satisfied with the measures being undertaken and decided to take no further regulatory action at this time.

To overcome the challenges of annual data returns and to maximise future benefit statement production, the Fund has commenced partnership working with its largest employers on a two-year staged project, to transition data collection from an annual to a monthly basis, along with the attendant quality assurance procedures.

### **The Pensions Regulator Compliance Programme and Oversight of Administration Function**

The Public Service Pensions Act 2013 placed the external scrutiny function of the LGPS under the remit of TPR with effect from 1 April 2015. The objective was to enhance the governance framework and increase the transparency of the Administering Authority's accountability for the management and administration of the Scheme. This is influenced, regulated and monitored respectively by the:

- Local Pension Board, who assist the Administering Authority to manage the effective governance of the Fund and ensure compliance with statutory requirements including TPR's Code of Practice for Public Service Pension Schemes.
- Administering Authority's Internal and external auditors.

During September 2018, TPR launched a new operating model to regulate workplace pension schemes and drive-up standards. As the pensions landscape no longer supports the former "educate, enable and enforce" approach, the new model is scheduled to take effect over the next twelve to eighteen months.

The link to the publication outlining the new operating model is: [mpfund.uk/tprfuture](https://mpfund.uk/tprfuture)

The key to the new approach is the introduction of a supervision regime to monitor schemes more closely, which will include higher and lower intensity interventions depending on the risks identified.

The four key elements of the new operating model are to;

- set clear expectations and measurable standards
- identify risk early to prevent escalation by early proactive intervention
- drive compliance through supervision and enforcement leading to behavioral change
- work with regulatory partners to achieve a consistent regulatory framework.

### **LGPS Cohort Working with The Pensions Regulator (TPR)**

TPR's 2018-2021 Corporate Plan includes a project to engage with cohorts of LGPS administrators and in partnership with the Metropolitan Pension Fund Group (Mets) the Fund has proactively approached TPR to understand their key concerns and receive guidance from TPR to develop best practice amongst the group.

An initial meeting with TPR took place in February 2019 to discuss the proposal for engagement and potential outcomes. The intent is to inform TPR of the operational challenges in administering the Scheme, explore ideas and gauge the direction of travel for the increasing scrutiny of the LGPS.

It is envisaged that this engagement will continue on a six-monthly basis with interim discussions and exchange of information as required.

In operating as a collective, the aim will be to increase consistency and efficiency amongst the individual Funds and to provide assurances to those charged with governance that the Fund is operating within the industry wide legislative framework and standards set by TPR.

One measure to achieve this aim is to form a Peer Review Framework amongst the group, whereby there would be a systematic review of individual fund's procedures, documentation and control mechanisms to ensure a consistent basis in demonstrating compliance against Code of Practice 14.



### **Collaboration with Peer Funds, Scheme Employers and National Bodies**

During 2018/19 officers worked closely with a number of other LGPS Funds on specific projects via the LGA informally sharing ideas and best practice on various matters. We have committed to be a founder member of the National LGPS Framework, which streamlines and improves procurement within the public sector, and have participated in the review of many existing and new frameworks for services.

In addition, we have engaged at a national level with the LGPS Scheme Advisory Board, the Chartered Institute of Public Finance and Accountancy and the Government Actuary on administration and funding matters. This engagement has enabled us to keep pace with LGPS and pensions industry practice and represent the Fund's views and those of its stakeholders in the wider arena.

Our large employer Pension Liaison Officer Group forums have provided valuable feedback during the year and served as a useful resource to the Fund in establishing realistic operational procedures when introducing service improvements and regulatory change.

These employer forums are important as they enable Fund officers to cover topical issues and share information on planned activity and service developments.

### **Updated GAD Factors**

During the year we have updated systems to respond to changes in actuarial factors and calculation specifications covering early retirements, transfers, pension debits and trivial commutation following changes to the government's SCAPE discount rate in the autumn budget.

### **Review of Fund Policies**

#### Funding Strategy Statement

Following the revisions to the regulations in May 2018, the Funding Strategy Statement (FSS) was updated to reflect the new provision to refund a surplus to an outgoing employer, with effect from 14 May 2018. As this is a material change in funding arrangements it was necessary to review the impact on the termination policy and consult with employers.

A four week consultation opened on 9 July 2018 and an explanatory letter detailing the background to the consultation, together with a draft copy of the 2018 FSS, was shared with employers.

As the prospect of a funding surplus emerging when an employer exits the Fund would likely be as a result of an outsourced contract, the objective of the policy revision is to achieve consistency between an employer's commercial arrangement, the termination policy and the new regulations.

The Pensions Committee approved the revisions to the policy at its meeting dated 29 October 2018, taking full consideration of the Scheme employer and Pension Board responses to the consultation exercise.

#### The Communications Policy

The Communications Policy was updated in July 2018 to reflect the move to electronic communications and the increase in use of technology by members and employers. The Pension Board recommended the revised policy should be presented to the Pensions Committee for approval in order to deliver the efficiencies outlined in the Fund's business plan to continually drive improvement through our digital transformation plan.

## **Operational Improvements**

### **Immediate Payment Processing - Transfers and Refunds**

The project to extend the immediate payment facility to Transfer and Refund payments to realise the efficiencies being achieved in processing retirement benefits and to reduce the use of supplementary systems, was completed in year. A work stream was assigned to configure and install the appropriate updates to the pension benefit system, along with a period of staff training, testing and acceptance of the software processes.

Internal Audit carried out an audit of the proposed process and was satisfied there would be no significant risk involved and the immediate payments for Transfer and Refund payments went live during August with an agreed weekly payment schedule.

### **New Facility for Notification of Death**

A new webform has been designed and placed on the members' website; this allows a relative or person dealing with the estate of a deceased person, to electronically inform the Fund of a death. This development of death notification reduces some of the emotional stress of verbal communication and also the potential for overpayment of pension.

### **Pension Administration System Migration**

The Fund continued with the large project to migrate over eight million documents from the Civica document management system into an integrated system provided by Aquila Heywood.

The extraction of documents took place during Autumn 2018, with a phased migration into the Aquila Heywood 'Altair' system during February and March 2019. In parallel, Fund IT officers continued to work with business area managers to create new operational workflow processes in the integrated 'Altair' system. A final document extract and migration is scheduled at the end of May just prior to going live with the new solution in June 2019.

### **Office Rationalisation**

Within the reporting period, the Fund completed the refurbishment of the office space in Castle Chambers. Whilst the main reception area remains on the 7th Floor, there has been a consolidation of administration teams from the 4th and 7th Floor to reflect the new job roles and structures. The finance and investment teams were moved to the 6th floor with the Fund now occupying only two floors of the building. The IT and electrical cabling was replaced with improved connectivity to Wirral Council, the Administering Authority.

## **Strategic Focus, Planning and Operational Costs**

### **Service Planning**

The Fund's Management team maintains an annual 'Business Plan' which is shared with, and monitored by, the Governance and Risk Working Party (GRWP) a sub-group of Pensions Committee.

This working party meets twice a year to review officer progress against documented objectives and commitments.

The contents of the 'Business Plan' are shared with all the officers and there is a direct link with the performance appraisal process of staff.

### **Restructure Staff Training and Development**

The administration team has a solid LGPS knowledge base. This collective expertise, together with the high quality administration systems and record keeping improvement plans, enables us to deliver an effective and efficient service to our members and employers.

As we continue to evolve our operational design and advance service delivery, we ensure we develop our staff to support the changes to working practices.

The Fund's restructure and re-designation of roles was finalised last year in order to retain, train and recruit additional staff to increase our capacity, to deliver the ever-increasing statutory and governance requirements, along with the complexities of the LGPS.

The new staff joined the team this year. Following an internal training programme, the new recruits were tasked to eliminate backlogs as well as setting up systems to improve data quality and deal with new casework as a result of the amendments to the Regulations.

The Fund provides a comprehensive training programme for its staff and a number have made good progress with their Chartered Institute of Payroll Professional qualification during the year. Training opportunities have also been provided to expand technical knowledge within the team.

The Fund keeps abreast of best practice by participating in collaborative groups such as; the Local Government Association Communications Group, the Shrewsbury Pensions Officer Group and the Metropolitan Pension Fund Group. These groups all offer opportunities to discuss topical pension issues and to share best practice and innovations enabling greater cross-function working with other LGPS Funds.

## Operational Costs

The Fund's operational costs are reviewed by the Pensions Committee, which approves the annual operational budget. Actual spend is monitored throughout the year by the Fund Management team and overall spend is reported in the annual Report & Accounts.

The MHCLG surveys funds annually to collect administration and fund management costs in the LGPS - this is referred to as the 'SF3' statistical return.

Submitted under Section 168 of the Local Government Act 1972, the data provides the government with a benchmark of Scheme costs, and is also used in compiling the National Accounts, showing the role of pension funds in the economy.

The administration costs reported in the 2017-18 'SF3' statistical return was £18.76 per member.

In the coming year, we will be participating in a new benchmarking initiative with other large LGPS Funds to not only provide a comparative Cost per Member but also a service quality assessment. This will present, in the future, a metric of 'value for money' relative to a comparative peer group of Funds.

## Equality and Diversity

The Fund aims to deliver accessible, high-quality, value for money services to all of our customers, without discriminating against any social grouping by age, gender, race, disability, sexual orientation or religious belief.

All necessary and reasonable adjustments are made to ensure that members with additional needs can access our communications.

## Member Communications

Our member services programme and events continue to provide increasing face-to-face help and support across the employer base, presenting courses/surgeries, as requested, at employer workplaces.

The principal communication issued to active and deferred members each year is the Annual Benefit Statement (ABS) and electronic versions have been available electronically since 2013 via the Fund's online 'MyPension' service.

Fund officers continue to work with employers in promoting the 'MyPension' service, to further encourage active members to register. The Fund provided employers with suitable text for staff newsletters, briefings, intranet sites and broadcast emails. On production of the statements, employers were asked to utilise the same communication channels to inform members of their availability online.

## Presentations for Scheme Members

	Events	Approx. Attendees
<b>Retirement Planning Course</b>	6	116
Hosted at Employer Premises		
<b>Mid-Life Planning Course</b>	1	18
Hosted at Employer Premises		
<b>Presentations about the LGPS</b>	19	456
Hosted at Employer Premises		
<b>Total</b>	<b>26</b>	<b>590</b>

## Employer Communications

We continue to deliver our Practitioner workshops to support new employers, those with staff changes or a need for refresher training. These workshops help to increase the understanding of employer responsibilities and how the Fund and employers work together to deliver benefits to members.

The Fund has a secure employers' website where employers can obtain forms, guidance notes and access payroll and HR administration guides. The Fund does not publish a periodic employer newsletter, but uses the employers' website to announce news, revisions to forms and other pertinent information. Each registered user receives an email notification of any news update or change to the administration of the Scheme.

The Fund has continued to update the comprehensive administration information to employers in the HR and Payroll Guides. Based on national guidance, these Fund-specific documents provide detailed information on administrative and operational practice. Practitioner training sessions are provided by Fund officers, to provide guidance on employer duties, operational practice and direction in completing Fund forms.

## Data Security

In administering the Scheme, the Fund collects, records and maintains personal data on members, former members, pensioners and beneficiaries.

The following arrangements are in place to safeguard this data:

- All staff are regularly made aware of the corporate policies in respect of Confidentiality, Data Protection and Information Security, and are required to undertake Information Governance training.
- New staff, as part of their induction, have the responsibilities and policies explained, and their understanding verified, by the successful undertaking of an online test.
- All administration data is stored electronically and any paper records are securely destroyed.
- Staff who work away from the office as part of their role, can only access data by secure means (two-factor authentication).
- Where person identifiable data has to be transferred off-site, the Fund uses secure means, using either the 'Government Connect' network or via secure email/websites.

In May 2018, the Fund worked in collaboration with the Local Government Association and West Midlands Pension Fund in the development of an LGPS specific Privacy Notice for members, detailing the legal basis for Funds to collect, store and process personal data, including the rights of individuals in requesting access, correction and erasure of their data.

## Performance Standards

Results of performance against targets are shown below:

Performance Targets	Target	Within Target %
1. Payment of Retirement Benefits	7 days	93
2. Payment of Monthly Pensions	100%	100
3. Payment of Transfer Values	7 days	98
4. Provision of Inward Transfer Quotes	10 days	94
5. Notification of Deferred Benefits	22 days	99
6. Provide Valuation in Divorce Cases	10 days	100
7. Respond to Members' Enquiries	10 days	83

*(Details given in respect of 12 month period to 31 March 2019)*

## Internal Dispute Resolution Cases

Members who disagree with decisions taken by their employer or the Administering Authority may appeal using the Internal Dispute Resolution Procedure (IDRP) under the LGPS regulations. The IDRP is a formal appeals procedure which contains two stages. The first stage allows a member to ask the body who originally made the decision, to review it, that is, either the employer or the Administering Authority. The second stage allows a member, if they are not satisfied with the outcome at the first stage, to ask the Appeals Officer at the Administering Authority to review the disagreement.

**Appeals Against Employer Decisions**

<b>Employer</b>	<b>Number</b>	<b>Employer Decision</b>
<b>Sefton</b>		
Award of Ill Health Tier	1	Upheld
<b>Wirral</b>		
Award of Ill Health Tier	1	Dismissed
<b>Total</b>	<b>2</b>	

**Appeals Against Fund Decisions**

<b>Reason for Appeal</b>	<b>Number</b>	<b>Fund Decision</b>
GAD Late retirement factors	1	Dismissed
<b>Total</b>	<b>1</b>	

**Appeals to the Pensions Ombudsman**

<b>Reason for Appeal</b>	<b>Number</b>	<b>Fund Decision</b>
Recovery of pension paid in error	1	Dismissed
<b>Total</b>	<b>1</b>	

The decision upheld by the Pensions Ombudsman was that the Fund must recover the incorrectly paid pension and that the Fund's proposed recovery plan was reasonable.



# Investment Report

Year ended 31 March 2019

Robust global growth supported the investment climate over the fiscal year ending March 2019; however volatility was a prominent feature. Changing perceptions over US interest rate policy, uncertainty around the resolution of trade tensions, ongoing Brexit concerns and other global political events all worked to influence investors' appetite for risk through the 12 month period.

In the US, the fiscal stimulus enacted by President Trump in late 2017 became visible in 2018, with solid employment numbers and strong economic growth which was a boon to corporate earnings. Economic data out of Europe was more mixed, but in June the European Central Bank (ECB) was confident enough to declare an end to its own version of quantitative easing, effectively winding up its historic €2.4 trillion bond-buying programme. Sentiment around Emerging Markets was more cautious however. China experienced a slowdown in activity as the monetary authorities successfully curtailed the activities of the shadow banking sector. This area of the economy, if left unchecked, is a potential threat to the country's long term financial stability. In addition, the strengthening US dollar and higher US interest rates had the effect of raising funding costs for Emerging Market regions providing a headwind to growth.

Politics and Geopolitical risk dominated the headlines throughout the period. UK and Eurozone equity markets were hit by continuing unease over Brexit as well as concerns over Europe's exposure to the slowing Emerging Markets region and worries over the Italian budget. Trade tensions intensified and in the third quarter of 2018 the US imposed 10% tariffs on \$200 billion worth of Chinese goods; China in turn retaliated with their own tariffs on US goods amounting to \$60 billion. China did make efforts to support economic growth by making cuts to the Required Reserve Ratio (RRR) which effectively reduces funding costs for Chinese companies, but investors held their cautious approach to the region up until the 1st quarter of 2019.

Despite some of the negative headlines, developed market equities extended their march upwards through the third quarter of 2018 reaching an all-time high in September, with US stocks leading the way. The 4th quarter however saw some sharp negative movements, particularly in developed markets. Concerns had

been growing over the Federal Reserve's hawkish rhetoric on interest rates and following the interest rate hike out of the US in late September, the angst spilled over into outright fear that the central bank was about to make a policy mistake by tightening interest rates aggressively when economic activity was about to slow. Developed market equities lost around 11% in the 4th quarter, but early 2019 saw a strong rebound thanks to a more dovish stance taken by central banks and some easing of trade concerns.

Looking across the year to the end of March 2019, the major asset classes on the whole delivered a positive performance. Within equities, the dispersion of returns across the regions was sizable, with the standout performer being North America. Here, strong corporate earnings and an appreciation of the US dollar against Sterling, helped deliver a return of 17.5% to UK based investors. Asia Pacific equities also performed well delivering +12.7% and UK equities returned +6.4%. Japan equities lost value over the period with a return of -0.9%. Japanese corporate earnings tend to be the most sensitive to global growth and the slowdown experienced, particularly in Asia, weighed on investor sentiment.

Returns from the property sector were more muted compared to the prior year, but were still respectable at +5.1%. The prevalence of Company Voluntary Arrangements (CVAs) in the retail sector has hurt sentiment and depressed valuations in that area of the market.

Government bonds achieved above-trend returns, reversing the poor performance delivered in the prior year. The Fed's dovish shift in the 4th quarter saw 10-year Treasury yields falling to their lowest level since late-2017, which in turn drove bond yields lower (and bond prices higher) in the UK and Europe. In corporate bond markets, whilst overall returns were positive, a deterioration of risk sentiment led to broad-based underperformance across investment grade credit sectors relative to government bonds.

The Fund's benchmark for UK bonds is a 50:50 combination of UK Gilts and Sterling denominated investment grade corporate bonds. This benchmark advanced by 3.7% over the period. UK Index Linked bonds, which offer investors protection against inflation, delivered a very robust +5.5% return.

The annualised performance of the Fund against its benchmark for 1, 3 and 5 year periods is shown below.

	1 Year	3 Year (Annualised)	5 Year (Annualised)
Merseyside Pension Fund	5.64%	9.99%	8.68%
Benchmark	5.14%	8.34%	7.04%
Relative Return	0.48%	1.52%	1.53%

(Source - Northern Trust)

Merseyside Pension Fund returned 5.6% in the financial year to the end of March 2019 compared to its bespoke benchmark return of

5.1%; an outperformance of 0.5%. This was ahead of the Consumer Price Index and the increase in Average Earnings which advanced by 1.9% and 3.3% respectively.

Alternatives contributed significantly to the outperformance driven by strong performance in Private Equity and Infrastructure assets. The relative performance of the Fund's property assets relative to the benchmark also helped to deliver out-performance.

The Fund's 1 year investment performance against its benchmarks across all asset classes is illustrated in Figure 1:

**Figure 1.**  
**Net Total Return by Asset Class for Year Ending 31 March 2019**

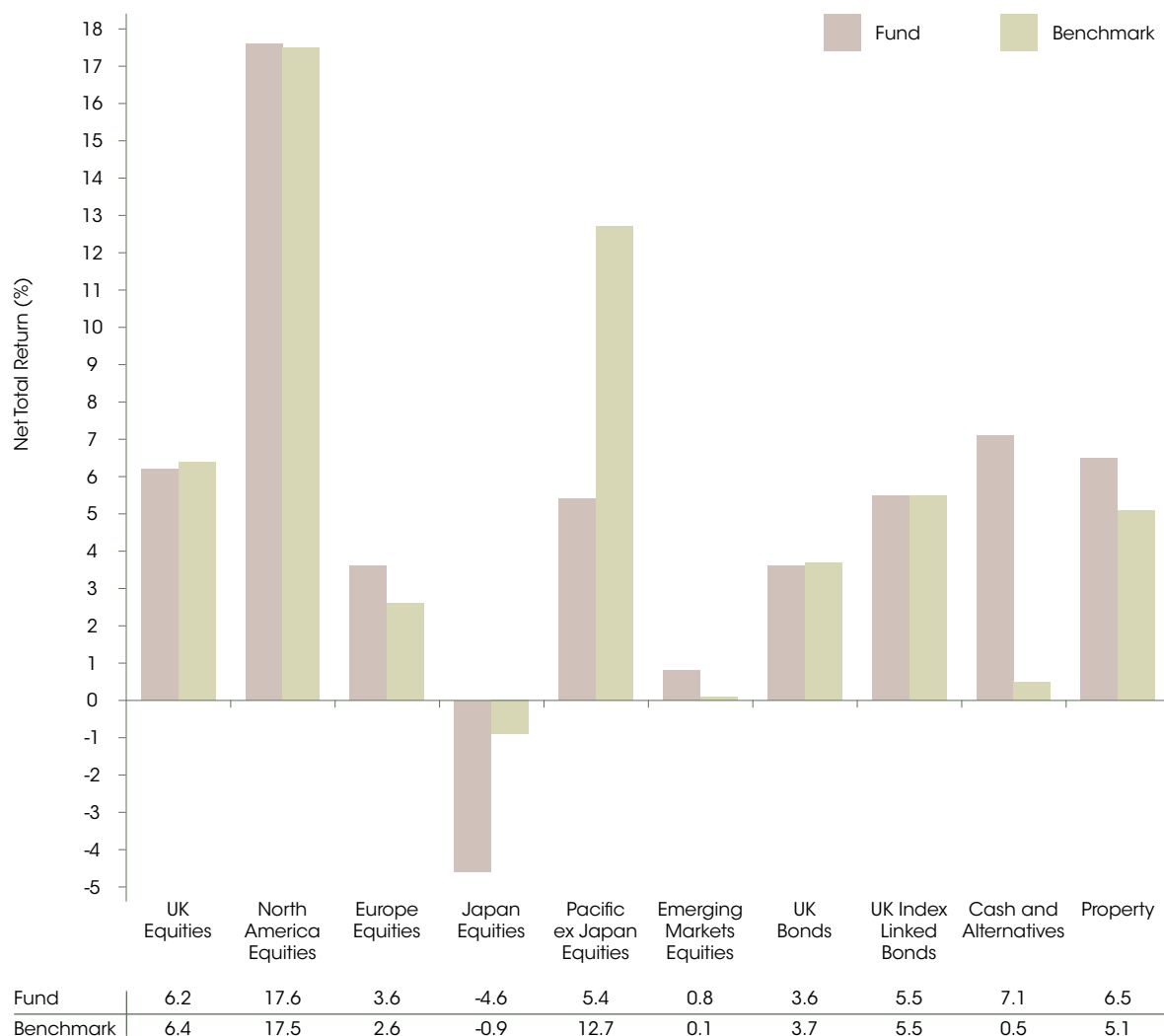
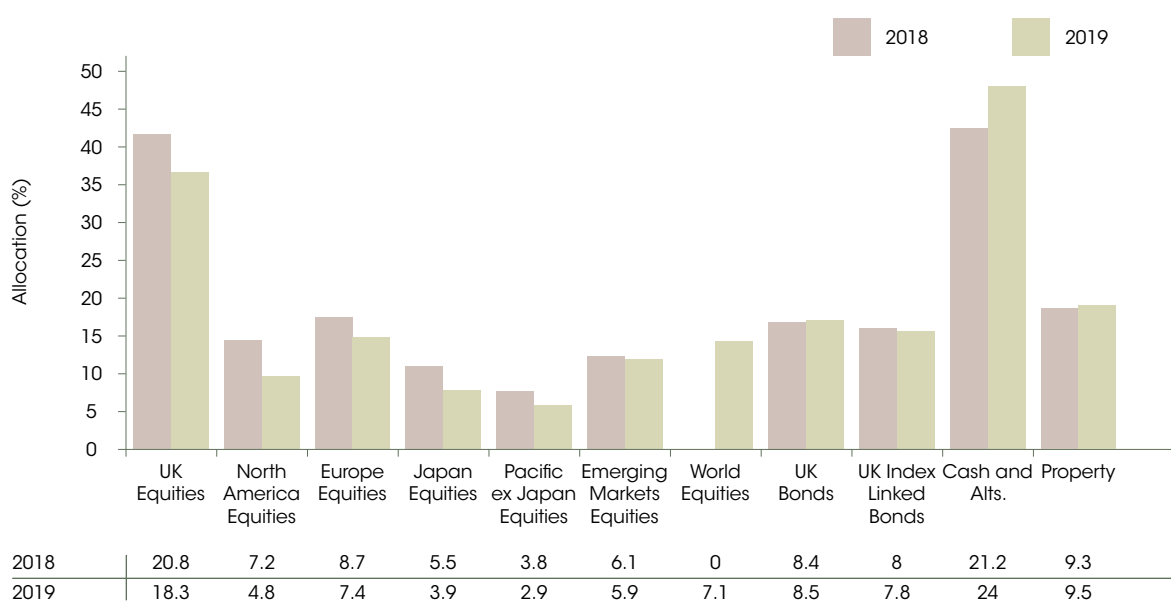


Figure 2 illustrates the asset allocation of the Fund on 31 March 2019 compared to 31 March 2018.

**Figure 2.**  
**Asset Allocation Change 2018 vs 2019**



World equities were introduced in Q1 of 2019 with the launch of two new strategies. The first being a multifactor investment portfolio which aims to out-perform the FTSE Developed World Index with the use of a systematic method of selecting stocks that have attractive valuations, high quality earnings and strong price momentum. The second strategy again adopts a systematic approach to stock selection, but with decarbonisation as a feature, and was designed with the goals of the 2015 Paris climate accord in mind

#### **Largest Property Holdings as at 31 March 2019**

<b>Holding</b>	<b>Market Value £'000</b>
Fort Halstead	58,500
Tunsgate Square Shopping Centre, Guildford	46,150
Telegraph Road, Heswall	31,400
129-132 North Street, Brighton	30,000
Mitre Bridge Industrial Estate, Mitre Way, London	24,100

#### **Largest Infrastructure Holdings as at 31 March 2019**

<b>Holding</b>	<b>Market Value £'000</b>
Iona Capital - bio energy	94,000
Clyde Wind Farm	43,000
Anglian Water Group	41,000
Forth Ports Group	24,000
Rolling Stock (East Anglia, South Western, Moorgate)	17,000

## Strategic Asset Structure

Asset Class	Strategic Benchmark %	Detail %
<b>UK Equities</b>	<b>18.7</b>	
<b>Overseas Equities</b>	<b>34.3</b>	
US		5.3
European (ex UK)		8
Japan		4
Asia Pacific		4
Emerging Markets		6
World		7
<b>Fixed Interest</b>	<b>18</b>	
UK Gilts		4
UK Index-Linked Gilts		10
Corporate Bonds		4
<b>Property</b>	<b>8</b>	
<b>Alternatives</b>	<b>21</b>	
Private Equity		5
Hedge Funds		4
Opportunities		5
Infrastructure		7
Cash		0
<b>Total</b>	<b>100</b>	

In response to the Government's pooling initiative, the 'Northern LGPS' was established by the local government pension funds for Greater Manchester, Merseyside and West Yorkshire. It is expected that the Northern LGPS will achieve significant cost savings and economies of scale through the pooling of assets. Merseyside Pension Fund's share of the Northern LGPS set up costs was £172k, with £65k in legal costs and £107k in other costs.

Merseyside Pension Fund is a member of GLIL (GMPF & LPFA Infrastructure LLP), an infrastructure investment vehicle initially set up as a joint venture between the Greater Manchester Pension Fund and London Pensions Fund Authority. GLIL targets core infrastructure assets predominantly in the United Kingdom. On joining, Merseyside Pension Fund made a commitment to invest £125 million and as at the end of March 2019 around 80% of this amount had been invested.

On 1 October 2018 the Fund increased its commitment to GLIL to £250 million. Total committed capital to GLIL from its existing investors stands at £1.825 billion as at 31 March 2019. In 2018 changes were made to the structure of GLIL to facilitate wider participation by pension funds. GLIL moved to an open-ended fund structure that allowed for the admission of new members.

In May 2018, Merseyside Pension Fund, Greater Manchester Pension Fund and West Yorkshire Pension Fund established a collective private equity investment vehicle (NPEP). As at the end of May 2019 commitments of around £550 million had been made to private equity funds, of which c£115 million came from Merseyside Pension Fund. The private equity funds provide a diversified exposure to private companies across the globe, from small-cap growth names to large established companies with strong business models that can support the higher levels of debt that are associated with the private equity model.

The Northern LGPS has appointed Northern Trust to provide a broad range of custodial and administration services, including private equity fund administration, compliance monitoring and carbon reporting. The appointment underlines the combined LGPS group's commitment to ensuring the highest levels of asset safety, governance and transparency in reporting. Pooling remains a key focus and expectations are that more asset classes will be managed under this pooled approach in the years ahead.

Private market assets generally have costs that are met within the vehicle rather than through an explicit charge paid directly by Merseyside Pension Fund. These costs are not charged directly to the Fund Account, but are included in the fair value adjustments applied to the assets concerned within the Fund Account with performance reported on a net basis. The Fund aims to be both transparent and value-led in its investment approach and the table overleaf shows costs during the current and previous financial year. The performance related fees relate to monies that have been paid out and do not include any accrued performance fee estimates.

Asset Class	31 March 2018		31 March 2019	
	Management Fee £'000	Performance Related Fee £'000	Management Fee £'000	Performance Related Fee £'000
Private Equity	7,780	5,599	5,331	5,378
Infrastructure	5,354	44	4,938	0
Property	4,012	664	4,355	1,501
Opportunities and Hedge Funds	5,043	2,414	5,868	4,355
<b>Total</b>	<b>22,190</b>	<b>8,721</b>	<b>20,492</b>	<b>11,234</b>

The decrease in management fees in private market assets has been achieved through a focus on lower cost strategies; avoiding fund of fund investments and introducing co-investment and direct investment opportunities. The increase in performance fees has been driven by the funds within Property and Hedge Funds earning above their hurdle rate/high water mark. Included in the Infrastructure and Private Equity management fee numbers for 2018/2019 are £261,551 for GLIL and £31,618 for NPEP. Additional Northern LGPS set up costs in relation to legal and tax advice amounted to £142,051. The total private market costs of £31.7 million for 2018/2019 can be compared with around £182 million of net value add that these assets delivered to the Fund over that period.

Investment Management figures of £16.7 million for March 2019 and £11.6 million for March 2018 (in Note 11b to the Report and Accounts) are included in the Management Fee figures of £31.7 million and £30.9 million respectively.

Merseyside Pension Fund has a Responsible Investment (RI) policy that has continued to be developed in partnership with like-minded investors committed to integrating sustainability into investment decision-making and acting as stewards of the assets we own. The Fund is a member of the Principles for Responsible Investment (PRI) and has submitted reporting to PRI on its activities to implement the Principles over the 2018 calendar year. The Fund's most recently available PRI Transparency Report can be viewed at: [unpri.org/signatories](https://unpri.org/signatories)

The Fund works with corporate governance specialists PIRC to vote on all of its eligible shareholdings in public listed companies, in line with PIRC's recommendations (based upon PIRC's annually updated Shareholder Voting Guidelines). Full disclosure (by company and year) of those recommendations is accessible at the Fund's website at: [mpfund.uk/voting](https://mpfund.uk/voting)

Northern LGPS has committed to co-ordinating activity on proxy voting across listed equity holdings. In addition to public reporting on voting activity through the Northern LGPS website, the pool's RI Policy commits it to pre-disclosing voting intentions and to ensuring vote maximisation by restricting its securities lending programme around 'proxy voting season'. Northern LGPS has appointed PIRC as its RI Adviser to ensure that the pool's voting policy is consistent across the partner Funds.

Addressing the systemic challenges of climate risk has been at the forefront of the Fund's responsible investment work over the year. The Financial Stability Board's Taskforce on Climate-Related Financial Disclosures (TCFD) provides a global framework to translate non-financial information into financial metrics. The TCFD has been endorsed by over 500 organisations and companies, representing a combined market capitalisation of over US\$7.9 trillion and including financial firms with US\$100 trillion assets under management. The Fund is committed to reporting on its approach to climate risk using the TCFD framework (as recommended for asset owners) and, over the course of the year, has partnered with other asset owners to promote TCFD reporting in the entities in and through which we invest.



In preparing the TCFD statement for inclusion in this Investment Report, the Fund has referred to the guidance in the PRI publication, Implementing the Task Force on Climate-Related Financial Disclosures (TCFD) Recommendations: A Guide for Asset Owners (PRI, 2018). While the Fund considers that the evolution of its TCFD reporting is a multi-year endeavour, as a benchmark of progress it can be noted that the PRI's priority actions for asset owners in the near term (set out on page 7 of the PRI guidance) are all addressed by the Fund's approach to climate risk.

## **Merseyside Pension Fund - TCFD Statement as at 31 March 2019**

### **Governance**

The Pensions Committee (as the Fund's governing body) has mandated that the Fund's investment strategy be brought into line with the goals of the 2015 Paris Climate Accord. It has delegated authority to the Director of Pensions to develop and implement the climate risk strategy (as informed by relevant guidance especially from partner organisations such as IIGCC, PRI and the LAPFF) and receives regular reports on progress.

The Pensions Committee has reviewed its investment beliefs through a sustainability lens and through a deliberative process involving a representative stakeholder panel. The findings and summary of the Fund's Responsible Investment (RI) Beliefs have been published on the Fund's website and reaffirms the Committee's view that a robust RI policy should be seen within the context of long term goals and as an integral part of future-proofing the Fund.

### **Strategy**

The Fund's strategy is based on the view that climate change is a systemic risk and thus, a material long term financial risk for any investor that must meet long term obligations. The strategic review process (linked to the triennial actuarial valuation of the Fund's liabilities) has been initiated and will conclude in Q3 2019. This will utilise climate scenario analysis (working with climate models developed by Aon Hewitt, the Fund's investment strategy adviser) to test the resilience of proposed asset allocation models in four climate change scenarios versus a base case scenario (which will assume that asset returns will move in line with what currently appears to be priced into the market).

### **Risk Management**

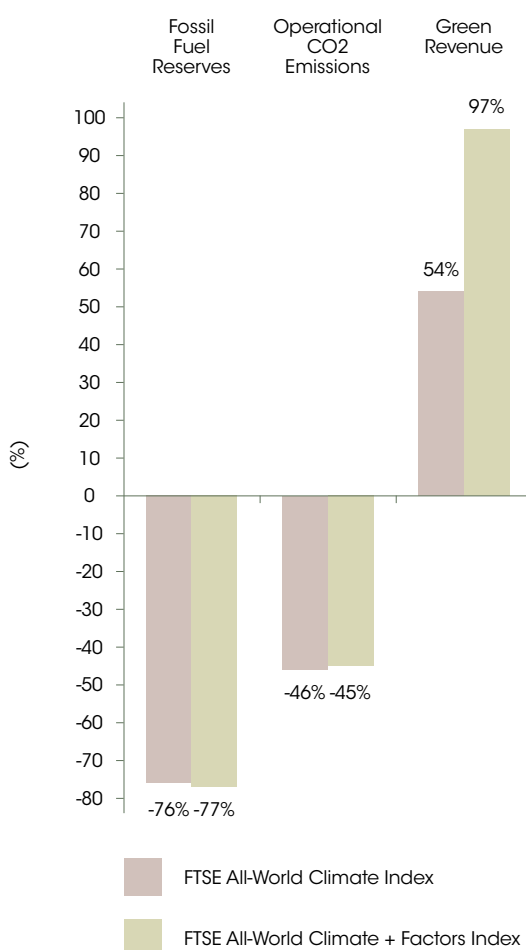
The Fund acknowledges the description of climate risk provided by TCFD, as comprising transition and physical risks. The focus of risk management has been on the mitigation of transition risk through enacting a decarbonisation policy in respect of the public equities portfolio (the Fund's largest risk asset allocation).

One-third of the passive equities portfolio (£428 million or approximately 10% of total equities) is now invested in a low carbon index strategy that tilts away from stocks with higher CO2e emissions intensity or significant fossil fuel reserves, but also introduces a tilt in favour of stocks with 'green revenues' (companies engaged in the transition to a green economy as expressed by their financial reporting). The strategy also moves away from using 'traditional' market capitalisation weighting methodology (with its high concentration in the most carbon-intensive sectors and industries) to a multi-factor weighting approach. On this basis, the decarbonisation strategy used in the passive equities allocation targets a climate risk-efficient return that provides exposure to the market's equity risk premium, while providing a hedge against the market's mispriced climate risk.

## Targets and Metrics

The decarbonisation target of moving one-third of passive equities into a low carbon index strategy (as reported in Merseyside Pension Fund's 2018 TCFD statement) was accomplished in January 2019 by £400 million of funding into the All-World Climate Balanced Factor Index Fund (established by a partnership of Merseyside Pension Fund, FTSE Russell and State Street Global Advisers). The fund is accessible to other qualifying UK pension fund investors.

This index has a reduced carbon footprint compared to its cap-weighted 'parent' index, the FTSE All-World:



The Fund will continue to allocate to the low carbon economy through the unlisted, illiquid segment of its strategic benchmark: primarily, via the 8% allocation to infrastructure where renewable energy and other low carbon aligned areas offer significant opportunity. The Fund has significant capital deployed in the Energy & Utilities sector, comprising of renewable energy generating assets (on-shore & off-shore wind, hydro, solar and energy-from-waste) as well as energy distribution networks and waste collection.

On an invested capital basis, Merseyside Pension Fund has £220m invested in renewable energy projects, both directly through the GLIL platform (of which, the Fund is a co-owner) and indirectly through Fund investments.

## Climate Stewardship

As active members of the global Climate Action 100+ initiative, Merseyside Pension Fund has been supporting a number of prominent engagements with 'high carbon' companies with the objective of driving strategic change in these businesses to align them with the goals of the Paris Agreement.

Most notably, the Fund has co-filed a shareholder resolution at the 2019 AGM of BP, calling on the company to accelerate its change programme with respect to its capital expenditure and commit to setting relevant science-based targets in line with Paris. The Fund's co-filing (along with others in the CA100+ group & co-ordinated by the CofE Pension Fund) was crucial in getting the resolution onto the ballot for the AGM and securing the support of BP's management for the resolution: [climateaction100.org/](https://climateaction100.org/)

# Financial Performance

## Key Financials for 2018/19

	£'000	£'000	£'000
<b>Fund Value at 31 March 2018</b>			<b>8,563,441</b>
<b>Contributions and Benefits</b>			<b>(137,359)</b>
Employer Contributions	155,155		
Employee Contributions	55,422		
		210,577	
Pensions Paid	(265,886)		
Lump Sums Paid	(74,812)		
		(340,698)	
Net Transfers		(7,238)	
<b>Management Expenses</b>			<b>(44,434)</b>
Administration	(2,778)		
Investment Management	(39,708)		
Oversight and Governance	(2,269)		
		(44,755)	
Other Income		321	
<b>Investments</b>			<b>501,090</b>
Income	216,248		
Change in Market Value	284,842		
<b>Fund Value at 31 March 2019</b>			<b>8,882,738</b>

The table below describes the Fund's performance for key financial variables against forecasts (forecast January and July 2018) for the 12 months to 31 March 2019.

<b>2018/2019 or at 31 March 2019</b>	<b>Predicted £'000</b>	<b>Actual £'000</b>
<b>Fund Size 2018</b>	<b>8,563,441</b>	<b>8,563,441</b>
<b>Fund Size 2019</b>	<b>8,995,909</b>	<b>8,882,738</b>
Pensions Paid	(323,049)	(340,698)
Contributions Received	207,068	210,577
Net Transfers	-	(7,238)
<b>Net Cash Flow From Members</b>	<b>(115,981)</b>	<b>(137,359)</b>
<b>Net Management Expenses</b>	<b>(42,429)</b>	<b>(44,434)</b>
Investment Income	206,777	216,248
Change in Valuation of Assets	384,101	284,842
<b>Return from Investments</b>	<b>+590,878</b>	<b>+501,090</b>
<b>Net Change Overall</b>	<b>+432,468</b>	<b>+319,297</b>

The key variance between the forecast and the actual performance, was the return on investments, the change in the valuation of assets; this is largely out of the control of the Fund.

The contributions received in 2018/19 are lower than in previous years, due to a number of employers opting to pay their three year deficits calculated by the actuary in year 1 (2017/18), therefore the following 2 years are reduced accordingly. The Fund monitors its costs closely. The table below shows the out-turn against the budget approved at Pensions Committee for the year:

<b>12 months to 31 March 2019</b>	<b>Budget £'000</b>	<b>Actual £'000</b>
Employees	3,630	3,032
Premises	191	191
Transport	55	33
Investment Fees - operating budget	14,236	11,205
Supplies and Services	2,677	1,770
Third Party	880	1,011
Recharges	364	348
<b>Total</b>	<b>22,033</b>	<b>17,590</b>

*Note: Premises' expenditure is agreed as a notional charge based on market rates, as MPF owns the building.  
For the purposes of the operating budget, Investment fees above refers to invoiced investment costs only and is therefore lower than the figure disclosed in the Fund Account.*

Overall the actual out-turn for 2018/19 was £17.6 million, lower than the original budget of £22 million approved by the Pensions Committee in July 2018, this is largely due to investment market volatility and budgeted projects and areas of work being deferred to 2019/20.

The 2019/20 Fund budget, along with the 3 year forecast as approved by the Pensions Committee in July 2019 is detailed in the table below:

	<b>2019/20 £'000</b>	<b>2020/21 £'000</b>	<b>2021/22 £'000</b>
Employees	3,799	3,875	3,953
Premises	197	201	206
Transport	54	55	56
Investment Fees - operating budget	14,044	15,013	16,049
Supplies and Services	2,750	2,808	2,867
Third Party	1,114	1,137	1,161
Recharges	360	360	360
<b>Total</b>	<b>22,318</b>	<b>23,449</b>	<b>24,652</b>

The assumptions that underpin this budget are that, investment performance follows long term trends and that the Fund follows the long term trends in mortality and other factors assumed within the actuarial valuation. Investment fees shown above are for invoiced investment management costs only and do not include any fees for private market assets, any property related expenditure nor any investment changes associated with pooling. The budget for 2019/20 at £22.3 million reflects a number of budgeted projects and areas of work originally budgeted in 2018/19 carried forward to the next financial year.

The predictions for key financial variables over the next 3 years are detailed in the table below:

	2019/20 £'000	2020/21 £'000	2021/22 £'000
<b>Fund Size Start of Year</b>	<b>8,882,738</b>	<b>9,315,192</b>	<b>9,971,658</b>
<b>Fund Size End of Year</b>	<b>9,315,192</b>	<b>9,971,658</b>	<b>10,531,530</b>
Pensions Paid	(347,853)	(355,158)	(362,616)
Contributions Received	214,999	419,514	288,324
Net Transfers	-	-	-
<b>Net Inflow From Members</b>	<b>(132,854)</b>	<b>64,356</b>	<b>(74,292)</b>
<b>Net Management Expenses</b>	<b>(47,601)</b>	<b>(50,638)</b>	<b>(53,880)</b>
Investment Income	231,169	247,120	264,171
Change in Valuation of Assets	381,740	395,628	423,873
<b>Return from Investments</b>	<b>612,909</b>	<b>642,748</b>	<b>688,044</b>
<b>Net Change Overall</b>	<b>432,454</b>	<b>656,466</b>	<b>559,872</b>

The contributions predicted for 2019/20 reflect the higher contributions received in 2017/18, where a number of employers opted to pay their three year deficits calculated by the actuary in year 1 (2017/18). 2019/20 contributions are reduced accordingly. It has been predicted that employers will again opt to pay their 3 year deficits upfront in 2020/21 following the 2019 valuation with the sequent year contributions reduced.

The material variable in these assumptions is investment returns. If returns over the next few years are different from the predicted long term average (7% per annum) then the out-turn will be significantly different. The other key variable is the pattern of membership of the Scheme. If the employers make significant changes which affect the number of active members or deferred members and pensioners, then the cash-flows of the Scheme can change materially. Both of these factors are largely outside the influence of Merseyside Pension Fund.







# Financial Statements

## Fund Account - for year ended 31 March 2019

	Note	2018/19 £'000	2017/18 £'000
<b>Dealing with Members, Employers and Others Directly Involved in the Fund</b>			
Contributions Receivable	7	210,577	407,068
Transfers In	8	11,797	12,174
		<b>222,374</b>	<b>419,242</b>
Benefits Payable	9	(340,698)	(314,556)
Payments to and on Account of Leavers	10	(19,035)	(14,804)
		<b>(359,733)</b>	<b>(329,360)</b>
<b>Net Additions/(Withdrawals) from Dealing with Members</b>		<b>(137,359)</b>	<b>89,882</b>
Management Expenses	11	(44,434)	(40,027)
<b>Net Additions/(Withdrawals) including Fund Management Expenses</b>		<b>(181,793)</b>	<b>49,855</b>
<b>Return on Investments:</b>			
Investment Income	12	220,626	197,008
Profit and Losses on Disposal of Investments and Change in Market Value of Investments	13	284,842	141,671
Taxes on Income	12	(4,378)	(3,578)
<b>Net Return on Investments</b>		<b>501,090</b>	<b>335,101</b>
Net Increase/(Decrease) in the Fund During the Year		319,297	384,956
Net Assets of the Fund at the Start of the Year		8,563,441	8,178,485
<b>Net Assets of the Fund at the End of the Year</b>		<b>8,882,738</b>	<b>8,563,441</b>

## Net Assets Statement - for year ended 31 March 2019

	Note	2018/19 £'000	2017/18 £'000
<b>Investment Assets</b>	13		
Equities		2,795,439	2,768,408
Bonds		665,610	-
Pooled Investment Vehicles		4,695,505	5,074,479
Derivative Contracts		-	218
Direct Property		521,750	519,750
Short Term Cash Deposits		86,098	53,226
Other Investment Balances		104,196	99,613
		<b>8,868,598</b>	<b>8,515,694</b>
<b>Investment Liabilities</b>	18	(8,445)	(13,736)
<b>Total Net Investment Assets</b>		<b>8,860,153</b>	<b>8,501,958</b>
Long Term Assets	19	4,146	5,013
Current Assets	20	35,413	79,909
Current Liabilities	20	(16,974)	(23,439)
<b>Net Assets of the Fund as at 31 March 2019</b>		<b>8,882,738</b>	<b>8,563,441</b>

# Notes to the Accounts

## 1. Description of Fund

Merseyside Pension Fund (MPF/the Fund) is part of the Local Government Pension Scheme (LGPS) and Wirral Council is the Administering Authority. Wirral Council is the reporting entity for this pension fund.

The overall responsibility for the management of the Fund rests with the Pensions Committee, which for 2018/19 included 10 councillors from Wirral Council, the Administering Authority, and one councillor from each of the four other Merseyside Borough Councils. Representatives of trade unions also attend. The more detailed consideration of investment strategy and asset allocation of the Fund's portfolios is considered by the Investment Monitoring Working Party, which includes two external advisers and a consultant. The more detailed consideration of governance and risk issues is considered by the Governance and Risk Working Party.

In 2015/16 the Local Pension Board was introduced in accordance with Public Service Pensions legislation and regulations. The Board's aim is to assist the Administering Authority with ensuring compliance and the effective governance and administration of the Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to Merseyside Pension Fund Annual Report 2018/19 and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the LGPS Regulations.

### a. General

The Scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefit pension scheme administered by Wirral Council to provide pensions and other benefits for pensionable employees of the Merseyside Local Authorities and a range of other scheduled and admitted bodies. Teachers, Police Officers and Fire Fighters are not included as they come within other national pension schemes.

### b. Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the Scheme, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in Merseyside Pension Fund include:

- Scheduled bodies, which are Local Authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation.

There are 208 employer organisations within Merseyside Pension Fund including Wirral Council itself, the Fund also has 138,570 members as detailed below:

	31/3/19	31/3/18
Number of Employers with Active Members	208	194
Number of Employees in Scheme	46,726	49,151
Number of Pensioners	45,038	43,495
Number of Dependants	6,547	6,665
Number of Deferred Pensioners	40,259	38,176
<b>Total Scheme Members</b>	<b>138,570</b>	<b>137,487</b>

### c. Funding

Benefits are funded by employee and employer contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS and are matched by employers' contributions which are set based on triennial actuarial funding valuations.

**d. Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service as summarised below.

	Service pre-1 April 2008	Service post-31 March 2008
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
<b>Lump Sum</b>	Automatic lump sum of 3x salary. In addition, part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the Scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme, for more details please refer to the Fund's website at: [mpfmembers.org.uk](http://mpfmembers.org.uk)

**2. Basis of Preparation**

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year end as at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is shown within the the **Consulting Actuary's Statement**, which is published as an addendum to the accounts.

The accounts have been prepared on a going concern basis.

**3a. Summary of Significant Accounting Policies**

The financial statements have been prepared on an accruals basis, unless otherwise stated.

**Contributions and Benefits**

Contributions are accounted for on an accruals basis. Contributions are made by active members of the Fund in accordance with LGPS Regulations and employers contributions are based on triennial actuarial valuations.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Scheme Actuary, or on receipt if earlier than the due date.

Employers' pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year, but unpaid, will be classed as a current financial asset. Amounts not due until future years, are classed as long term financial assets.

Benefits payable represent the benefits paid during the financial year and include an estimated accrual for lump sum benefits outstanding as at the year end. Benefits payable includes interest on late payment. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

Estimates for post year end outstanding items have been used for payments of retirement grants and death grants:

- Retirement grants due for payment, but not paid by 31 March: using actual figures as far as possible, and assuming maximum commutation to be taken, where the knowledge of the individual member's choice is still outstanding.
- Death grants due for payment, but not paid by 31 March, for example, awaiting Probate.

### **Transfers to and from other Schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined, or left the Fund, during the financial year, and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

### **Management Expenses**

The Fund discloses its management expenses analysed into three categories; administration costs, investment management costs and oversight and governance costs, in accordance with CIPFA 'Accounting for Local Government Management Costs'.

#### Administration Costs

All administration expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

#### Investment Management Costs

All investment expenses are accounted for on an accrual basis.

Fees of the external Investment Managers and Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market values of the investments under their management, and therefore increase or reduce as the value of these investments change.

Costs in respect of the internal investment team are classified as investment expenses.

Estimates for post year end outstanding items have been used for external Investment Management fees using the Fund's valuations as at 31 March.

In accordance with CIPFA 'Accounting for Local Government Management Costs' guidance, transaction costs and property related expenses are shown under investment expenses.

For certain unquoted investments including Private Equity, Hedge Funds, Opportunities and Infrastructure, the Fund does not charge costs for these to the Fund Account because the Fund Manager costs are not charged directly to the Fund. They are instead deducted from the value of the Fund's holding in that investment, or from investment income paid to the Fund. If the Fund has been charged directly for Fund Manager costs, they are shown as external investment management fees.

#### Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with oversight and governance are charged direct to the Fund. Associated management and other overheads are apportioned to the Fund in accordance with Council Policy.

The cost of obtaining investment advice from external consultants is included in governance and oversight expenses.

### **Investment Income**

Income from Equities is accounted for when the related investment is quoted ex-dividend. Income from Bonds, Pooled Investment Vehicles and interest on Short-Term Deposits has been accounted for on an accruals basis. Distributions from Private Equity are treated as return of capital until the book value is nil then treated as income on an accruals basis.

Rental income from properties is recognised on a straight-line basis over the term of the lease, rent is accounted for in the period it relates to and is shown gross of related expenses. The Fund accrues rent up to 24 March each year. Rent received on the Quarter Day, 25 March, is accounted for in full in the following year.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

### Taxation

The Fund is a registered Public Service Scheme under Section 1 (1) of Schedule 36 of the Finance Act 2004, and as such, is exempt from UK income tax on interest received, and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

### Valuation of Investments

Financial assets are included in the Net Asset Statement on a fair value basis as at the reporting date. The values of investments as shown in the Net Asset Statement are determined as follows:

- Listed securities are valued at quoted bid market prices on the final day of the accounting period. The bid price is the price which the Fund would have obtained had the securities been sold at that date.
- For unlisted investments wherever possible valuations are obtained via the Independent Administrator. Valuations that are obtained direct from the Manager are verified against the latest available audited accounts adjusted for any cash flows up to the reporting date.
- Hedge Funds and Infrastructure are recorded at fair value based on net asset values provided by Fund Administrators, or using latest financial statements published by respective Fund Managers adjusted for any cash flows.
- Private Equity valuations are in accordance with the guidelines and conventions of the British Venture Capital Association/International Private Equity guidelines or equivalent.
- Indirect Property is valued at net asset value or capital fair value basis provided by the Fund Manager. For listed Funds, the net asset value per unit is obtained through data vendors.
- The freehold and leasehold interests in the properties held within the Fund were independently valued as at 31 March 2019 by Savills (UK) Limited, acting in the capacity of External Valuers as defined in the RICS Red

Book (but not for the avoidance of doubt as an External Valuer of the Fund as defined by the Alternative Investment Fund Managers Regulations 2013). The valuations accord with the requirements of IFRS 13, SSAP 19 and the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards 2017 incorporating the IVSC International Valuation Standards issued June 2017 and effective from 1 July 2017 (the 'RICS Red Book').

- Pooled Investment Vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of Pooled Investment Vehicles that are Accumulation Funds, change in market value also includes income which is reinvested by the Manager of the vehicle in the underlying investment, net of applicable withholding tax.

### Translation of Foreign Currencies

Assets and liabilities in foreign currencies are translated into sterling at rates ruling at the year end. Foreign income received during the year is translated at the rate ruling at the date of receipt. All resulting exchange adjustments are included in the revenue account.

### Derivatives

The Fund uses derivative financial assets to manage exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices, and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from, or owed to, the broker, are the amounts outstanding in respect of the initial margin and variation margin.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date.

The future value of forward currency contracts is based on market forward exchange rates at the year end date, and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

**Short-Term Deposits**

Short term deposits only cover cash balances held by the Fund. Cash held by Investment Managers awaiting investment is shown under 'Other Investment Balances'.

**Financial Liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

**Additional Voluntary Contributions**

The Fund holds assets invested separately from the main Fund. In accordance with regulation 4 (1) (b) of the Pensions Schemes (Management and Investment of Funds) Regulations 2016, these assets are excluded from the Pension Fund accounts.

The Scheme providers are Equitable Life, Standard Life and Prudential. Individual members participating in this arrangement each receive an annual statement confirming the amounts held on their account and the movements in the year.

**3b. Changes to Accounting Policy and Presentation**

The following accounting standards have been issued and are applicable to 2018/19:

**IFRS 9 Financial Instruments**

This has introduced changes to the classification and measurement of financial assets, financial assets reported as 'loans and receivables' in 2017/18 are reclassified as 'assets at amortised cost'. Impairment is recognised on an expected loss basis rather than when objective evidence of impairment has been identified.

**IFRS 15 Revenue from Contracts with Customers**

The core principle is for revenue to be recognised in an amount that reflects the consideration to which the Fund expects to be entitled for transferring promised goods and services to the service recipient/customer. This accounting standard has minimal impact on the Fund.

**4. Critical Judgements in Applying Accounting Policies**

The Fund has not applied any critical judgements.

**5. Estimation****Unquoted Investments**

The Fund has significant unquoted investments within Private Equity, Infrastructure, Property and other Alternative investments. These are valued within the financial statements using valuations from the Managers of the respective assets. There are clear accounting standards for these valuations and the Fund has procedures in place for ensuring that valuations applied by Managers comply with these standards and any other relevant best practice. The value of unquoted assets as at 31 March 2019 was £4,221 million (£4,603 million at 31 March 2018).

Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Hedge Funds are valued at the sum of the fair values provided by the Administrators of the underlying Funds plus adjustments that the Hedge Fund Directors or Independent Administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Direct property and pooled property funds use valuation techniques to determine the carrying amount. Where possible these valuations are based on observable data, but where this is not possible, management uses the best available data.

**6. Events After Reporting Sheet Date**

There have been no events since 31 March 2019, and up to the date when these accounts were authorised, that require any adjustments to these accounts.



## 7. Contributions Receivable

	2018/19 £'000	2017/18 £'000
<b>Employers</b>		
Normal	127,865	119,408
Pension Strain	9,274	10,426
Deficit Funding	18,016	223,096
<b>Total Employers</b>	<b>155,155</b>	<b>352,930</b>
<b>Employees</b>		
Normal	55,422	54,138
	<b>210,577</b>	<b>407,068</b>
Relating to:		
Administering Authority	24,581	57,357
Statutory Bodies	160,776	319,948
Admission Bodies	25,220	29,763
	<b>210,577</b>	<b>407,068</b>

Contributions are made by active members of the Fund in accordance with the LGPS and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are based on triennial actuarial valuations. The 2018/19 contributions above were calculated at the valuation dated 31 March 2016. The 2016 actuarial valuation calculated the average primary employer contribution rate of 15.4% (2013 13.3%).

'Pension Strain' represents the cost to employers when their employees retire early to compensate the Fund for the reduction in contribution income and the early payment of benefits. Payments to the Fund for such costs are made over agreed periods. An accrual has been made for agreed future payments to the Fund.

'Deficit Funding' includes payments by employers for past service deficit and additional payments by employers to reduce a deficit. During 2018/19 the Fund has received additional and upfront payments until the next actuarial valuation in 2019, totalling £2.2 million, (in 2017/18, a number of employers opted to pay their three years deficit as a lump sum payment in year 1 totalling £141.2 million).

The Fund does reserve the right to levy interest charges on late receipt of contributions from employers. In 2018/19 no such charges were levied.

## 8. Transfers In

	2018/19 £'000	2017/18 £'000
Group Transfers	-	-
Individual Transfers	11,797	12,174
	<b>11,797</b>	<b>12,174</b>

There were no group transfers to the Fund during 2018/19.

## 9. Benefits Payable

	2018/19 £'000	2017/18 £'000
Pensions	265,886	252,874
Lump Sum Retiring Allowances	66,173	56,141
Lump Sum Death Benefits	8,639	5,541
	<b>340,698</b>	<b>314,556</b>
Relating to:		
Administering Authority	46,919	43,387
Statutory Bodies	240,601	222,117
Admission Bodies	53,178	49,052
	<b>340,698</b>	<b>314,556</b>

## 10. Payments to and on Account of Leavers

	2018/19 £'000	2017/18 £'000
Refunds to Members Leaving Service	538	447
Payment for Members Joining State Scheme	8	37
Income for Members From State Scheme	-	(1)
Group Transfers to Other Schemes	-	-
Individual Transfers to Other Schemes	18,489	14,321
	<b>19,035</b>	<b>14,804</b>

There were no group transfers out of the Fund during 2018/19.

## 11. Management Expenses

	2018/19 £'000	2017/18 £'000
Administration Costs	2,778	2,587
Investment Management Costs	39,708	35,922
Oversight and Governance Costs	2,269	1,727
Other Income	(321)	(209)
	<b>44,434</b>	<b>40,027</b>

### 11a. Administration Costs

	2018/19 £'000	2017/18 £'000
Employee Costs	1,867	1,665
IT Costs	616	611
General Costs	255	276
Other Costs	40	35
	<b>2,778</b>	<b>2,587</b>

### 11b. Investment Management Costs

	2018/19 £'000	2017/18 £'000
External Investment Management Fees	27,652	22,707
External Investment Management Performance Fees	544	1,546
External Services	799	565
Internal Investment Management Fees	713	614
Property Related Expenses	6,334	6,377
Transaction Costs	3,666	4,113
	<b>39,708</b>	<b>35,922</b>

### 11c. Oversight and Governance Costs

	2018/19 £'000	2017/18 £'000
Employee Costs	520	475
External Services	1,179	767
Internal Audit	49	34
External Audit	31	39
Other Costs	490	412
	<b>2,269</b>	<b>1,727</b>

Actuarial fees included within External Services above (note 11c) are shown gross of any fees that have been recharged to employers. Included within Other Income for 2018/19 is £259,917 relating to recharged Actuarial fees (2017/18 £195,994).

External Audit fees for 2018/19 also include £2,180 relating to additional services in respect of IAS 19 assurances for admitted body auditors, which are recharged to those admitted bodies.

## 12. Investment Income

	2018/19 £'000	2017/18 £'000
Dividends from Equities	99,895	84,247
Income from Bonds	69	-
Income from Pooled Investment Vehicles	54,612	52,333
Rents from Properties	30,512	26,754
Interest on Short Term Cash Deposits	712	267
Income from Private Equity	33,877	32,422
Other	949	985
	<b>220,626</b>	<b>197,008</b>
Irrecoverable Withholding Tax	(4,378)	(3,578)
	<b>216,248</b>	<b>193,430</b>

Rental income is shown gross of any property related expenses, with related expenses shown under investment expenses (note 11b).

Investment income figures are shown gross of tax. Included in these figures is recoverable taxation of £6.3 million (2017/18 £4.8 million).

The Fund is seeking to recover tax withheld by UK and overseas tax regimes under the EU principle of free movement of capital within its borders, repayments received in 2018/19 £20,981 (2017/18 £nil).

### 12a. Property Income

	2018/19 £'000	2017/18 £'000
Rental Income	30,512	26,754
Direct Operating Expenses	(6,334)	(6,377)
<b>Net Rent from Properties</b>	<b>24,178</b>	<b>20,377</b>

No contingent rents have been recognised as income during the period.

### 12b. Property Operating Leases

The Fund's property portfolio comprises a variety of units which are leased to organisations with the objective of generating appropriate investment returns.

These leases are all categorised as operating leases due to the relatively short length of the agreements i.e. relative to the overall life of the asset and proportion of the assets overall value. The leases do not meet the assessment criteria for finance leases, and the risks and rewards of ownership of the leased assets are retained by the Fund and reflected in the Net Assets Statement.

The properties comprise a mix of office, retail and industrial buildings. These leases vary in length from short-term to over 25 years.

The future minimum lease payments receivable under non-cancellable leases in future years are:

Age Profile of Lease Income	2018/19 £'000	2017/18 £'000
No later than one year	5,195	1,302
Between one and five years	11,208	8,114
Later than five years	11,635	17,540
<b>Total</b>	<b>28,038</b>	<b>26,956</b>

With regards to the properties owned and leased by the Fund, all are leased to the tenants under contracts that have been assessed as operating leases and which may include periodic rent reviews etc. The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease has been entered into, such as adjustments following rent reviews.

### 13. Investments

<b>2018/19</b>	<b>Market Value 31/3/18</b>	<b>Purchases at Cost and Derivative Payments</b>	<b>Sale Proceeds and Derivative Receipts</b>	<b>Change in Market Value*</b>	<b>Market Value 31/3/19</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Equities	2,768,408	1,635,758	(1,634,730)	26,003	2,795,439
Bonds	-	689,963	-	(24,353)	665,610
Pooled Investment Vehicles	5,074,479	1,077,179	(1,740,461)	284,308	4,695,505
Derivative Contracts	218	613,961	(614,344)	165	-
Direct Property	519,750	3,636	-	(1,636)	521,750
	<b>8,362,855</b>	<b>4,020,497</b>	<b>(3,989,535)</b>	<b>284,487</b>	<b>8,678,304</b>
Short-Term Cash Deposits	53,226				86,098
Other Investment Balances	99,613			355	104,196
	<b>8,515,694</b>			<b>284,842</b>	<b>8,868,598</b>

<b>2017/18</b>	<b>Market Value 31/3/17</b>	<b>Purchases at Cost and Derivative Payments</b>	<b>Sale Proceeds and Derivative Receipts</b>	<b>Change in Market Value*</b>	<b>Market Value 31/3/18</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Equities	2,728,658	1,272,950	(1,225,858)	(7,342)	2,768,408
Pooled Investment Vehicles	4,804,297	550,657	(414,391)	133,916	5,074,479
Derivative Contracts	224	979,418	(982,541)	3,117	218
Direct Property	431,150	71,899	-	16,701	519,750
	<b>7,964,329</b>	<b>2,874,924</b>	<b>(2,622,790)</b>	<b>146,392</b>	<b>8,362,855</b>
Short-Term Cash Deposits	75,222				53,226
Other Investment Balances	117,550			(4,721)	99,613
	<b>8,157,101</b>			<b>141,671</b>	<b>8,515,694</b>

\* Note: The change in market value of investments during the year comprises all realised and unrealised appreciation and depreciation.

Direct transaction costs are shown under investment management costs in note 11b, in accordance with CIPFA guidance. Indirect costs are incurred through the bid-offer spread on investments in pooled vehicles. The amount of indirect costs is not provided directly to the Fund.

### 13a. Analysis of Investments

	2018/19 £'000	2017/18 £'000
<b>Equities (Segregated Holdings)</b>		
UK Quoted	1,150,144	1,261,630
Overseas Quoted	1,645,295	1,506,778
	<b>2,795,439</b>	<b>2,768,408</b>
<b>Bonds</b>		
UK Public Sector Quoted	665,610	-
	<b>665,610</b>	<b>-</b>
<b>Pooled Investment Vehicles</b>		
<b>UK Managed Funds:</b>		
Property	53,948	43,961
Equities	138,487	130,528
Private Equity	286,359	311,657
Hedge Funds	41,772	44,079
Corporate Bonds	354,726	343,277
Infrastructure	353,669	252,983
Opportunities	343,556	324,309
<b>Overseas Managed Funds:</b>		
Equities	494,233	486,772
Private Equity	279,333	251,754
Hedge Funds	221,975	226,624
Infrastructure	192,604	175,233
Opportunities	209,989	136,854
<b>UK Unit Trusts:</b>		
Property	116,426	107,949
<b>Overseas Unit Trusts:</b>		
Property	124,120	96,448
<b>Other Unitised Funds</b>	1,484,308	2,142,051
	<b>4,695,505</b>	<b>5,074,479</b>
<b>Derivative Contracts</b>	-	<b>218</b>
<b>UK Properties</b>		
Freehold	387,820	394,100
Leasehold	133,930	125,650
	<b>521,750</b>	<b>519,750</b>
Balance at 1 April	519,750	431,150
Additions	3,636	71,899
Disposals	-	-
Net Gain/Loss on Fair Value	-	-
Other Changes in Fair Value	(1,636)	16,701
<b>Balance at 31 March</b>	<b>521,750</b>	<b>519,750</b>

As at 31 March 2019 there were no restrictions on the realisability of investment property or of the remittance of income or proceeds of disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties.

<b>Short-Term Cash Deposits</b>	2018/19 £'000	2017/18 £'000
Sterling	86,098	53,226
	<b>86,098</b>	<b>53,226</b>

<b>Other Investment Balances</b>	2018/19 £'000	2017/18 £'000
Outstanding Trades	7,439	9,486
Outstanding Dividend	22,275	17,566
Entitlements and Recoverable Withholding Tax		
Cash Deposits	74,482	72,561
	<b>104,196</b>	<b>99,613</b>

## 13b. Analysis of Derivatives

### Forward Currency Contracts

The Fund's forward currency contracts are exchange traded and are used by a number of our external Investment Managers to hedge exposures to foreign currency back into Sterling.

Settlement Date	Currency Bought '000	Currency Sold '000	Asset £'000	Liability £'000
Up to one month	GBP 20,080	EUR 23,389	-	(91)
			-	(91)
<b>Net Forward Currency Contracts at 31 March 2019</b>				<b>(91)</b>
<b>Prior Year Comparative</b>				
Open Forward Currency Contracts at 31 March 2018			218	-
<b>Net Forward Currency Contracts at 31 March 2018</b>				<b>218</b>



### 13c. Summary of Managers' Portfolio Values at 31 March 2019

	2018/19		2017/18	
	£'m	%	£'m	%
<b>Externally Managed</b>				
JP Morgan (European Equities)	260	2.9	252	3.0
Nomura (Japan)	353	4.0	461	5.4
Schroders (Fixed Income)	355	4.0	343	4.0
Legal & General (Fixed Income)	382	4.3	369	4.3
Unigestion (European Equities and Pooled Emerging Markets)	337	3.8	319	3.8
M&G (Global Emerging Markets)	188	2.1	183	2.1
TT International (UK Equities)	249	2.8	249	2.9
Blackrock (UK Equities)	272	3.1	252	3.0
Blackrock (Pacific Rim)	158	1.8	152	1.8
Blackrock (QIF)	91	1.0	87	1.0
Newton (UK Equities)	281	3.2	263	3.1
Amundi (Global Emerging Markets)	187	2.1	186	2.2
Maple-Brown Abbot (Pacific Rim Equities)	177	2.0	166	1.9
State Street Global Advisor (Passive Manager)	1,104	12.3	1,773	20.9
State Street Global Advisor (Bonds Manager)	666	7.5	-	-
Blackrock (Transition Manager)	1	-	195	2.3
	<b>5,061</b>	<b>56.9</b>	<b>5,250</b>	<b>61.7</b>
<b>Internally Managed</b>				
UK Equities	450	5.1	401	4.7
European Equities	247	2.8	246	2.9
Property (Direct)	522	5.9	520	6.1
Property (Indirect)	316	3.6	270	3.2
Private Equity	566	6.4	563	6.6
Hedge Funds	264	3.0	271	3.2
Infrastructure	456	6.2	428	5.0
Opportunities	580	6.5	486	5.7
Global Equities Internal Factor	201	2.3	-	-
Short-Term Deposits and Other Investments	116	1.3	80	0.9
	<b>3,808</b>	<b>43.1</b>	<b>3,265</b>	<b>38.3</b>
	<b>8,869</b>	<b>100.0</b>	<b>8,515</b>	<b>100.0</b>

As at 31 March 2019 no single investment represented more than 5% of the net assets of the Fund, the table below shows the position as at 31 March 2018:

	2018/19		2017/18	
	£'m	%	£'m	%
SSGA Pooled UK Index-Linked Gilts	-	-	682	8.0
SSGA USA Equity Tracker	396	4.5	613	7.2

### 13d. Stock Lending

As at 31 March 2019, £275.1 million of stock was on loan to market makers, which was covered by cash and non-cash collateral, totalling £301.2 million. Collateral is marked to market, and adjusted daily. Income from Stock Lending amounted to £926,260 and is included within 'Other' Investment Income.

As the Fund retains its economic interest in stock on loan, their value remains within the Fund valuation.

As the Fund has an obligation to return collateral to the borrowers, collateral is excluded from the Fund valuation. The Fund used its Custodian as agent lender, lending only to an agreed list of approved borrowers. An indemnity is in place which gives the Fund further protection against losses.

### 14. Fair Value - Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

<b>Description of Asset</b>	<b>Valuation Hierarchy</b>	<b>Basis of Valuation</b>	<b>Observable and Unobservable Inputs</b>	<b>Key Sensitivities Affecting the Valuations Provided</b>
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period.	Not Required	Not Required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields.	Not Required	Not Required
Derivatives - Futures and Options	Level 1	Published exchange prices at year end.	Not Required	Not Required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges.	Not Required	Not Required
Unquoted Bonds	Level 2	Average of broker prices.	Evaluated Price Feeds	Not Required
Derivatives - Forward Currency Contracts	Level 2	Market forward exchange rates at the year end.	Not Required	Not Required
Pooled Investments - Overseas Unit Trusts and Property Funds	Level 2	Closed bid price where bid and offer prices are published - closing single price where single price is published. Valuation for property funds are provided by fund managers and where available closing bid prices are used.	NAV - based pricing set on a forward pricing basis.	Not Required
Direct Property	Level 3	Valued at fair value at the year end using independent external Valuers in accordance with FRS 13, SSAP 19 and the Royal Institution of Chartered Surveyors (RICS) Valuation - Global Standards (the 'RICS Red Book').	Existing lease terms and rentals, independent market research, nature of tenancies, covenant strength of existing tenants, assumed vacancy levels, estimated rental growth, discount rate.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices.
Unquoted Equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines or equivalent.	EBITDA multiple, revenue multiple, discount for lack of marketability, control premium.	Material events occurring between the date of the financial statements provided and the Fund's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.
Pooled Investments - Hedge Funds and Infrastructure	Level 3	The funds are valued in accordance with International Financial Reporting Standards (IFRS). The valuation basis, determined by the relevant Fund Manager, may be any of quoted market prices, broker or dealer quotations, transaction price, third party transaction price, industry multiples and public comparables, transitions in similar techniques, third party independent appraisals or pricing models.	NAV - based pricing set on a forward pricing basis.	Material events occurring between the date of the financial statements provided and MPF's own reporting date, changes to expected cashflows, differences between audited and unaudited accounts.

**Sensitivity of assets valued at Level 3**

The table below sets out the assets classified as Level 3 assets. The Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges (as provided by the Fund's investment consultants), and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

There are various factors that affect the complexity of valuation and the realisable value of assets and certain asset specific issues may lead to realisable valuations falling outside the stated range.

<b>31 March 2019</b>	<b>Value £'000</b>	<b>Potential Variance %</b>	<b>Value on Increase £'000</b>	<b>Value on Decrease £'000</b>
Property	846,330	10.0	930,963	761,697
Unquoted UK Equity	109,288	15.0	125,681	92,895
Unquoted Overseas Equity	84,709	15.0	97,415	72,003
Hedge Funds	223,678	10.0	246,046	201,310
Infrastructure	530,218	15.0	609,751	450,685
Private Equity	656,899	15.0	755,434	558,364
<b>Total</b>	<b>2,451,122</b>			

## 14a. Fair Value Hierarchy

Assets valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values.

For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in 'Practical Guidance on Investment Disclosures (PRAG/Investment Association 2016)'

### Level 1

Assets at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the market quotation of the relevant stock exchange.

### Level 2

Assets at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

### Level 3

Assets at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such investments would include unquoted equity investments and Hedge Fund of Funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in Private Equity are based on valuations provided by the general partners to the Private Equity funds in which Merseyside Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The values of the investment in Hedge Funds are based on the net asset value provided by the Fund Manager. Assurances over the valuation are gained from the independent audit of the value.

The following table provides an analysis of the financial assets of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	4,457,295	1,769,887	1,929,372	8,156,554
Non-Financial Assets at Fair Value through Profit and Loss			521,750	521,750
Financial Liabilities		(91)		(91)
<b>Net Investment Assets</b>	<b>4,457,295</b>	<b>1,769,796</b>	<b>2,451,122</b>	<b>8,678,213</b>

Values at 31 March 2018*	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	3,760,289	2,411,082	1,671,734	7,843,105
Non-Financial Assets at Fair Value through Profit and Loss			519,750	519,750
<b>Total Financial Assets</b>	<b>3,760,289</b>	<b>2,411,082</b>	<b>2,191,484</b>	<b>8,362,855</b>

\* The financial assets at fair value through profit and loss values at 31 March 2018 have been restated, £63.6 million has moved from Level 2 to Level 3.

A reconciliation of fair value measurements in Level 3 is set out below:

	<b>2018/19</b>	<b>2017/18*</b>
	<b>£'000</b>	<b>£'000</b>
Opening Balance	2,191,484	1,884,029
Acquisitions	372,555	357,280
Disposal Proceeds	(232,512)	(179,809)
Transfer into Level 3	-	66,145
Total Gains/(Losses) Included in the Fund Account:		
On Assets Sold	(7,717)	2,487
On Assets Held at Year End	127,312	61,352
<b>Closing Balance</b>	<b>2,451,122</b>	<b>2,191,484</b>

\* The information for 2017/18 has been restated.

## 15. Financial Instruments

### 15a. Classification of Financial Instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category and net asset statement heading.

31 March 2019	Assets at Amortised Cost £'000	Liabilities at Amortised Cost £'000	Fair Value Through Profit and Loss £'000
<b>Financial Assets</b>			
Equities			2,795,439
Bonds			665,610
Pooled Investment Vehicles			4,695,505
Derivatives			-
Cash Deposits	86,098		
Other Investment Balances	104,196		
Long-Term and Current Assets	39,559		
<b>Total Financial Assets</b>	<b>229,853</b>	<b>-</b>	<b>8,156,554</b>
<b>Grand Total</b>	<b>8,386,407</b>		
<b>Financial Liabilities</b>			
Derivatives			(91)
Other Investment Balances		(8,354)	
Current Liabilities		(16,974)	
<b>Total Financial Liabilities</b>	<b>-</b>	<b>(25,328)</b>	<b>(91)</b>
<b>Grand Total</b>	<b>(25,419)</b>		
<b>Grand Net Total</b>	<b>8,360,988</b>		

31 March 2018	Assets at Amortised Cost £'000	Liabilities at Amortised Cost £'000	Fair Value Through Profit and Loss £'000
<b>Financial Assets</b>			
Equities			2,768,408
Bonds			-
Pooled Investment Vehicles			5,074,479
Derivatives			218
Cash Deposits	53,226		
Other Investment Balances	99,613		
Long-Term and Current Assets	84,922		
<b>Total Financial Assets</b>	<b>237,761</b>	<b>-</b>	<b>7,843,105</b>
<b>Grand Total</b>	<b>8,080,866</b>		
<b>Financial Liabilities</b>			
Other Investment Balances		(13,736)	
Current Liabilities		(23,439)	
<b>Total Financial Liabilities</b>	<b>-</b>	<b>(37,175)</b>	<b>-</b>
<b>Grand Total</b>	<b>(37,175)</b>		
<b>Grand Net Total</b>	<b>8,043,691</b>		



To allow reconciliation to the Net Asset Statement and for ease to the reader, all long term & current assets and current liabilities have been included in the above note, although not all are classified as financial instruments, the amounts that are not financial instruments are considered immaterial.

### 15b. Net Gains and Losses on Financial Instruments

	2018/19 £'000	2017/18 £'000
<b>Financial Assets</b>		
Fair Value Through Profit and Loss	286,123	129,691
<b>Total Financial Assets</b>	<b>286,123</b>	<b>129,691</b>
<b>Financial Liabilities</b>	-	-
<b>Total Financial Liabilities</b>	<b>-</b>	<b>-</b>
<b>Net</b>	<b>286,123</b>	<b>129,691</b>

### 15c. Fair Value of Financial Instruments

There is no material difference between the carrying value and fair value of financial instruments. The majority of financial instruments are held at fair value, and for those which aren't, their amortised cost is considered to be equivalent to an approximation of fair value.

## 16. Nature and Extent of Risks Arising from Financial Instruments

### Risk and Risk Management

The Fund's objective is to achieve a funding level position of 100% whilst minimising the level and volatility of employer contributions. Investment strategy is decided with clear reference to this objective.

Over the long term, the Fund's objective is to set policies that will seek to ensure that investment returns achieved, will at least match the assumptions underlying the actuarial valuation, and therefore be appropriate to the liabilities of the Fund.

Having regard to its liability profile, the Fund has determined that adopting a bespoke benchmark should best enable it to implement an effective investment strategy. This strategic benchmark is reviewed every three years, at a minimum, at the time of the actuarial valuation, but will be reviewed as required, particularly if there have been significant changes in the underlying liability profile or the investment environment.

The Fund has carefully considered the expected returns from the various permitted asset classes and has concluded that in the longer term the return on equities will be greater than from other conventional assets. Consequently, the benchmark is biased towards equities and skewed towards active management, particularly in less developed markets.

The Fund is also cognisant of the risk that the shorter term returns may vary significantly from one period to another and between the benchmark and actual returns. Diversification of assets is seen as key to managing this risk, and the risk/return characteristics of each asset, and their relative correlations are reflected in the make-up of the strategic benchmark.

The Fund believes that, over the long term, a willingness to take on volatility and illiquidity is likely to be rewarded with outperformance. The Fund considers that its strong employer covenant, maturity profile and cash flows enable it to adopt a long term investment perspective. A mix of short term assets such as bonds and cash is maintained to cover short term liabilities, while equities (both passive and active), private equity and direct property are held to benefit from the potential rewards arising from volatility and illiquidity risks. The Fund recognises that risk is inherent in investment activity and seeks to manage the level of risk that it takes in an appropriate manner.

The Fund manages investment risks through the following measures:

- Broad diversification of types of investment and Investment Managers.
- Explicit mandates governing the activity of Investment Managers.
- The use of a specific benchmark, related to liabilities of the Fund for investment asset allocation.
- The appointment of Independent Investment Advisors to the Investment Monitoring Working Party.
- Comprehensive monitoring procedures for Investment Managers including internal officers and scrutiny by elected Members.

## 16a. Market Risk

The Fund is aware that its key risk is market risk i.e. the unpredictability of market performance in the future. The general practice to quantify these risks is to measure the volatility of historical performance. The following tables show the Fund's exposure to asset classes and their reasonable predicted variance (as provided by the Fund's investment consultants) and the resulting potential changes in net assets available to pay pensions. The figures provided are a forward-looking assumption of future volatility based on analysis of previous performance and probability.

<b>31 March 2019</b>	<b>Value £'m</b>	<b>Potential Variance %</b>	<b>Value on Increase £'m</b>	<b>Value on Decrease £'m</b>
UK Equities (all Equities including Pooled Vehicles)	1,496	19.0	1,780	1,211
US Equities	569	21.0	689	450
Canadian Equities	9	24.0	11	7
European Equities	841	22.5	1,030	652
Japanese Equities	379	20.5	456	301
Emerging Markets Equities including Pacific Rim	876	28.0	1,121	630
Global Equities (all Equities including Pooled Vehicles)	428	19.5	512	345
UK Fixed Income Pooled Vehicles	735	11.0	816	655
UK Index-Linked Pooled Vehicles	-	9.0	-	-
UK Bonds	666	9.0	726	606
Pooled Property	294	12.5	331	258
Private Equity	566	27.5	721	410
Hedge Funds	264	9.5	289	239
Infrastructure	546	18.5	647	445
Other Alternative Assets	488	14.1	557	419
Short-Term Deposits and Other Investment Balances	204	0	204	204
<b>Total</b>	<b>8,361</b>			

<b>31 March 2018</b>	<b>Value £'m</b>	<b>Potential Variance %</b>	<b>Value on Increase £'m</b>	<b>Value on Decrease £'m</b>
UK Equities (all Equities including Pooled Vehicles)	1,801	19.0	2,143	1,459
US Equities	652	21.0	789	515
European Equities	777	22.5	952	603
Japanese Equities	461	20.5	556	367
Emerging Markets Equities including Pacific Rim	819	28.0	1,049	590
UK Fixed Income Pooled Vehicles	712	11.0	790	634
UK Index-Linked Pooled Vehicles	682	9.0	743	620
Pooled Property	248	12.5	279	217
Private Equity	563	27.5	718	408
Hedge Funds	271	9.5	296	245
Infrastructure	428	18.5	507	349
Other Alternative Assets	429	14.0	489	369
Short-Term Deposits and Other Investment Balances	201	0.0	201	201
<b>Total</b>	<b>8,044</b>			

## 16b. Credit Risk

The Fund does not hold any Fixed Interest Securities directly and the Managers of the Fixed Income Vehicles are responsible for managing credit risk, section 16a of this note covers the market risks of these holdings.

The Fund's arrangements for derivatives, securities lending and impaired items are dealt with in other notes to the accounts.

The short-term cash deposits and other investment balances are diversified with investment grade financial institutions. The Fund has a treasury management policy that is compliant with current best practice.

The Fund's cash holding under its treasury management arrangements as at 31 March 2019 was £86.1 million (31 March 2018 £53.2 million). This was held in instant access accounts with the following institutions:

	Rating S&P	Balances as at 31 March 2019 £'000	Balances as at 31 March 2018 £'000
Lloyds Bank	Long A Short A-1	22,717	33,226
Invesco	AAAm	15,000	10,000
Santander	Long A Short A-1	-	10,000
Svenska Handelsbanken	Long AA- Short A-1+	20,000	-
Northern Trust	AAAm	28,381	-
<b>Total</b>		<b>86,098</b>	<b>53,226</b>

## 16c. Liquidity Risk

The Fund's key priority is to pay pensions in the long term and in the short term and the asset allocation is the key strategy in ensuring this. The earlier sections have dealt with the longer term risks associated with market volatility.

The Fund had a cash balance at 31 March of £86.1 million. The Fund has £6,249 million in assets which could be realised in under 7 days' notice, £822 million in assets which could be realised in under 90 days' notice and £1,290 million in assets which could not be realised within a 90 day period.

The Fund has no borrowing or borrowing facilities.

The management of the Fund also prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. Whilst the Fund had a net withdrawal for 2018/19 in its dealing with members of £137 million and management expenses of £44 million, this is offset by investment income of £221 million.

## 16d. Outlook for Real Investment Returns

The expectation of future real investment returns can affect the Fund's liabilities as they may impact on the discount rate used by the actuary to discount the liabilities; the Fund's actuary has calculated that the Fund has sensitivity to this discount rate of 20% per 1% change in real investment returns. The Fund considers both the liabilities and assets together, and assesses the funding ratio and the implications for investment strategy on a quarterly basis at the IMWP.

## 17. Funding Arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The most recent triennial valuation by the actuary was as at 31 March 2016, when the funding level was 85% of projected actuarial liabilities (2013 76%). The funding objective is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay. The Funding Strategy Statement (FSS) specifies a maximum period for achieving full funding of 19 years.

The funding method adopted is the projected unit method, which implicitly allows for new entrants replacing leavers.

The key elements of the funding policy are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designating and admitted bodies, while achieving and maintaining Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes;
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

### Summary of Key whole Fund assumptions used for calculating funding target

	31 March 2016 % p.a.
<b>Long-Term Yields</b>	
Market Implied RPI Inflation	3.20
<b>Solvency Funding Target Financial Assumptions</b>	
Investment Return	4.20
CPI Price Inflation	2.20
Salary Increases	3.70
Pension Increases	2.20
<b>Future Service Accrual Financial Assumptions</b>	
Investment Return/Discount Rate	4.95
CPI Price Inflation	2.20
Salary Increases	3.70
CARE	2.20

## 18. Investment Liabilities

	2018/19 £'000	2017/18 £'000
Derivative Contracts	91	-
Amounts Due to Stockbrokers	8,354	13,736
	<b>8,445</b>	<b>13,736</b>

## 19. Long-Term Assets

	2018/19 £'000	2017/18 £'000
Assets due in more than one year	4,146	5,013
	<b>4,146</b>	<b>5,013</b>

Assets due in more than one year include future payments of pension strain and reimbursement of lifetime tax allowances.

## 20. Current Assets and Liabilities

	2018/19 £'000	2017/18 £'000
<b>Assets</b>		
Contributions Due	17,270	17,431
Amounts Due from External Managers	417	41,296
Accrued and Outstanding Investment Income	344	1,152
Sundries	14,192	14,889
Provision for Credit Losses	(157)	(118)
Cash at Bank	3,347	5,259
	<b>35,413</b>	<b>79,909</b>
<b>Liabilities</b>		
Amounts Due to External Managers	165	966
Transfer Values Payable	-	-
Retirement Grants Due	2,177	3,467
Provisions	494	432
Miscellaneous	14,138	18,574
	<b>16,974</b>	<b>23,439</b>
<b>Total Current Assets and Liabilities</b>	<b>18,439</b>	<b>56,470</b>

'Sundries' mainly covers general debtors, property arrears due, agents' balances and recoverable taxation.

'Provision for Credit Losses' relates to general debtors and property rental income and is based on an assessment of all individual debts as at 31 March 2019.

The main components of 'Miscellaneous Liabilities' are the outstanding charges for Investment Management fees, payable quarterly in arrears, Custodian and Actuarial fees, plus income tax due, pre-paid rent and Administering Authority re-imbursement.



## 21. Contractual Commitments

Commitments for investments amounted to £1,064 million as at 31 March 2019 (2017/18 £534.86 million). These commitments relate to Private Equity £494.08 million, Infrastructure £276.54 million, Opportunities £72.46 million, Indirect Property £221.13 million. As some of these funds are denominated in foreign currencies, the commitment in sterling is subject to change due to currency fluctuations.

## 22. Contingent Assets

When determining the appropriate Fund policy for employers, the different participating characteristics as either a contractor or community body or whether a guarantor of sufficient financial standing agrees to support the pension obligations is taken into consideration when setting the fiduciary strategy.

It is the policy to actively seek mechanisms to strengthen employer covenants by engaging 'contingent assets' in the form of bonds/ indemnity insurance, local authority guarantors, parent company guarantors or charge on assets to mitigate the risk of employers exiting the Fund leaving unrecoverable debt.

These financial undertakings are drawn in favour of Wirral Council, as the Administering Authority of Merseyside Pension Fund and payment will only be triggered in the event of employer default.

## 23. Related Party Transactions

There are three groups of related parties: transactions between Wirral Council, as Administering Authority, and the Fund, between employers within the Fund and the Fund, and between Members and Senior Officers and the Fund.

Management expenses include charges by Wirral Council in providing services in its role as Administering Authority to the Fund, which amount to £3.7 million. (2017/18 £3.3 million). Such charges principally relate to staffing required to maintain the pension service. Central, Finance

and IT costs are apportioned to the Fund on the basis of time spent on Fund work by Wirral Council. There was a debtor of £10.3 million (2017/18 £9.1 million) and a creditor of £341,033 as at 31 March 2019 (2017/18 £254,502).

Employers are related parties in so far as they pay contributions to the Fund in accordance with the appropriate Local Government Pension Scheme (LGPS) Regulations. Contributions for the year are shown in note 7, and in respect of March 2019, payroll are included within the debtors figure in note 20.

A specific declaration has been received from the Pensions Committee Members, Pension Board Members and principal officers regarding membership of, and transactions with, such persons or their related parties. A number of Members act as Councillors or Board members of particular Scheme employers, listed below, who maintain a conventional employer relationship with the Fund:

Liverpool City Council, Knowsley Council, Sefton Council, St Helens Borough Council, Wirral Council, Knowsley Youth Mutual, Whiston Town Council, Rainhill Parish Council, One Vision Housing, CDS Housing, Greater Hornby Homes and Wirral Partnership Homes (also known as Magenta Living). The value of the transactions with each of these related parties, namely the routine monthly payments to the Fund of employers' and employees' contributions, is determined by the LGPS Regulations, and as such no related party transactions have been declared.

Peter Wallach, Director of Pensions, acts in an un-remunerated board advisory capacity on five investment bodies in which the Fund has an interest, Eclipse (£14.5 million), Standard Life (£14.7 million), F&C (£20.4 million) and GLIL (£111.1 million) and NPEP.

Linda Desforges, Senior Portfolio Manager, acts in an un-remunerated board advisory capacity on five investment bodies in which the Fund has an interest; Standard Life (£14.7 million), BBH Capital (£13.5 million), TEO Plc (£15.3 million), GCM Grosvenor Co-Investment Fund (£8.9 million) and F&C (£20.4 million).

Susannah Friar, Property Manager, acts in an un-remunerated board advisory capacity on eleven investment bodies in which the Fund has an interest, Partners Group Real Estate Asia Pacific 2011 (£5.3 million), Bridges Property Alternatives IV (£2.1 million), Century Bridge China Real Estate Fund II (£3.5 million), Phoenix Asia Secured Debt Fund (£6.1 million) Alma Property Partners (£9.4 million), Barwood Property (£12.5 million), Chenavari Real Estate III (£3.0 million), Newcore Strategic Situations IV (£5.0 million), Hearthstone Residential Fund I (£5.5 million), European Student Housing Fund II (£3.2 million) and Locust Point Private Credit Fund (£4.0 million).

Adil Manzoor, Portfolio Manager, acts in an un-remunerated board advisory capacity on five investment bodies in which the Fund has an interest, Standard Life Infrastructure Fund I (£8.8 million), Blackrock GRP Fund I (£19.3 million) and AMP GIF II (£12.1 million), Industrial Strategies Fund - Waybill UK Ltd (£21.5 million) and Impax New Energy Investors III LP (£1.1 million).

Each member of the Pensions Committee and Local Pension Board formally considers conflicts of interest at each meeting.

### Key Management Personnel

The Fund's senior management during 2018/19 was comprised of six individuals: the Director of Pensions, the Head of Pensions Administration, three Senior Portfolio Managers and Head of Finance & Risk. The remuneration paid to the senior management during 2018/19 was £402,649 (2017/18 £421,487). In addition, employer contributions of £58,063 (2017/18 £56,995) was also met from the Fund and charged to the Fund Account. The post of Senior Investment Manager was deleted during the year 2017/18.

## 24. Additional Voluntary Contribution Investments

	2018/19 £'000	2017/18 £'000
<b>The Aggregate Amount of AVC Investments is as follows:</b>		
Equitable Life	1,985	2,015
Standard Life	5,286	5,988
Prudential	8,739	7,930
	<b>16,010</b>	<b>15,933</b>
<b>Changes During the Year were as follows:</b>		
Contributions	3,394	3,432
Repayments	3,685	2,441
Change in Market Values	368	383

# Statement of Responsibilities

---

## The Authority's Responsibilities

The Council as Administering Authority of Merseyside Pension Fund is required:

- to make arrangements for the proper administration of the financial affairs of the Fund and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer;
- to manage the affairs of the Fund to secure economic, efficient use of resources and safeguard its assets.

## Section 151 Officer Responsibilities

The Section 151 Officer is responsible for the preparation of the Fund's Statement of Accounts which, in terms of the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in Great Britain (the Code), is required to present fairly the financial position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2019.

In preparing this statement of accounts, the Section 151 Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgments and estimates that were reasonable and prudent;
- complied with the Code.

Section 151 Officer has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

## The Section 151 Officer's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the Fund at 31 March 2019, and its income and expenditure for the year then ended.



**Shaer Halewood**  
Section 151 Officer  
July 2019

# Audit Report

---

Independent auditor's report to the members of Wirral Council on the consistency of the pension fund financial statements of Merseyside Pension Fund included in the Pension Fund Annual Report

## Opinion

The pension fund financial statements of Merseyside Pension Fund (the 'pension fund') administered by Wirral Council (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and the Notes to the Pension Fund Accounts, including a summary of significant accounting policies are derived from the audited Pension Fund Accounts for the year ended 31 March 2019 included in the Authority's Statement of Accounts (the 'Statement of Accounts').

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 and applicable law.

## Pension Fund Annual Report - Pension Fund Financial Statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

## The Audited Financial Statements and our Report Thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated xx xxxx xxxx

## Director of Finance and Investment (\$151) Responsibilities for the Pension Fund Financial Statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Director of Finance and Investment (\$151) of the Authority is responsible for the preparation of the pension fund financial

statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19

## Auditor's Responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

## Use of Our Report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

## Grant Patterson Key Audit Partner

For and on behalf of Grant Thornton UK LLP,  
Local Auditor  
Birmingham

xx xxxx xxxx

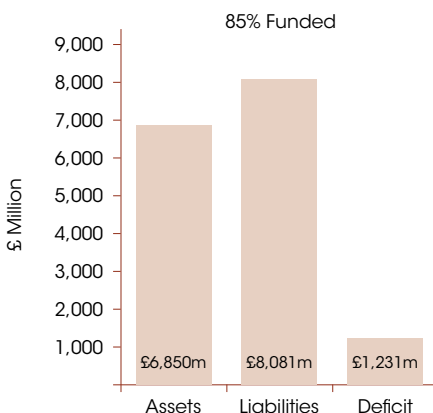
# Consulting Actuary's Statement

## Accounts for the Year Ended 31 March 2019 Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 57(1)(d) of The Local Government Pension Scheme Regulations 2013.

An actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2016 to determine the contribution rates with effect from 1 April 2017 to 31 March 2020.

On the basis of the assumptions adopted, the Fund's assets of £6,850 million represented 85% of the Fund's past service liabilities of £8,081 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £1,231 million.



The valuation also showed that a Primary contribution rate of 15.4% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain, a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation, a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall (or contribution reductions to refund any surplus).

The Funding Strategy Statement (FSS) sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average deficit recovery period is 19 years, and the total initial recovery payment (the 'Secondary rate') for 2019/20 is approximately £52.8 million (this allows for some employers to phase in any increases or to make a prepayment in April 2017). For all employers, the Secondary rate will increase at 3.7% per annum, except where phasing has been applied. With the agreement of the Administering Authority, employers may also opt to pay some of their deficit contributions early (after suitably agreed reductions), with either all three years being paid in April 2017 or payment being made in the April of the year in question.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 31 March 2017.

In practice, each individual employer's position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill health retirements) will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. with regard to the implementation of contribution increases and deficit recovery periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	<b>For past Service Liabilities (Funding target) per annum</b>	<b>For future Service Liabilities (Primary rate of contribution) per annum</b>
Rate of return on investments (discount rate)	4.2%	4.95%
Rate of pay increases (long term)*	3.7%	3.7%
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.2%	2.2%

\* allowance was also made for short term public sector pay restraint over a 4 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2019. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2020.

### **Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26**

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	<b>31 March 2018 per annum</b>	<b>31 March 2019 per annum</b>
Rate of return on investments (discount rate)	2.6%	2.4%
Rate of CPI Inflation / CARE Benefit revaluation	2.1%	2.2%
Rate of pay increases*	3.6%	3.7%
Rate of increases in pensions in payment (in excess of GMP) / Deferred Revaluation	2.2%	2.3%

\* includes a corresponding allowance to that made in the latest formal actuarial valuation for short term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2017.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £11,285 million. Interest over the year increased the liabilities by c£293 million, and allowing for net benefits accrued/paid over the period decreased the liabilities by c£18 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £78 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was an increase in liabilities of £627 million due to 'actuarial gains' (i.e. the effect of the changes in the actuarial assumptions used, referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £12,265 million.

## The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to 'McCloud'), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

We have carried out some costings of the potential effect of McCloud as at 31 March 2019, based on the individual member data as supplied to us for the 2016 actuarial valuation, and this results in an additional liability of £78 million using the IAS 26 assumptions outlined above. The approach to the calculations is as instructed by the Administering Authority after consideration of the categories of members potentially affected, but in very broad terms calculates the cost of applying a 'final salary underpin' (on a member by member basis) to those active members who joined the Fund after 1 April 2012 and who would not otherwise have benefited from the underpin.



## GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs.

Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgement", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits.

Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage.

However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.



**Paul Middleman**  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
July 2019



**Clive Lewis**  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
July 2019





## **Report & Accounts 2018/19**

### **Fund Policies**

Communications Policy 2018

Funding Strategy Statement 2018

Governance Policy 2015

Investment Strategy Statement 2017

Pensions Administration Strategy 2018



Merseyside Pension Fund

# **Communications Policy**

Wirral Metropolitan Borough Council

As approved by Pensions Committee on **16 July 2018** following consultation with the Local Pension Board

# Contents

<b>Introduction.....</b>	<b>4</b>
<b>General Communications .....</b>	<b>4</b>
Telephone.....	5
Internet .....	5
Social Media .....	5
Public Enquiry Counter .....	5
Access to Communications .....	6
<b>Communicating with Scheme Members.....</b>	<b>7</b>
Members' Website – <a href="http://mpfmembers.org.uk">mpfmembers.org.uk</a> .....	7
Annual Benefit Statement .....	7
Scheme Literature .....	7
Newsletters .....	7
Presentations & Courses.....	8
<b>Communicating with Members' Representatives.....</b>	<b>9</b>
<b>Communicating with Prospective Members.....</b>	<b>9</b>
Scheme booklet & Website.....	9
Trade Unions .....	9
<b>Communicating with Scheme Employers .....</b>	<b>9</b>
Employers' Website – <a href="http://mpfemployers.org.uk">mpfemployers.org.uk</a> .....	9
Pension Liaison Officer .....	9
Employer News Alerts.....	10
Annual Report & Accounts.....	10
Annual Employers' Conference.....	10
Pension Liaison Officers Group .....	10
Practitioner Training .....	10

# Introduction

Merseyside Pension Fund (the Fund) is one of the largest Local Government Pension Schemes in the UK and manages the pension records of over 135,000 members.

The Fund is committed to providing clear, accurate, comprehensive and timely information to all stakeholders, through the most appropriate and cost-effective communication medium. Funds in England and Wales are required to publish a statement of policy under Regulation 61 of the Local Government Pension Scheme Regulations 2013 relating to the communications with members and Scheme employers.

As required by the regulations, this policy will outline the Fund's activities in regard:

- Communications to members, representatives of members, prospective members and Scheme employers;
- The format, frequency and method of distributing such information;
- The promotion of the Scheme to prospective members and their employers;

This policy will be revised and republished following any material change in policy.

## General Communications

For general communications, the Fund can be contacted at:

Merseyside Pension Fund  
Castle Chambers  
43 Castle Street  
Liverpool  
L2 9SH

**Telephone:** 0151 242 1390  
**Fax:** 0151 236 3520  
**Email:** [mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)



## Telephone

All Fund communications to individual members have a published telephone number. The number may be a general enquiry number, a workgroup or helpline number (such as Pensions Payroll) or, in individual cases, a direct telephone number to the staff member responsible.

For training purposes and as part of its continual improvement programme, the Fund may monitor and record calls.

## Internet

The Fund has two main websites:

- <https://mpfmembers.org.uk>
- <https://mpfemployers.org.uk>

These can also be accessed via <http://merseysidepensionfund.org.uk>

## Social Media

The Fund has a presence on Facebook and Twitter, where members can be notified of notices and news recently published on our main members' website. Members can also directly message the Fund via both these platforms:

- <https://www.facebook.com/mpfmembers>
- <https://twitter.com/mpfmembers>

## Public Enquiry Counter

For those members who prefer 'face to face' communication, the Fund's offices are centrally situated in Liverpool city centre and are easily accessible by public transport from all areas of Merseyside. A public enquiry counter is situated on the 7th floor of Castle Chambers, open from 9.00 to 5.00, Monday to Friday. A private interview room is available for members who wish to discuss confidential matters.

Appointments can be made to discuss specific pension options or problems and, if necessary, appropriate staff can visit a workplace or members at home in cases of special need.

## **Access to Communications**

The Fund is committed to make all necessary and reasonable adjustments to help members who require assistance to access our communications. The Fund can arrange large print, audio or Braille versions of all literature.

All print and electronic communications are designed with full consideration for those with additional needs. This is to ensure that all members can access our services. All communications media is measured against accessibility standards. The Fund is assisted by various partner organisations in fulfilling the objectives of the Equality Act 2010.

# Communicating with Scheme Members

## **Members' Website – [mpfmembers.org.uk](http://mpfmembers.org.uk)**

The website has individual sections for active, pensioner and deferred members, reflecting the diverse needs of our membership. The site provides explanation, guidance and updates for all categories of member.

An important part of the website is given over to the governance of the Fund, its statutory responsibilities and investment performance. This demonstrates the Fund's commitment to transparency in our dealings with members and all stakeholders.

Scheme members also have the opportunity to securely access their own pension records via the secure **MyPension** online portal and to update home address information.

## **Annual Benefit Statement**

An annual benefit statement is made available online for active and deferred members. These statements with supporting guidance notes are made available through the Fund's secure online portal. Annual benefit statements can be issued in paper form on written request to the Fund. The distribution of statements to active & deferred members is also an opportunity to summarise any changes to the Scheme regulations or other changes in regard pensions.

## **Scheme Literature**

Whilst the website contains detailed information and guidance for members, the Fund also maintains an extensive range of literature for all categories of member. Copies of scheme literature are made available on the members' website.

## **Newsletters**

'Honeypot' is the Fund's in-house newsletter for pensioners. Published annually, the newsletter is produced on paper and posted to the home address of all members in receipt of pension benefits. It proves to be a useful way of providing updates on pension increases, relevant changes in legislation, topical news, competitions, letters and maintaining a dialogue with our pensioner members.

For general communications to active members, the Fund produces news items for use by Scheme employers on intranets, broadcast emails, staff newsletters and manager briefing publications.

The Fund on occasion will utilise newsletters to communicate major Scheme changes to active and deferred members; the format is particularly useful when explaining multiple, complicated changes. Because of their nature, these newsletters are not produced at fixed times, but rather in response to changes in the regulations; with reference to the time restrictions imposed by the Disclosure regulations.

## **Presentations & Courses**

The Fund delivers standard or tailored presentations on a wide range of subjects for members. These presentations are provided on demand in conjunction with employers; although a minimum number of attendees will be required to justify Fund resources.

The Fund pro-actively arranges courses on wider topic areas and invites appropriate third parties to assist Fund staff in presenting relevant information, workshop activities and also to provide relevant support materials to take home. Courses can be delivered at employer sites or in Liverpool city centre.

Presentations & courses can be requested from the Communications team on **0151 242 1392** or **[mpfcomms@wirral.gov.uk](mailto:mpfcomms@wirral.gov.uk)**

# Communicating with Members' Representatives

Materials available to members are also available on request to their representatives or through the Members' website.

## Communicating with Prospective Members

### **Scheme booklet & Website**

Upon appointment with their employer, all prospective scheme members will be provided with a link to the Fund's website where they can access scheme booklets and the key forms for membership. The website also provides information to help members make an informed decision about contributing to the LGPS and how to opt out of the scheme should they so wish. The Fund's first contact to a new member, also reinforces the value of pension saving and provides once again the link to the Fund's website where they can access the scheme booklets.

### **Trade Unions**

The Fund works with the relevant trade unions to ensure the scheme is understood by all interested parties. Training days for branch officers can be provided upon request.

## Communicating with Scheme Employers

### **Employers' Website – [mpfemployers.org.uk](http://mpfemployers.org.uk)**

A website for Scheme employer specific communications and guidance, the employer's website is secured by a username and password.

Referencing the Payroll and HR guides published by the Local Government Association, it details the processes, procedures and forms required to effectively discharge the duties of an employer participating in the Scheme.

### **Pension Liaison Officer**

Each employer has a named member of staff who performs the duty of a Pension Liaison Officer. The primary contact for the Fund, this person is contactable by e-mail, telephone and in-person to assist the Fund in communication and supporting members.

The Pension Liaison Officer on appointment is given a username and password for the Employers' website and is also provided with the facility to request additional access for colleagues in their organisation.

## **Employer News Alerts**

Regular news items, such as changes to legislation, consultations and general administrative updates are communicated regularly to all registered users of the Employers' website.

## **Annual Report & Accounts**

The aim of the report is to highlight the important issues affecting the Fund over the previous twelve months, along with detail on both investment and administration performance.

## **Annual Employers' Conference**

A conference is held annually for all Scheme employers at which detailed investment, financial and administrative reports are presented by Fund officers. Other speakers are invited from government agencies and organisations connected to the pensions industry.

## **Pension Liaison Officers Group**

The Fund aims to hold three meetings each year with larger Scheme employers to discuss the topics of legislation, pension regulation, administration and other issues raised by the employers or the Fund. This dialogue proves useful in developing administrative processes and communications for the benefit of all Scheme employers and members.

## **Practitioner Training**

The Fund provides training for staff at Scheme employers on the basics of LGPS administration. Sessions are structured along the lines of a typical membership of the LGPS, where delegates are shown the correct procedures which should be followed during various stages of an employee's membership.

Merseyside Pension Fund  
Castle Chambers  
43 Castle Street  
Liverpool  
L2 9SH

Telephone:

0151 242 1390

Fax:

0151 236 3520

Email:

[mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)

Members' Website

[mpfmembers.org.uk](http://mpfmembers.org.uk)

Employers' Website

[mpfemployers.org.uk](http://mpfemployers.org.uk)

Opening Times:

Mon. to Fri. 9am - 5pm

**Approved by:** Pensions Committee 16 July 2018

ADMINISTERING AUTHORITY







Merseyside Pension Fund

# **Funding Strategy Statement**

Wirral Metropolitan Borough Council  
As approved by Pension Committee **29 October 2018**

This Funding Strategy Statement has been prepared by Wirral Metropolitan Borough Council (the Administering Authority) to set out the funding strategy for the Merseyside Pension Fund ("the Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

# Contents

<b>Executive Summary .....</b>	<b>5</b>
<b>Introduction.....</b>	<b>10</b>
Benefits.....	10
Employer Contributions .....	11
Primary Rate .....	11
Secondary Rate.....	11
<b>Purpose of FSS in Policy Terms.....</b>	<b>12</b>
<b>Aims and Purpose of the Fund .....</b>	<b>13</b>
<b>Responsibilities of the key parties.....</b>	<b>14</b>
Key parties to the FSS.....	14
Solvency and Long Term Efficiency .....	16
Determination of the solvency Funding Target and deficit Recovery Plan.....	16
Employers with no guarantor or bond in place .....	19
Funding for non-ill health retirement costs .....	19
Funding for ill health retirement costs.....	20
Funding for deaths in service and retirement.....	20
Risk management strategy.....	22
Investment Buckets.....	22
<b>Identification of risks and counter-measures .....</b>	<b>24</b>
Financial.....	24
Demographic .....	25
Insurance of certain benefits .....	25
Regulatory .....	25
Governance .....	26
Pensions Committee .....	26
Local Pension Board .....	27
Membership .....	27
<b>Monitoring and review .....</b>	<b>29</b>
<b>Appendix A – Actuarial Method and Assumptions .....</b>	<b>30</b>
Method .....	30
Financial assumptions – Solvency Funding Target.....	30
Investment return (discount rate) .....	30
Inflation (Consumer Prices Index) .....	30
Salary increases .....	31
Pension increases/Indexation of CARE benefits .....	31

Demographic assumptions .....	31
Mortality/Life Expectancy .....	31
Commutation .....	31
Other Demographics .....	32
Expenses .....	32
Discretionary Benefits .....	32
Method and assumptions used in calculating the cost of future accrual (or primary rate) .....	32
Employer Asset Shares .....	32
Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “primary rate”) for the 2016 actuarial valuation .....	33
Life expectancy assumptions .....	34
Post retirement mortality tables .....	34
Life expectancies at age 65 .....	34
<b>Appendix B – Employer Deficit Recovery Plans .....</b>	<b>35</b>
Other factors affecting the Employer Deficit Recovery Plans .....	36
<b>Appendix C – Termination Policy .....</b>	<b>37</b>
Exiting the Fund .....	37
Termination Assessment of An Employer’s Residual Pension Obligations and Method to Calculate Bond/ Financial Guarantees .....	37
(I) Admission Bodies Participating by Virtue of a Contractual Arrangement .....	38
(II) Non-contract based admission bodies with a guarantor in the fund .....	39
(iii) Admission bodies with no guarantor in the fund .....	39
Relevant regulations within the LGPS Regulations 2013 .....	40
<b>Appendix D – Covenant Assessment and Monitoring Policy .....</b>	<b>41</b>
Risk Criteria .....	41
Assessing Employer Covenant .....	42
Frequency of Monitoring .....	42
Covenant Risk Management .....	42
<b>Appendix E – Insurance Arrangements .....</b>	<b>43</b>
Overview of arrangement .....	43
Employers covered by the arrangement .....	43
<b>Appendix F – Glossary .....</b>	<b>44</b>

# Executive Summary

It is the fiduciary responsibility of the Administering Authority (Wirral Metropolitan Borough Council) to ensure that the Merseyside Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term. The Funding Strategy adopted by the Merseyside Pension Fund will therefore be critical in achieving this statutory duty.

The purpose of this **Funding Strategy Statement (“FSS”)** is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Merseyside Pension Fund. It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with Merseyside Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

## The Fund’s Objective

**The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.**

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the overall assumptions used, will be sufficiently prudent for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis, taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

## **Solvency and Long term cost-efficiency**

**Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.**

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Scheme so far as relating to the Fund.

## **Deficit Recovery Plan and Contributions**

**As the solvency level of the Fund is 85% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.**

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. A key principle will be to maintain the deficit contributions at the expected monetary levels from the preceding valuation (including any indexation in these monetary payments over the recovery period) and where appropriate consider affordability of contributions. Full details are set out in this FSS.

The average recovery period for the Fund as a whole is 19 years at this valuation which is 3 years shorter than the average recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce at this valuation.

Where there is an increase in contributions required at this valuation the employer may be able to step-up their contributions over a period of 3 years.

## Actuarial Assumptions

**The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the “Secondary” rate) are set out in an Appendix to this FSS.**

The discount rate in excess of CPI inflation (the “real discount rate”) has been derived based on the expected return on the Fund’s assets based on the long term strategy set out in its Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.0% per annum and for determining the future service (“Primary”) contribution rates is 2.75% per annum.

The Fund has implemented a choice of “investment” buckets to offer to employers with effect from 1 April 2017, which exhibit lower investment risk than the current whole fund strategy. If an employer is deemed to have a weaker covenant than others in the Fund, or it would like to target a lower risk strategy, the Administering Authority has the discretion to move that employer (typically following discussions with the employer) into a different investment strategy to protect the Fund as a whole.

The demographic assumptions are based on the Fund Actuary’s bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

## Employer Asset Shares

**The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer’s asset share.**

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on which investment bucket the employers’ assets are in. In addition the asset share maybe restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

## Fund Policies

**In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund’s practice and policies in a number of key areas:**

## 1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of **employer covenant** can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix to this statement.

## 2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances and the basis of participation reflects the nature and funding of the service provision. The approach taken is set out in our separate admissions policy document. This can be found on the Fund's website: <https://mpfmembers.org.uk/pdf/AdmissionsPolicy2015.pdf>

Examples of new employers include:

- Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

## 3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to a lower risk investment strategy and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. Any exit credits (surplus assets over liabilities) will be paid from the Fund



to the exiting employer within 3 months of cessation by the Actuary. This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

Where there is a guarantor who would subsume the liabilities, the policy is that any assets, liabilities and deficit or surplus would be subsumed by the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree then the surplus will be paid directly to the exiting employer within 3 months of cessation (despite any other agreements that may be in place). In maintaining a consistent approach, the Fund will seek to recover the deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor and all remaining assets and liabilities will then be subsumed by the guarantor.

The Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

If a guarantor unjustifiably deviates from the policy to subsume the residual assets, liabilities and any surplus or deficit, future termination events with regard to the payment of the surplus or deficit will be treated in line with the approach adopted for employers without a guarantor in the Fund (the ongoing valuation basis will still be adopted in this case).

#### **4. Insurance arrangements**

The Fund has implemented an internal captive insurance arrangement in order to pool the risks associated with ill health retirement costs. The captive has been designed for employers that could be materially affected by the ill health retirement of one or more of their members. The captive arrangement has been considered when setting the employer contribution rates for the eligible employers. More details are provided in **Appendix E**.

# Introduction

The Local Government Pension Scheme Regulations 2013 (as amended) (“the 2013 Regulations”), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (“the 2014 Transitional Regulations”) and The Local Government Pension Scheme (Amendment) Regulations 2018 (“the 2018 Amendment Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Merseyside Pension Fund the Administering Authority will prepare and publish their funding strategy;
- In preparing the **FSS**, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Scheme published under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in the relevant regulatory provisions, the funding regime or the ISS.

As such the Funding Strategy Statement (FSS) has been revised following the enactment of the Local Government Pension Scheme (Amendment) Regulations 2018. The Regulations introduced the provision to repay exit credits in circumstances where an employer terminates scheme participation and the actuarial assessment results in a surplus position.

The policy has been revised in order to ensure there is consistency between the various letting authorities’ commercial arrangements, the termination policy and the new Regulations.

## Benefits

The benefits provided by the Merseyside Pension Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Merseyside Pension Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

## Employer / Employee Contributions

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including the provision of a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

### Primary Rate

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits/insurance premium together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers’ Primary rates.

### Secondary Rate

The “Secondary rate” is an adjustment to the **Primary rate** to reflect any past service **deficit** or surplus, to arrive at the rate each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the **Primary rate**, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls.

The Secondary rate is specified in the rates and adjustments certificate.

The contribution payable is the sum of the Primary and Secondary rates.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

# Purpose of FSS in Policy Terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, including the disparate investment buckets, it must remain a single strategy for the Administering Authority to implement and maintain.

# Aims and Purpose of the Fund

## The aims of the Fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, designating and admitted bodies, while achieving and maintaining fund **solvency** and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

## The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, exit credits, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations, the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the 2018 Amendment Regulations.

# Responsibilities of the key parties

The efficient and effective management of the pension fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below.

Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

## Key parties to the FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a **FSS** and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the **FSS**/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations);
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- Undertake administration duties in accordance with the Pension Administration Strategy;
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, additional pension contracts, early retirement strain,
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and;

- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund **solvency** and long term cost efficiency after agreeing assumptions with the Administering Authority and having regard to their **FSS** and the Regulations;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc.
- provide advice and valuations on the termination of admission agreements including exit credit payments;
- provide advice to the Administering Authority on **bonds** and other forms of security against the financial effect on the Fund of employer default;
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations;
- advise on funding strategy, the preparation of the **FSS** and the inter-relationship between the **FSS** and the ISS, and;
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

# Solvency Funding Target

Securing the “**solvency**” and “long term cost efficiency” is a regulatory requirement. To meet these requirements the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its **Primary Rate** of contribution.

## Solvency and Long Term Efficiency

Each employer’s contributions are set at such a level to achieve full **solvency** in a reasonable timeframe. **Solvency** is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the **Government Actuary’s Department (GAD)** must, following an **actuarial valuation**, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “**solvency**” of the pension fund and “long term cost efficiency” of the Scheme so far as relating to the Fund.

## Determination of the solvency Funding Target and deficit Recovery Plan

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this, the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking



into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

As part of each valuation, separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 **actuarial valuation**:

- The Fund does not believe it appropriate for **deficit** contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.
- LEA schools and certain other employers within the Fund have been grouped with the respective Council.
- Academies are treated as separate employers but, at inception, any past service **deficit** is allocated on an equitable basis consistent with the relevant LEA schools.
- Certain employers will follow a bespoke investment and funding strategy pertaining to their own circumstances determined by their risk and maturity characteristics. This will be documented separately.
- Any stabilisation methods requested by the contractor will need to be agreed with the original Scheme Employer before being implemented.
- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in Appendix B). These principles have resulted in an average recovery period of 19 years being adopted across all Fund employers.
- For consistency, the recovery period for employers that have a surplus position at the valuation date will initially also be determined in line with the Deficit Recovery Plan set out in **Appendix B**. However, an alternative recovery period may be agreed at the discretion of the Administering Authority.
- Individual employer contributions will be expressed and certified as two separate elements:
  - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits / insurance premiums

- the Secondary rate: a schedule of lump sum monetary amounts or % of pay amendments over 2017/20 in respect of an employer's surplus or **deficit** (including phasing adjustments)
  - For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 **actuarial valuation**.
  - Where an employer is in a surplus position, the Secondary rate deduction from the **Primary rate** will be subject to a minimum threshold of £1,000, below which no deduction will be made.
- Where increases in employer contributions are required from 1 April 2017, following completion of the 2016 **actuarial valuation**, the increase from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years. Any step up in **Primary rates** will be implemented in steps of at least 0.5% of pensionable pay per annum, although subject to the agreement of the Administering Authority alternative phasing arrangements may be permitted consistent with the assessment of an individual employer's covenant strength and short term financial planning.
  - On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

#### **The policy for employers who have a guarantor participating in the Fund:**

The residual assets and liabilities and hence any surplus or deficit will transfer back to the guarantor. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree then the surplus will be paid directly to the exiting employer within 3 months of cessation (despite any other agreements that may be in place). In maintaining a consistent approach, the Fund will seek to recover the deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor and all remaining assets and liabilities will then be subsumed by the guarantor.

The Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

If a guarantor unjustifiably deviates from the policy to subsume the residual assets, liabilities and any surplus or deficit, future termination events with regard to the payment of the surplus or deficit will be treated in line with the approach adopted for employers without a guarantor in the Fund (the ongoing valuation basis will still be adopted in this case).

## The policy for employers who do not have a guarantor participating in the Fund:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary. The termination policy is summarised set out in Appendix C.

- For admission bodies participating from 1 April 2017 who do not have a guarantor of sufficient financial standing based on the assessment of the Administering Authority, the basis of assessment for both the contributions and termination and bond requirements will be on a lower risk **investment strategy**. The employer's assets will then be deemed to be invested in these lower risk assets and be credited with the returns derived from such assets based on the advice of the Actuary. Where a guarantor is available the assessment will be on the normal valuation basis if the guarantor agrees to underwrite the obligations of the employer in the long term.
- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

## Employers with no guarantor or bond in place

For those employers (who are not Scheduled bodies) and who have no guarantor or bond arrangements in place, a higher funding target will be adopted. The contribution rate for these employers will be determined to target a funding position of 120% for the liabilities of the current active membership. The funding target for the non-active liabilities will be as defined earlier. The principles around the recovery period will be as noted earlier after the change in funding target has been applied.

## Funding for non-ill health retirement costs

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund, or in exceptional circumstances by agreement with the Fund, through instalments over a period not exceeding 5 years or if less, the remaining period of the body's membership of the Fund.

## **Funding for ill health retirement costs**

Should a member retire on ill health grounds, this will normally result in a funding strain for that employer (i.e. increased liability). The size of any funding strain will depend on how the cost of that ill health retirement compares with the expected cost built in the actuarial assumptions for that employer.

The actual cost will also depend on the level of any benefit enhancements awarded (which depend on the circumstances of the ill health retirement) and also how early the benefits are brought into payment.

To the extent that a strain does occur, this will serve to increase the deficit at the next actuarial valuation (with the exception of those employers that take part in the captive arrangement who will be immunised against the strain in return for the premiums paid).

However, where an employer exits the Fund in the inter-valuation period the outstanding ill health retirement strain costs will be included when the Actuary completes the termination assessment.

## **Funding for deaths in service and retirement**

The financial impact of the benefits that become payable on the death of a member differ depending on whether the member dies before or after retirement.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

The extent of any funding strain/profit which emerges on the death of a pensioner member (typically a profit) will be determined by the age of the pensioner at death and whether or not any dependants' benefits become payable.

In the event of a member dying whilst in active service, it is not certain that a funding profit would emerge. Whilst the Fund would no longer have to pay the accrued benefits at retirement for the deceased member, a lump sum death grant and also dependants' benefits would become payable instead. The dependants' benefits would also be based on the pensionable service that the member could have accrued had they remained in service until retirement.

Typically, the death of a young member with low pensionable service and dependants is likely to result in a large funding strain for the employer. However, the death of an older/long serving member with no dependants could actually result in a funding profit. As for ill health cases, any funding strain or profit will emerge at the next actuarial valuation through increased/reduced deficit, except where the employer exits the scheme and any necessary adjustment will be taken into account when the Actuary determines the termination position.

# Link to Investment Policy and the Investment Strategy Statement

The results of the 2016 valuation show the liabilities to be 85% covered by the current assets, with the funding **deficit** of 15% being covered by future **deficit** contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the **investment strategy** adopted by the Fund, as set out in the ISS.

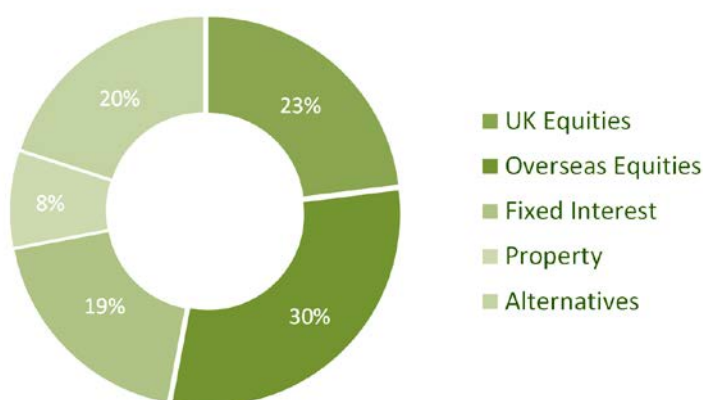
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of **real returns** above assumed **CPI** inflation. Such a portfolio would consist of a mixture of long-term index-linked gilts, fixed interest gilts and possible investment derivative contracts known as "swaps".

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive **actuarial valuations**.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in **real return** versus **CPI** inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a **funding level** of 59%.

Departure from a minimum risk **investment strategy**, in particular to include growth assets such as **equities**, gives a better prospect that the assets will, over time, deliver returns in excess of **CPI** inflation and reduce the contribution requirements. The target **solvency** position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, **investment strategy** and investment performance.

The current **investment strategy** is:



Based on the **investment strategy** above and the Actuary's assessment of the return expectations for each asset class leads to an overall best estimate average expected return of 3.3% per annum in excess of **CPI** inflation at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations and this is expected under the Regulations and guidance.

## Risk management strategy

In the context of managing various aspects of the Fund's financial risks, the Administering Authority is currently implementing a number of risk management techniques. In particular:

- Equity Protection - Subject to fair market pricing, the Fund is currently looking to implement protection against potential falls in the equity markets via the use of derivatives. The aim of the protection is to provide further stability (or even a reduction) in employer deficit contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality).
- Liability Driven Investments (LDI) – the Fund is looking to implement an LDI strategy in order to hedge part of the Fund's assets against changes in liabilities for one or more employers.

The principal aim of this risk management strategy is to effectively look to provide more certainty of real investment returns vs **CPI** inflation and/or protect against volatility in the termination position. It is designed to reduce risk and provide more stability/certainty of outcome for funding and ultimately employer contribution rates.

This will be done on an opportunistic basis to ensure the most efficient and cost effective approach is taken. This could have implications on future **actuarial valuations** and the assumptions adopted, but did not impact on the 2016 valuation approach. Full details of the framework will be included in further updates of the **FSS** and **ISS**.

## Investment Buckets

The Fund has implemented a choice of "investment" buckets for employers with effect from 1 April 2017. These will be called:

- Higher risk bucket
- Medium risk bucket
- Lower risk bucket

The current Fund **investment strategy** will apply to the "higher risk bucket". The "medium risk bucket" and "lower risk bucket" will give employers the option to reduce the level of investment risk that they wish to take, particularly for those employers that are considering leaving the Fund. In addition any orphaned liabilities once an employer exits the Fund will generally be moved into the lower risk bucket.

The medium risk bucket's initial **investment strategy** at 1 April 2017 was a 65% allocation to growth assets and a 35% allocation to defensive assets. This will vary over time depending on the returns on the different portfolios and may be rebalanced in the future as part of a review of the

investment buckets. The growth and defensive assets in this bucket are the same as those in the current Fund investment strategy but in the relevant weightings at each point from 1 April 2017.

The lower risk bucket will be made up of an **investment strategy** linked to income generating assets which targets a minimum yield above **CPI** inflation allowing for default, reinvestment risk and any other reasonable margins of prudence deemed appropriate. The strategic allocation is set out in the Investment Strategy Statement.

The choice of bucket will be reflected in the relevant employer's asset share, funding basis and contribution requirements. However, the contribution requirements for employers within the medium risk bucket will not change at this valuation but will be reviewed from 1 April 2020 as part of the 2019 valuation.

If, based on the assessments carried out by the Administering Authority, the employer is deemed to have a weaker covenant than other employers in the Fund or alternatively is expected to exit in the near future, the Administering Authority reserves the right to move the employer (typically following discussions with the employer) into the medium or lower risk **investment strategy** to protect the Fund as a whole.

# Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding is based on both financial and demographic assumptions. These assumptions are specified in the **actuarial valuation** report. When actual experience is not in line with the assumptions adopted, a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the **funding level** is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

## Financial

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation (including in each separate **investment bucket**) is kept under regular review and the performance of the investment managers is regularly monitored.



## Demographic

The demographic risks are as follows:-

- Future improvements in life expectancy (longevity) cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers not in the captive arrangement
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the “average” implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These, in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are administered properly, can help control exposure to this demographic risk.

The Fund’s **ill health captive** arrangement will also help to ensure that the eligible employers are not exposed to large deficits due to the ill health retirement of one or more of their members (see further information in **Appendix E**).

Early retirements for reasons of redundancy and efficiency do not immediately affect the **solvency** of the Fund because they are the subject of a direct charge. With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the **investment strategy**.

## Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund. More detail on how the Fund is implementing the captive insurance for ill health costs is set out in **Appendix E**.

## Regulatory

The key regulatory risks are as follows:

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to scheme,
- Changes to national pension requirements and/or HMRC Rules

Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

## **Governance**

The Fund has done as much as it believes it reasonably can to enable employing bodies and scheme members (via their trades unions) to make their views known to the Fund and to participate in the decision-making process. So far as the revised Funding Strategy Statement is concerned, it circulated copies of the first draft to all employing bodies for their comments.

The first draft was reviewed at the Committee's meeting on 15 November 2016 and finalised following the Committee meeting on 21 March 2017 after the Fund received feedback from the employing bodies. A further consultation took place following the publication of the 2018 Amendment Regulations and the introduction of exit credits.

The revisions to the FSS have been incorporated into this draft and the updated draft was finalised following the Committee meeting on 29 October 2018.

Governance risks are as follows:

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Political risk that the academies guarantee from the Department for Education is removed, especially given the large increase in the number of academies in the Fund.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored (e.g. with regular data reconciliations with employers), but in most cases the employer, rather than the Fund as a whole, bears the risk.

## **Pensions Committee**

Wirral Metropolitan Borough Council, as the Administering Authority for Merseyside Pension Fund, has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee.

The Pensions Committee is made up of fifteen voting representatives and Wirral Council, as the Administering Authority, nominates ten members, each of the other four local councils nominate a member and a representative of the remaining employers is elected by ballot. There are three non-voting members drawn from trade unions representing all actives, deferred members and

pensioners. Aside from the trade union and non-council representatives, Member changes to Committee are subject to the political leadership of the Councils, although efforts are made to limit rotation where possible.

The Committee meets 4 to 5 times a year and has set up an Investment Monitoring Working Party which meets at least 6 times a year to monitor investment performance and developments. A Governance and Risk Working Party has also been established which meets twice a year to discuss current and emerging risks and measures to mitigate and control risk. The Committee has delegated powers to the Director of Pensions for the day to day running of the Fund.

There is a clear decision making process for the operations of the Fund, major decisions are taken and minuted at monthly Fund Operating Group meetings attended by the Director of Pensions and senior MPF managers.

There is a significant resource dedicated on an annual basis for Member training which is provided both internally and externally.

The Pensions Administration Strategy (PAS) sets out clear standards of service to members by defining employer and Fund responsibilities in administering the Scheme and sets out the requirements for the two way flow of information.

## **Local Pension Board**

The Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

## **Membership**

The Pension Board is comprised of four voting employer representatives and four voting scheme member representatives selected from the broad range of employers in the Fund and the different categories of the membership base.

The employer representatives are office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity.

Member representatives are scheme members of Merseyside Pension Fund and have the capacity to represent scheme members of the Fund.

The Pension Board is chaired by an independent non-voting member and all representatives have significant relevant experience either as a Pension Fund trustee or in the running of Pension Funds.

The role of the Pension Board is to assist Wirral Council, as Scheme Manager to:

- comply with the scheme regulations and other legislation relating to the governance and administration of the scheme;

- and any requirements imposed by the regulator.

A member of the Pension Board must be conversant with:

- the rules of the scheme and the law relating to pensions, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

The Council considers that the Pension Board is providing oversight of the administration and governance of the Pension Fund and does not have a decision making role in the management of the Fund but makes recommendations to assist in ensuring compliance with its statutory responsibilities.

Full details of the operational procedures are set out in the Pension Board's Terms of Reference which can be accessed online at: **[mpfund.uk/pensionboard](http://mpfund.uk/pensionboard)**

# Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- there has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of an employer who may exit the Fund, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

# Appendix A

## Actuarial Method and Assumptions

### Method

The actuarial method to be used in the calculation of the ***solvency funding target*** is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service.

This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

### Financial assumptions – Solvency Funding Target

#### Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate, consideration has been given to the returns in excess of CPI inflation (as derived below).

The discount rate at the valuation has been derived based on an assumed return of 2.0% per annum above CPI inflation i.e. a real return of 2.0% per annum i.e. a total discount rate of 4.2% per annum. This real return will be reviewed from time-to-time, based on the investment strategy, market outlook and the Fund's overall risk metrics.

The discount rate will be reviewed as a matter of course at the time of a formal valuation or employer bond review

For those employers who are funding on a lower risk investment strategy, the discount rate used will be linked to low risk generating assets and this will be notified to the employers separately.

#### Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index. The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

## **Salary increases**

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan.

Depending on the circumstances of the employer, the variants on short term pay that have been applied are either no allowance or allowances of 1%, 1.5%, 2% or 2.5% per annum for each year from the valuation date up to 2020. The allowance made has been notified to each employer separately on their individual results schedule.

## **Pension increases/Indexation of CARE benefits**

Increases to pensions are assumed to be in line with the inflation (**CPI**) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the **CPI** (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

## **Demographic assumptions**

### **Mortality/Life Expectancy**

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme.

The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older.

For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections and a long term improvement trend of 1.75% per annum for males and 1.5% per annum for females.

The mortality before retirement has also been adjusted based on LGPS wide experience.

### **Commutation**

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

## Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 10% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

## Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

## Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

## Method and assumptions used in calculating the cost of future accrual (or primary rate)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the **discount rate** is used. A critical aspect here is that the Regulations state the desirability of keeping the **Primary Rate** (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the **Primary Rate** should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the **investment strategy**. In addition the future liabilities for which these contributions will be paid have a longer average duration than the **past service liabilities** as they relate to active members only.

At the valuation date, the financial assumptions in relation to future service (i.e. the normal cost) are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum.

## Employer Asset Shares

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each **actuarial valuation**. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.



In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer **investment strategy** identical to that adopted for the Scheme as a whole (taking account of the respective investment buckets) unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on which **investment bucket** the employers' assets are in.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

### **Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “primary rate”) for the 2016 actuarial valuation**

#### **Long-term yields**

Market implied RPI inflation	3.20% p.a.
<b>Solvency Funding Target financial assumptions</b>	
Investment return/Discount Rate	4.20% p.a.
CPI price inflation	2.20% p.a.
Long Term Salary increases*	3.70% p.a.
Pension increases/indexation of CARE benefits	2.20% p.a.
<b>Future service accrual financial assumptions</b>	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.20% p.a.
Long Term Salary increases*	3.70% p.a.
Pension increases/indexation of CARE benefits	2.20% p.a.

\*short term salary increases also apply

## Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

### Post retirement mortality tables

Current Status	Retirement Type	2013 study	2016 study
Annuitant	Normal Health	106% S1PMA_CMI_2012[1.5%] / 100% S1PFA_CMI_2012[1.5%]	112% S2PMA_CMI_2015[1.75%] / 99% S2PFA_CMI_2015[1.5%]
	Dependant	173% S1PMA_CMI_2012[1.5%] / 120% S1DFA_CMI_2012[1.5%]	126% S2PMA_CMI_2015[1.75%] / 118% S2DFA_CMI_2015[1.5%]
	Ill Health	106% S1PMA_CMI_2012[1.5%] + 3 yrs / 100% S1PFA_CMI_2012[1.5%] + 3 yrs	112% S2PMA_CMI_2015[1.75%] + 3 yrs / 99% S2PFA_CMI_2015[1.5%] + 3 yrs
Active	Normal Health	104% S1PMA_CMI_2012[1.5%] / 94% S1PFA_CMI_2012[1.5%]	107% S2PMA_CMI_2015[1.75%] / 92% S2PFA_CMI_2015[1.5%]
	Ill Health	104% S1PMA_CMI_2012[1.5%] + 4 yrs / 94% S1PFA_CMI_2012[1.5%] + 4 yrs	107% S2PMA_CMI_2015[1.75%] + 4 yrs / 92% S2PFA_CMI_2015[1.5%] + 4 yrs
Deferred	All	130% S1PMA_CMI_2012[1.5%] / 110% S1PFA_CMI_2012[1.5%]	137% S2PMA_CMI_2015[1.75%] / 105% S2PFA_CMI_2015[1.5%]
Future Dependant	Dependant	111% S1PMA_CMI_2012[1.5%] / 106% S1DFA_CMI_2012[1.5%]	115% S2PMA_CMI_2015[1.75%] / 107% S2DFA_CMI_2015[1.5%]

### Life expectancies at age 65

Membership Category	Male Life Expectancy at 65	Female Life Expectancy at 65
Pensioners	21.8	24.6
Actives aged 45 now	24.8	27.5
Deferreds aged 45 now	22.7	26.4

Other demographic assumptions are set out in the Actuary's formal report.

# Appendix B

## Employer Deficit Recovery Plans

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

**Deficit** contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding **deficit** is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the **deficit** contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in the monetary amount requested via a reduction in overall £ **deficit** contributions payable.

The determination of recovery periods are summarised in the table below, however there are a small number of employers that have different recovery periods to those set out below and these employers have been notified separately:

Category	Average Deficit Recovery Period	Derivation
<b>Fund Employers</b>	19 years	Determined by reducing the period from the preceding valuation to ensure (as far as possible) deficit contributions do not reduce versus those expected from the existing recovery plan.
<b>Open Admitted Bodies</b>	9 years	Determined by reducing the period from the preceding valuation to ensure deficit contributions (as far as possible) do not reduce versus those expected from the existing recovery plan.
<b>Closed Employers</b>	The deficit recovery period for closed admission bodies is a minimum of 9 years or the lower of the future working lifetime of the membership	Determined by reducing the period from the preceding valuation to ensure deficit contributions (as far as possible) do not reduce versus those expected from the existing recovery plan.
<b>Employers with a limited participation in the Fund</b>	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund, or offered by the Employer, such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any **deficit** over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the **deficit** contributions at the expected monetary levels from the preceding valuation.

### **Other factors affecting the Employer Deficit Recovery Plans**

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as **bonds** or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things being equal this could result in a longer recovery period being acceptable to the Administering Authority, normally restricted to a maximum period of 19 years, although employers will still be expected to at least cover expected interest costs on the **deficit**.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the **solvency** requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the **deficit** does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

# Appendix C

## Termination Policy

### Exiting the Fund

#### Termination Assessment of An Employer's Residual Pension Obligations and Method to Calculate Bond/ Financial Guarantees

On the cessation of an employer's participation in the Fund where an employer becomes an exiting employer, the Actuary will be asked to make a termination assessment. Depending on the circumstances of the termination this assessment may incorporate a more cautious basis of assessment of the final liabilities for the employer. Typically this will be where the employer does not have a guarantor in the Fund who has agreed to subsume the orphaned liabilities from the exiting employer.

Where it may be appropriate to use a more cautious basis, the **discount rate** assumption used will be derived to be consistent with a lower risk **investment strategy** linked to low risk income generating assets which make up the lower risk investment "bucket". This is subject to the financial assumptions used being no less cautious than the equivalent valuation assumptions updated appropriately based on the advice of the actuary. For the avoidance of doubt this includes any variation to assumptions for those employers whose assets are invested in the medium risk asset bucket. The Administering Authority retains the discretion to adopt a different approach for any particular employer related to the size of the risk and the employer will be notified of this accordingly.

In addition to using a more cautious **discount rate**, the Actuary will also use a more prudent mortality assumption when assessing the size of the liabilities for termination purposes. In particular, the Actuary will assume a higher improvement rate for future life expectancy than is used for ongoing funding purposes. Where it is appropriate to apply a more cautious assumption, the Actuary will assume that the accelerated trend in longevity seen in recent years will continue in the longer term. The assumption, therefore, will build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a long term improvement trend of 2% per annum for males and females.

The appropriate method adopted depends on the characteristics of the exiting body (and in particular whether there is another employer in the Fund who is prepared to act as sponsor for any residual liabilities) and the risk in the context of the potential impact on other employers' contributions. This is because where liabilities are "orphaned" all employers have to cover any deficits (or surpluses) that arise in relation to these liabilities via their contribution rates at each valuation.

In summary, depending on the employer type, participation basis and covenant there are three alternative approaches to value liabilities on termination and to assess bond requirements for certain admitted bodies or designating bodies:

1. Assessing the final termination liabilities using assumptions consistent with the most recent valuation basis adjusted as necessary to reflect the expected return outlook in relation to the **investment strategy** which supports the exiting employer's liabilities.
2. Assessing the final liabilities using a **discount rate** which is linked to a low risk income generating **investment strategy** which make up the lower risk investment "bucket". As part of this assessment the Actuary will use a deduction from the **discount rate** to reflect a reasonable estimate of the potential asset default and reinvestment risk associated with the asset strategy, the associated costs of termination and any other reasonable prudential margins that are appropriate based on the advice of the Actuary. This will be reviewed from time-to-time dependent on market conditions. In addition, the Actuary will apply the more prudent mortality assumption as described above.
3. Assessing the final liabilities using a **discount rate** which is based on a "minimum risk" approach where the **discount rate** will be based on government gilt yields of appropriate duration to the liabilities and a more prudent mortality assumption as above. Typically this will be applied to an employer who would have a material effect on the Fund on exit by leaving significant residual orphan liabilities.

The approach to be adopted would be varied dependent on whether there is a guarantor who participates in the Fund who would be prepared to assume responsibility for the liabilities and the type of admission as follows:

## **(I) Admission Bodies Participating by Virtue of a Contractual Arrangement**

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit. This is subject to the agreement of all parties involved; the Fund, the exiting employer and the guarantor) who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree then the surplus will be paid directly to the exiting employer within 3 months of cessation (despite any other agreements that may be in place). In maintaining a consistent approach, the Fund will seek to recover the deficit from the exiting employer in the first instance. However, if this is not possible, the deficit will be subsumed by the guarantor and all remaining assets and liabilities will then be subsumed by the guarantor.

The Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However the Fund will not become embroiled in any disagreement over the refund of any surplus which is contrary to commercial agreements.

Ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. It is then up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

If a guarantor unjustifiably deviates from the policy to subsume the residual assets, liabilities and any surplus or deficit, future termination events with regard to the payment of the surplus or

deficit will be treated in line with the approach adopted for employers without a guarantor in the Fund (the ongoing valuation basis will still be adopted in this case).

As the guarantor will absorb the residual assets and liabilities, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. For the avoidance of doubt this includes any variation to assumptions for those employers whose assets are invested in the medium or low risk asset bucket. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility then the residual deferred pensioner and pensioner liabilities should be assessed on the more cautious basis. In this situation the size of the termination payment would also depend on what happened to the active members and if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As the transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs the exiting employer would then be treated as if it had no guarantor as per the policy below.

## **(II) Non-contract based admission bodies with a guarantor in the Fund**

The approach for these will be the same as (i) above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities.

## **(iii) Admission bodies with no guarantor in the Fund**

These are cases where the residual liabilities would be "orphaned" within the Fund, although it is possible that a bond would be in place. The termination calculation would be on the more cautious basis as noted in 2. above although the approach in 3. above could apply at the discretion of the Administering Authority.

The **actuarial valuation** and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

### **Relevant regulations within The Local Government Pension Scheme Regulations 2013 (as amended by the Local Government Pension Scheme (Amendment) Regulations 2018)**

Regulation 64 sets out special circumstances where revised *actuarial valuations* and certificates must be obtained including Regulation 64 (2) where an admission agreement ceases to have effect, the Administering Authority who made it must obtain:

- an *actuarial valuation* as at the date it ceases of the liabilities in respect of current and former employees of the admission body which is a party to that admission agreement ("the outgoing admission body"),
- a revision of any rates and adjustments certificate for any Pension Fund which is affected, showing the exit payment due from the exiting body or exit credit payable to the exiting body. Where it is not possible for any reason to obtain revised contributions from the exiting body, or from an insurer or any person providing an indemnity or bond on behalf of the body, the Administering Authority may obtain a further revision of any rates and adjustment certificate for the Pension Fund, showing –
  - a) in the case where the exiting body falls within paragraph 1(d) of Part 3 of Schedule 2, the revised contributions due from the body which is the related employer in relation to that admission body, and
  - b) in any other case, the revised contributions due from each employing authority who contributes to the fund.

If the Administering Authority becomes aware or is of the opinion of a Scheme employer becoming an exiting employer, Regulation 64 (4) provides that it may obtain from an actuary a certificate specifying, in the case of an admission body, the percentage or amount by which, in the actuary's opinion –

- the contribution at the *primary rate* should be adjusted, or
- any prior secondary rate adjusted should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will fall due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet the liability by that date, over such period of time thereafter as the administering authority considers reasonable.



# Appendix D

## Covenant Assessment and Monitoring Policy

An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

An assessment of **employer covenant** focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated **recovery plan** should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next **actuarial valuation**?

The strength of **employer covenant** can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

### Risk Criteria

The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to the consideration of the above criteria would be made, with further focus given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances

- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

## Assessing Employer Covenant

The **employer covenant** will be assessed objectively and its ability to meet their obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Greed (RAG) rating structure.

In order to accurately monitor **employer covenant**, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on **funding level**, covenant rating and the overall risk score.

## Frequency of Monitoring

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial **actuarial valuation**. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. The funding position will be monitored (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus.

## Covenant Risk Management

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis and **investment strategy** (e.g. the termination basis)
3. A higher funding target, shortened recovery periods and increased cash contributions
4. Managed exit strategies

## Appendix E – Insurance Arrangements

### Overview of arrangement

For certain employers in the Fund, following discussions with the Fund Actuary and after considering potential alternative insurance arrangements, a captive insurance arrangement is to be established by the Administering Authority to cover ill-health retirement costs. This will apply for all ill-health retirements from 1 April 2017.

The captive arrangement operates as follows:

- “Premiums” are paid by the eligible employers into the captive arrangement which is tracked separately by the Fund Actuary in the valuation calculations. The premiums are included in the employer’s primary rate. The premium for 2017/20 is 1% p.a.
- The captive arrangement is then used to meet strain costs (over and above the premium paid) emerging from ill-health retirements in respect of both active and deferred members
  - i.e. so there is no initial impact on the deficit position for employers within the captive.
- The premiums are set with the expectation that they will be sufficient to cover the costs in the 3 years following the valuation date. If any excess premiums over costs are built up in the Captive, these will be used to offset future adverse experience and/or lower premiums at the discretion of the Administering Authority based on the advice of the actuary.
- In the event of poor experience over a valuation period any shortfall in the captive fund is effectively underwritten by the other employers within the Fund. However the future premiums will be adjusted to recover any shortfall over a reasonable period with a view to keeping premiums as stable as possible for employers. Over time the captive arrangement should therefore be self-funding and smooth out fluctuations in the contribution requirements for those employers in the captive arrangement.
- Premiums payable are subject to review from valuation to valuation depending on experience and the expected ill health trends. They will also be adjusted for any changes in the LGPS benefits. They will be included in employer rates at each valuation or on commencement of participation for new employers.

### Employers covered by the arrangement

Those employers (both existing and new) that will be included in the captive are Academies, Community related Admitted Bodies, Contract related Admitted Bodies (where the guarantor is also in the captive arrangement) and Designating/Resolution Bodies. These employers will be notified of their participation. New employers entering the Fund who fall into this category will also be included.

For all other employers who do not form part of the captive arrangement, the current treatment of ill-health retirements will still apply i.e. the Fund continues to monitor ill-health retirement strain costs incurred against the allowance certified with recovery of any excess costs from the

employer once the allowance is exceeded either at the next valuation or at an earlier review of the contributions due including on termination of participation.

## Appendix F – Glossary

### Actuarial Valuation

An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the **funding level** of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate **Funding Strategy Statement**.

### Benchmark

A measure against which fund performance is to be judged.

### Best Estimate Assumption

An assumption where the outcome has a 50/50 chance of being achieved.

### Bonds

Loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

### Career Average Revalued Earnings Scheme (CARE)

With effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

### Corporate Bond Basis

An approach where the **discount rate** used to assess the liabilities is determined based on the market yields of high quality corporate bond investments (usually at least AA rated) based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

### CPI

Acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differs from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

### Deficit

The extent to which the value of the Fund’s **past service liabilities** exceeds the value of the Fund’s assets.

### Discount Rate

The rate of interest used to convert a future cash amount e.g. a benefit payment occurring in the future to a **present value**.

### Employer Covenant

The degree to which an employer participating in an occupational pension scheme is willing and able to meet the funding requirements of the scheme.

**Employer's Future Service Contribution Rate (Primary Rate)**

The contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

**Equities**

Shares in a company which are bought and sold on a stock exchange.

**Equity Protection**

An insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

**Exit Credit**

The amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

**Hedging**

A strategy that aims to reduce funding volatility using Liability Driven Investment (LDI) or other techniques. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

**Hedge ratio**

The level of hedging in place as a percentage of the liabilities and can be 0% to 100%. This can be in relation to interest rates, inflation rates or real rates of return.

**Investment Bucket**

This describes a bespoke *investment strategy* which applies to one or more employers and is dependent on the liability and risk profile.

**Ill Health Captive**

This is a notional fund designed to immunise certain employers against excessive ill health costs in return for an agreed insurance premium.

**Solvency/Funding Level**

The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

**Funding Strategy Statement**

This is a key governance document that outlines how the Administering Authority will manage employer's contributions to the Fund.

**Solvency Funding Target**

An assessment of the *present value* of benefits to be paid in the future. The desired funding target is to achieve a *solvency* level of a 100% i.e. assets equal to the *past service liabilities* assessed on the ongoing concern basis.

### **Government Actuary's Department (GAD)**

The GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

### **Investment Strategy**

The long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

### **Past Service Liabilities**

This is the **present value** of all the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

### **Percentiles**

Relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

### **Prepayment**

The payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced compared to the certified amount to reflect the early payment.

### **Present Value**

The value of projected benefit payments, discounted back to the valuation date.

### **Prudent Assumption**

An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation requires the assumptions adopted for an **actuarial valuation** to be prudent.

### **Real Return or Real Discount Rate**

A rate of return or **discount rate** net of **CPI** inflation.

### **Recovery Plan**

A strategy by which an employer will make up a funding **deficit** over a specified period of time ("the recovery period", as set out in the **Funding Strategy Statement**).

### **Section 13 Valuation**

In accordance with Section 13 of the Public Service Pensions Act 2014, the **Government Actuary's Department (GAD)** have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS **actuarial valuations**. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

### **50/50 Scheme**

In the LGPS, active members are given the option of accruing a lower benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

Merseyside Pension Fund  
Castle Chambers  
43 Castle Street  
Liverpool  
L2 9SH

Telephone:

0151 242 1390

Email:

[mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)

Members' Website

[mpfmembers.org.uk](http://mpfmembers.org.uk)

Employers' Website

[mpfemployers.org.uk](http://mpfemployers.org.uk)

Opening Times:

Mon. to Fri. 9am - 5pm

ADMINISTERING AUTHORITY





Merseyside Pension Fund

# **Governance Policy**



Wirral Metropolitan Borough Council  
As approved by Pension Committee **16 November 2015**

# Contents

<b>Introduction.....</b>	<b>4</b>
Relationship of Merseyside Pension Fund and Wirral Council .....	4
Scheme of Delegation of (Non-Executive) Functions to Committees.....	4
<b>Pensions Committee .....</b>	<b>5</b>
Membership .....	5
Terms of Reference .....	5
<b>The Local Pension Board .....</b>	<b>6</b>
Membership .....	6
Scheme of Delegation of Functions to Officers.....	7
Head of Pension Fund .....	7
<b>Decision Making Structure .....</b>	<b>8</b>
<b>Functions .....</b>	<b>9</b>
Pensions Committee .....	9
Investment Monitoring Working Party (IMWP).....	9
Governance and Risk Working Party (GRWP) .....	9
Fund Operating Group (FOG) .....	9
Head of Merseyside Pension Fund.....	9
Policy on Training and Expenses .....	9
<b>Accountability and Publication of Information.....</b>	<b>10</b>
<b>Meetings with Stakeholders .....</b>	<b>10</b>
<b>Compliance Statement.....</b>	<b>10</b>
<b>Annex 1 .....</b>	<b>11</b>
Training and Expenses Policy for Members of Pension Committee and Pension Board.....	11
Introduction.....	11
Legal Considerations .....	11
Training Policy and Plan .....	11
Policy for Payment of Expenses .....	12
<b>Annex 2 .....</b>	<b>13</b>
Merseyside Pension Fund Governance Compliance Statement.....	13

# Introduction

This statement sets out the scheme of delegation, the terms of reference, structure and operational procedures of the delegation.

## Relationship of Merseyside Pension Fund and Wirral Council

Wirral Council is the administering authority of the Merseyside Pension Fund under the Local Government Pension Scheme Regulations 2013 and is the Scheme Manager as defined by Section 4 of the Public Service Pension Act 2013. In its capacity as Scheme Manager the council is authorised to manage the Pension Fund's assets and liabilities and carry out any other specified activities associated with the operation of the Scheme. The authority is not authorised to give investment advice.

Due to this status, the Fund is not required to be regulated by the Financial Conduct Authority (FCA) in order to operate its business. It is regulated by the Department for Communities and Local Government (DCLG).

As an administering authority, Wirral Council is required to act as if the Fund were set up under trust with the authority itself as the sole trustee, although the assets are not trust assets in the legal sense.

## Scheme of Delegation of (Non-Executive) Functions to Committees

Under its Constitution, the council delegates, under Section 101 of the Local Government Act 1972 to Pensions Committee all those non-Executive functions vested in it, identified in the terms of reference for the Committee (See page 3 below).

The scheme delegates powers and duties within broad functional descriptions and includes powers and duties under all legislation present and future within those descriptions and all powers and duties including any statutory re-enactment or moderation of the legislation referred to in this scheme.

Any exercise or responsibility for functions or delegated powers shall comply with:

- any statutory requirements;
- the Council's Constitution;
- the Council's Budget and Policy Framework and approved budget;
- the Members Code of Conduct;
- the Code of Recommended Practice on local authority publicity;
- the agreed arrangements for recording decisions;

This scheme does not delegate any matters reserved by law to the full Council or assigned to the Executive.

# Pensions Committee

## Membership

The Committee is comprised of fifteen voting members; ten of whom are members of Wirral Council, four members from the other local authorities and one member representing the other employing organisations in the Fund. Three trade union representatives, with observer status, are invited and represent active, deferred and pensioner members.

## Terms of Reference

1. To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as administering authority of Merseyside Pension Fund, and in particular the following:
2. To be responsible for the overall investment policy, strategy and principles of the Fund and its overall performance.
3. To appoint and terminate professional advisors to, and external managers of, the Fund and agree the basis for their commission and remuneration.
4. To receive actuarial valuations of the Fund and determine the level of employers' contributions necessary to balance the Fund.
5. To monitor the Local Government Pension Scheme Regulations and overriding pension law, overseeing the governance of the Fund including the day to day administration and policy decisions relating to the management of the Scheme.
6. To consider any views expressed by employing organisations, staff representatives and other stakeholders relating to the Fund.
7. To appoint members of the Investment Monitoring Working Party, which shall have responsibility for reviewing the performance of the Fund's investments, and its asset allocation and regularly reporting their findings to the Pensions Committee.
8. To appoint members of the Governance and Risk Working Party, which shall have responsibility for reviewing governance and risk issues, and regularly reporting their findings to the Pensions Committee.
9. To award contracts for goods and services relating to the Fund in accordance with the Contract Procedure Rules after taking into account the recommendations of officers and external professional advisors (where appropriate).

# The Local Pension Board

The Local Pension Board was established in April 2015 in accordance with the Public Service Pensions Act 2013, the national statutory governance framework delivered through the LGPS Regulations and guidance as issued by the Scheme Advisory Board.

## Membership

The Pension Board is comprised of four voting employer representatives and four voting Scheme member representatives selected from the broad range of employers in the Fund and the different categories of the membership base.

The employer representatives are office holders or senior employees of employers of the Fund or have experience of representing Scheme employers in a similar capacity.

Member representatives are Scheme members of Merseyside Pension Fund and have the capacity to represent Scheme members of the Fund.

The Pension Board is chaired by an independent non-voting member with significant relevant experience either as a Pension Fund trustee or in the running of Pension Funds.

The role of the Pension Board is to assist Wirral Council, as Scheme Manager to:

- comply with the Scheme regulations and other legislation relating to the governance and administration of the Scheme; and
- any requirements imposed by the regulator.

A member of the Pension Board must be conversant with:

the rules of the Scheme and the law relating to pensions, and

any document recording policy about the administration of the Scheme which is for the time being adopted in relation to the Scheme.

The Council considers that the Pension Board is providing oversight of these matters and, accordingly, the Pension Board is not a decision making body in relation to the management of the Pension Fund but merely makes recommendations to assist in such management.

Full details of the operational procedures are set out in the Pension Board's Terms of Reference which can be accessed at: **[mpfund.uk/pensionboard](http://mpfund.uk/pensionboard)**

## **Scheme of Delegation of Functions to Officers**

### **Head of Pension Fund**

The following functions, particular to the Pension Fund, are delegated to the Head of Pension Fund pursuant to Section 101 of the Local Government Act 1972 and by the Executive under Section 15 of the Local Government Act 2000.

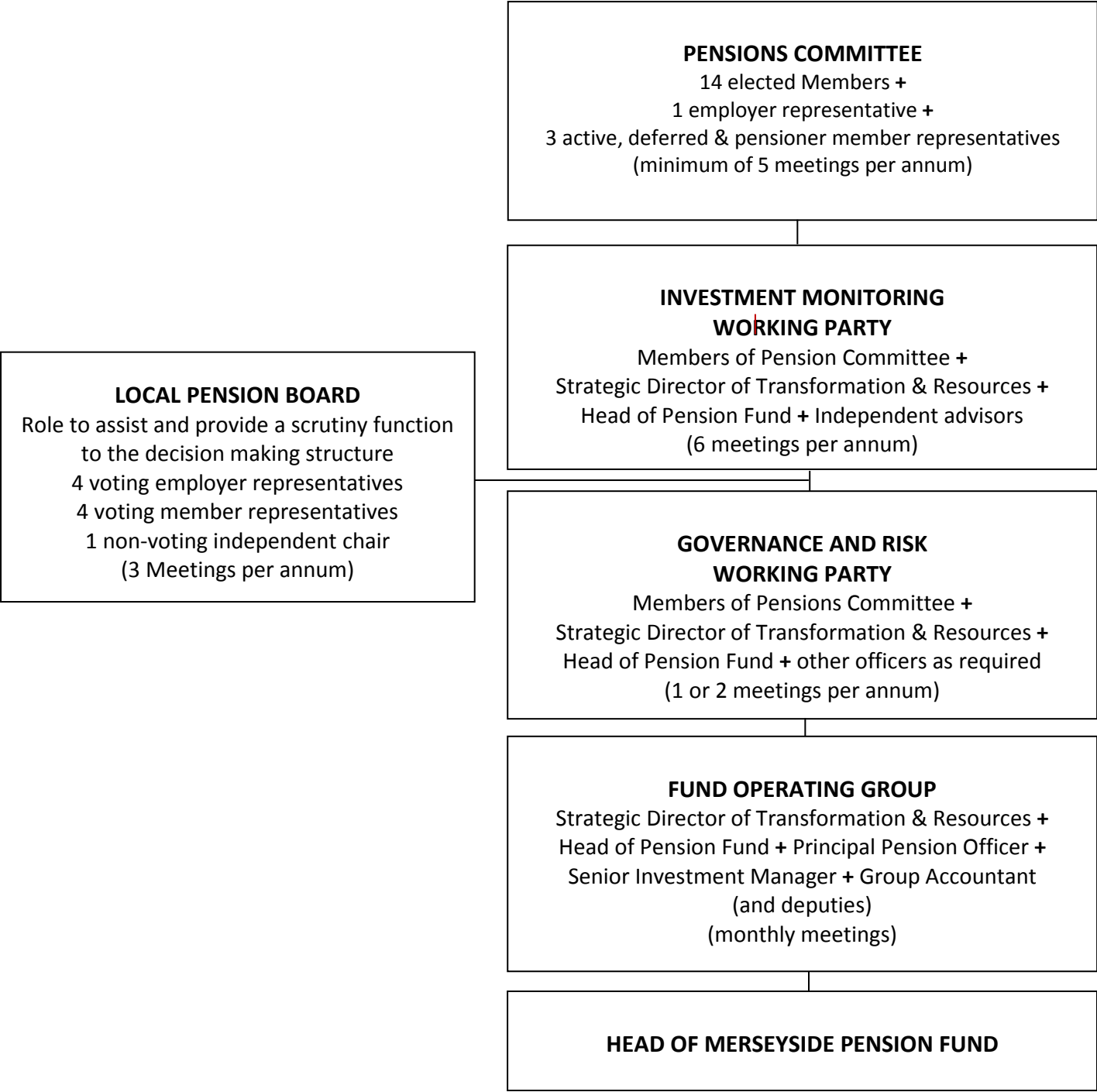
Undertake all day to day administration of, and investment decisions for, the Merseyside Pension Fund within the policy laid down by the Pensions Committee including the authorisation of admission agreements with contractor admission bodies pursuant to Best Value arrangements, as required by the Local Government Pensions Scheme Regulations.

Terminate a contract of an external investment manager and enter into any consequential arrangements for the transitional management of the Fund's investments pending the decision of the Pensions Committee on the award of a new contract.

The Head of Pension Fund may authorise officers in his department to exercise on his behalf, functions delegated to him. Any decisions taken under this authority shall remain the responsibility of the Head of Pension Fund and must be taken in his name, and he shall remain accountable and responsible for such decisions.

# Decision-Making Structure

The structure for the management and governance of the Fund is as follows:



# Functions

The functions for the various elements are as follows:

## **Pensions Committee**

To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as administering authority of the County of Merseyside Pension Fund.

## **Investment Monitoring Working Party (IMWP)**

Has responsibility for reviewing the performance of the Fund's investments and its asset allocation and regularly reporting their findings to the Pensions Committee.

## **Governance and Risk Working Party (GRWP)**

Has responsibility for reviewing governance and risk issues and regularly reporting their findings to the Pension Committee.

## **Fund Operating Group (FOG)**

Forum for formal monthly reports to the Strategic Director of Transformation & Resources on the day-to-day operations of the Fund.

## **Head of Merseyside Pension Fund**

Responsible to the Strategic Director of Transformation & Resources and has delegated authority to make investments or to delegate to other employees investment decisions in accordance with the Fund's strategic benchmark and delegated dealing limits.

## **Policy on Training and Expenses**

Details of the policy on training and payment of expenses in respect of members of the Pensions Committee is set out in **Annex 1**.



# Accountability and Publication of Information

Details of Pensions Committee and Pension Board meetings are published on the Wirral Council website together with agendas, reports to be considered by the Committee and Board and minutes of proceedings.

The meetings of the Pensions Committee are held at Wallasey Town Hall with the Pension Board Meetings held at the Fund's Offices. Both meetings are open to the public.

An Annual Pension Fund Report & Accounts is published and circulated to all employing bodies reporting on the activities and investment performance of the Fund during the year. Details of matters considered during the year and meetings held are reported and a copy of the annual report is available on the Fund website.

## Meetings with Stakeholders

An Annual Employer Conference is held to which all Fund employers and members of the Pensions Committee and Pension Board are invited to attend. The annual conference is an opportunity for employers to question and challenge officers and elected members on matters of interest to their authorities and organisations.

The Fund also holds other meetings as required with Employers to discuss important issues such as the Funding Strategy which underpins the actuarial valuation of the Fund and determines both employer's liabilities and contribution schedules.

## Compliance Statement

The Fund fully complies with the best practice guidelines on governance issued by the DCLG and details can be found at **Annex 2** attached.

# Annex 1

## Training and Expenses Policy for Members of Pension Committee and Pension Board

### Introduction

1.1 Myners' first principle recommends that "decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively". Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.

1.2 Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities and should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively.

### Legal Considerations

2.1 Elected members have a fiduciary responsibility to the Fund, Scheme members and local council tax payers in relation to the Local Government Pension Scheme. They can delegate functions to officers but they retain overall responsibility for the management of the Fund and its investment strategy, and individual decisions about investments.

2.2 Administering authorities are required to take proper advice to enable them to fulfil their obligations under the above regulations. 'Proper advice' is defined in the regulations as 'the advice of a person who is reasonably believed...to be qualified by his ability in and practical experience of financial matters....'

2.3 The Local Pension Board has a statutory duty under the Public Service Pension Act 2013 to be conversant with the rules of the Scheme and to discharge their responsibilities as set out in the Pension Regulator's Code of Practice No 14 and to comply with the Knowledge and Understanding Policy specific to Wirral Pension Board.

### Training Policy and Plan

3.1 The Fund has had regard to the legal requirements set out in the Local Government Pension Scheme Regulations, other relevant legislation and best practice guidance published by CIPFA and other professional and regulatory bodies in drawing up this policy to ensure that all those involved in the decision-making and oversight process receive all relevant training required to properly discharge their responsibilities

3.2 The Fund arranges an annual program of external and internal training events throughout the year designed to meet the requirements of new members of the Committee and the Board along with the ongoing needs of existing members.

3.3 These events are reported, formally, to Members of Committee and Pension Board on an annual basis. Individual reports, to authorise attendance at these events are put to Committee on an event-by-event basis. Attendance of training events for the Pension Board is as agreed by the Independent Chair and the Head of Pension Fund.

## **Policy for Payment of Expenses**

4.1 The Fund will reimburse all reasonable costs and expenses incurred in undertaking approved training for all members of the Pensions Committee and Pension Board.

4.2 Claims should be submitted to the Fund and supported by an official receipt.

4.3 Members serving on the Committee from other local authorities or organisations may choose to continue to claim any such expenses from these bodies instead if they prefer.

# Annex 2

## Merseyside Pension Fund Governance Compliance Statement

Part	Governance Requirement	Fully Compliant
<b>II/A Structure</b>		
a.	The management of the administration of benefits and strategic management of Fund assets clearly rests with the main committee established by the appointing council.	Yes
b.	That representatives of participating LGPS employers, admitted bodies and Scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Yes
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Yes
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Yes
<b>II/B Representation</b>		
a.	That all key stakeholders are afforded the opportunity to be represented, within the main or secondary committee structure. These include:-	Yes
	i) employing authorities (including non-Scheme employers, e.g. admitted bodies);	
	ii) Scheme members (including deferred and pensioner Scheme members),	
	iii) independent professional observers, and	
	iv) expert advisors (on an ad-hoc basis).	

- |    |   |     |
|----|---|-----|
| b. | That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. | Yes |
|----|---|-----|

## **II/C Selection and role of lay members**

- |    |   |     |
|----|---|-----|
| a. | That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | Yes |
|----|---|-----|

## **II/D Voting**

- |    |  |     |
|----|--|-----|
| a. | The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. | Yes |
|----|--|-----|

Following consultation undertaken with all stakeholders groups during 2008 the Fund confirmed that it believes its current representation and voting arrangements are appropriate to ensure good governance.

Although they do not have voting rights the three trade union members representing the interests of active, pensioner and deferred members are able to play a full role in all aspects of the Governance of the Fund, including attendance at the Pension Committee and Investment Monitoring Working Party. They receive copies of all reports and are included in all training and briefings.

## **II/E Training/Facility time/Expenses**

- |    |  |     |
|----|--|-----|
| a. | That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | Yes |
| b. | That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.  | Yes |

## **II/F Meetings (frequency/quorum)**

- |    |   |     |
|----|---|-----|
| a. | That an administering authority's main committee or committees meet at least quarterly.   | Yes |
| b. | That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.  | Yes |
| c. | That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. | Yes |

## **II/G Access**

- |    |  |     |
|----|--|-----|
| a. | That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. | Yes |
|----|--|-----|

## **II/H Scope**

- |    |   |     |
|----|---|-----|
| a. | That administering authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements. | Yes |
|----|---|-----|

## **II/I Publicity**

- |    |  |     |
|----|--|-----|
| a. | That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the Scheme is governed, can express an interest in wanting to be part of those arrangements. | Yes |
|----|--|-----|

Merseyside Pension Fund  
Castle Chambers  
43 Castle Street  
Liverpool  
L2 9SH

Telephone:

0151 242 1390

Email:

[mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)

Members' Website

[mpfmembers.org.uk](http://mpfmembers.org.uk)

Employers' Website

[mpfemployers.org.uk](http://mpfemployers.org.uk)

Opening Times:

Mon. to Fri. 9am - 5pm

ADMINISTERING AUTHORITY





Merseyside Pension Fund

# **Investment Strategy Statement**



Wirral Metropolitan Borough Council  
As approved by Pension Committee **21 March 2017**

# Introduction

This Investment Strategy Statement has been prepared in accordance with:

- Statutory Instrument 2016 No. 946 PUBLIC SERVICE PENSIONS, ENGLAND AND WALES
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

## Investment of money in a wide variety of Investments

The Fund invests in a highly diversified portfolio of assets across multiple asset classes on a global basis. Moreover, the Fund seeks to invest in a broad range of uncorrelated asset classes in order to further reduce overall portfolio risk and limit the potential “downside” effects of financial market volatility.

The maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investments is set out in the Fund’s strategic asset allocation in the table below.

## Strategic Asset Structure

Asset Class	Strategic Benchmark %	Detail %	Control Range
<b>Equities</b>			<b>48.0-58.0</b>
<b>UK Equities</b>	<b>23</b>		
<b>Overseas Equities</b>	<b>30</b>		
US		8	
European (ex UK)		8	
Japan		4	
Asia Pacific		4	
Emerging Markets		6	
<b>Fixed Interest</b>	<b>18</b>		<b>13.0-23.0</b>
UK Gilts		4	
UK Indexed Linked Gilts		10	
Corporate Bonds		4	
<b>Property</b>	<b>8</b>		<b>5.0-11.0</b>
<b>Alternatives</b>	<b>21</b>		<b>16.0-26.0</b>
Private Equity		5	
Hedge Funds		4	
Opportunities		5	
Infrastructure		7	
Cash			<b>0.0-6.0</b>
<b>Total</b>	<b>100</b>		

The Fund's portfolio asset diversification policy is reviewed triennially with its Actuarial advisor and on a quarterly basis with its Investment Consultant and Independent Advisors under the auspices of its Medium Term Asset Allocation Strategy (MTAA).

The Fund's strategic asset allocation is reviewed and authorised at least every three years by the Administering Authority's Pensions Committee.

The Fund's investment strategy is underpinned by certain core philosophies pertaining to individual asset classes *inter alia*:

- The existence of an equity or volatility *risk premium*, namely that investors are rewarded over the longer term for making investments in equities or other assets that have a return profile that is more volatile than liability matching assets
- There is a liquidity risk premium i.e. investors are rewarded over the longer term for making illiquid investments
- Active management of asset allocation can enhance returns by taking active positions against the strategic benchmark within tolerance parameters to control risk
- Active management within asset classes is possible by internal and external managers in order to outperform specific benchmark indices. There are persistent anomalies within asset pricing that can be exploited.
- Active management requires the taking of calibrated risk i.e. volatility from the specific benchmark index returns in the short and medium term.

The fund has written investment philosophies for each of the internally managed portfolios which derive from the core philosophies above. These portfolios are ; UK Equities, European Equities, Opportunities, Direct Property, Indirect Property, Private Equity, Hedge Funds, Infrastructure and Catalyst Fund.

Under the triennial review the Fund's Scheme Actuary provides a dynamic analysis of assets and liabilities within the context of the overall objectives of the Fund *inter alia* to:

- Achieve a 100% solvency level in a reasonable timeframe;
- To maintain sufficient assets to pay all benefits as they arise;
- To implement a sufficiently prudent funding plan to protect against any potential "downside" outcomes reflecting the demographic characteristics of the Fund;
- To provide a linkage to the Fund's investment strategy and economic outlook based on its actuarial assumptions.

The Fund's Investment Consultant provides professional advice on the global strategic asset allocation of portfolio investments with the greatest probability of meeting its overall objectives.

In addition to providing a review of the Fund's investment strategy, the Investment Consultant also provides ongoing monitoring and reporting of both the Fund's assets and liabilities and the resulting progression of the Fund's funding level over time.

Within the shorter term strategic time horizon, the Investment Consultant also advises on medium term tactical asset allocation adjustments in order to exploit opportunities arising from a dynamic financial market environment within the tolerance bands set within the triennial strategic asset allocation.

This is undertaken within the Fund's Medium Term Tactical Asset Allocation framework in which the Investment Consultant advises and makes recommendations on the magnitude of medium term tactical positions to be taken around the strategic benchmark in conjunction with officers of the Fund and its Independent Investment Advisors.

## **The suitability of particular investments and types of investments**

The suitability of particular investments and types of investments to reside within the Fund's investment portfolio are analysed within the context of the overall strategic asset allocation.

Explicit investment mandates have been established for external and internal investment managers across all asset classes with clear instructions as to how these mandates are to be managed within a range of defined investment parameters and performance targets.

All investment mandates are reviewed on a quarterly basis by the Fund's Investment Management Working Party and its Independent Advisors to ensure that returns, risk and volatility are all appropriately managed and remain consistent with the overall strategy of the Fund and the individual portfolio strategies of the Fund's investment managers.

In order to determine that the Fund's policy on asset allocation is compatible with achieving its locally determined solvency target the Investment Consultant undertakes ongoing monitoring of both the Fund's assets and liabilities in order to ascertain the Fund's direction of travel towards meeting its funding and solvency targets.

A detailed report is produced by the Investment Consultant and presented to the IMWP on a quarterly basis for discussion.

## **The approach to risk, including the ways in which risks are to be measured and managed**

The Fund has a clearly determined approach to its risk tolerance subject to the principal objective of maximising the returns from its global investment activities within reasonable risk parameters.

Accordingly, the Fund's Actuary has identified the following key risks:

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation is significantly higher than anticipated
- Longevity continues to increase at a greater rate than anticipated
- Regulatory changes
- Changes to national pension requirements and/or Inland Revenue rules

With regard to its global investment portfolio activities, the principal risks undertaken by the Fund are related to strategic asset allocation, tactical asset allocation and the active management of investment portfolios.

In order to mitigate these risks, the Fund works closely with its appointed Investment Consultant to establish a highly diversified portfolio of investments across different asset classes and geographies with the greatest probability of meeting its funding and solvency targets.

In addition to its core investments in global equities and bonds, the Fund invests in other alternative assets such as property, private equity, venture capital and infrastructure where it is possible to identify assets with lower correlations to the mainstream.

This is designed to provide the fund with a proxy insurance policy against major financial market dislocations.

Through its Medium Term Asset Allocation framework, the fund seeks to actively control risk by reducing unintended variances from benchmark by correcting positions created by market movements on a quarterly basis in accordance with the strategic advice of its Investment Consultant and discussions with its Independent Advisors.

## **The Fund's approach to pooling investments including the use of collective investment vehicles and shared services**

The Council has signed a memorandum of understanding with the administering authorities of the Greater Manchester Pension Fund and the West Yorkshire Pension Fund to create the Northern Pool ('the Pool') in order to meet the criteria for pooling investments released by Government on 25 November 2015.

The three funds submitted their pooling proposal to Government in July 2016 and the Department for Communities and Local Government provided its confirmation in January 2017 that it is content for the funds to proceed with the formation of the Pool as set out in the July 2016 proposal. The proposal is available on MPF's website.

Based on 31 March 2015 asset values, the total value of assets, across the three participating funds, to be invested in the Pool is £35.416bn, which is in excess of the £25bn criteria set by Government. All assets other than day-to-day cash used for scheme administration purposes will be invested via the Pool once transition is complete. Day-to-day cash is assumed to be 1% of total assets for each fund.

For the immediate future after inception of the Pool, the Fund's public-market assets will continue to be held in segregated mandates owned directly by the administering authority, but managed by the Pool. A single custodian will be appointed by the Pool, which will simplify the future consolidation of mandates.

All non-listed assets will be managed by the Pool from its formation. Subject to value for money requirements being fulfilled, new investments (i.e. those entered into after the formation of the Pool) in private market assets will be made on a shared ownership basis, via either collective investment vehicles or limited partnerships.

Legacy private market assets (i.e. those entered into prior to the formation of the Pool) will be run-off on a segregated basis.

This approach will be reviewed periodically going forwards to ensure this continues to demonstrate value for money, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally.

The reviews will take place no less than every 3 years.

Once established it is intended that the Pool will provide the following services to the participating authorities on an in-house basis:

- Implement the strategic asset allocations of the participating authorities
- Management of UK and Overseas equities and bonds
- Selection of private equity, infrastructure & property funds.
- Direct UK infrastructure investment via a collective investment vehicle
- Legal and accounting support
- It is intended that the Pool will externally procure the following services:
- External fund management for certain mandates
- Common custodian for Pool (plus depositaries & fund administrators where required for any pooled funds that are established for non-listed assets)
- Investment management systems
- Audit services
- Performance analytics
- Responsible Investment advisory services
- Value for money reviews of structure

## **Pool Oversight Board**

A Pool Oversight Board will be established to:

- Provide oversight of the Pool; and
- Act as a forum for the participating authorities to express the views of their pension committees.

The Oversight Board's primary roles are to ensure that the Pool is effectively implementing the participating authorities' strategic asset allocations and to oversee reporting to the participating authorities' pension committees.

The legal structure of the Oversight Board is expected to be a joint committee. There will be clear separation of duties between the Oversight Board and the Pool. The Oversight Board will not be undertaking any regulated activities.

The Pool's governing documentation will grant the Oversight Body and each administering authority certain powers regarding the operation of the Pool, which can be used to ensure the effective performance of the Pool.

Reporting processes of the Pool will include regular written reports on the performance of Pool investments to the Oversight Body, which will be discussed at formal meetings.

Officers of the Pool will also report to and present directly the administering authorities' pension committees and local pension boards as appropriate.

A report on the progress of asset transfers will be made to the Scheme Advisory Board annually.

## How social environmental or corporate governance considerations are taken into account in the selection non-selection retention and realisation of investments

Merseyside Pension Fund pursues a policy of Responsible Investment, arising from the belief that environmental, social and corporate governance (ESG) factors will materially affect investment performance over the long term. MPF considers that a holistic approach to investing must consider ESG factors from the outset and at all stages of the decision-making process: from investment beliefs and strategy, across all asset classes and in the strategies selected.

Such an approach is consistent with MPF's view of its fiduciary duty to seek optimal investment outcomes that are in the best interests of all of its scheme participants, having regard to a prevailing public service ethos and to the long-term stability of the wider financial system.

MPF believes that it can select optimal investment strategies across asset classes that integrate ESG information into quantitative and qualitative analysis, which drives the construction and adjustment of investment portfolios. This allows for the flexibility to consider diverse investment approaches and methodologies as appropriate to the objectives and set parameters of particular mandates.

The Fund evaluates and monitors the RI capability of all of its investment managers, often with reference to industry standards of best practice. MPF is a signatory of the **Principles for Responsible Investment** and is committed to reporting on its implementation of these Principles and promoting them across the investment industry.

MPF does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the UK Government.

However, MPF considers that this does not necessarily preclude the use of ESG integration techniques, including screening, within particular mandates where the investment objective includes the optimisation of ESG-related risk and opportunity.

The values and expectations that determine this policy are imparted through MPF's governance arrangements, which incorporate representation of all Scheme members and employers alongside the Administering Authority. Responsible Investment matters are considered through-out the governance processes that set and monitor the Fund's investment strategy and are regularly reviewed by the Fund's Investment Monitoring Working Party.



MPF regards social impact investing as entirely compatible with investing responsibly and considers such opportunities on a prudent basis (or as a **‘finance-first’ investor**). Social impact or thematic investing may provide access to diverse opportunities, uncorrelated to other assets, and can deliver acceptable risk-adjusted returns. It is recognized that the positive impacts targeted will, in many cases, closely align to the wider objectives (including financial) of many of MPF’s participating employers.

## **The exercise of rights (including voting rights) attaching to investments**

MPF considers that practicing responsible ownership of its assets is fundamental to investing responsibly over the long-term; and that, in the case of equity investments, the exercise of voting rights is an intrinsic part of the value of share ownership.

The practice of stewardship is closely aligned to MPF’s duty to act in the best interests of all of its stakeholders. The Fund is a signatory to the UK Stewardship Code for Institutional Investors and has published a Statement of Compliance with its seven principles.

MPF’s policy with regard to the voting rights attached to its equity investments is to retain control and to exercise those rights to the fullest reasonable extent. Voting activity is not delegated to investment managers, except in circumstances where the structure of a particular investment vehicle necessitates this (but where MPF is able to determine that the manager has sufficient stewardship capability and that this activity can be monitored by the Fund).

In accessing any co-mingled investment vehicle with the objective of matching the performance of a stock market index, the Fund will expect the manager to implement its voting instructions over the underlying securities on a pro rata basis.

The Fund implements its voting policy in partnership with a specialist advisor (currently **PIRC Ltd**) who provides appropriate research and vote execution services that cover the major markets in which shares with voting rights are held.

MPF votes in line with the recommendations of its advisor, having judged that the advisor’s voting guidelines promote high standards of corporate governance and responsibility and enable MPF to exert a positive influence as shareholders concerned with value and values.

A quarterly report on voting activity is made to the Investment Monitoring Working Party. A summary of voting activity forms part of the Fund’s Annual Report. Detailed voting activity information, including where the voting decision has been contrary to a company’s recommendation, is made publicly available through the **Fund’s website**.

Alongside its voting policy, MPF considers engagement on ESG matters to be integral to stewardship. The focus of its engagement activity (principally, but not exclusively) is the companies in which it invests across its public equity portfolio.

As such, MPF carries out engagement on a collaborative basis with suitably aligned investors through several organisations (chief among them, the **Local Authority Pension Fund Forum**, of which MPF is a founder member), to ensure that its engagement benefits from scale and clarity of voice.

MPF strongly encourages its investment managers to carry out appropriate stewardship as part of the professional practice of asset management across asset classes and to report on that activity.

Merseyside Pension Fund  
Castle Chambers  
43 Castle Street  
Liverpool  
L2 9SH

Telephone:

0151 242 1390

Email:

[mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)

Members' Website

[mpfmembers.org.uk](http://mpfmembers.org.uk)

Employers' Website

[mpfemployers.org.uk](http://mpfemployers.org.uk)

Opening Times:

Mon. to Fri. 9am - 5pm

ADMINISTERING AUTHORITY

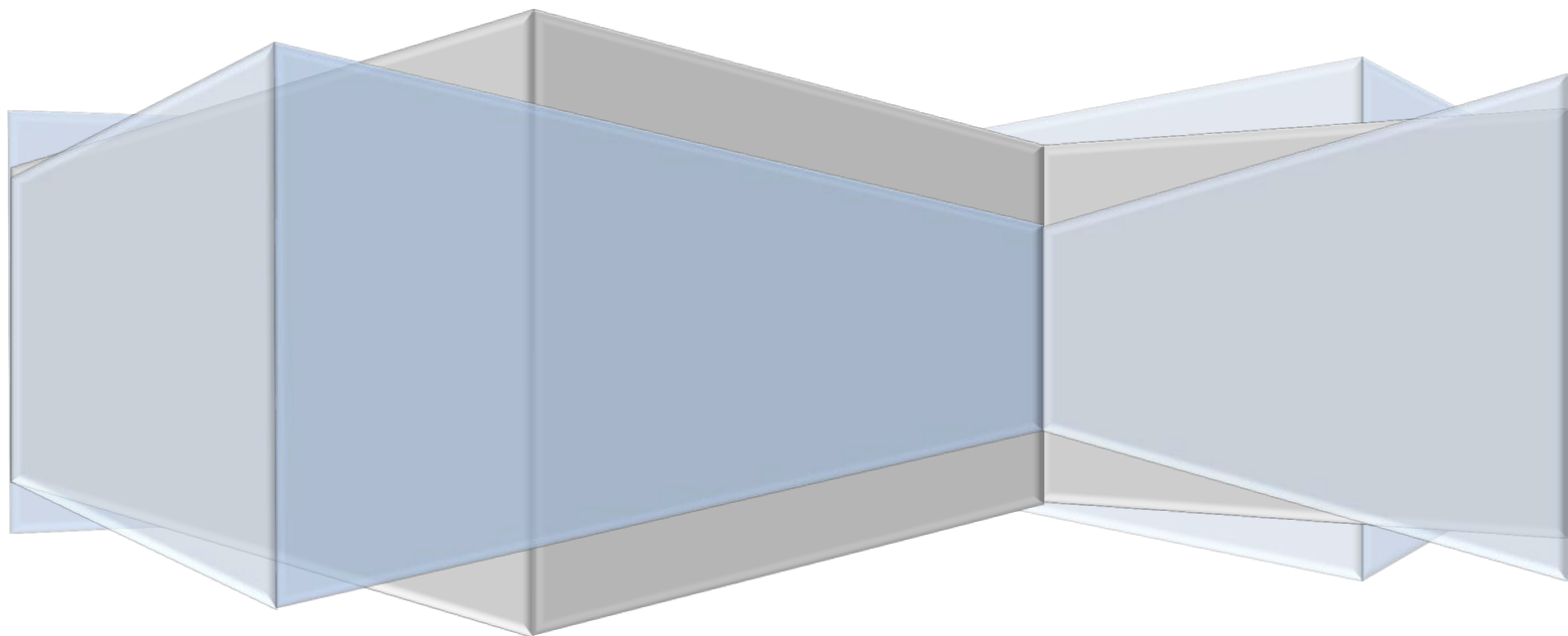




# Pensions Administration Strategy

April 2018

**Yvonne Caddock**



This document has been presented, considered and approved by Pensions Committee on 13 November 2017, following consultation with all employers and the Local Pension Board.

# Contents

1.	Introduction .....	2
2.	Review .....	2
3.	Aims.....	2
4.	Legislative Framework .....	3
	LGPS Regulations 2013 .....	3
5.	Key Objectives.....	3
6.	Achieving the Objectives.....	4
7.	Use of ICT .....	5
	Online access to Fund IT systems .....	5
	‘MyPension’ Member Self Service .....	5
8.	Performance Standards .....	5
	Performance Standards - Scheme Employer .....	6
	Performance Standards - Administering Authority .....	11
9.	Monitoring Performance .....	16
	Audit.....	16
	Escalation policy on charging employers for unsatisfactory performance .....	16
	Schedule of charges for additional administration tasks .....	18
	Schedule of Financial Penalties for Employers .....	20
	Payment method .....	21
	Feedback from employers .....	21
10.	Employer Guides for Administration .....	22
	HR Guide for Employers.....	22
	Payroll Guide for Employers .....	22
	Automatic Enrolment Guide for LGPS Employers .....	22
11.	Associated Policy Statements & Discretions .....	23
	Records & Data Improvement Policy.....	23
	Communications Policy.....	23
	Governance Policy .....	23
	Employer Discretions .....	24

# 1. Introduction

This is the Pensions Administration Strategy of Merseyside Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS), which is administered by Wirral Borough Council (the administering authority)

The LGPS Regulations 2013 allow Administering Authorities to prepare a Pensions Administration Strategy (“the Strategy”) for the purpose of improving administrative processes in compliance with regulatory provisions and the Code of Practice No.14 as issued by the Pension Regulator (tPR).

The legislative framework outlines the statutory pension benefit information and services which the Fund must provide free of charge and allows funds to recover costs incurred as a result of unsatisfactory employer performance. It is also permissible to levy an administration charge for the provision of additional information not covered by the general maintenance allowance factored into the employer contribution rate.

The Fund has revised the Strategy to ensure adoption of best practice and compliance with standards set by the Pensions Regulator in regard to data quality, completeness and timeliness. Changes since 2013 in regard to the benefit structure, statutory time limits and the requirement for public service pension schemes to deliver efficiencies, necessitates the introduction of a schedule of charges for non-statutory administrative services and to recover costs incurred by the Fund as a consequence of an employer’s unsatisfactory performance .

This document has been developed in consultation with employers and the Local Pension Board with the purpose of setting out a framework outlining the policies and performance standards to be achieved to enable provision of a cost-effective and high quality pension administration service.

A copy of this strategy is issued to each of the relevant employers as well as to the Secretary of State.

# 2. Review

The Fund will review this policy document as required to reflect changes in regulations and Fund working practices. Employers will be consulted and informed of the changes and a revised statement will be supplied to the Secretary of State.

# 3. Aims

The aim of this Strategy is to continue progress towards an automated pension service, employing appropriate technology to improve the quality of information, the speed of operational processing for employers and a more efficient service to members. The Strategy recognises that significant work will need to be undertaken in achieving the Pension Regulator’s compliance requirements and both the Fund and its Employers will need to work in partnership to meet this challenge.

## 4. Legislative Framework

### LGPS Regulations 2013

The Fund and its Employers must have regard to this Strategy when carrying out their Scheme functions and Regulation 59 sets out a number of requirements to facilitate best practice and efficient customer service in respect of the following;

- The establishment of levels of performance which the administering authority and its Employers are expected to achieve in carrying out their Scheme functions
- Ensuring the Fund and its Employers comply with statutory requirements in respect of those functions
- Improving the communication between the administering authority and its employers of information relating to those functions

The Strategy also sets out a schedule of additional administration charges by virtue of Regulation 4(5) of the **LGPS (Management and Investment of Funds) Regulations 2016** which provides scope for Funds to levy charges in circumstances where disproportionate costs are being incurred for additional administration tasks relating to individual members or specific employers.

In addition, the circumstances are outlined where financial penalties will be incurred with written notice provided to employers in accordance with Regulation 70 for recovery of fund costs as a result of unsatisfactory performance in carrying out its function as a scheme employer.

Levels of performance achieved will be reported as part of the Pension Administration Monitoring Report at each Local Pension Board meeting and documented in the Fund's Annual Report & Accounts.

## 5. Key Objectives

The key objectives of this Strategy are to ensure that:

- the fund and employers are aware of and understand their respective roles and responsibilities under the LGPS Regulations and in the delivery of administrative functions;
- the fund operates in accordance with LGPS regulations and the Pension Regulator Code of Practice in demonstrating compliance and scheme governance;
- communication processes are in place to enable both the Fund and Employers to proactively and responsively engage with each other and partners;

- accurate records are maintained for the purpose of calculating pension entitlements and employer liabilities; ensuring all information and data is communicated accurately, on a timely basis and is secure and compliant;
- the fund and employers have appropriate skills and that training is in place to deliver a high quality service;
- standards are set and monitored for the delivery of specified activities in accordance with the relevant regulations;
- administrative services are developed and delivered digitally in order to streamline processes and minimise service costs.

## 6. Achieving the Objectives

The localism agenda to devolve power from central government control to boroughs has resulted in an increase to the Fund's employer base as local authorities transform service delivery together with the increase of maintained schools converting to Academy status

The differing characteristics, size and required support of individual employers presents a significant logistical challenge to the management of information, processes and services within the Fund. It is clear that because of these differences a "one size fits all approach" would be unlikely to deliver a workable solution; however standard ways of operating applicable to different employer groups would realise benefits and cost efficiencies.

As the number of disparate employers continues to grow there is the need for more accurate and timely information to improve liability management at both the local and national level. In addition the Pensions Regulator has introduced higher levels of compliance and the Fund will be required to demonstrate heightened governance and administrative efficiency.

There are four key elements necessary to achieving the Fund's administrative objectives:

### a) Communications Policy

- ensures members have accessible and timely information on all aspects of their pension benefits and informs decisions in respect of entitlements
- enables employers to make effective decisions in the management of risks and liabilities as well as encouraging engagement in the wider pension debate

### b) A training plan that will offer support to employers and continue to enhance staff knowledge and skills to ensure efficient administration compliant with the Pension Regulator requirements

### c) An ICT development programme which will deliver high quality, efficient and integrated digital services to employers and members in an increasingly regulated and financially complex environment

### d) A performance framework which will support the effective working of the Fund and enable both the Fund and Employers to deliver continuous improvement and move towards a higher standard of service



## 7. Use of ICT

As part of its ICT development programme, the Fund has procured a comprehensive benefit and electronic document management system; this investment will enable the Fund to achieve a fully integrated self-service application for both employers and members. The new system creates the foundation to further digitalise the administration activities in the coming years.

At the time of writing, approximately 80% of active scheme membership is covered by electronic data submissions from employers. The Fund plans to achieve a digital step change in service delivery of full electronic data submissions from all employers over the next four year period. This will be delivered by a number of key work streams alongside the system supplier.

### Online access to Fund IT systems

The Fund can provide secure online access for suitably large employers, in order for employing authority staff to produce retirement estimates and enquire on their employee's record of membership. The system is available during normal office hours with the exception of any necessary scheduled maintenance of the system.

As there are system and resource costs associated with granting online access, the Fund reserves the right to only agree where there is a mutual benefit in managing data quality and overall administration costs.

The Fund reserves the right to revoke access based on licence cost and employer performance.

### 'MyPension' Member Self Service

All active, deferred and pensioner members of the Fund are able to view their membership records online via a self-service website called 'MyPension' <http://mpfund.uk/mypension>

Annual Benefit Statements and Pensioner Payslips are viewable online and the Fund has made significant savings in paper and postage costs. As part of the ICT development programme, the Fund will be working with its supplier to extend the self-service system to cover more administrative tasks, improving service efficiency and reducing administration costs.

Employers are asked to support the Fund in encouraging member registration with the 'MyPension' self-service system, by providing information on intranets and within appropriate communications to the workforce.

## 8. Performance Standards

A key purpose of the Administration Strategy is to set performance standards and publish both the targets and achievements against those targets to evaluate continuous improvement of the administration function. The performance measures which will be monitored are outlined below, with the outcomes subject to scrutiny by the Pensions Regulator, the Local Pension Board and Pensions Committee; with summary information published in the Fund's Annual Report & Accounts.

## Performance Standards - Scheme Employer

### Duties and Responsibilities

Function/Task	Performance Target
<b>Governance</b>	
Designate a named individual to act as a Pensions Liaison Officer who is the main contact with regard to any aspect of administering the LGPS via submission of Fund documents "Your LGPS Contacts" and Authorised Signatories	Within 30 days of becoming a scheme employer or within one month of the change in officer role
Confirm designated contact information for officers authorised to perform key policy decisions and administrative roles within the organisation	Within 30 days of becoming a scheme employer or within one month of the change in officer role
Appoint person for stage 1 of the pension dispute process (IDRP) and provide full up to date contact details to the Fund	Within 30 days of becoming a scheme employer or following the resignation of the current adjudicator
Notify the Fund of the receipt of a complaint under the IDRP process	Within 7 working days of receiving the complaint
Notify the Fund that the stage 1 decision has been issued	Within 7 working days of making the determination
Appoint an independent registered medical practitioner qualified in occupational health medicine or arrange contract with third party, in order to consider all ill health retirements applications and agree appointment with Administering Authority	Within 30 days of commencing participation in the scheme or date of resignation of existing medical officer
Formulate, publish and keep under review policies in relation to all areas where the employer may exercise discretion within the LGPS	A copy of the policy document is to be submitted to the Fund within one month of a change in policy
Distribute any information provided by the Fund to scheme members/potential scheme members (e.g financial information or generic news alerts)	In a timely manner as required

Function/Task	Performance Target
<b>Financial Administration</b>	
Ensure correct employee contribution rate is to be determined each scheme year in line with the appropriate contribution banding table	Immediately upon commencing scheme membership, reviewed as per policy on adjusting employee contribution rates
Remit employer and employee contributions and Remittance Advice Slip (LGP41) to the Fund	By 22nd of the month following deduction of payroll if made electronically or 19th if paid by cheque  Under the Pensions Act 2004 and the Public Service Pensions(Record Keeping and Miscellaneous Amendments) Regulations 2014, the Pensions Regulator may be notified if the above measurement is not met
Implement changes to employer contribution rates as instructed by the Fund at the date specified by the Fund Actuary	In line with the Rates Adjustment Certificate as per the valuation
Ensure and arrange for the correct deduction of employee contributions from a member's pensionable pay including any period of child related leave, trade dispute or other forms of leave of absence from duty	As required by payroll cycle, monthly or weekly
Manage the deduction of all additional contributions or amend such deductions, as appropriate	As required
Arrange for the deduction of AVCs and payment over of contributions to the AVC provider( s) and inform the Fund as required	As required by payroll cycle, typically monthly
Refund any employee contributions when employees opt out of the pension scheme within 3 months and submit LGP9A	Within 42 days of the opt-out date
Remit additional fund payments in relation to early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent and a funding strain cost arises	Within 30 days of receipt of invoice from the Fund

Function/Task	Performance Target
<b>Financial Administration continued...</b>	
Remit Recharge payments in respect of pension members – e.g Compensatory Added Years	To be paid within 30 days of the invoice from the Fund
Payments in respect of FRS102 and IAS19 work carried out on behalf of Employers by the Fund Actuary and Accounts Team	To be paid within 30 days of the invoice from the Fund
Payments in respect of all other work carried out on behalf of the Employer by the Fund's Actuary and connected data quality assurance undertaken by the Fund's Administration Team	To be paid within 30 days of the invoice from the Fund

Function/Task	Performance Target
<b>Alternative Service Delivery Models / TUPE Transfer - New Employers</b>	
Notify the Fund of contracting out services which will involve a TUPE transfer of staff to another organisation so that information can be provided to assist in the decision	At the point of deciding to tender
Notify Fund of lead decision making and operational officers in circumstances where a prospective new employer or admitted body may request to join the Fund as a result of re-organisation or TUPE transfer	At commencement of business review project
Work with Fund Officers to arrange for an admission agreement to be established	A minimum of 90 days in advance of the date of contract
Notify the Fund if the employer ceases to admit new scheme members or is considering terminating membership of the Fund	As soon as decision is agreed

Function/Task	Performance Target
<b>Member Information/Data Quality and general administration</b>	
Provide the Financial Statement (LGP40) as specified by the Fund including granular breakdown per employee of contribution, CARE/FTE pay and service related data (annual year-end return) to feed into valuation/GAD cost sharing exercise and annual benefit/annual allowance statements for members	Completed and validated return to be submitted no later than the end of business on the second Friday within the month of May
To ensure optimum accuracy of year-end information, in line with specified extract	Less than 5% of entries to be queried following digital alignment of members and memberships
To resolve digital alignment and financial discrepancies ( sanity queries) resulting from the annual return process	<p>To fully answer all queries from the Fund within 15 working days of receipt of the query</p> <p>In circumstances where an employer submits a late annual return and the Fund can only query within the month of July, the timescales may be shorter than 15 days, as advised by the Fund</p>
To action requests for data reconciliations of member records	To fully answer data reconciliations/member queries from the Fund within three weeks of receipt of data
Notify the Fund of new joiners/additional employment electronically in agreed format and secure data transfer or manual LGP1 form	Within 42 days of member's contractual auto-enrolment or re-enrolment date
Provide new joiner with Membership Form LGP2 -To assist Fund to establish previous pension entitlements	Within 30 days of the member's first day of entry to the scheme
Direct all eligible new employees to the member guide to the pension scheme on the Fund website	At date of employee appointment
Change in employees' circumstances which may impact on pension benefits, (movement in and out 50/50 scheme, marital or civil partnership status, maternity, paternity, absence, name etc) electronically in agreed format and secure data transfer or manual LGP4 Form	Within 42 days of the event or receipt of information

Function/Task	Performance Target
<b>Member Information/Data Quality and general administration continued...</b>	
Notify the Fund of early leaver/opt over three months for member's entitled to a refund or deferred benefit and submit both LGP9 / Termination Form LGP1A in electronic or manual format	Within 42 days of date of leaving/opt out date
On leaving employment, an LGP1C is required for the opted out former member	No later than 30 days of termination of employment
Notify the Fund when a member leaves with immediate entitlement to benefits submit Termination Form LGP1A and issue Retirement Option Form LGP1B in electronic or manual format to the employee	No later than 30 days of retirement
Notify the Fund of the death of an employee and provide next of kin details and submit Termination Form LGP1A. In addition raise awareness of Fund's Welfare Officer when a member is suffering from a terminal illness	Within 3 working days of knowledge of the death of the employee
To determine based on medical opinion and advice whether an ill health award is to be made and determine where relevant which tier 1,2 or 3  Arrange for the completion of the appropriate LGP12 form and submit along with LGP1A/LGP1B to the Fund	No later than 30 days of date of retirement
To submit request form LGP88 for estimate of benefits	No later than four months, before retirement but the Service Area Manager can modify the target in exceptional circumstances
To Notify the Fund of final salary and pensionable pay figures for divorce valuations	Within 10 working days of request
To Notify the Fund of a workforce planning exercise and the intent to request a bulk estimate retirement calculation to seek both member pension details and employer strain costs	As soon as practicable to allow the Fund to consider resource planning

## Performance Standards - Administering Authority

### Duties and Responsibilities

Function/Task	Performance Target
<b>Governance</b>	
Regularly review the Fund's pension administration strategy and consult with all scheme employers	To review at least triennially and revise following any material change in policies that relate to the PAS
Review the Fund's Funding Strategy Statement at each triennial valuation, following consultation with scheme employers and the Fund's actuary	Publish by 31 March following the valuation date or as required
Review the Fund's Communication policy statement	Annual review and publish within 30 days of any revision to the policy being agreed by Pension Committee
Review the Fund's Governance and compliance statement	Annual review and publish within 30 days of any revision being agreed by Pension Committee
Formulate and publish policies in relation to all areas where the administering authority may exercise a discretion within the scheme	Annual review and publish within 30 days of any revision being agreed by Pension Committee
Publish the Fund's Annual report and Financial Statement	By 30 September following the year-end or following the issue of the auditors opinion
Notify scheme employer of issues relating to scheme employer's unsatisfactory performance	Within 10 working days of discernible performance issue

Function/Task	Performance Target
<b>Financial Administration</b>	
Consult with employers on the outcomes of the triennial valuation	At least 90 days in advance of the signing of the final Rates and Adjustment Certificate
Notify employers of contribution requirements for 3 years effective from April following the actuarial valuation date	At least 30 days before signing off the Rates and Adjustment Certificate
Notify new scheme employers of their contribution requirements	Within 60 days of receipt of the data profile for onward submission to the Fund Actuary
Carry out termination valuations on admitted bodies or scheme employers ceasing participation in the Fund	Within 60 days of receipt of termination forms from exiting employer
Notify scheme employer of decision to recover additional costs associated with the scheme employer's unsatisfactory performance	Within 10 working days of scheme employer failure to improve performance as agreed

Function/Task	Performance Target
<b>Alternative Service Delivery Models / TUPE Transfer - New Employers</b>	
Arrange for the setting up of separate admission agreement/new scheme employers including the allocation of assets and notification to the Secretary of State	Within 90 days of all necessary information
Arrange for all new prospective admitted bodies/new scheme employers to undertake, to the satisfaction of the Fund, a risk assessment of the level of bond or guarantee required in order to protect other scheme employers participating in the Fund	To be completed prior to the body being admitted timings predicated on timely submission of staff profile for submission to the Fund Actuary
Undertake a review of the level of bond/guarantee to protect other constituent employers	Annual review or upon material change in an employer's structure



Function/Task	Performance Target
<b>Member Information/Data Quality and general administration</b>	
Provide support for employers through a dedicated employer website, technical notes, forums, employer bulletins/alerts and day to day contact	Forums and ongoing support as required
Organise and provide coaching sessions on an employer's roles and responsibilities	Upon request of scheme employers or as Fund Officers deem necessary
Notify scheme employers and scheme members of changes to the scheme rules	Within 60 days of regulatory change
Produce annual benefit statements to active and deferred members as at 31 March each year	By 31 August following the year-end
Produce and issue pension saving statements each year to members who have exceeded their annual allowance	By 6 October following the end of tax year (subject to receipt of all relevant information from the scheme employer)
Publish and keep up to date all forms required for completion by scheme members or employer	30 days from any revision
Issue and keep up to date web based employer guides	Within 30 days from date of change/amendment
Issue and keep up to date scheme guide and all other literature for issue to scheme members	Within 30 days from date of change/amendment
Set up new joiner and provide statutory notification to member	Within 30 days of receipt of correct notification from a scheme employer
Process changes in employees' circumstances which may impact on pension benefits	Within 30 days of receipt of correct notification from a scheme employer
Process transfer in quotations	Within 10 working days of receipt of all required information
Transfer notification of credited membership/accrued pension account to be notified to the scheme member	Within 10 working days of receipt of payment

Function/Task	Performance Target
<b>Member Information/Data Quality and general administration continued...</b>	
Transfer out quotations processed	Within 10 working days of receipt of all necessary information
Transfer out payments processed	Within 7 working days of receipt of all necessary information*
Determine necessary category in relation Aggregation/Interfund cases and issue notification to member of service credit and accrued pension account	Within 10 working days of receipt of all necessary information
Process Divorce Valuation	Within 10 working days of receipt of all necessary information
Notify the scheme employer of any scheme member's election to pay additional pension contributions ,including all required information to enable deductions to commence	Within 10 working days of receipt of election from a scheme member
Process scheme member requests to pay/amend/cease additional voluntary contributions	Within 7 working days of receipt of request from scheme member
Deferred benefits calculated	Within 20 working days of receipt of all necessary information
Deferred benefits processed for payment	Within 7 working days of receipt of election and all necessary information*
Refund payments	Within 10 working days of receipt of all necessary information*
Provision of estimate of Pension Benefits	Within 10 working days of receipt of all necessary information*
Provision of retirement options to members	Within 10 working days of receipt of all necessary information
New retirement benefits processed for payment following receipt of options	Lump sum payment plus first payment of pension within 7 working days of receipt of all necessary documentation*  Thereafter pension payment on monthly payroll run

Function/Task	Performance Target
<b>Member Information/Data Quality and general administration continued...</b>	
Acknowledgement of a death	Within 5 days of receiving the notification
Payment of death lump sum	Within 7 working days of receipt of all necessary information*
Notification of benefits payable to dependents	Within 7 working days of receiving the required information*
Provide an answer or acknowledgement to scheme members/scheme employers/personal representatives/dependents and other authorised persons	Within 10 days from receipt of enquiry
Undertake data reconciliation exercises against Fund and employer payroll system	Periodically throughout year
To produce year end year digital alignment queries and financial discrepancies for employers	Within 30 days of receipt of complete and correct return with less than 5% of entries to be queried after digital alignment of members and memberships
Provision of bulk estimate data including both member pension details and employer strain costs	Within the timescales agreed between the Fund and employer to inform the workforce planning exercise

**\*All performance targets relating to payments exclude BACS processing period**

## 9. Monitoring Performance

It is the responsibility of the Fund and scheme employers to ensure compliance with the LGPS regulations and this associated Pensions Administration Strategy; with all parties required to undertake functions and tasks to the agreed quality standards.

The Fund will measure and report the Funds and scheme employer's compliance with the agreed service standards on a regular basis.

The Fund monitors its own performance against internal key performance indicators on a monthly basis; performance against the PAS by both the Fund and employers is reported to the Pension Board three times a year. The Fund will also report back to employers about their individual performance identifying any areas for improvement including outstanding data items

### Audit

The Fund is subject to an annual audit of its processes and internal controls and the administering authority's auditors may request member data or may ask to attend at employer offices to carry out audits regarding the calculation of final salary pays, career average pays and assumed pays. Employers are requested to co-operate with these activities.

### Escalation policy on charging employers for unsatisfactory performance

The Fund's preferred route to resolution in regard of data gaps is to support and work closely with employers via the Pension Liaison Officer; who will receive opportunity to correct the issue before invoking the Escalation Policy.

However, where persistent failure (which is defined as an ongoing failure to positively engage with the Fund) occurs in relation to administration requirements and no improvement is demonstrated by an employer or willingness to resolve the matter the following actions will be taken:

- Write to the scheme employer, setting out area(s) of non – compliance with performance standards offering support and where appropriate request attendance at a training session
- When no improvement has been demonstrated or where there has been a failure to take agreed action by the scheme employer they will be requested to attend a meeting with representatives of the Fund to agree an action plan.
- If no improvement is evident within one month or the employer is unwilling to attend a meeting to resolve the issue a formal notice will be issued setting out;
  - the area(s) of non-compliance with performance standards that have been identified
  - the steps taken to resolve those area(s) and;

- issue notice that the additional costs will now be reclaimed providing the basis on how the additional cost was calculated .

An invoice will then be issued to the employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of unsatisfactory performance in accordance with the charging schedule outlined overleaf.

A report will be presented to the Local Pension Board detailing charges levied against scheme employers and outstanding payments.

If unsatisfactory performance impacts the Fund's ability to perform statutory functions and measures are not being taken by the employer to address this the Fund will consider reporting the employer to the Pension Regulator.

## Schedule of charges for additional administration tasks

<b>Charges</b>		
Implementation of Pension Sharing Order	<b>Member</b>	<b>£500 + VAT</b>
An additional CETV request made within 12 months of an earlier CETV being provided including circumstances for divorce valuations	<b>Member</b>	<b>£150 + VAT</b>
A replacement guaranteed CETV where the transfer option forms are not returned within three months of the guarantee date	<b>Member</b>	<b>£150 + VAT</b>
<p>An employer request for multiple benefit estimates for a member within a 12 month period e.g. for a variety of reasons for leaving or potential retirement dates</p> <p>This excludes estimates provided via a bulk exercise</p> <p><b>The Fund will provide an estimate for a single date and reason for leaving free of charge</b></p>	<b>Employer</b>	<b>£100 + VAT for each individual item requested</b>
Request for copies of correspondence, documents or duplicate statement	<b>Member / Employer</b>	<b>£10 + VAT</b>
Correspondence provided to third parties in relation to member pension entitlements and benefit structure	<b>Member / Employer</b>	<b>£100 + VAT *</b>
Individual Protection 2016 (IP2016) Valuation to calculate an Individual's protected LTA	<b>Member</b>	<b>£150 + VAT</b>
Production of non-statutory Pension Saving Statements and forecasts of annual allowance usage	<b>Member</b>	<b>£150 + VAT *</b>
<p>Administration of information in relation to Accounting Standards Exercises **</p> <p>(Recharge of actuary fee in accordance with contractual arrangement)</p>	<b>Employer</b>	<b>£100 + VAT *</b>

<b>Charges continued</b>		
Bespoke Pension Administration Work	<b>Employer</b>	<b>At the appropriate hourly officer rate on a cost recovery basis</b>
Data quality and en-masse calculation/operational processing in connection with on-boarding of new employers including academies  (Recharge of actuary fee in accordance with contractual arrangement)	<b>Employer</b>	<b>£2,000 + VAT *</b>
Data quality and en-masse calculation/operational processing in connection with employer de-participation  (Recharge of actuary fee in accordance with contractual arrangement)	<b>Employer</b>	<b>£2,000 + VAT *</b>
Provision of an indicative funding/termination valuation based on membership and cashflow data assessed to determine the previous triennial results	<b>Employer</b>	<b>£500 + VAT per Valuation</b>
Setup de-risking framework to monitor an employer funding position to lock down pension liabilities and switch to an alternative investment strategy to reduce volatility of pension costs  Annual monitoring of the funding level and engagement with employer on proposed funding trigger	<b>Employer</b>	<b>Actuarial recharge of £3,500 + VAT</b>  <b>£3,000 + VAT, per annum</b>

\* These are standard charges which may be subject to adjustment based on resource required

\*\* MPF would be willing to bring forward the schedule deadline for issue of accounting disclosure; however it may result in more estimates being needed, in particular the calculation of the investment return, and share of the plan assets achieved over the year. The actuary will need to estimate these using market indices for a longer period than is currently the case. Employers will need to agree that the 'estimation' is acceptable with their auditor and alert the Fund of an earlier response deadline.

## Schedule of Financial Penalties for Employers

Financial Penalties	
Failure to remit payment of monthly employee and employer contributions in full by the 22nd of the following month	Interest at base rate plus 1% as per the 2013 regulations
<p>Failure to submit monthly contributions LGP41 forms with or before remittance of payment, except where payment is made early and LGP41 is received on/before the payment method submission date.</p> <p>Note: In order to streamline accountancy procedures the recommended best practice is to submit the LGP41 prior to or with payment of contributions.</p>	£100 per occasion
<p>Failure to comply with one or both of the following requirements:</p> <ul style="list-style-type: none"> <li>• Submission of completed and validated year-end return in accordance with the prescribed specification by the end of business on the second Friday within the month of May</li> <li>• Submission of the certified year end LGP40 Financial Statement</li> </ul>	<p>A fixed penalty of £250</p> <p>plus a further fixed penalty of £100 for every further week late following that deadline</p>
Quality of the year-end information provided is below the acceptable tolerance level set at 5% of entries to be queried after digital alignment of members and memberships	<p>The Fund will recover costs for the work involved to resolve these errors</p> <p>Typically costs will be based on officer hourly rates but will be determined on the resource required to address errors above the tolerance</p>

**Please note:**

- If an employer annual return is received by the end of business on the second Friday within the month of May and the return is accepted, no charge will apply
- If a completed and validated annual return is received by the end of business on the second Friday within the month of May and the return is rejected following initial conformity checks, but subsequently re-submitted and accepted within 2 weeks of being notified of the rejection, no charge will apply.



- In regard the 5% error rate in resolving annual return data, charges will not be applied during the 2018/19 scheme year (1 April 2018 - 31 March 2019). This will provide opportunity for both the fund and employers to reconcile data and clarify specific requirements for future provision of data.

**These charges are reviewed annually by the Fund and in exceptional circumstances can be waived at the discretion of the Service Area Manager.**

## Payment method

Payments in respect of administration activity directly requested by the member or third party representatives must be agreed with a Fund officer and paid in advance via online banking before the requested information can be provided.

The bank account details for electronic payment are as follows:

<b>Account Name</b>	Merseyside Pension Fund
<b>Bank sort code</b>	30-95-11
<b>Bank account number</b>	01140818

The payment reference is to include the members name and National Insurance number.

Charges in respect of administration work commissioned by an employer must also be agreed and paid in advance electronically before provision of the information or depending on the organisations financial arrangement upon receipt of a purchase order. Payments must include a reference as provided by the Fund for the purposes of reconciliation by the accounts team with our bank account.

In circumstances where financial penalties are incurred the Fund will issue an invoice for payment.

## Feedback from employers

Employers who wish to provide feedback on the performance of the Fund against the standards in this administration strategy should complete the online form available on the secure employers' website:

<http://mpfemployers.org.uk>

## 10. Employer Guides for Administration

The Fund provides comprehensive guides in regards employer administration under the LGPS regulations from 1 April 2014.

### HR Guide for Employers

This guide sets out the requirements for HR sections in respect of the Local Government Pension Scheme regulations, effective from 1st April 2014.

### Payroll Guide for Employers

This guide sets out the requirements for payrolls in respect of the Local Government Pension Scheme regulations, effective from 1st April 2014. It is intended to inform payroll providers and employers of the minimum information needed to effectively manage the 2014 Scheme (and its interaction with the 2008 Scheme) and contains illustrative examples.

These employer guides are available on the dedicated employer website.

**<http://mpfemployers.org.uk/content/hr-payroll-guides>**

### Automatic Enrolment Guide for LGPS Employers

The Local Government Pension Committee (LGPC) produced two guides which explain how employers' responsibilities under the Local Government Pension Scheme regulations interact with those automatic enrolment responsibilities under the provisions of the Pensions Act 2008.

These are available on the dedicated employer website.

**<http://mpfemployers.org.uk/content/automatic-enrolment-guide-lgps-employers>**

## 11. Associated Policy Statements & Discretions

### Records & Data Improvement Policy

The Fund collects and holds large amounts of digital and paper based data and is heavily reliant on the timely receipt of quality data from employers, in order to effectively administer the Local Government Pension Scheme (LGPS). This document is supplemental to the Pension Administration Strategy.

The Fund website has the latest copy of this policy which can be found at:

**<http://mpfemployers.org.uk/content/records-data-improvement-policy>**

### Communications Policy

This statement outlines the Fund's policy on:

- Information to members, representatives and employers;
- The format, frequency and method of distributing such information;
- The promotion of the Scheme to prospective members and their employing authorities.

The Fund website has the latest copy of this policy which can be found at:

**<http://mpfmembers.org.uk/content/riskdocs>**

### Governance Policy

Wirral Metropolitan Borough Council is the Administering Authority for Merseyside Pension Fund. The Council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund.

This statement sets out the scheme of delegation and the terms of reference, structure and operational procedures of the delegation and can be found on the Fund website at:

**<http://mpfmembers.org.uk/content/riskdocs>**

## Employer Discretions

Since 1997, the LGPS Regulations have required every employing authority to:

- issue a written policy statement on how it will exercise the various discretions provided by the Scheme;
- keep it under review;
- revise it as necessary.

A list of employer discretions can be found on the Employers website at:

**<http://mpfemployers.org.uk/content/employer-discretions-april-2014>**

**Approved by:** Pensions Committee

13 November 2017

Merseyside Pension Fund  
Castle Chambers, 43 Castle Street  
Liverpool, L2 9SH

Telephone: 0151 242 1390  
Fax: 0151 236 3520

Web: [mpfmembers.org.uk](http://mpfmembers.org.uk)  
[mpfemployers.org.uk](http://mpfemployers.org.uk)

Email: [mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)



## **Report & Accounts 2018/19**

### **Merseyside Pension Fund**

Castle Chambers  
43 Castle Street Liverpool  
L2 9SH

Tel: 0151 242 1390

Email: [mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)

[www.merseysidepensionfund.org.uk](http://www.merseysidepensionfund.org.uk)

Administering Authority Wirral Council



# Appendix A

Scheme employers with active members as at 31 March 2019

## Scheduled Bodies (34)

## Contributions Received

	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Billinge Chapel End Parish Council	4	0	1
Carmel College	249	0	105
Chief Constable (CC)	7,508	4,044	3,684
Cronton Parish Council	2	0	0
Eccleston Parish Council	4	0	1
Edsential SLE	241	73	76
Halewood Town Council	22	11	7
Hugh Baird College	610	296	261
Knowsley M.B.C.	10,519	0	4,710
Knowsley Town Council	28	0	9
LCRCA - Liverpool City Region Combined Authority	341	0	181
Liverpool City Council	27,102	0	12,226
Liverpool John Moores University	5,584	3,478	2,820
Liverpool Streetscene Services Ltd	1,019	0	296
Maghull Town Council	36	0	12
Merseyside Fire & Rescue Authority	1,383	0	604
Merseyside Passenger Transport Executive (MPTE)	3,291	0	1,532
Merseyside Waste Disposal Authority	149	141	76
Office of the Police and Crime Commissioner (OPCCM)	90	36	54
Prescot Town Council	10	3	7
Rainford Parish Council	10	2	3
Rainhill Parish Council	3	0	1
School Improvement Liverpool Ltd	804	0	378
Sefton M.B.C.	14,538	0	6,155
Shared Education Services Ltd	403	53	136
Southport College	399	231	153
St. Helens College	936	689	379
St. Helens M.B.C.	11,143	0	4,832
The ACC Liverpool Group Ltd	615	0	440
The City of Liverpool College	506	848	219
Whiston Town Council	29	9	11
Wirral Council	15,922	0	7,068
Wirral Evolutions Ltd	554	0	145
Wirral Metropolitan College	660	375	251

**Scheduled Bodies (Academies) (100)****Contributions Received**

	<b>Employers £'000</b>	<b>Deficit/(Surplus) £'000</b>	<b>Employees £'000</b>
Academy of St Francis of Assisi	120	10	53
Bellerive FCJ Catholic College	76	42	27
Birkdale High School	70	56	26
Birkenhead 6th Form College (Academy)	208	93	92
Birkenhead High School Academy	149	17	54
Bishop Martin CE Primary	26	15	9
Blacklow Brow School (Academy)	36	19	13
Blue Coat School (Academy)	106	69	48
Calday Grange Grammar School	172	38	61
Chesterfield High School	118	71	42
Childwall Sports & Science Academy	72	98	33
Christ Church Moreton Primary (Academy)	15	8	6
Church Drive Primary	6	0	2
Churchtown Primary (Academy)	25	16	8
Co-op Academy Portland	18	9	5
Co-op Academy Woodslee	14	0	4
Cronton CE Primary (Academy)	44	19	14
Croxteth Community Primary School (Academy)	14	5	5
De La Salle Academy	44	39	18
Deyes High School	177	96	75
Egremont Primary School (Academy)	90	30	31
Emslie Morgan Academy	35	22	17
Everton Free School	21	0	19
Finch Woods Academy	38	17	15
Formby High School	110	0	41
Garston CE Primary School (Academy)	46	14	15
Great Meols Primary School (Academy)	52	24	18
Greenbank High School	128	64	48
Halewood Academy Centre for Learning	133	153	54
Halewood CE Primary (Academy)	41	23	14
Halsnead Primary School (Academy)	57	29	21
Harmonize Academy	32	2	13
Hawthornes Free School	65	18	22
Heygreen Community Primary (Academy)	41	20	21
Hillbre High School (Academy)	173	103	67
Hillside High School (Academy)	117	139	45
Holy Trinity CE Primary (Academy)	56	31	18
Hope Academy	145	95	58
Huyton with Roby CE Primary (Academy)	77	31	22



## Contributions Received

	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Kings Leadership Academy (Liverpool)	79	22	33
Kirkby High School	120	137	53
Knowsley Lane Primary School (Academy)	31	28	14
LDST - Liverpool Diocesan Schools Trust (Academy)	28	0	21
Litherland High School (Academy)	91	94	41
Litherland Moss Primary (Academy)	22	10	8
Liverpool College (Academy)	82	0	28
Liverpool Life Science UTC	66	1	30
Lord Derby Academy	145	90	52
Maghull High School	79	87	33
New Park Primary (Academy)	146	78	64
North Liverpool Academy	205	44	120
Nutgrove Methodist Aided Primary	17	8	7
Oldershaw Academy	123	70	50
Our Lady of Pity (Academy)	78	30	22
Parish CE Primary (Academy)	40	22	15
Park View Academy	50	40	18
Poulton Lancelyn Primary School (Academy)	52	23	17
Prenton High School for Girls	123	0	49
Rainford High School (Academy)	128	56	58
Rainhill High School	136	72	62
Rainhill St Anns CE Primary School (Academy)	74	27	24
Range High School	158	96	59
Roscoe Primary (Academy)	57	29	20
Shoreside Primary School	17	7	5
St Andrews CE Primary (Academy)	41	21	13
St Anselm's College	91	21	33
St Edward's College	102	66	42
St Francis Xavier's College (Academy)	142	79	54
St James' Primary School (Academy)	12	4	5
St John Plessington Catholic College	205	76	73
St Joseph's Primary (Academy)	34	19	11
St Margaret's Church of England Academy	116	59	42
St Mary & St Thomas CE Primary School (Academy)	67	30	24
St Mary's Catholic College	192	118	61
St Michael's CE High School (Academy)	105	87	47
St Silas CE Primary School (Academy)	87	29	30
St Thomas CE Primary (Academy)	51	19	19
Stanley High School (Academy)	91	62	31

## Contributions Received

	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Stanton Road Primary School (Academy)	49	19	16
Studio @ Deyes Academy	23	0	7
Sylvester Primary Academy	32	10	9
The Academy of St Nicholas	116	160	47
The Beacon CE Primary School (Academy)	51	26	21
The Belvedere Academy	117	21	51
The Birkenhead Park School	84	118	37
The Prescott School (Academy)	111	75	39
The Studio (Academy)	15	0	8
The Sutton Academy	124	106	60
Town Lane Infant School (Academy)	46	20	15
Townfield Primary	102	34	45
Upton Hall School	92	39	31
Weatherhead High School	175	90	77
West Derby School (Academy)	143	41	50
West Kirby Grammar School	79	49	32
Whiston Willis Primary (Academy)	50	21	14
Willow Tree Primary	2	1	1
Wirral Grammar Boys (Academy)	83	47	32
Wirral Grammar School for Girls	90	41	29
Woodchurch High School	331	142	120
Yew Tree Primary Academy	34	22	13

**Admission Bodies (Community) (27)****Contributions Received**

	<b>Employers £'000</b>	<b>Deficit/(Surplus) £'000</b>	<b>Employees £'000</b>
Age Concern - Liverpool	21	(21)	8
Arriva North West	875	3,092	217
Association of Police and Crime Commissioners	114	16	69
Berrybridge Housing Ltd	41	48	15
Birkenhead School (2002)	30	(10)	8
Care Quality Commission	31	87	10
Catholic Children's Society	31	26	5
CDS Housing	550	142	176
Citizens Advice Liverpool	34	0	6
Cobalt Housing Ltd	86	0	29
Commutual	35	0	12
Glenvale Transport Ltd/Stagecoach	114	(22)	32
Greater Hornby Homes	11	10	4
Greater Merseyside Connexions (Career Connect)	819	(741)	228
Lee Valley Housing Association Ltd	37	35	12
Liverpool Hope University	59	96	9
Local Government Association	934	1,155	662
Merseyside Lieutenancy	13	0	4
North Huyton Communities Future	16	0	9
One Vision Housing Ltd	1,071	225	385
Partners Credit Union	85	0	25
Port Sunlight Village Trust	23	0	8
South Liverpool Housing Ltd	96	185	29
Torus 62 Ltd	582	0	221
Welsh Local Government Association	314	0	177
Wirral Autistic Society (Autism Together)	633	(296)	129
Wirral Partnership Homes Ltd (Magenta Living)	1,819	(253)	796

**Admission Bodies (Transfer) (47)****Contributions Received**

	<b>Employers £'000</b>	<b>Deficit/(Surplus) £'000</b>	<b>Employees £'000</b>
Absolutely Catering (Longmoor)	8	0	2
Absolutely Catering (St Oswald's)	9	0	2
Addaction (Sefton)	19	0	6
Agilisys Limited	21	3	7
Agilisys Ltd (Sefton)	192	0	63
Balfour Beatty PFI SEN School	15	0	4
Balfour Beatty Workplace Ltd	75	(6)	23
Bouygues E & S FM Uk Ltd	22	0	5
Castlerock Recruitment Group Ltd (CRG)	8	0	4
Caterlink Ltd	17	7	4
Change Grow Live	13	0	3
Compass (Scolarest) Liverpool Schools	6	1	1
Compass (Scolarest) Wirral Schools	35	(2)	8
Compass Contract Services (UK) Ltd	15	12	3
CWP (NHS)	391	0	138
Friends of Birkenhead Council Kennels	8	0	3
Fun 4 Kidz	3	0	1
Geraud Markets (Liverpool Markets)	12	27	4
Glendale (Liverpool Parks Services) Ltd	81	(81)	25
Graysons Education Limited	3	0	1
Hochtief Liverpool Schools	29	1	7
Hochtief Wirral Schools	43	(4)	10
Interserve (Facilities Management) Ltd	19	5	5
Kingswood Colomendy Ltd	0	12	0
Knowsley Youth Mutual Ltd	119	0	48
L&T FM (Chroda)	16	0	5
Liverpool Vision Limited	238	(85)	130
Mellors Catering - Birkdale	16	(1)	4
Mellors Catering - St Anns	6	2	1
Mellors Catering - St Mary & St Thomas	2	1	1
Mellors Catering - St Paul & St Timothy	4	0	1
Orian Solutions	33	0	8
Sanctuary Home Care Ltd	37	0	12
Sefton New Directions Ltd	596	(267)	183
Shap Ltd	7	0	3
Siemens Mobility Ltd	6	0	2
SSE Contracting Ltd	67	9	22
Tarmac Trading Ltd	32	0	11
Taylor Shaw - Great Meols	6	0	1
Taylor Shaw - Hugh Baird	6	0	2

## Contributions Received

	Employers £'000	Deficit/(Surplus) £'000	Employees £'000
Taylor Shaw - Raeburn	6	0	1
Taylor Shaw - Range	10	0	2
Taylor Shaw - St Andrews	2	0	0
Veolia ES Merseyside & Halton	110	12	33
Volair Ltd	351	0	121
WCFT (NHS)	935	0	318
WIRED Ltd	20	0	7
<b>Sceme Employers where contributions have been received during 2018/19 but they had no Active Scheme Members as at 31 March 2019</b>			
arvato Public sector Services Ltd.	486	(486)	198
BAM Nuttall Limited	43	0	13
Birkenhead Market Services	35	5	12
City Healthcare Partnership CIC	4	0	1
Elite Cleaning and Environmental Services	1	0	0
Enterprise Liverpool Neighbourhoods	8	0	2
Helena Partnerships Ltd	1,464	120	327
Liverpool Mutual Homes Ltd	509	0	192
Mack Trading	6	0	2
Mersey Waste	0	254	0
Mosscroft Childcare Limited	1	0	0
Sefton Education Business Partnership	38	(9)	9
Taylor Shaw Grange	3	1	1
The Kingsway Academy	15	41	6
Wirral Chamber of Commerce	2	0	0
<b>Totals</b>	<b>127,865</b>	<b>18,016</b>	<b>55,422</b>

# Appendix B

## Pensions Committee Items

### 16 July 2018

Audit Findings Report  
 Statement of Accounts /  
 Letter of Representation  
 Draft Annual Report  
 and Accounts  
 Budget Outturn 16/17,  
 Final Budget 17/18  
 Pension Board Annual Report  
 LGPS Update  
 Data Protection Policy and  
 GDPR Update  
 Treasury Management  
 Annual Report  
 Revised Pension Board Terms  
 of Reference  
 Communications Policy  
 Fundamentals Training  
 PLSA Annual Conference  
 LGC Investment Summit  
 GLIL Update  
 Pooling Update  
 Working Party Minutes

### 29 October 2018

LGPS Update  
 Draft Funding Strategy  
 Statement  
 Responsible Investment Event  
 Pooling Update  
 LAPFF Conference  
 Annual Employers' Conference  
 Pension Board Minutes  
 13/6/2018  
 LGPS Governance Conference  
 Interim Valuation  
 Admission Body Application  
 Write-off Pension Overpayments  
 Write-off Rent Arrears  
 Working Party Minutes  
 12/7/18 and 11/9/18

### 21 January 2019

Northern LGPS Draft  
 Responsible Investment Policy  
 LGPS Update  
 Pension Fund Budget  
 Member Development  
 Programme  
 Treasury Management Strategy  
 Update on Investment Strategy  
 LGC Investment Seminar  
 Pension Board Minutes  
 Pooling Update  
 Contractual Arrangements  
 Liability Risk Management  
 Working Party Minutes

### 25 March 2019

Audit Plan  
 LGPS Update  
 Fair Deal Consultation  
 PLSA Local Authority  
 Conference  
 Risk Management  
 Pooling Update

## Attendance Record 2018 - 2019

	PENSIONS COMMITTEE				GRWP		IMWP			
	16 JUL	29 OCT	21 JAN	25 MAR	12 JUL	12 MAR	14 JUN	11 SEP	15 NOV	12 MAR
Cllr Paul Doughty (Chair)	•	•	•	•	•	•	•			•
Cllr George Davies (Vice Chair)	•	•	•	•					•	
Cllr Pat Cleary	•	•	•	•			•		•	•
Cllr Andrew Gardner	•	•		•				•		•
Cllr Pat Hackett	•	•	•	•						
Cllr Kathy Hodson	•	•	#	•						
Cllr Tony Jones	•	•	•	•			•			
Cllr Brian Kenny	•	•	•	•			•		•	•
Cllr Cherry Povall, JP	•	•	•	•				•	•	
Cllr Irene Williams	•	#	•	#						
Cllr Nick Crofts (Liverpool City Council Co-Optee)	•									
Cllr Ian Byrne (Liverpool City Council Co-Optee)*			•	•						
Cllr John Fulham (St. Helens MBC Co-Optee)	•	•		•						
Cllr Jayne Aston (Knowsley MBC Co-Optee)				•						
Cllr Paulette Lappin (Sefton MBC Co-Optee)	•	•					•		•	•
Patrick Cleary (UNISON Co-Optee)	•									
Roger Bannister (UNISON Co-Optee)**	•	•		•	•	•	•	•	•	•
Sarah Brunskill (UNISON Co-Optee)			•							

# Deputy Attended  
 \* Replaced Cllr Nick Crofts  
 \*\* Replaced Patrick Cleary

## Conferences

	PLSA	LGC Newport	PLSA	MPF Annual Conference	LAPFF Annual Conference	Rt Event Aintree	LGC Investment Seminar	PLSA Edinburgh
	21 - 23 MAY	5 - 7 SEP	17 - 19 OCT	29 NOV	5 - 7 DEC	23 JAN	28 FEB - 1 MAR	6 MAR
Cllr Paul Doughty (Chair)	•	•	•	•	•	•	•	•
Cllr Pat Cleary						•		
Cllr Andrew Gardner			•				•	
Cllr Tony Jones			•					
Cllr Brian Kenny		•	•	•			•	
Cllr Cherry Povall, JP		•	•	•			•	
Roger Bannister (UNISON Co-Optee)	•		•	•		•		

# Appendix C

## Information Contacts

Position	Name	Telephone number
Director of Pensions	Peter Wallach	0151 242 1390
Head of Pensions Administration	Yvonne Murphy	0151 242 1390

Area	Name	Telephone number
Accounts (Compliance, Financial Control and Management)	Donna Smith	0151 242 1390
Investments (Fund Assets' Management)	Linda Desforges	0151 242 1390
Employer Compliance and Membership (Transfers, Divorce, Admissions, Data quality assurance)	Sue Roberts/Paula Heaton	0151 242 1390
Benefits/Payroll (Retirement Calculations and Payments)	Barbara King/Keith Higgins	0151 242 1390
Operations (IT/Communications) (Systems Support, MyPension, Website, Events)	Guy Hayton	0151 242 1390

Resolution of Disputes		
Employer Decisions	Head of Pensions Administration	0151 242 1390
Fund Decisions	Section 151 Officer	0151 666 3407

Scheme Employers' Contacts		
Arriva North West	Tina Edwards	0151 522 2807
Knowsley MBC	Jaci Dick	0151 443 5161
Liverpool City Council	Richard Arnold	0151 233 0375
Liverpool John Moores University	Jayne Brown	0151 231 8756
Merseyside Fire & Rescue Service	Julie Murdoch	0151 296 4245
Merseytravel (MPTE)	Lynne Gogerty	0151 330 1213
Merseyside Waste Disposal Authority	Paula Pocock	0151 255 2539
Office of the Police and Crime Commissioner for Merseyside (OPCCM)	Karen Blake	0151 777 8189
Sefton MBC	Lynn Abbott	0151 934 4126
St. Helens MBC	Sarah Myers	0174 467 6627
Wirral Council	Andrea Williams	0151 691 8585





## **Report & Accounts 2018/19**

### **Merseyside Pension Fund**

Castle Chambers  
43 Castle Street  
Liverpool  
L2 9SH

Tel: 0151 242 1390

Email: [mpfadmin@wirral.gov.uk](mailto:mpfadmin@wirral.gov.uk)

[www.merseysidepensionfund.org.uk](http://www.merseysidepensionfund.org.uk)

Administering Authority Wirral Council

