Division(s): N/A

PENSION FUND COMMITTEE – 4 DECEMER 2009

ACTUARIAL TENDER AND THE IMPLICATIONS FOR THE FUNDING STRATEGY STATEMENT

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. The current contract for the provision of Actuarial Services is due to expire on 10 December 2009. Over the last few months, we have undertaken a full tender process to appoint an Actuary for the Fund for the 5 year period from 11 December 2009, with an option for a further 3 years to 11 December 2017. This report provides the Committee with an update on this process.

2. The report also looks at the learning points raised during the tender process in so far as they relate to the potential approaches to the 2010 Valuation. At the last meeting of this Committee, Members considered potential changes to the Funding Strategy Statement which is the framework document for the Valuation. This report highlights variations to the approach as discussed in the September 2009 report as suggested by points raised during the tender process, as well as during a meeting with the Department for Communities and Local Government, and meetings held with a number of admitted bodies since the September Committee.

Actuarial Tender

3. The tender process followed in looking to award the actuarial contract from 11 December 2009 involved an initial request for expressions of interest, and the completion of a pre-qualification questionnaire, followed by a formal request to tender.

4. We received completed pre-qualification questionnaires from four firms of Actuaries, and following an assessment of these, all four were invited to continue to the formal tender stage. We subsequently received formal tender responses from all four companies.

5. As part of the tender responses, a number of the companies raised a series of questions around the detail of the Council's contractual terms, and in particular, the terms associated with the potential future liabilities for the successful contractor. The various points raised were considered by the relevant Council officers, and the contractual terms revised where officers felt appropriate. Each of the tenderers was then asked to confirm the detail of their tender in light of the final version of the Council's contractual terms, and to confirm their acceptance of these terms.

6. At this point in the process, one of the tenderers chose to withdraw their tender, and to withdraw from the process. The remaining three tenderers confirmed their acceptance of the contractual terms and the detail of their tenders. All three were then invited to interview.

7. On 2 October 2009, an interview Panel consisting of Councillor David Harvey, Sean Collins, Peter Davies, Sally Fox and Nick Hyde from the Procurement Team met the three remaining tenderers. Each tenderer was asked to present on their approach to help pro-actively the Administering Authority in managing the risks to which it was exposed. They were also asked to cover their approach to the 2010 Valuation in light of the severe financial market conditions, and any difference in approach between Scheduled and Admitted bodies.

8. Each tenderer was scored on a basis of their presentation (including the subsequent question and answer session) and the cost of their tender. The scores were weighted 60% in respect of the presentation and 40% on price. On the basis of the scores awarded, the Panel determined that their preferred supplier was Barnett Waddingham.

9. At the time of writing this report, we have passed the time period for the decision to be challenged by the other tenderers, and we have taken up references which indicate no reason to review the selection of the Panel. The final legal work on the contract is now being completed, with the expectation that the contract will be signed and sealed to allow Barnett Waddingham to take up the new appointment from 11 December 2009.

Proposed Amendments to the Consultation on Changes to the Funding Strategy Statement

10. At the September meeting of this Committee, it was agreed to consult on potential changes to the Funding Strategy Statement. This Statement is a requirement on the Administering Authority under the Pension Regulations, and provides the approach to funding our pension liabilities, and the framework for the Fund Valuation.

11. In summary the issues around which a consultation document would be developed were agreed as:

    - The development of a dual investment strategy
    - The development of a framework around which new admitted bodies are assessed, and required to enter a low risk fund as a condition of admission
    - Greater flexibility on recovery periods for scheduled bodies
    - A change on emphasis in setting recovery periods for admitted bodies, where the default period is life of contract or estimated future working life of current membership, unless evidence is provided to support a longer period
    - Increased provision for the monitoring role of the Administering Authority, and its right to call for an interim valuation

- An extension of the definition of exceptional circumstances when considering a six step approach to a new employer contribution rate, to include issues of affordability for the employer
- The definition of solvency.

12. During the interview process for the new Actuary, the differences in approach to the Scheduled and Admitted bodies were raised with the various tenderers. Whilst Hewitt favour a model which allowed for less risk in their assumptions around Admitted Bodies (as they do not have the constitutional permanence of the majority of the Scheduled Bodies), others argued for a more even treatment between bodies. This argument was based on the risk of bankrupting the admitted body, or forcing it out of the Scheme, neither of which were seen to be in the public interest, nor in the interests of the Fund as a whole.

13. This position was also discussed in a meeting with the Department for Communities and Local Government, attended by a small number of Administering Authorities. At this meeting it was suggested that the scheduled bodies should underwrite the key pension risks for the smaller admitted bodies, allowing the Funding Strategy Statement to target as near constant contribution rates for all bodies. It should be noted that this is not a subsidy. Admitted bodies will be paying the same long term rate as Scheduled bodies. If an admitted body was to close when markets were down, deficits would be passed back to the Fund to be met by the remaining bodies, or through a recovery in the financial markets. If the Admitted body was to remain open or close at a market high, then no further payments would be required from the Fund and the remaining employers.

14. This matter has been further highlighted in a number of meetings with some of the smaller admitted bodies within the Oxfordshire Fund. Some have been concerned around the costs of the LGPS and the potential increases after the 2010 Valuation. Others are concerned in respect of their funding streams, and their future stability.

15. One such body raised questions as to the potential implications of their pension costs if they were forced to close in 2011 as a result of a loss of their main funding source. The actuarial calculations suggested an increase in employer contributions from 18.5% to 97% of pensionable pay, an increase of c£80,000.

16. The Body would be unable to meet such a cost, and if requested to meet such a cost would be driven out of business. The Fund would therefore receive no further contributions. If no changes are made, then the Fund would receive further contributions in line with the current contribution rate, but would hold the risk that a deficit still existed on closure.

17. In light of these further discussions, the Committee is invited to consider whether the consultation should be more balanced than that previously proposed, and include the option of amending the Funding Strategy Statement to bring greater equality of treatment between scheduled and

admitted bodies, with the Scheduled Bodies accepting that they are underwriting the risk that Admitted Bodies will cease membership at a point where financial markets are down and a deficit exists on the closed Body's Account. In considering this addition to the consultation, the Committee should note that only around 5% of scheme members work in Community Admission Bodies. Over half of these in turn work in the Housing Associations, who given their financial strength should be expected to manage their own risk, and pay any deficit on closure. The level of risk underwritten by the Scheduled bodies is therefore relatively small compared to the risk in respect of their own liabilities.

18. The consultation on the changes to the Funding Strategy Statement will now take place over December and January with a report back to the March 2010 Committee for agreement, prior to the 2010 Valuation.

RECOMMENDATION

19. **The Committee is RECOMMENDED to:**

(a) note the appointment of a new Actuary with effect from 11 December 2011; and

(b) add the option of a standard approach to future funding for all admitted bodies, with Scheduled Bodies underwriting the risk for the smaller Community Admitted Bodies.

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Background papers: Nil

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