

AGENDA MANAGEMENT SHEET

Name of Committee **Staff and Pensions Committee**

Date of Committee **25 February 2010**

Report Title **Review of Pension Fund Risk Management**

Summary Report from the Pension Fund Investment Board drawing attention to the highest risks facing the Pension Fund

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Would the recommended decision be contrary to the Budget and Policy Framework? No.

Background papers None

CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

- Other Committees
- Local Member(s)
- Other Elected Members Cllr Davis, Chair of Pension Fund Investment Board
- Cabinet Member
- Chief Executive
- Legal John Galbraith
- Finance David Clarke, Strategic Director, Resources –
- Other Chief Officers
- District Councils
- Health Authority

Police

Other Bodies/Individuals

FINAL DECISION YES

Staff and Pensions Committee – 25 February 2010

Review of Pension Fund Risk Management

Report of the Pension Fund Investment Board

Recommendation

That the Staff and Pensions Committee note that pensioner longevity represents the highest risk to the Pension Fund and that, this risk is actively monitored through the triennial valuation.

1 Introduction

- 1.1 Warwickshire County Council is responsible for the delivery of benefit promises made to members of the Warwickshire Pension Fund. This is achieved by setting objectives and goals with varying timeframes. Risks lie in failing to meet the intended goals.
- 1.2 Risks are identified and evaluated via a risk evaluation model and are prioritised with existing controls or new controls implemented to mitigate the risks. These are recorded in a risk register, which we monitor on a regular basis.
- 1.3 The Pension Fund Investment Board last considered the risk register at its meeting on 1 February 2010 at which it was agreed that the three risks that were identified as high strategically should be brought to the Staff and Pensions Committee's attention.

2 High Level Risks

- 2.1 By use of a matrix that places values on the impact and likelihood of risks, these can be categorised as low, medium or high. The high level risks are set out below:

Risk	Control Mechanism
Investment Risk	
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term. Impact: 5 Likelihood: 3 Risk Level: High	Anticipation of the long-term return on a relatively prudent basis (as recommended by the actuary) to reduce the risk of under-performing.
Investment Risk	
Fall in equity markets leading to deterioration in funding levels and increased contribution requirements from employers. Impact: 5 Likelihood: 3 Risk Level: High	Significant proportion of fund given to gilts, property and hedge funds. Continued belief that equities are the best proven asset class over the long term.
Funding Risks	
Pensioners living longer Impact: 4 Likelihood: 5 Risk Level: High	Setting of mortality assumptions by actuary with some allowance for future increases in life expectancy. Recent reports, most notably the Turner Report, are promoting a later retirement culture. Longevity is regarded as a direct benefit from better health, increased prosperity and life style choices by the population.

- 2.2 It will be noted that the highest risk is related to longevity of the Fund's pensioners and dependants.
- 2.3 While the Turner Report promoted a later retirement culture, recent changes in the Local Government Pension Fund (LGPS) regulations allow for a more flexible approach to retirement. Also in the event of an early retirement, the impact does not fall on the pension fund as the employer is required to fully compensate the Pension Fund for the associated costs
- 2.4 The Pension Fund's actuary considers longevity as part of the triennial valuation exercise and the overall funding position of the Fund reflects current views on longevity. Recent changes to the LGPS have increased the employee contribution rate for higher earners and there are currently ongoing discussions about further changes to cost sharing between the employer and the employee.

3 Recommendation

- 3.1 That the Staff and Pensions Committee note that pensioner longevity represents the highest risk to the Pension Fund.

CHRIS DAVIS
Chair of the Warwickshire Pension Fund Investment Board

Shire Hall
Warwick
February 2010