WILTSHIRE COUNTY COUNCIL **AGENDA ITEM NO. 11**

WILTSHIRE PENSION FUND COMMITTEE
24 October 2003

INTERIM VALUATION

Purpose of the Report

1. The purpose of this report is to bring to Members' attention the result of the Interim Actuarial Valuation carried out by our actuary.

Background

2. The funding position of the Wiltshire Pension Fund has been considered by this Committee on many occasions and various measures have been put in place to alleviate the deficit as far as possible, not least the new investment strategy and investment managers. In addition, several member authorities of the Fund have put in significant cash injections to reduce their own share of the deficit.

3. Against the background of the 2001 valuation, when the Fund was 80% funded, and aware of big falls in the stock market in the period to March 2003, I commissioned an Interim Valuation by our actuary, Hymans Robertson. This followed advice from them that the situation was likely to quite serious for the 2004 valuation.

4. The scope of the Valuation was restricted to the effect of macro-investment matters on the Fund as a whole (ie. the common employers' contribution rate). It does not give information in respect of individual employer bodies. The Valuation was carried out as at 31 March 2003, but took investment assets into account at 11% more than their then market value under the smoothed valuation approach adopted by the actuary. Therefore, this factored in much of the subsequent recovery in equity markets.

Financial Considerations

5. The detailed results of the Valuation are attached in the Appendix and a summary of the key messages is given below.

6. Applying the 2001 valuation basis in today's conditions the Fund moves from 80% funded at 31 March 2001 to 76% funded at 31 March 2003, increasing the common employers' rate slightly from 345% to 365% of members' contributions, currently 6% p.a. This position is significantly better than expected, largely because some of the assumptions made in the 2001 valuation have turned out to be quite prudent, so there was some slack built in that has helped negate the effect of falling markets. This is particularly good news considering that 2001-02 and 2002-03 were such a bad time for equity investments.

7. However, it would be misleading to focus too heavily on these headline percentages as an indicator of the position that may come out of the 2004 valuation, for a number of reasons:

   a) Actual investment returns during 2003-04 could be significant in determining the actuary's final conclusions regarding the position at 31 March 2004. The actuary believes that a valuation today would produce a similar result to the 31 March 2003 valuation.

   b) They are based on certain variable assumptions, of which the two key ones are future investment returns and the period over which the deficit is recovered. Within the 365%, the assumptions are 6.5% p.a. investment returns and 14 years recovery period respectively. The table below shows the effect on the 365% of varying these assumptions.

	DEFICIT RECOVERY PERIOD			
	9 years	**14 years**	**20 years**	**25 years**
6% p.a. Investment Return	530%	425%	370%	345%
6.5% p.a. Investment Return	440%	***365%***	325%	305%
7% p.a. Investment Return	355%	305%	275%	265%

Where these assumptions end up for the 2004 valuation will be a matter for discussion between Hymans Robertson, individual employer bodies and myself. However, the Office of the Deputy Prime Minister is now much more relaxed about longer deficit recovery periods, which will potentially ease pressure on the employer rates at the 2004 valuation. From the Fund's point of view, though, longer recovery periods do increase risk where admitted bodies are not the most robust financially.

c) There are other assumptions from the 2001 valuation that have been used in this Interim Valuation that may need updating for 2004, including demographics, premature retirements and mortality rates.

d) Whilst the position for the Fund as a whole may not look as bad as feared, the change in employers' contribution rates are likely to show significant variations between employer bodies. This is because of different levels of liabilities between employer bodies relative to their share of the Fund's assets and to the size of their payroll. For example, several of the larger local authorities within the Fund have been paying in significant capital injections, which will obviously have benefited the Fund as a whole and their sub-funds specifically, but not all employer bodies.

8. Overall, therefore, the position is not as clear-cut as it might at first seem. However, the overall message is positive compared to our expectations, both in terms of the position at 31 March 2003 and the potential for improvement over 2003-04.

Environmental Impact of the Proposal

9. There are none.

Reasons for Proposals

10. I propose that we share the results of the Interim Valuation with all employer bodies in the form of this report, which appends the main report from Hymans Robertson. Their particular attention will be drawn to the actuary's comments on page 10 of his report.

11. The question may be asked – what will employer bodies do with this information? The intention is to give at least some pointers towards the likely position as Treasurers start to look forward to their budget plans for 2005-06 and beyond – the results of the 2004 valuation will not become applicable until 1 April 2005.

12. If individual employer bodies wish to, they can commission the actuary to do extra work for them between now and the reporting of the 2004 valuation in November 2004, to clarify what it might mean for them, but this work would have to be at their own cost. Some employer bodies are already talking to us and Hymans Robertson about their options as they look forward to the 2004 valuation, including putting in one-off or on-going additional employer contributions, over and above the level agreed following the 2001 valuation.

Risk Assessment

13. The risks have been set out within the previous sections of this report.

Proposals

14. The Committee is asked to:

    a) note this report and the full Interim Valuation Report appended; and

    b) agree that both reports be circulated to all employer bodies.

MIKE PRINCE
County Treasurer

Report Author: David Broome

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

23/2004/PENS/DB