

## Pension Fund Investment Sub-Committee

13 March 2017

### Funding Strategy Statement

#### Recommendation

That the Sub-Committee approve the Funding Strategy Statement at Appendix A.

#### 1. Introduction

- 1.1 Under LGPS Regulations, the Fund has to prepare and publish a Funding Strategy Statement (FSS). In doing so, it must take guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) into account and “consult such persons as it considers appropriate”. This is generally taken to be employers as they are the group that are responsible for meeting the balance of the cost of benefits promised to members.
- 1.2 The natural time to review and update the FSS is at the end of each triennial actuarial valuation cycle. It should reflect all of the funding decisions made by the Fund during the valuation year. Given that there is a requirement for the fund to consult with employers the draft statement was published on the Fund’s website prior to this meeting.
- 1.3 The draft FSS appended to this paper allows for the most recent guidance issued by CIPFA. The Fund formally consulted its employers by issuing a draft FSS with initial employer contribution rates following the 2016 Actuarial Valuation. Following this consultation and sub-committee approval, the final version of the FSS will be published on the Fund’s website.

#### 2. Background

- 2.1 At the sub-committee meeting of 12 December 2016 the committee had initial discussions with the Fund Actuary who discussed the major changes from the previous statement and presented a suggested draft 2016 statement. Following the meeting and employer consultation the proposed statement can be found at **Appendix A**.

### **3. Key highlights in the FSS**

#### **3.1 Funding objectives**

- to ensure the long term solvency of the Fund
- to ensure that employer contribution rates are relatively stable (where appropriate)
- to minimise employer contributions over the longer term (and Council Tax costs), by recognising how assets and liabilities interact and by adopting an investment strategy that balances risk and return
- to set contribution rates that allow for the different risk profiles of participating employers
- to reduce the risk to other employers (and ultimately the Council Tax payer) of an employer defaulting on its pension obligations.

#### **3.2 Employer contribution rate setting**

3.3 The ways in which employer contribution rates were set at the 2016 valuation were discussed and agreed between the Fund Actuary and the Fund's officers and Investment Sub Committee over the course of the last year. As mentioned, various meetings were held with employers to help them to understand the process.

3.4 The approaches that were agreed across the various employer groupings are summarised in FSS. It refers to the stabilised approach to contribution rate setting that was adopted for the tax-raising bodies and the risk based approach used for other bodies in the Fund. Amongst other things, it outlines how funding differs between employers that are open and closed to new entrants, shows the deficit recovery period that applies to each type of employer and confirms that deficit repayments will be collected as monetary amounts (rather than as a percentage of pay to protect against the risk of payroll falling in future).

3.5 One of the Fund's key objectives is to ensure that the Fund can meet all benefit payments as and when they fall due. It achieves this via a combination of contributions (arising from the funding strategy) and investment returns and income (arising from the investment strategy). If investment returns are lower than expected, then contributions need to be higher, and vice versa. In other words, the strategies are interlinked.

3.6 The draft FSS explains how the funding policy is consistent with the investment strategy.

#### **3.7 Risks and control mechanisms**

3.8 The Appendix at the back of the FSS looks at risks under four headings:

3.9 The valuation is a good time to have a think about the risks that the Fund faces, a report on these risks and the procedures put in place to manage these risks will be presented at the June 2017 sub-committee meeting.

## Background Papers

None

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

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