

Essex Pension Fund Board	EPB/08/11
date: 9 March 2011	

Funding Strategy Statement and March 2010 Actuarial Valuation Results

Report by Head of Investments and Fund Actuary

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1. Purpose of the Report

1.1 To submit the draft Funding Strategy Statement (FSS) for 2010/11 for approval.

2. Recommendations

2.1 That the FSS be approved;

3. Background

- 3.1 Essex County Council, as administering authority of the Essex Pension Fund (the Fund), is required under the Local Government Pension Scheme (LGPS) Regulations to prepare and publish a Funding Strategy Statement (FSS) and keep the statement under review; making appropriate revisions following any material change in its policy on the matters set out in the statement, or in its statement of investment principles. If revisions are made to the FSS it has to publish the statement as revised. In reviewing and making revisions to the statement, the authority must have regard to the guidance produced by the Chartered Institute of Public Finance and Accountancy and consult such persons as it considers appropriate.
- 3.2 At its meeting on 25 August 2010 the Board received a revised draft FSS for 2010/11, prepared in accordance with the above guidance and approved it to be sent out for consultation. The draft FSS and approved consultation letter was sent out to the majority of employers in the Fund, excluding schools, together with those parties providing services to the Fund. The results of the consultation exercise were reported to the Board at its meeting on 15 December 2010. There had been relatively few formal responses to the consultation, but an informal dialogue had also taken place with many of the employers as their individual results had been communicated to them. The draft FSS is generally viewed with favour and is producing generally acceptable results.
- 3.3 However it became apparent, in considering the detailed contribution implications for the Small Admitted Bodies Group (SABG), that there was a need to hold a further dialogue with the SABG both collectively and individually before reaching a final decision on the treatment of the SABG in the funding strategy. It was agreed that a series of meetings would be held to determine the final recommended treatment which would then be incorporated in the final draft of the FSS.

4. Funding Objectives

- 4.1 Members will recall that as, part of a 2010/11 business plan initiative to improve governance, the Fund's objectives were reviewed, agreed and performance measurement criteria identified to assist in performance monitoring of performance against agreed objectives. It was agreed that the funding objectives would be reviewed as part of the production of the FSS. This has been done and the new objectives are included in the draft FSS submitted for approval. Although there has been no substantive change to the objectives, they are now drafted in a way that assists with performance monitoring.

5. Proposal in regard to the SABG

- 5.1 There had been increasing concern amongst officers that the SABG was becoming untenable as a mechanism to assist in managing the liabilities of the small employers in the Fund. It had originally been established in the very early days of the Fund to prevent fluctuation in small employers' contributions as a

result of changes in their workforces. The small employers were pooled and treated as a single employer for the purposes of calculating employer contributions, which were then apportioned on the basis of payroll. This had the benefit of dampening fluctuations resulting from workforce changes. At that time the funding position was better and there was greater stability amongst employers.

However as the economy has become more volatile, the funding position has deteriorated and volatility amongst small employers has increased. This has caused problems within the SABG because of the inherent cross-subsidisation of the group. As SABG employers terminate or reduce their workforces the volatility of SABG contributions increases. The SABG was closed to new members in 2004 in a damage limitation exercise but the latest review has found that the best way forward now is to break up the group and instead to deal with each of its members individually. This will bring the cross subsidisation to an end and enable the Fund to work with the individual employers on individual liability funding plans thereby increasing the overall employer covenant and improving stability of contributions for many of the employers. This proposal has been discussed with those members of the SABG who took up the offer of meetings with the officers and Actuary and has been favourably received.

6. Revised Funding Strategy Statement

- 6.1 A revised draft FSS, incorporating the new funding objectives discussed at paragraph 4 and the proposed treatment of the SABG, is therefore attached at Annex A for members consideration and approval. Changes from the previous version submitted to the Board on 25 August 2010 have been highlighted in red. A clean version incorporating the changes is attached at Annex B.

7. March 2010 Actuarial Valuation Results

- 7.1 The Actuary will be issuing his final Report on the Triennial Valuation of the Fund as at 31 March 2010 later this month before the statutory deadline of 31 March 2011. His findings and assumptions remain broadly unchanged from his last presentation to the Board in December 2010, A copy of his presentation is attached at Annex C for information and reference.

8. Risk Implications

- 8.1 The risk implications of setting the funding strategy are set out in the draft FSS.

9. Communication Implications

- 9.1 Any decisions made as a result of this report will be communicated to interested parties through the normal process of publication of the minutes of this meeting and subsequently the publication of the FSS.

10. Finance and Resources Implications

- 10.1 None directly as a result of this report. There will be financial implications for employers in the Fund which have been notified to individual employers and which will be set out in the Actuary's triennial report to be published later this month.