Item 5

Pension Fund Investment Sub-Committee

13 March 2017

Possible Prepayment of WCC Employer Contributions

Recommendation

That the Sub-Committee discuss and agree the various options on the treatment of cash received from the County Council should that option be pursued by the County Council.

1. Background

1.1 The draft 2016 actuarial valuation results for Warwickshire County Council are currently being finalised by the fund actuary in line for the statutory 31 March 2017 deadline.

1.2 As part of this process the County Council is assessing the option of paying its contributions early and in their entirety to March 2020. This report is being made to enable the Sub-Committee to determine its strategy for investment should the County Council pursue this option.

2. Future Contribution Rates

2.1 The proposed contribution rates for Warwickshire County Council for the next three financial years are:

- 2017/18: 19.1% of pay
- 2018/19: 19.5% of pay plus a lump sum of £528k
- 2019/20: 19.5% of pay plus a lump sum of £1,641k

Based on current payroll data the cash figure for the above three years is expected to total around £85m.

2.2 However, the figure of £85m is undiscounted values and made no allowance for the fact that any prepayment into the Fund would earn investment returns. Therefore, to pre-fund the contributions in full, the actual payment required would be less than £85m. The actual amount depends on when the pre-funding contributions are paid but would be somewhere around £81m

2.3 Whilst this payment would be invested in the main fund custody account, it would be attributed in its entirety to the County Council as an employer in the fund for valuation and funding purposes.

2.4 If the decision is taken then the rates and adjustment certificate will reflect the arrangement and adhere to LGPS regulations.

3. Options for investing the prepayment

3.1 The fund would have several options in regard to the investing of the prepayment if the Council goes ahead and prepays contributions. These options are not mutually exclusive and the sub-committee may wish to recommend a combination of options:

1. Invest the proceeds as cash until the investment consultants review of fund assets is completed in June 2017
2. Top up the absolute return bond allocation which is currently 1% underweight
3. Use part of the cash to address the issues raised in the Rebalancing paper at this meeting

3.2 It is not workable to consider toping-up the other underweight positions in the fund, particularly private equity and infrastructure as these are both highly illiquid and monies can only be invested through calls from the fund managers as they find the right asset to invest in.

3.3 The fund is also underweight in hedge funds and property. Whilst more liquid than the private market assets in 3.2, these funds would still take time to invest in making them unsuited to a short term investment given the upcoming review of fund assets.

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The report was circulated to the following members prior to publication:

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