



WEST MIDLANDS PENSION FUND
THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

Comment on the Express & Star story:

£3bn black hole in public sector pensions

Friday 25 June 2010

Read more: <http://www.expressandstar.com/news/business/2010/06/25/3bn-black-hole-in-public-sector-pensions/#ixzz0rraattgn>

There are a number of ways of calculating the ability of Fund assets and contributions to meet pension liabilities which run many years into the future.

Forecasting cashflows shows there is a positive cashflow – payments into the Fund exceed pension payments out – for at least the next 20 years. This moves out to over 40 years if retirement age rises and other potential changes are implemented in the future.

During the year ending 31 March 2010, the Fund received contributions of £436m, investment income of £123m, giving a total income figure of some £559m.

Looking at the benefits paid by the Fund in the same period, which amounted to £347m, this provided the Fund with a surplus of income over expenditure of £212m during the year.

There is an actuarial valuation of LGPS funds every three years. At the 2007 valuation, the Fund's actuary calculated that at that point in time the funding level was 82% and that, in order to ensure the Fund grew sufficiently to meet the projected liabilities, employing body contribution rates would need to average 16.5% and employee contributions 6.5% of pensionable pay. The next valuation is due to take place as at 31 March 2010, with results due towards the end of the year.

The problem with the actuarial valuation is that it is based upon assumptions that are linked to factors that can be volatile, such as gilt and bond prices. This means that actuarial valuations can vary with market movements on a daily basis.

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.