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Dear Mr McDonagh

LAPFF comments on CLG Consultation Paper

The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of 49 public sector pension funds based in the UK. LAPFF exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders in promoting corporate social responsibility and high standards of corporate governance amongst the companies in which they invest. The following comments are made on behalf of LAPFF:

CLG Consultation - 13 May 2009 Scheme Governance

LAPFF welcomes the update on progress of funds in improving their compliance with the governance principles and best practice highlighted. This suggests that further regulation in this area is not necessary but good practice should continue to be sought and encouraged where it has been identified as weak in some funds through drawing attention to good practice and new developments and actively challenging those few examples of where progress has been slower than the majority of funds.

The involvement and engagement with all interested parties is a dynamic process and continues to be impacted by changes in technology. Funds should be encouraged to experiment with new ways of communicating and share their experiences with others.

LAPFF strongly supports training for members of Pension Committees and attempts to play its part with an annual conference and presentations at its meetings. Over recent years there has been a significant increase in the training provided and take up by members. This trend needs to be monitored before any more prescriptive arrangements are considered.”

CLG Consultation - 25 June 2009 - Local Government Pension Scheme Delivery, Affordability, Viability and Fairness

There are concerns that it is important to demonstrate that over time a fund will have resources available to meet liabilities when they fall due even if it involves stepped contribution increases over two or three valuation cycles. There should not be a suggestion that full funding is not being planned for. The information from the actuarial valuation, combined with cash flow projections, should provide the core information for a financial plan and employers contribution strategy for the long term.

An outline scheme in support of changing the current arrangements could be as follows:-

(1) **Objective**

- (1.1.) The objective is to recognise the nature of LGPS funds and the established public sector approach of justifying the taking of resources from current taxpayers to meet future liabilities, together with the funding of long-term liabilities over a prudently determined period.
- (1.2.) The financing plan would detail and determine how the administering body will, through employing body contributions, facilitate the funding of the liabilities, demonstrating that it has taken a prudent approach based upon reasonable assumptions and professional advice.
- (1.3.) The financing plan will demonstrate how a Fund has or will be accumulating sufficient resources to meet the current and future liabilities when due. It will need to demonstrate how the sensitivities around the long-term funding forecasts have been addressed and how the funding contributions may need to change over the medium to long-term if different forecasts materialise.

(2) **Approach**

- (2.1) In determining its financing plan, an administering body will have regard to matters it considers appropriate and relevant, but these should include:-
 - (i) short to medium term funding of liabilities with the aim of there being at least positive cashflow;
 - (ii) the need over the long-term to put resources aside to ensure future projected liabilities are funded;
 - (iii) an employing body contribution rate that has low volatility over time;
 - (iv) a risk assessment linked to the Funding Strategy Statement (FFS)
 - (v) guidance from CLG (particularly in respect of cost-sharing);
 - (vi) advice from the Fund's appointed actuary;
 - (vii) the need to show future additional cost increases in benefits or longevity from which the individual benefits can be funded without increasing contribution rates or are funded by the employee directly or through other benefit changes or through working longer;
 - (viii) guidance from professional organisations such as CIPFA.
- (2.2) In respect of (ii) the approach should address the issue of ensuring sustainability around the long-term actuarial assumptions showing the probability of meeting 100% solvency and the impact on future contribution rates. If the position is judged to be reasonably robust, there would be no provision for an immediate increase in contributions.

- (2.3) If this is not the case, a phased contribution plan needs to be produced. The financing plan will be updated at least every three years or to reflect significant changes between periods.

Content of Financing Plan

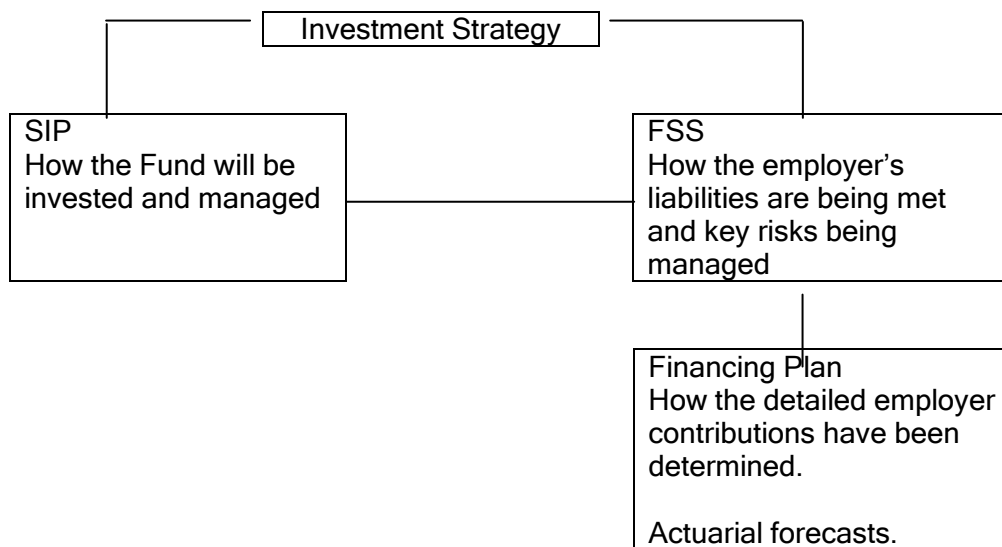
- (2.4) A financing plan would have the following key content:
- (i) base information:
 - short to medium term cashflow projections
 - actuarial estimate of long term funding needs
 - current funds and projected changes
 - (ii) key assumptions;
 - (iii) risk management analysis;
 - (iv) employing body contribution rates plan over the medium to long term in order to provide sufficient resources to meet the financing plan liability projections for the Fund overall and for each employing body;
 - (v) projected medium to long term contribution plan to ensure 100% solvency, taking account of the potential impact of variations in key actuarial assumptions on future funding levels, their likelihood and the timing of future contribution changes;
 - (vi) certified individual employing body contribution rates based upon actuarial data for the employing body and overall funding plan
 - (vii) certification of the plan by the Fund officer responsible for the administration of the Fund's affairs and the appointed actuary;
 - (viii) agreement to the financing plan by the Superannuation Committee after consultation with interested parties.

The outcome of the plan will determine individual employing body contributions for the coming three-year period.

- (2.5) The rates can be recalculated between three-yearly reviews for all or selected employing bodies if there is a major change that impacts on the future funding projection for the fund or the individual employing body. The financing plan will, in determining the employing body contributions, have regard to:-
- a) the need for liabilities to be fully funded at a fund and individual employing body level;
 - b) the potential time for which the employing body is likely to be a member and have funds available to meet the liabilities;
 - c) counterparty risk for the fund;
 - d) short to medium term cashflows;

- e) actuarial advice on projections of liabilities and accumulated funding;
- f) prudent set of assumptions with risk analysis;
- g) presumption that employing body rates change only when the net short to medium term cash flow is negative or there are additional funds projected to be required after considering the potential risk of key assumptions used for forecasting solvency indicate a strong probability an increase is prudent;
- h) guidance from CLG, particularly in respect of liability issues, e.g. future retirement ages.

(2.6) The Financing Plan would support and complement the current SIP and FSS arrangement.



Yours sincerely

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