A Statement by the West Midlands Metropolitan Authorities Pension Fund

WEST MIDLANDS PENSION FUND

Actuarial Valuation of the West Midlands Metropolitan Authorities Pension Fund as at 31 March 2010

Why has the Fund reviewed its position?

The Fund has a legal requirement to do so. An actuarial valuation of the West Midlands Metropolitan Authorities Pension Fund was carried out as at 31 March 2010, to determine the employer contribution rates with effect from 1 April 2011. The rates applicable for the valuation period will run until 31 March 2014.

The results of the valuation are contained in a formal report dated 31 March 2011, which has ben prepared by the Fund's independent actuary (Paul Middleman, Fellow of the Institute and Faculty of Actuaries, Mercer Limited).

Fund employers have now had their individual employer rates communicated to them and are currently arranging for these contributions to be remitted to the Fund in the normal way from 1 April 2011.

As part of the formal valuation process, the report was submitted to the Superannuation Committee on the 6 April for formal approval, which it received.

Background

The West Midlands Pension Fund, along with other Local Government Pension Scheme (LGPS) funds across England and Wales, have a statutory duty to hold a formal valuation every three years. The next is due as at 31 March 2013, with new contribution rates applicable from 1 April 2014. The valuation process usually takes approximately 12 months.

The valuation process reviews employer contribution rates, and takes into account the funding strategy adopted along with the valuation principles and assumptions used in previous valuations. The opportunity is also taken to review the funding strategy to ensure pension payments can be made when they become due, the investment strategy and the structure of the Fund.

The actuarial valuation is different to the accounting calculations of pension fund liabilities (FRS17) for inclusion in formal accounts. Employing bodies are required, under accounting standards, to calculate a pension fund liability as if the organisation closed at the balance sheet date and was required to make immediate payment of all benefits. The application of the standard allows for the use of different assumptions to other methods and each employing body determines its approach within its accounting policy. The Fund does not directly determine these calculations – it is for employing bodies to action. Like the actuarial valuation's approach, the outcome is dependent upon market factors on a particular day, and these can vary significantly over a short time period.

Valuation results

The Fund's actuary has calculated the contributions that employers will need to make, over the long-term, to ensure benefits can be paid when they fall due.

The Fund's cash flow is predicted to be positive for the next 20 years on current Scheme membership projections. The resulting employers rates are, therefore, about determining how much money to put aside over time to ensure there are sufficient funds, when needed, in the long-term.

There is no 'black hole' in the funding. The funding position of any pension fund is complicated; with a fund the size of the West Midlands Pension Fund (with so many employers with individual profiles and requirements), the position is even more so. The aim of the Fund is to ensure consistency for employers, and to avoid any unnecessary variation in employer contribution rates, which would cause concern for employers in these difficult financial times. The benefits paid by the LGPS are guaranteed by statute – members' benefits are safe and secure. The role of the Fund is to ensure sufficient money is put aside over time and invested accordingly to ensure funds are available, when required, to pay benefits.

A robust position

The Fund held over £8bn of assets at the valuation date, but to meet all projected liabilities over the next 40 plus years, it was forecast that it will need to increase this by £2.6bn. This is equivalent to an employer contribution rate of 18.1% of pensionable pay to cover all current and future pension liabilities. The outcomes are in line with those expected when consultation with the 169 employers started in September 2010.

For major employers, this is an unchanged position in real cash terms when compared with the current position. These figures represent the pension rights of 250,000 individuals where average pay is £18,200 per annum and where the pension paid is on average £4,300 per annum.

A deficit in resources required to meet the pension liabilities when they fall due would only arise if payments are not maintained in accordance with the valuation report and subsequent valuation reports. (This is one of the primary objectives of the valuation process, hence the requirement placed on the Fund to hold a valuation every three years.)

A comparison often used to explain what is meant by a deficit is if someone has a mortgage and their mortgage payments were up to date, they do not have a deficit, but they still have significant amounts to pay over the next 20 years.

The funding requirements from employer contributions would be much higher than the £2.6bn and could be as high as £6.5bn if the Fund only invested in government gilts, which historically have given a relatively lower return on investments. However, the Fund has a wide and varied portfolio of investments, as required by the specific investment regulations that relate to the LGPS, with returns over the three, five and ten year terms comparing favourably with those of other LGPS funds and also those of private sector pension funds. The value of the assets held has increased since the valuation point in time to £8.55bn as at 1 April 2011.

Recent published accounts indicate that the Fund received contributions in excess of £440m, investment income of over £120m, giving a total income figure of some £560m. Looking at the benefits paid by the Fund in the same period, which amounted to £350m, this provided the Fund with a surplus of income over expenditure of £210m during the year.

West Midlands Pension Fund - 7 April 2011