

FALKIRK COUNCIL

**Subject:** PENSION FUND - FUNDING UPDATE  
**Meeting:** PENSIONS COMMITTEE  
**Date:** 12 DECEMBER 2013  
**Author:** CHIEF FINANCE OFFICER

## 1. INTRODUCTION

- 1.1 This purpose of this report is to advise the Committee of the latest funding position of the Falkirk Council Pension Fund.

## 2. BACKGROUND

- 2.1 The funding position of the Fund is established every three years as part of the formal valuation process, however, in the interests of good governance, it has been agreed that the funding position will be reviewed at least annually.
- 2.2 The funding position describes the extent to which the Fund's liabilities are matched by its assets. Fund assets are the investments held by the Fund, whilst liabilities are the benefits promised to members in the future. A funding level of less than 100% means that assets are less than liabilities in which case there is a funding deficit. A funding level of over 100% means that assets exceed liabilities in which case there is a funding surplus. A funding level of exactly 100% means that there is neither deficit nor surplus and that assets are equivalent to liabilities.
- 2.3 In assessing the funding position, assets are calculated at their market value and liabilities according to the return on government bonds (i.e. the lower the return on bonds, the higher the value placed on liabilities).
- 2.4 The estimated funding position at 31 October 2013 has been calculated by the Fund's Actuary, Hymans Robertson taking account of cash flows and investment returns arising since the 2011 valuation.
- 2.5 A copy of the actuary's funding report is attached as an Appendix to this report.

## 3. FUNDING UPDATE

- 3.1 The policy of the Fund is to achieve a funding level of 100% so that liabilities are matched exactly by assets.
- 3.2 The current and most recent funding positions are set out below, together with the results of the 2011 valuation:

	As at 31/03/2011	As at 31/03/2013	As at 31/10/2013
Fund Assets	£1.199m	£1,513m	£1,613
Fund Liabilities	£1,392m	£1,930m	£1,923
Funding Deficit	-£193m	-£417m	-£310m
Discount Rate			
Funding Level	86%	78%	84%

- 3.3 The funding update shows that as at 31 October 2013, the funding level has risen to 84% after having fallen to 78% at March, 2013. The change in funding level from the last valuation is the combined result of a positive increase in asset values but an even greater increase in liability values.
- 3.4 Since the last valuation, the predominant factor affecting liability values has been the successive rounds of quantitative easing undertaken by the Bank of England (and the US Federal Reserve) in order to stimulate economic growth. This has pushed up bond prices, automatically reduced gilt yields and exaggerated scheme liabilities. Suggestions that Governments on both sides of the Atlantic might start to withdraw their support for financial markets has led to a modest rise in yields and a slight decline in liability values.
- 3.5 The funding level is an important factor in setting investment strategy. As long as the funding position remains below 90%, it is likely that the Fund will have to pursue a deficit recovery investment strategy with a heavy weighting towards equities. However, if the funding level were to improve towards nearer 100%, there could be an opportunity to reduce the equity weighting in order to dampen the volatility which comes from an equity based strategy.
- 3.6 Although the funding level is a key indicator of the Fund's financial standing, it is simply a snapshot at a given point in time. The capacity for employers within the Fund to meet their contribution commitments remains strong and as such the Fund can afford to take a long term view in recovering from a deficit position.

#### **4. CONCLUSION**

- 4.1 The funding position has improved over the last 12 months to 84%. This is the result of higher asset values arising from improved market conditions and lower fund liabilities arising from the slight increase in bond yields.

#### **5. RECOMMENDATION**

- 5.1 The Committee is asked to note the funding position as at 31 October 2013.

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**Date: 28 November, 2013**

#### **BACKGROUND PAPERS**

NIL