

<b>MEETING</b>	<b>PENSIONS COMMITTEE</b>
<b>DATE</b>	<b>3 DECEMBER 2010</b>
<b>TITLE</b>	<b>FUNDING STRATEGY STATEMENT 2011/12 – 2013/14</b>
<b>RECOMMENDATION</b>	<b>TO DECIDE ON THE ASSUMPTIONS TO BE MADE IN THE FUNDING STRATEGY STATEMENT</b>
<b>AUTHOR</b>	<b>DILWYN WILLIAMS, CORPORATE DIRECTOR</b>

## **1. INTRODUCTION**

- 1.1 We are required to review and publish the triennial Funding Strategy Statement (FSS) by 31 March 2011. Gwynedd's current FSS was approved by the Pensions Committee on 7 February 2008.
- 1.2 As part of the review the administering authority will have to consult with the 40 scheme employers, the fund actuary and adviser, and any other persons we consider appropriate.

## **2. ACTUARIAL VALUATION**

- 2.1 The triennial actuarial valuation of the Fund is currently being undertaken. The preliminary results will be available in late November and will be reported to this committee. Some pension funds in Wales have already received their results. Unfortunately, the results for Gwynedd Pension Fund have been delayed due to the late receipt of the required information from some of the fund's employers.
- 2.2 The actuarial valuation is being prepared using assumptions as agreed for the previous valuation. The deficit recovery periods applied to the different categories of employer are prudent and consistent with the previous valuation.
- 2.3 At a meeting on 16 December 2009 this Committee decided to adopt the 'Compass' system to develop a longer term plan for employer contributions for secure long term employers. This spreads the increase or decrease in employer contributions over a longer period and restricts the change in each financial year. Some employers cannot be included in this system as their long-term future is not guaranteed. As administrator of the Pension Fund, Gwynedd Council has to protect all the employers in the fund and guard against the situation where an employer is closed down leaving an unpaid deficit in the Pension Fund, as happened with Theatr Gwynedd recently.
- 2.4 Following receipt of an early warning report from the actuary, preliminary indications of potential general increases in employer contributions were sent to the bodies not in the 'Compass' scheme. Many of them have responded with comments and concerns. The employers who have responded at the time of writing this report are as follows: Coleg Llandrillo, Coleg Menai, Cwmni Cynnal, Careers North West, Cwmni'r Fran Wen, Conwy Voluntary Services, Medrwn Môn, Mantell Gwynedd, Menter Môn, Conwy Citizens Advice Bureau, CAIS and Holyhead Town Council. The main issue raised was the affordability of the potential increase in the current financial climate. Some bodies indicated that they would face financial hardship and would consequently consider closing the fund to new employees, or even withdrawing from the fund. Some

employers requested the same deficit recovery period as the councils, while others requested that the increase be spread over at least three years. There was also a suggestion that high increases in employer contribution should be avoided until the impact of the Government reforms to public sector pensions is known.

- 2.5 The decisions taken by this committee will be presented to an employers' meeting on 6<sup>th</sup> December 2010 when the actuarial results are discussed, and relevant decisions could influence those results and the level of employers' contributions.

### **3. DRAFT FUNDING STRATEGY STATEMENT (FSS)**

- 3.1 A skeleton draft FSS is attached in Appendix A. Some of the gaps are dependent on the valuation results, whilst the others are dependent on the following issues which the Committee will decide upon.

- 3.2 Following the recent receipt of the preliminary actuarial results, the Committee now need to decide upon the proposed policies to be incorporated into the draft FSS for consultation with all the Fund's employers. Hence, the Committee is asked to decide on the following issues.

#### **3.3 EQUITY RISK PREMIUM**

The anticipated excess return from equities compared to the return from gilts. This refers to the difference between the expected return achieved by equities and the expected return from gilts. As the assumed difference between the expected returns becomes greater, the risk increases and the funding basis becomes less prudent. The anticipated excess return from equities assumption used in the 2007 valuation was 1.4%. Most of Hymans' client funds assume a less prudent equity risk premium, but investment experience (equity v. bonds) since the previous valuation (and the decade since 2000) does not support the case for increasing the risk premium. Is the Committee comfortable with using this assumption (an equity risk premium of 1.4%) for the 2010 valuation?

#### **3.4 DEFICIT RECOVERY PERIODS**

In the 2007 valuation the administering authority decided that for statutory bodies with tax raising powers any deficit could be recovered over 20 years. These statutory bodies included the 3 local authorities, community, town and city councils, the North Wales Police Authority and Snowdonia National Park Authority. It was also agreed that the colleges be allowed to recover any deficit over a period of 15 years, rather than the future working lifetime. This applied to Coleg Menai, Coleg Meirion Dwyfor and Coleg Llandrillo. Coleg Harlech is part of the small admitted body pool, therefore they did not change their deficit recovery period. For all the other employers the deficit was to be recovered over the future working lifetime of the remaining scheme members.

The Committee needs to decide whether or not to reduce the recovery period for the statutory bodies to 17 years, and whether to keep the recovery period for the 3 colleges at 15 years or reduce it. The reduction would be due to the three years which have elapsed since the 20 year / 15 year recovery was agreed.

### **3.5 PHASING IN OF CONTRIBUTIONS**

Following discussions between the administering authority and the employers, and a meeting with the actuary which was postponed from 19 November to 25 November, it is necessary to consider the period for phasing in the increases in employers contributions. Because the increases are over 3% in some cases there is an option to phase the increase in over a period of 6 years with an increase of at least 0.5% per annum until the full increase is achieved. The Committee need to decide if they are comfortable to continue with this policy.

## **4. SUMMARY**

In order to complete the Funding Strategy Statement for consultation purposes, the Committee is asked to decide on the assumptions / policies outlined in 3.3, 3.4 and 3.5 above.