

## **Wiltshire Council**

### **Wiltshire Pension Fund Committee**

**17 November 2022**

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## **Wiltshire Pension Fund – Triennial Valuation Results (and accompanying policies)**

### **Purpose of the Report**

1. This report provides an overview of the valuation results and presents various policies to the Committee for approval (or conditional approval). Included within these changes, are a proposed change to the cessation calculation methodology for employers which leave the Fund with no scheme employer guarantor in place.

### **Background**

#### Triennial Valuation results

2. Under the Local Government Pension Scheme Regulations, all funds must undertake a formal valuation of the whole Fund every three years, with the valuation date for this year being 31 March 2022. The Fund's actuary has overall responsibility for producing the valuation results and determining the employer contribution rates however this process is undertaken in collaboration with senior officers and the Committee.
3. The actuary provided information, take questions from this Committee, on 16 December 2021 and 5 April 2022. On the latter date the Committee also approved key aspects of valuation assumptions which have resulted in the valuation results presented at this meeting.

#### Funding Strategy Statement & Cessation Policy

4. Funds also have a statutory requirement to produce and maintain a Funding Strategy Statement (FSS); these are typically reviewed alongside the Triennial Actuarial Valuation, as they help outline the framework within which the triennial valuation takes place.
5. The FSS outlines how the Fund calculates employer contributions, what other amounts might be payable in different circumstances, and how it operates alongside the investment strategy. The FSS has been prepared in collaboration with the Fund's Actuary and forms an integral part of the framework within which they carry out triennial valuations to set employers' contributions and to provide recommendations on funding decisions.
6. The Fund also holds a separate employer cessation policy, outlining the Fund's approach to cessations as would otherwise be held in the FSS, this has also been reviewed as officers propose some changes to the cessation process for some employers which also impacts the FSS.

7. Wiltshire Pension Fund's previous FSS was approved by the Committee in 2019 and the cessation policy as last approved on 17 December 2020.
8. The new FSS draft has been informally consulted upon with the employer members of the Employer Focus Group and no comments were received. A formal consultation will follow this meeting and approval is sought at this meeting on the basis there no comments are received back from employers which results in officers deciding to revise certain aspects of it.

#### Other policies

9. Officers are also seeking approval for two other, new policies, linked to the Funding Strategy Statement, as follows:
  - a). Prepayments Policy: Following a successful request from Wiltshire Council to 'prepay' each year's worth of employer contributions, in order to gain more investment returns and therefore pay less, officers have introduced a new policy to bring formality and transparency to this process and enable it to be opened up to requests from other suitable employers.
  - b). Employer Contribution Review: Following amendments to Regulations over the last couple of years, new powers now exist which contribution rates to be reviewed between valuations.

### **Key Considerations for the Committee**

#### Triennial Valuation Results:

10. The actuarial valuation results as at 31 March 2022, show an improved funding level of 102% (2019: 97%) from the last valuation on 31 March 2019. Whilst the assumed short-term inflation is high, the main factor driving the funding position improvement is stronger than expected investment returns. Further details are available in Appendix 1.

Note: The Fund actuary will be present at this Committee meeting, and they will talk through the appendix and take questions. They will also be available for questioning on the impact of recent events on the funding level.
11. Following this meeting, Fund officers will circulate individual results to each employer, present an overview of results to employers at an Employer Forum on 21 November 2022 and also invite employers to attend an individual 'surgery' on 29 November 2022 to discuss their specific employer circumstances.
12. Officers will provide employers with provisional employer contribution rates based on the assumptions set by the actuary and agreed in previous meetings. In some limited circumstances, the employer may request, and officers may agree to an alternative employer contribution from the default, however, officers will only agree to contribution rates which remain within the parameters of the funding strategy (as shown in table 1, 2.2. of the FSS).

## Funding Strategy Statement & Cessation

13. This revised version of the Funding Strategy Statement has been simplified to make it easier to read and understand, bearing in mind the inherent complexity as far as if possible whilst ensuring that statutory contents remain, and certain technical details have been updated. Despite these changes, the general Fund approach is broadly similar to the previous version.
14. Once approved, this draft version will be issued to all participating employers with any comments to be submitted within 30 calendar days. Following the end of the consultation period, this document will then be published, unless significant feedback needs to be considered at this Committee on 14 December 2022.
15. However, one key change is proposed in relation to cessations, which is discussed below:

### Cessation calculation methodology review (Low Risk basis/Employers with no guarantor)

16. At present, when any employer leaves the Fund, the actuary will perform a cessation calculation to help identify what is an appropriate exit funding position for that employer and thus whether this creates the need for a cessation deficit to be recovered or cessation surplus to be paid. The Fund takes a different approach to this valuation depending on whether a scheme employer guarantor sits behind the existing employer.

#### Methodology A ('ongoing' – for employers with a scheme employer guarantor):

The actuary performs the cessation valuation on a basis which is broadly similar to the approach used for the whole Fund valuation. This already includes a layer of prudence baked in by using a discount rate which achieves fully funding in 75% of the actuary's 5,000 modelled outcomes (and a flat discount rate for years further in the future).

#### Methodology B ('low risk' – for employers without a scheme employer guarantor):

At present, the actuary takes a more prudent (but not modelled) approach to setting the discount rate by setting it equal to the yield of long dated gilts.

17. The actuary and officers propose changing methodology B so that it more similar to methodology B but with a higher level of prudence than methodology A still applied. The new approach would remain different to methodology A in two ways:
  - The discount rate set would need to be achieved in higher percentage of modelled outcomes.
  - Rather than setting a specific likelihood of success, a corridor will be introduced instead with cessation deficits/surpluses only being due if the final cessation funding position sits outside of that corridor (and it only be necessary to make or receive payments to reach the boundary of the corridor rather than the centre).
18. To help inform the decision of what is the appropriate corridor to use, the Fund also needs to consider what is the appropriate investment strategy to be used for the

orphaned liabilities which result from a cessation linked to methodology B. The available options are to use either the Fund's main investment strategy or to use an alternative investment strategy which is more appropriate for (generally) maturing, non-active member liabilities which would ultimately need to be funded by unconnected employers in the Fund should there be a shortfall in assets.

19. The Fund has asked Mercer to provide some advice on this. Unfortunately, this was not available in time for this meeting and therefore officers are seeking approval of the general change to the methodology B at this meeting but approval to the exact approach to methodology B at the December Committee meeting.
20. As context, due to two material, recent cessations, officers expect the orphaned liabilities pool to soon be around £100m-£150m in size (c4-5% of assets) which is sufficiently large that the decision made in this respect could have impact on the overall investment strategy.
21. Furthermore, at present, officers are currently considering using a likelihood of success corridor of either 87.5%-92.5% or 90%-95% but a final proposal will be brought to the next meeting.

#### Other policies

22. Prepayment Policy: The attached policy aims to bring a balance between various factors such as: allowing employers greater flexibility, ensuring risk is managed effectively (by limiting this approach to larger, long-term employers), avoiding additional administrative and cash flow complexities whilst also providing transparency.
23. Employer Contribution rate review policy: The main purpose of the attached policy is to outline the trigger points for an employer or the Fund to ask the actuary for an employer's contribution to be reviewed between triennial valuations. There is now some discretion in this respect although this is limited within the Regulations. Further detail can be found in the appendix.

#### **Financial Considerations & Risk Assessment**

24. These are detailed in the body of the paper. General risks are outlined within the Fund's risk register.

#### **Legal Implications**

25. There are no known implications at this time.

#### **Environmental Impact of the Proposal**

26. There are no known environmental impacts with this proposal.

#### **Safeguarding Considerations/Public Health Implications/Equalities Impact**

27. There are no known implications at this time.

## Reasons for Proposals

28. To fulfil the Wiltshire Pension Fund's statutory obligation and to seek to fulfil best practice

## Proposals

29. Valuation Results: The Committee is asked to **note** the valuation results produced and the approach to releasing and agreeing employer results.
30. Funding Strategy Statement: To **approve** the draft Wiltshire Pension Fund - Funding Strategy Statement 2022, as attached in the Appendix, subject to the period of consultation of employers not resulting in any material changes being deemed required by officers.
31. Cessation calculation methodology: To **approve** the revised methodology approach (noting the final details will be brought back to the December Committee), with the new approach to apply from 1 April 2023.
32. Prepayments and Contribution Review policies: To **approve** these new policies (to become effective immediately)

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**Head of Wiltshire Pension Fund**

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## Appendices

- Appendix 1 – Wiltshire Pension Fund Initial Results report
- Appendix 2 – Funding Strategy Statement
- Appendix 3 – Cessation Policy
- Appendix 4 – Prepayments Policy
- Appendix 5 – Employer Contribution Flexibility

## Background Papers

None