MEETING	PENSIONS COMMITTEE
DATE	16 DECEMBER 2009
TITLE	COMPASS
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1. Background

1.1 In March 2010 the Pension Fund will be expected to undertake a full valuation, and the results of that valuation will feed into employer contributions from 1 April 2011.

1.2 We know from the reports we receive each year to monitor the progress of the Pension Fund that had the valuation been undertaken at the end of March 2009 the future funding rate would have risen from its current rate of 15.8% to 16.8%, and the past service deficit supplement would have increased from 4.3% to 13.4% making a total notional contribution of 30.2% compared to the 20.1% at the last valuation date.

1.3 One of the key assumptions in the valuation process is the figure used for bond yields and the figure for long term inflation assumed by the return on index linked gilts.

1.4 The interim reports which we received have shown that the range of relative bond yields experienced since 31 March 2007 would have resulted in a range of future service rates of between just below 15% and 20%.

1.5 At a valuation the Actuary will be required to utilise the relative bond yield which is shown at the time. This could prove problematic at the next valuation.

2. Compass

2.1 I have been discussing a new product developed by Hymans Robertson which utilises their model of a range of outcomes which could manifest themselves in the long term to develop a longer term plan for employer contributions.

2.2. They then plot out a range of possibilities over an 18 year period utilising a range of investment and funding combinations and establish a long term contribution rate strategy to establish long term stability in contributions.

2.3 This strategy would then be tested against the triennial valuation results in order to determine whether there should be a gradual uplift or downturn in employer contributions.

2.4 Such a process would allow us to stabilise contributions without harming the expected long term funding level by underpaying in the bad times and overpaying in the good times, on the basis of a detailed analysis of risk.

2.5 The unfortunate aspect is that due to its long term nature it would only be available to those secure long term employers.

2.6 The cost would be between £15,000 and £20,000 and I would recommend that we pursue this avenue in order to establish an analytical basis for determining future contribution rates which takes into account the unusual nature of current circumstances.

2.7 The Committee is requested to consider the issue and approve the recommendation.