WILTSHIRE COUNTY COUNCIL **AGENDA ITEM NO. 8**

WILTSHIRE PENSION FUND COMMITTEE
24 May 2004

THE 2004 ACTUARIAL VALUATION

Purpose of the Report

1. This report is intended to update Members on the process for the 2004 Actuarial Valuation.

Background

2. Under the Local Government Pension Scheme (LGPS) regulations, each Fund must have a full actuarial valuation of its funding position every 3 years, carried out by a qualified actuary. All local government funds in England and Wales run on the same timescale, with a valuation due as at 31 March 2004.

3. The Valuation identifies the degree to which liabilities are funded and the Actuary advises on the appropriate Employer's Contribution Rate for each employer body within the Fund (although some employers are grouped) for the next three years.

The Process

4. The County Council's actuary is Hymans Robertson and I have already commissioned them to carry out the work on behalf of the Fund.

5. The timetable for completion of the Valuation, agreement with the employer bodies and signing off by Hymans Robertson is as follows:

Action	**Deadline**
Commissioning arrangements in place	30 April 2004
Final date for data back from employer bodies	28 May 2004
All data prepared, checked and passed to Hymans Robertson	25 June 2004
Draft results available from Hymans Robertson	24 September 2004
County Treasurer meets Hymans Robertson to discuss results	28 September 2004
Wiltshire Pension Fund Committee receives & debates results	19 October 2004 (am)
Employer bodies receive & debate results	19 October 2004 (pm)
Discussions with individual employer bodies as necessary	30 November 2004
Final report signed off by Hymans Robertson	31 December 2004

6. Members have already been notified of a special Wiltshire Pension Fund Committee meeting to receive the results of the Valuation on the morning of 19 October 2004. This will be followed by a meeting of all employer bodies that afternoon to present the Valuation results, at a venue in central Wiltshire (yet to be determined).

The Outlook

7. Members will remember receiving a report at the 24 October 2003 meeting on the Interim Valuation that was carried out as at 31 March 2003. The overall message at the time was that the funding position of the whole Wiltshire Fund (76%) was not as bad as we had anticipated, but that there were likely to be significant variations

between employer bodies within that. Larger employers who have put in significant capital receipts are likely to fair rather better than smaller employers who have not been able to do so. This remains my view and that of Hymans Robertson.

8. The Wiltshire Pension Fund is hopefully placed to receive less of a shock than some other local authority funds, because we have taken our pain early, with amongst the highest employer contribution rates following the 2001 valuation. A more relaxed view from the Office of the Deputy Prime Minister on deficit recovery periods may also help, at least for employers with a strong covenant, as should the steady stock market recovery that we saw over the year up to the Valuation date of 31 March 2004.

9. Potential rises in contributions may also be mitigated to some extent if the Government's proposed amendment to the LGPS regulations becomes law, which would abolish the "Rule of 85" dispensation for service after 1 April 2005. Whilst protections for staff currently aged 51 and over reduce this potential benefit, it is estimated that the change could reduce employers' contributions by between 1% and 2.5% of pensionable pay.

10. However, it is possible that some of this up-side may eroded by demographic changes, premature retirements and mortality rates, which will only become clear once Hymans Robertson analyse the detailed data. Another possible risk is whether the existing assumption about future investment returns (6.5% pa) can be sustained in the light of more prudent market expectations about future equity growth.

<u>What will we need to do as a result?</u>

11. When the Valuation is concluded in late 2004 it will be 2½ years since the Fund's Investment Strategy was last reviewed following the 2001 Valuation. Depending on the outcome of the 2004 Valuation, it is likely to be desirable to carry out an Asset-Liability Study. Recent years have brought an increased emphasis amongst pension professionals on the need to match assets (investments) more closely with funds' liability profiles, or at least to be aware of the implications of not doing so, particularly to reduce the volatility of contributions. Arguably this may be seen as less important for local government funds, where employer covenants are generally strong and funds tend to be relatively immature.

12. An Asset-Liability Study may lead to a change in Investment Strategy. The key element of the Fund's current investment strategy is to invest 70% of assets in equities. However, short of a major upset coming out of this Study, I would see it as a refinement of the existing Strategy, particularly as the current mandates will have been in place for just 2½ years at that point.

13. However, it may be an opportunity to take another look at Alternative Investment classes such as Private Equity and Hedge Funds, which are becoming increasingly popular amongst pension fund investors. In the case of Hedge Funds, they provide a means of reducing certain risks and seeking to achieve more stable absolute returns than are traditional from equity markets. As part of this review, I would also expect to revisit a number of aspects of the current investment arrangements, including, for example, the balance between active and passive investment management within the Fund.

14. There is also a requirement in the latest Local Government Pension Scheme regulations to produce a Funding Strategy Statement (FSS) for the Fund by 31 March 2005. The purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;

- 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 those liabilities.

15. The preparation of this document will tie in closely with the 2004 Valuation work, and to a more limited degree, with the resulting Asset-Liability Study too. The overlapping timing of these various aspects of work is shown clearly in the Wiltshire Pension Fund Forward Plan 2004-06 elsewhere on this agenda.

Reasons for Proposal / Environmental Impact of the Proposals / Risk Assessment

16. Members are not asked to make a policy decision as a result of the report.

Proposal

17. The Committee is asked to note the process for the 2004 Actuarial Valuation and the potential work that may follow it.

MIKE PRINCE
County Treasurer

Report Author: David Broome

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

2/2005/PEN/DB