Pension Fund Investment Board 12 November 2012

Employer Modelling 2013 Valuation

Recommendations

The Board authorises the Strategic Director for Resources to take the following actions:

- 1. That a modelling exercise for the whole fund is carried out with results presented at the February 2013 board meeting.
- 2. In the summer of 2013 further analytical work should be carried out on an employer by employer basis where necessary. The fees for individual employers would be £12,500 for the first employer and £7,500 for each subsequent employer

1. Introduction

- 1.1 ComPASS is a modelling tool developed by Hymans Robertson and allows for a link to be made between funding and investment strategies – this is particularly useful at valuation time. **Appendix 1** provides an example of the output from this tool. The four main financial criteria assessed are Prudence, Affordability, Stability and Stewardship
- 1.2 It's primary aim is to introduce a contribution stabilisation mechanism for employers that are long term and secure to avoid surprises, improve budgeting and make contributions more affordable. Some form of stabilisation may also be appropriate for less secure long term employers but perhaps with wider annual limits on the mechanism.
- 1.3 ComPASS would also test that adopting stabilisation does not impact on the funding level of the Fund materially in the long term.

2. Approach

- 2.1 The approach is to be completely open about the current funding level (based on current market conditions) rather than masking the true position by making alterations to assumptions. This also ensures that other shorter term employers in the Fund pay for their own benefit promises. The modelling helps to judge whether the long term plan still works, and makes short and long term risks more obvious.
- 2.2 ComPASS can test various funding strategies to illustrate their impact on the funding level and employer contribution rate over the long term. The likelihood of the various outcomes are quantified and shown graphically. ComPASS can



also illustrate the effect of both different contribution and different investment strategies.

- 2.3 The analysis from ComPASS provides a robust audit trail that will stand up to external scrutiny and provides evidence that the employer rates certified in the Rates and Adjustment Certificate are appropriate and have been tested.
- 2.4 Officers will need to work with the actuary to select which strategies to model known as 'scenarios'. The actuary would typically use six different scenarios and assess the effect of each of these on the measures outlined above i.e. Prudence, Affordability, Stability and Stewardship. The starting point for each scenario will be the whole fund contributions at the 2010 valuation (17.6% of pay). The scenarios will then use various contribution rate ceilings (e.g. 25%) and stabilising rules (e.g. contribution limits based on +/- 1% of pay pa).

3. Proposal

- 3.1 That a modelling exercise for the whole fund is carried out shortly out with results presented at the February 2013 board meeting. Fees for this work would be £12,000.
- 3.2 In the summer of 2013 there will be further analytical work done on an employer by employer basis where necessary. The fees for individual employers would be £12,500 for the first employer and £7,500 for each subsequent employer.

4. Timetable

4.1 Table 1 below provides the proposed timescale for this work in conjunction with the 2013 valuation.

On going	Data Cleansing exercise	
February 2013	Whole fund ComPASS modelling results to be discussed at	
	board meeting	
July 2013	Main valuation data provided to Hymans Robertson, further	
-	ComPASS work undertaken specific to employers if necessary.	
October 2013	Whole fund results and indicative employer results to be ready	
	for AGM	
March 2014	Valuation signed off.	

Table 1 – High level 2013 Valuation Planning Timetable

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Appendix A

2010

- ABC Pension Fund
- 80% funded at 2010 ٠
- Stabilisation rule + 1% / -0.5% ٠

Stewardship













ABC Pension Fund

- c70% funded at 30 June 2012
- Stabilisation rule +1% / -0.5%





Affordability



40% 30% Employer Contribution Rate (Ongoing basis; % of payroll) 20% 10% 0% 2013 2010





2012

ABC Pension Fund

• c70% funded at 30 June 2012 • Stabilisation rule - +0.5% / -0.5%

Stewardship





Appendix A

2010

- **61%** funded at 2010
- Stabilisation rule Fixed until 2011, then +1% / -1%

Stewardship - Potential range in outcomes for the funding level over next 24 years



Affordability - Range of potential contribution rates over next 24

years



- **C55%** funded at 2012 •
- Stabilisation rule Fixed until 2011, then +1% / -1%

Stewardship - Potential range in outcomes for the funding level over next 24 years



Affordability - Range of potential contribution rates over next 24 years



2012

Appendix A