

WILTSHIRE PENSION FUND COMMITTEE
21 February 2005

WILTSHIRE PENSION FUND FUNDING STRATEGY STATEMENT

Purpose of the Report

1. Under the Local Government Pension Scheme regulations all funds have a statutory obligation to produce a Funding Strategy Statement by 31 March 2005.
2. This report presents Members with the proposed Wiltshire Pension Fund Funding Strategy Statement (FSS) for consideration and approval, attached as an Appendix. This covering report introduces Members to the key elements.

Background

3. This is the first Funding Strategy Statement and essentially documents the valuation and investment strategy review process that we went through last autumn. There should not be any significant principles within it that are new to Members. A copy has been sent to all employer bodies as part of the consultation process, although little feedback has been received.
4. In future, the FSS will need to be reviewed at least every three years so that the principles agreed in it can inform the triennial valuation.

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 contributions; 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 and now 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 2 (2.3), with the primary one being to achieve 100% funding through the maximisation of investment returns based on an appropriate level of risk.

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 3.7.
10. The rules for Admission Bodies that cease are explained in 3.8. 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 (3.9) 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 70% equities, 20% bonds and 10% property (page 11, 4.1).
13. The document highlights that all employer bodies follow the same strategy, since it was 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 12 (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 14, 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 statutory obligation to produce a FSS by 31 March 2005.

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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County Treasurer

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Unpublished documents relied upon in the production of this report: None

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