Item 4

Pension Fund Investment Sub-Committee

21 July 2014

Funding Update

Recommendation

That the Pension Fund Investment Sub-Committee takes no action as a result of the funding update, as recommended by the actuary and, continues to regularly monitor the funding position ahead of the next valuation.

1 Introduction

1.1.1 Over a year has passed since the formal actuarial valuation as at 31 March 2013. An estimated funding update was requested at the meeting of the Investment Sub-Committee dated 19 May 2014.

1.2 Following this meeting the fund actuary has calculated an estimated funding level at 31 May 2014.

1.3 **Appendix A** shows the full results.

2 Funding update results

Funding level

2.1 The results of this update show an increase in funding level from 76.7% in March 2013 to 82.6% in May 2014.

£m	**31 Mar 2013**	**31 May 2014**
Assets	1,379	1,507
Liabilities	1,798	1,823
Surplus/(deficit)	(419)	(317)
Funding Level	**76.7%**	**82.6%**

Whole Fund common contribution rate

2.2 This has fallen from 29.2% of pay to 26.0% of pay. Of this reduction, 0.7% of pay relates to the cost of future service benefits and 2.5% of pay to past service deficit recovery.

3 Commentary on results

3.1 The rise in the funding level and corresponding fall in the deficit and contribution rate is clearly welcome. The main reason is that assets have returned about 10% during the period versus an “expected” return, as implied by the valuation discount rate, of about 5.5%. There has also been a small improvement of 0.15% pa in long term interest rates (net of inflation). This reduces the value placed on the liabilities and the cost of future service benefits.

3.2 In practice, the major employers in the Fund pay stabilised contribution rates that are significantly below the Whole Fund rate quoted above. These stabilised rates were set in anticipation of long term asset returns being higher than the discount rate and allowed for gradual rises in interest rates over time. The results of this funding update suggest that that the Fund is slightly “ahead of schedule” at present in terms of meeting its long term objective of being fully funded.

3.3 These results are at Whole Fund level only. Individual employer funding positions may have changed to either a greater or less extent.

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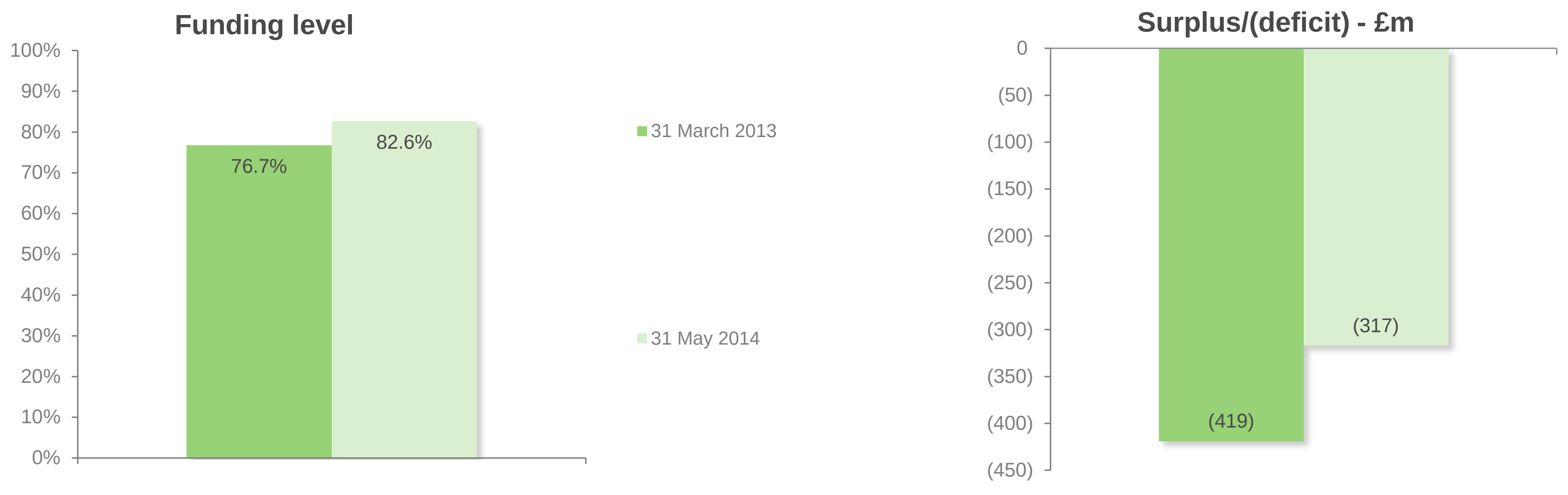
Funding update as at 31 May 2014
Warwickshire County Council Pension Fund



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Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2013 to 31 May 2014, for the Warwickshire County Council Pension Fund ("the Fund"). It is addressed to Warwickshire County Council in its capacity as the Administering Authority of the Warwickshire County Council Pension Fund and has been prepared in my capacity as your actuarial adviser.

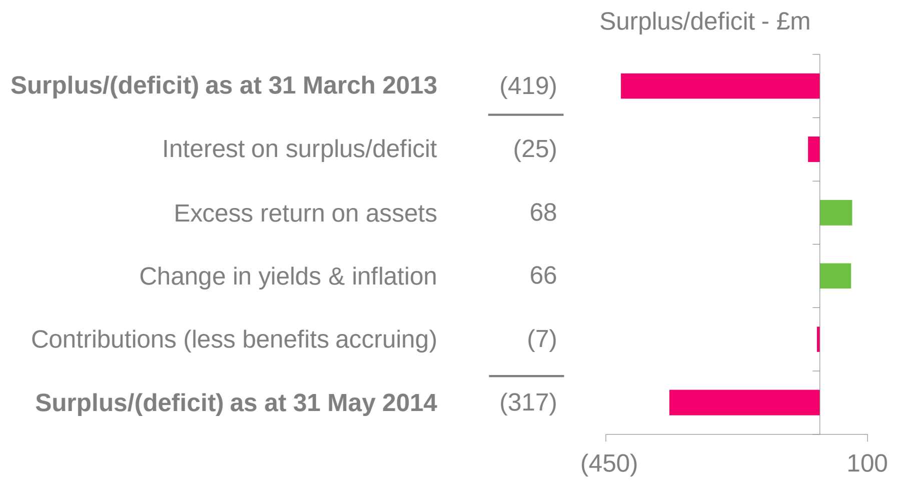
The funding level at the latest formal valuation was 76.7%. As at 31 May 2014 the funding level has increased to 82.6%. This is largely as a result of an increase in bond yields, and subsequent higher discount rate, which places a lower value on the Fund's liabilities. This has been offset by an increase in inflation and asset performance being less than expected.

This report has been produced exclusively for the Administering Authority. This report must not be copied to any third party without our prior written consent.

This report looks at the whole fund position and does not allow for the circumstances of individual employers. The results for individual employers can be quite different to the fund as a whole depending on their own experience and the profile of their liabilities. Differences in the relationship between the ratio of accrued liabilities and the payroll can have a large influence on changes in contributions.

Richard Warden
Fund Actuary

What's happened since the last update – ongoing funding basis



Differences between this funding update and a full actuarial valuation

The accuracy of this type of funding update calculation is expected to decline over time as the period since the last valuation increases. This is because this funding update does not allow for changes in individual members' data since the last valuation.

Details of the approach used in this funding update are given in the appendix.

The figures in tables throughout this document may not add up due to rounding.

Estimated financial position at 31 May 2014

Ongoing funding basis

£m	31 Mar 2013	31 May 2014
Assets	1,379	1,507
Liabilities	1,798	1,823
Surplus/(deficit)	**(419)**	**(317)**
Funding level	76.7%	82.6%

Gilts funding basis

£m	31 Mar 2013	31 May 2014
Assets	1,379	1,508
Liabilities	2,438	2,453
Surplus/(deficit)	**(1,059)**	**(945)**
Funding level	56.6%	61.5%

Basis summary

	31 Mar 2013	31 May 2014
Pre retirement discount rate		
Nominal	4.6%	4.9%
Real	1.3%	1.5%
Post retirement discount rate		
Nominal	4.6%	4.9%
Real	1.3%	1.5%
Salary increase rate	4.3%	4.5%

The assumptions underlying the funding bases are set out in the Funding Strategy Statement. They are those set for the 2013 valuation of the Fund updated for market conditions as at the calculation date.

Market indicators

	31 Mar 2013	31 May 2014
Market yields (p.a.)		
Fixed interest gilts	3.04%	3.33%
Index linked gilts	-0.27%	-0.12%
Implied inflation (RPI)	3.33%	3.45%
Implied inflation (CPI)	2.55%	2.68%
AA corporate bonds	4.07%	4.11%
AA spread	1.03%	0.78%
AOA	1.60%	1.60%
Price indices		
FTSE All Share	3,381	3,655
FTSE 100	6,412	6,845

Change in funding level since last valuation

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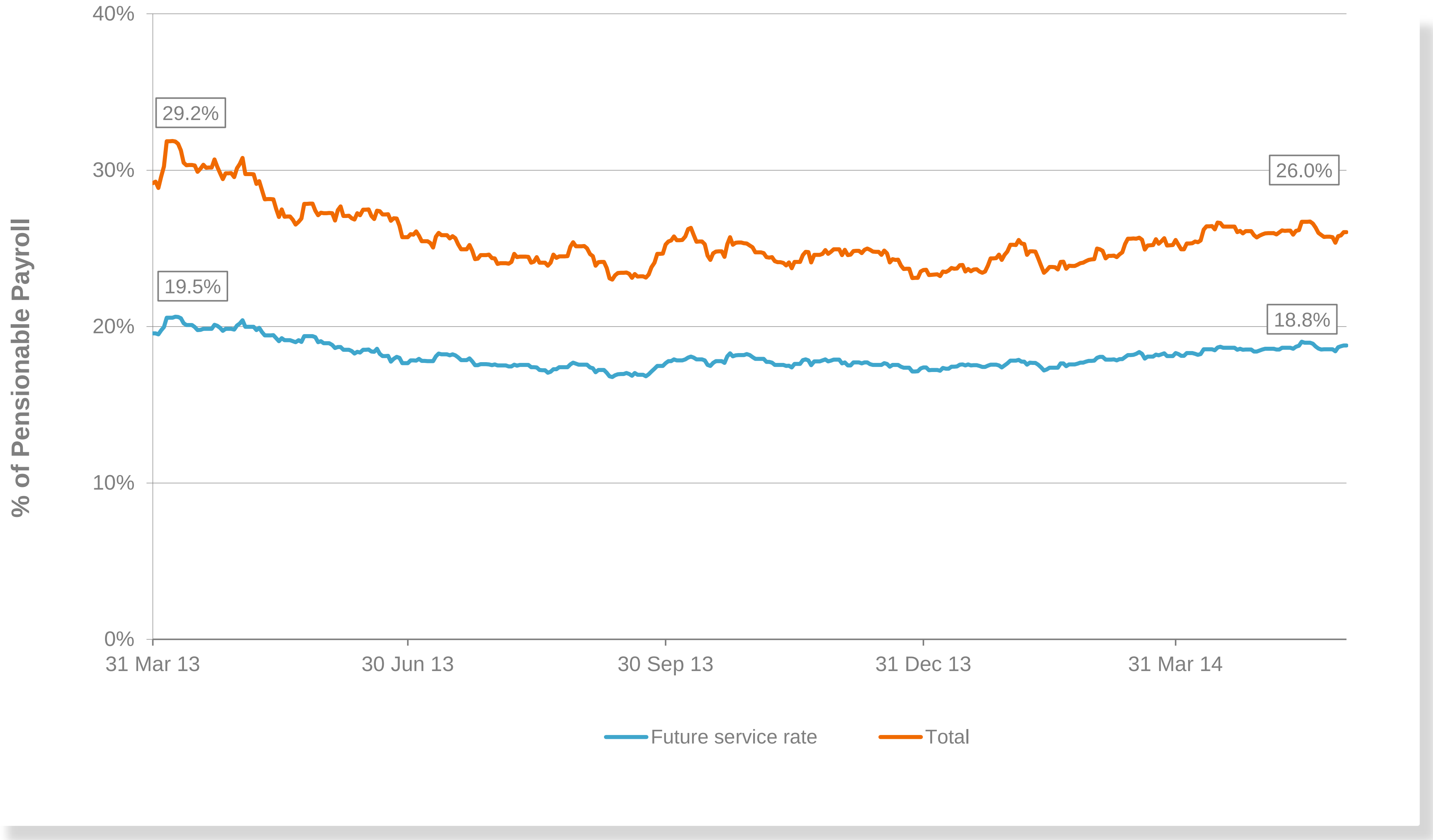
Change in contribution rate



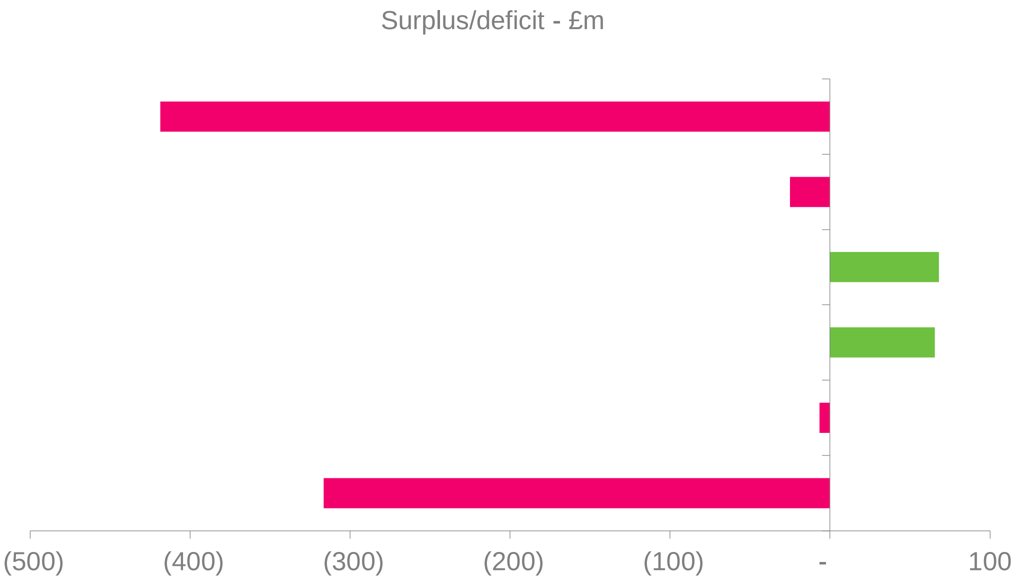
What's happened since last valuation? – ongoing funding basis

Assets		£m
Asset value as at 31 March 2013	1,379	
Contributions paid in:		60
Benefit payments:		(75)
Expected return on assets:		75
Excess return on assets:		68
Asset value as at 31 May 2014	1,507	

Liabilities		£m
Liability value as at 31 March 2013	1,798	
Cost of benefits accruing:		66
Interest on liabilities:		100
Change in yields & inflation:		(66)
Benefit payments:		(75)
Liability value as at 31 May 2014	1,823	

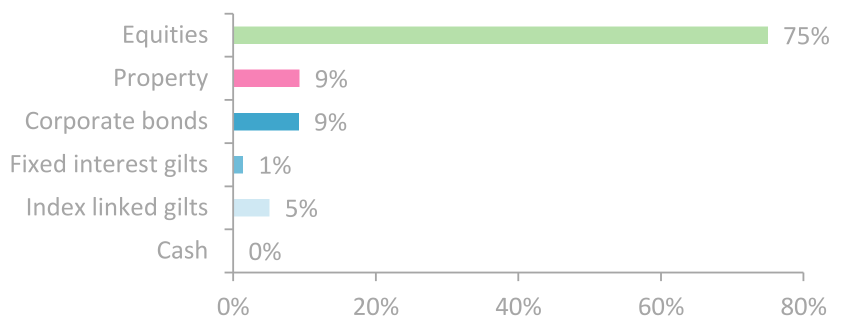
Overall effect

Surplus/(deficit) as at 31 March 2013	(419)
Interest on surplus/deficit	(25)
Excess return on assets	68
Change in yields & inflation	66
Contributions (less benefits accruing)	(7)
Surplus/(deficit) as at 31 May 2014	(317)

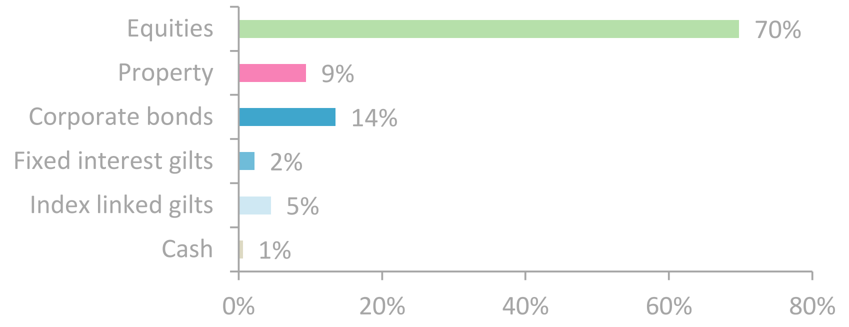


What caused your assets to change?

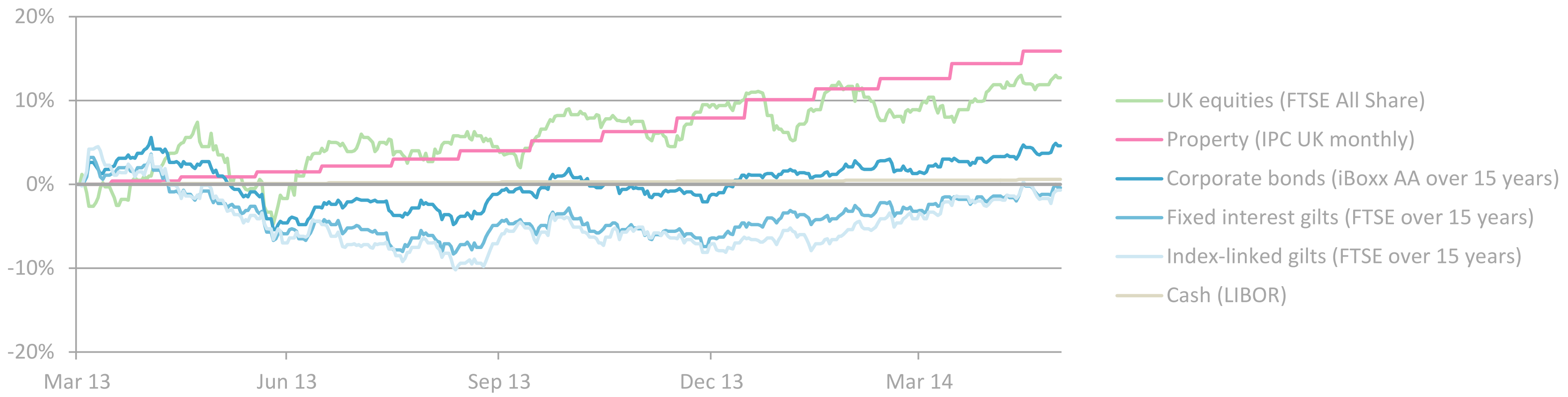
Allocation at valuation date



Allocation at 31 May 2014



Sterling total returns of major asset classes



Sensitivity matrix – ongoing funding basis

Better outcomes →

Bond yields (% p.a.)							
3.94	68.5% (517)	75.8% (397)	83.0% (278)	90.3% (159)	97.6% (39)	104.9% 80	112.2% 199
3.73	66.6% (566)	73.7% (447)	80.7% (328)	87.7% (208)	94.8% (89)	101.8% 31	108.8% 150
3.53	64.8% (619)	71.6% (499)	78.4% (380)	85.2% (261)	92.0% (141)	98.7% (22)	105.5% 97
3.33	63.0% (675)	69.6% (555)	76.1% (436)	82.6% (317)	89.2% (197)	95.7% (78)	102.3% 42
3.12	61.2% (734)	67.5% (615)	73.8% (495)	80.1% (376)	86.4% (257)	92.8% (137)	99.1% (18)
2.92	59.4% (797)	65.5% (678)	71.6% (558)	77.7% (439)	83.7% (320)	89.8% (200)	95.9% (81)
2.72	57.7% (864)	63.5% (745)	69.4% (626)	75.2% (506)	81.1% (387)	86.9% (268)	92.7% (148)
	4,791	5,476	6,160	6,845	7,529	8,213	8,898

Equity level (using FTSE 100 Price Index as a proxy)

↑ Better outcomes

82.6%	Funding level
(317)	Surplus/(deficit) – £m

Appendix: Scope, methodology, reliances, limitations and market data

Scope

This funding update is provided to Warwickshire County Council as the Administering Authority of the Warwickshire County Council Pension Fund to illustrate the funding position as at 31 May 2014. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except with Hymans Robertson LLP's prior written consent, in which case it is to be released in its entirety. Hymans Robertson LLP accepts no liability to any third party unless we have expressly accepted such liability in writing.

Compliance with professional standards

The method and assumptions used to calculate the updated funding position are consistent with those used in the latest formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. As such, the advice in this report is consistent with that provided for the last valuation, as set out in the:

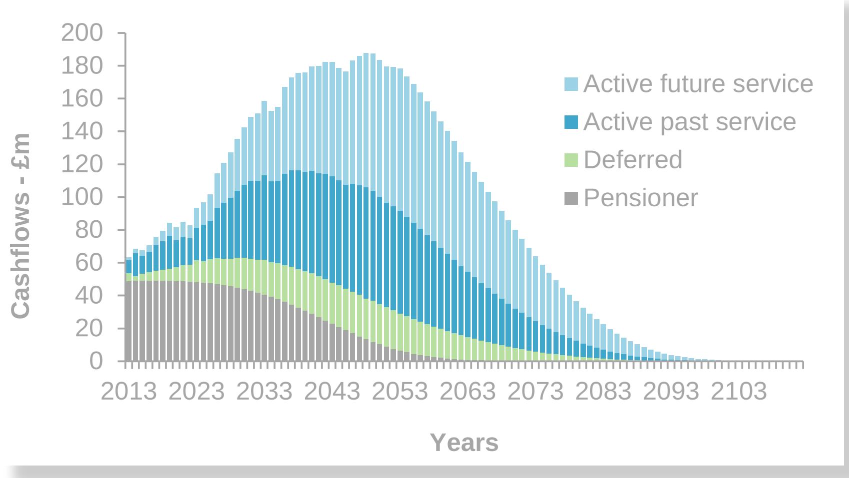
- Valuation Assumptions Briefing Note
- Funding Strategy Statement
- Valuation Report
- Rates and Adjustments Certificate

This update therefore complies with the following Technical Actuarial Standards (TASs):

- Reporting ("TAS R")
- Data ("TAS D")
- Modelling ("TAS M")
- Pensions TAS

How liabilities are calculated

- The future benefits that are payable from the Fund ("cash-flows") were calculated on a specific set of assumptions at the last valuation date.
- These cash-flows (on the ongoing funding basis) are shown below.
- These cash-flows were adjusted using available financial and Fund information to produce estimated cash-flows at post valuation dates.
- The specific information used for this update is set out on the next page.
- Market information is used to produce discount rates at these dates.
- The estimated cash-flows are discounted to produce the estimated liability value at a specific date.



How assets are calculated

Assets are projected from the valuation date allowing for actual or estimated Fund cash-flows and daily benchmark indices. Where available, asset values are recalibrated using known asset data.

The update allows for:

1. Movements in the value of the assets as measured by index returns and data from the administering authority where available.
2. Movements in liabilities as a result of changes in yields and hence inflation and discount rate assumptions.
3. Estimated cash-flows (contributions and benefit payments).
4. Expected accrual of benefits for employee members accrued since the last valuation (based on projected salary roll).
5. Demographic experience in line with assumptions.
6. Variations in liabilities arising from the changes in RPI since the valuation date differing relative to assumptions.
7. Benefit accrual in line with the 2014 scheme.

The update does not allow for:

1. Asset allocations differing from those assumed (other than when asset data is recalibrated based on available information).
2. The asset values as at the date of this report have not been based on audited Fund accounts.
3. Variations in liabilities arising from salary rises differing relative to assumptions.
4. Differences between estimated and actual salary roll of employees.
5. Variation between actual and expected demographic experience (e.g. early retirement or mortality).

Membership data

My calculations are based on the membership data provided for the most recent actuarial valuation. Details on the quality of this data and a data summary can be found in the last formal actuarial valuation report.

Limitations of this model

In the short term, the typical main contributors to funding position volatility are movements in the value of assets held, liability changes due to yield movements, benefit changes and deficit contributions to the Fund.

The accuracy of this type of funding update calculation is expected to decline over time. Differences between the position shown in this report and the position which a valuation would show can be significant; particularly if there have been volatile financial markets or material membership changes (these are more likely to occur in smaller Funds). It is not possible to fully assess the accuracy of this update without carrying out a full actuarial valuation.

If yield curves are not available at a funding update date this model uses approximate yield curves based on the movements in long-term gilt yields since the date of the last available yield curve. Liability calculations are performed on the valuation date, the funding update date, anniversaries of the valuation date and each month-end in between. Interpolation is used for other dates shown in graphs. Some asset classes are not easily tracked by the benchmark indices used in this model which can lead to significant differences between actual and projected asset values.

Indices used to update projected asset values

Some of the following indices have been used to update projected asset values in this funding update.

- FTSE 100
- FTSE 250
- FTSE Small Cap
- FTSE All Share
- FTSE All World Series North America (£)
- FTSE All World Series Japan (£)
- FTSE All World Series Developed Europe (£)
- FTSE All World Series Developed Asia Pacific (£)
- FTSE All World Series All World Developed Ex UK (£)
- FTSE All World Series All World Ex UK (£)
- FTSE All World Series All Emerging (£)
- UK Government Fixed Interest Gilts (Over 15 Years)
- UK Government Index-Linked Gilts (Over 5 Years)
- UK Government Index-Linked Gilts (Over 15 Years)
- iBoxx A rated UK Corporate Bonds (Over 15 Years)
- iBoxx AA rated UK Corporate Bonds (Over 15 Years)
- iBoxx AAA rated UK Corporate Bonds (Over 15 Years)
- iBoxx All Investment Grades rated UK Corporate Bonds (Over 15 Years)
- IPD Property
- Cash Indices LIBOR 1 Month

The indices are a standard list and are not necessarily the same indices that managers have been asked to track or beat. All indices used to estimate projected asset values are total return indices. However, the market indicators quoted in this report are price indices, as these are more widely recognised.

Market information used to update liability values

Some of the following market information has been used to update liabilities values in this funding update.

- Nominal gilt yield curves derived from Bank of England data
- RPI gilt inflation curve derived from Bank of England data
- Nominal swap curves derived from Bloomberg data
- Real swap curves derived from Bloomberg data
- Inflation volatilities derived from the swap market
- FTSE Actuaries UK Fixed Interest Gilts Yields (Over 15 Years)
- FTSE Actuaries Index-Linked Gilts (3% Inflation) Yields (Over 15 Years)
- iBoxx AA rated UK Corporate Bond Yields (Over 15 Years)

Note: Market yields displayed in the market indicators table are on an annual basis.