

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
1 March 2011

WILTSHIRE PENSION FUND – FUNDING STRATEGY STATEMENT

Purpose of the Report

1. This report provides Members with an updated Funding Strategy Statement for Wiltshire Pension Fund for consideration and approval.

Background

2. Under the Local Government Pension Scheme Regulations, all funds have a statutory obligation to produce a Funding Strategy Statement (FSS). These are produced in connection with the Triennial Actuarial Valuation.
3. This is the third FSS produced for the Wiltshire Pension Fund, the previous having been approved by this Committee on 27 February 2008. This new FSS is a refresh of the previous one and there are no new policies within it that Members have not approved before.
4. This FSS embodies the principles that have been used in the 2011 Valuation and is consistent with the principles used in determining changes to the Fund's investment strategy between 2007 to 2010.

The Funding Strategy Statement Document

Purpose

5. The purpose of the Statement is:
 - To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met;
 - To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
 - To take a prudent longer-term view of funding liabilities.
 6. It has been prepared in collaboration with the Fund's Actuary and Investment Advisors. It forms an integral part of the framework within which the Fund's Actuary carry out triennial valuations to set employers' contributions and to provide recommendations on funding decisions.
 7. The aims of the funding policy are set out on page 3 (2.3), with the primary one being to achieve 100% funding through the maximisation of investment returns based on an appropriate level of risk.
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Solvency and Target Funding Levels

8. The FSS states how the Common Contribution Rate (CCR) is derived and explains the split of employer contributions between Future Service Rate and Past Service Adjustments (page 4, 3.1) and how the actuary measures the solvency of the fund (page 5, 3.2).
9. The principles for calculating employer contribution rates and the reasons why an individual employer's differs from the CCR is explained in 3.4 to 3.8. This has been updated to include the impact of the Stabilisation policy which was approved by this Committee last year.
10. The rules for Admission Bodies that cease are explained in 3.9. This highlights that if an agreement is terminated, a special valuation is carried out by the actuary to determine if there is a funding deficit.
11. The policy on early retirement costs (3.10) is that the actuary makes no allowance for non ill health retirements. These costs are met by the employer through additional capital contributions.

Links to Investment Strategy

12. The FSS describes how funding and investment strategy is inextricably linked and explains the rationale for the investment strategy adopted. The current benchmark is to proportion assets between 65% equities, 20% bonds, 13% property and 2% in currency (page 16, 4.1).
13. The document highlights that all employer bodies follow the same strategy, since it was previously established through consultation with employer bodies that the cost-benefit balance of operating different investment strategies for different employers was not justifiable.
14. Reference is given on page 17 (4.3) to the need to balance risk and reward. This is explored using Asset-Liability techniques that model solvency, contribution rates and their volatility and was used prior to implementing the current investment strategy.

Key Risks & Controls

15. The FSS describes the key risks (financial, demographic, regulatory and governance) and highlights the controls in place to mitigate them (page 18-21, 5.1.to 5.5). For example, an illustration of financial risks is the failure of assets to deliver anticipated returns. This is controlled through analysing progress at the three year valuations and inter-valuation monitoring of liabilities relative to assets.

Reasons for Proposals

16. To fulfil the Wiltshire Pension Fund's statutory obligation to produce a FSS.

Environmental Impact of the Proposals / Risk Assessment

17. There are no known environmental impacts or risks associated with this proposal.

Proposal

18. The Committee is asked to approve the draft Wiltshire Pension Fund - Funding Strategy Statement, as attached in the Appendix.

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Unpublished documents relied upon in the production of this report: None