# WILTSHIRE PENSION FUND
# RESPONSE TO RECENT PRESS REPORTS

In relation to the recent press reports on Local Government Pension Scheme (LGPS) investments and funding, it is certainly true to say that deficits have increased substantially over the past 18 months, due to falling investment markets. However, for a balanced view, it should also be noted that over the previous 4¼ years, LGPS deficits shrank substantially due to good stock market performance.

The recent difficulties in financial markets are well documented. The Wiltshire Pension Fund has not been immune from the dramatic falls in stock markets in recent times.

To compound the issue, this downward movement in the investments of the Fund has been compounded by an upward movement in liabilities. Pension funds' liabilities are valued based on index-linked gilt yields, which have fallen since the last full valuation at March 2007, meaning that liabilities have increased too.

The combined result is that the funding level (ie. investments as a % of liabilities at today's values) has moved from 85% at the last actuarial valuation in March 2007 to somewhere close to 60% now.

However, the press claims that correction of the national LGPS deficit would cost every household in Britain £2,000 is well wide of the mark in our view. It assumes that the financial markets in which LGPS funds invest will never recover and that the deficit presents an immediate cash problem for Councils, neither of which is true.

The liabilities of LGPS funds are payable over a very long period of time, 80 years at the extreme. Also, these funds are generally relatively immature (ie. more contributions coming in than pensions going out), so the funds are very cash flow positive and so are not dependant on "cashing in" investments to fund their pension payments. This is true of the Wiltshire Fund.

It is too early to say the extent of the contribution rate rises from April 2011 which may result from the 2010 valuation. That will depend on a number of factors, principally how investment markets behave in the meantime and the view of the actuarial profession, Central Government's Department for Communities and Local Government and others on future funding strategy.

However, the Wiltshire Fund is already in discussions with its actuary, looking at ways of maintaining relative stability in employer contribution rates, to avoid the need for extreme rises in rates which would place excessive pressure on the Council Tax in Wiltshire and Swindon. Because the Fund's deficit recovery strategy is based on a 20 year time horizon (at least), it is not necessary to pass all of the "pain" into contribution rates immediately. Instead a longer term view can be taken, in the expectation that markets will recover in the future, as they inevitably will.

The reports also claimed that employer contribution rates would need to at least double, adding £200 a year to council tax bills. Again, this is misleading. For example, a theoretical doubling of the contribution rate for Wiltshire Council, assuming no other compensating cuts elsewhere in the budget, would add around £110 per household (9.3%) to the Council Tax.

The other fact that has been forgotten in recent reporting is that at least the LGPS is invested – all other public sector pension schemes are funded straight out of national taxation, with no assistance from investment markets over the long-term.

Turning to some of the investment issues raised, the Wiltshire Pension Fund has around 57% invested in equity strategies. Historic data clearly shows that over the long term equities provide a superior investment return for pension funds, but they will provide a bumpy ride as markets go through their inevitable cycles. Failure to invest in equities would cause a substantial and systemic increase in contribution rates (and hence the cost to the tax payer), because of lost investment revenues over the long-term.

In relation to the high profile casualties of recent times, Wiltshire Pension Fund's investment managers have avoided Icelandic Banks, and, more recently, the Bernard Madoff "hedge funds". The Fund does not have any investments in multi-strategy hedge funds of the type highlighted in the reports, although it does have a 5% allocation to Long-Short Equity Funds, which have been given excellent protection against volatility in the recent extreme market conditions.

No-one is pretending that the current situation is at all comfortable, but we must maintain our focus on the long-term and look through the present difficulties to a time when investment markets recover and deficits start falling again.

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