

CIPFA Pension Network Summer Workshops July 2013

Stephan Van Arendsen
Cheshire Pension Fund

Gemma Sefton
Hymans Robertson

The Cheshire Pension Fund

- Asset base of £3.25bn
- 140 employers
- 80,000 Members
- Approximately 75% funded as at 31 March 2013
- 4 tax raising bodies account for 80% of the funds liabilities
- Cash flow positive
- Actuary –Hymans Robertson, Investment Consultant- Mercer

Today's Agenda

- 1) Key challenges facing CPF post 2010 valuation
- 2) Our Approach
- 3) The Benefits
- 4) Next Steps

1) Key challenges

- Understanding the significance of identifying, monitoring and managing employer and liability risks by putting them higher on the agenda
- Was the “one size fits all approach” still appropriate?

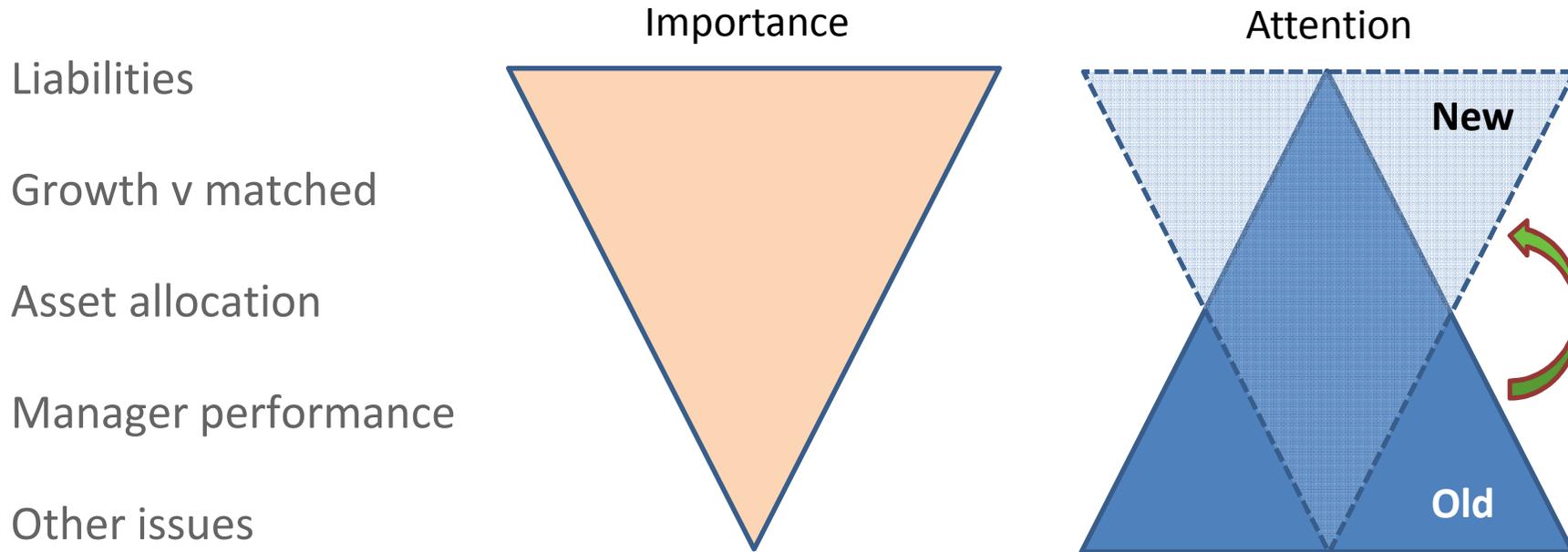
2) Our approach - Key Questions ?

- I. What is the risk of maintaining the status quo?
- II. What information and analysis is required by the trustees to meet their governance responsibilities?
- III. What information and analysis does a scheme employer need to meet its pension responsibilities and make informed business decisions?
- IV. Why does one size no longer fit all?

i. Risk of doing nothing

- Limited engagement with employers at a time of significant change
- Lack of information to understand individual employers own circumstances
- Consequently, employers would not be able to fully inform their pension and business decisions- risk to them and the Fund!
- Insufficient information available for trustees to discharge their responsibilities!
- Reputation of the fund

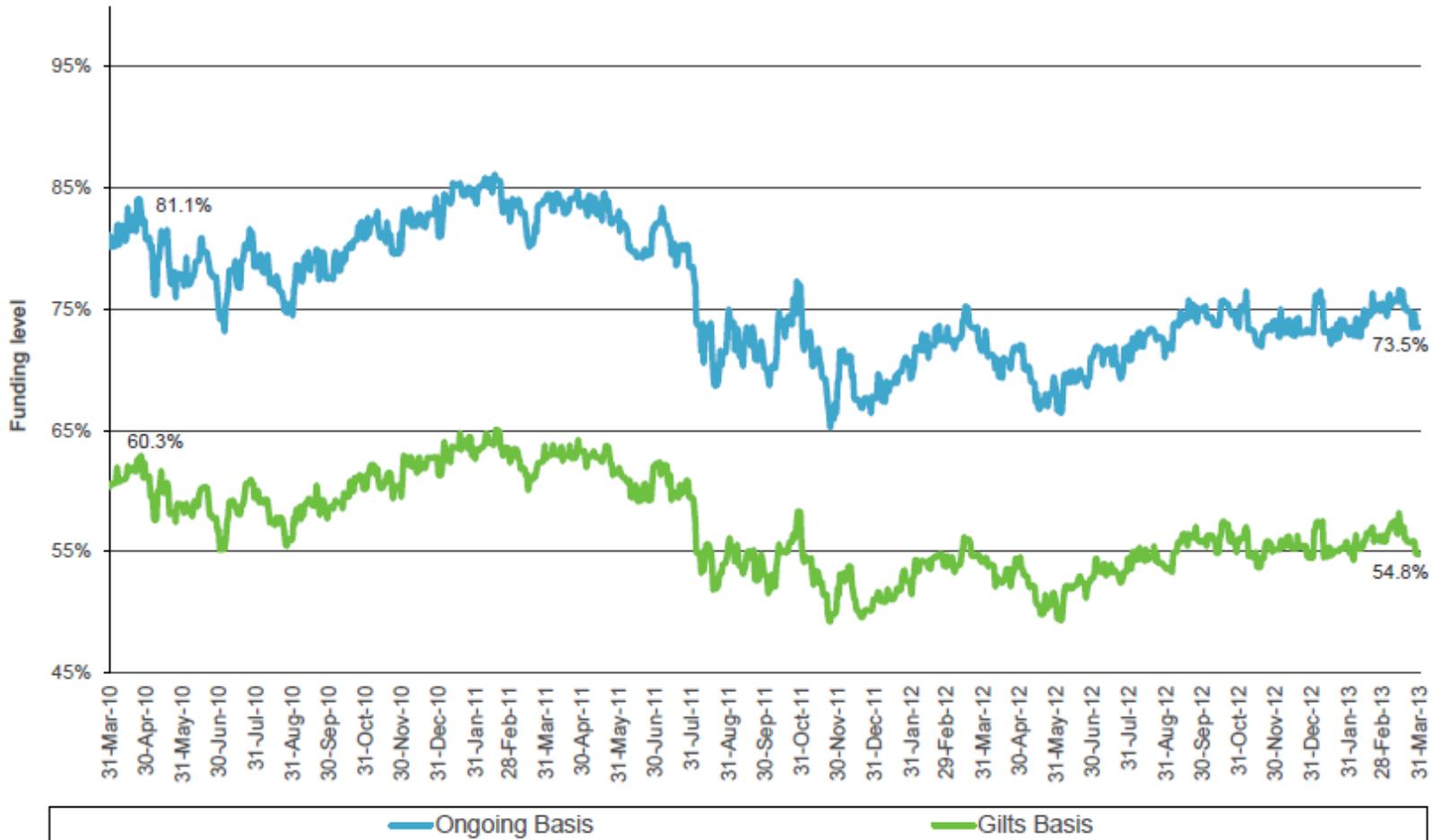
ii. A new approach for Trustees



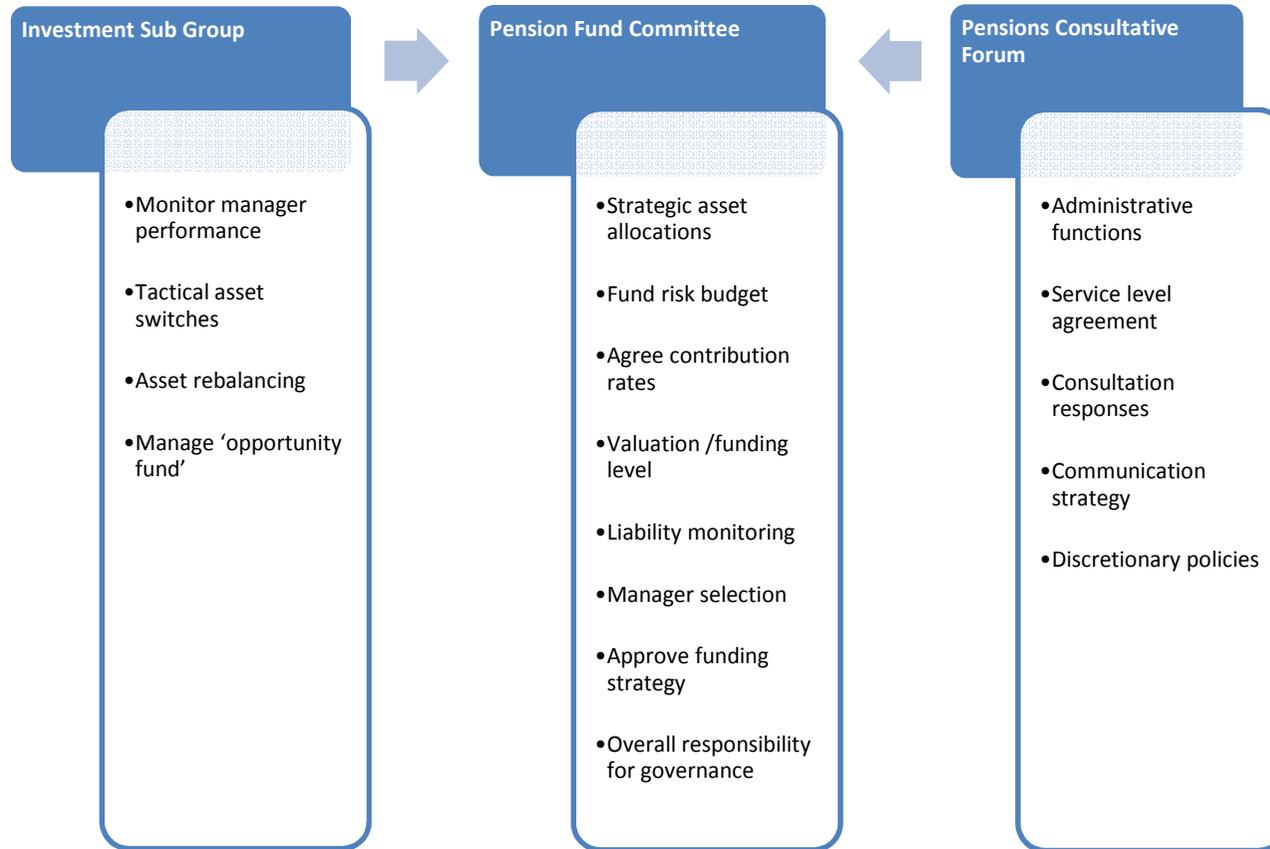
Governance- Trustees

- Set appropriate funding and risk management strategy
- Need to understand ‘whole Fund’ position on quarterly basis
 - Funding Level and what is driving it
 - cash-flow position
 - maturity profile
 - new employers to the Fund and impact on covenant strength
 - exit strategy for employers planning on leaving the scheme
 - Employer risk analysis

Monitor Funding Level



Governance Framework - What's on the agenda?



iii. Employer Requirements – What they told us they wanted ?

- On going dialogue
- Easy to understand data
- Links to the Valuation assumptions
- Understand the impact on their business
- Understand the impact of business decisions on pensions

Launch of Employer Monitoring Pack

Council XXXXXX Pension Information



Open/Closed to new entrants	Open	Last Valuation Date	31.03.2010
-----------------------------	------	---------------------	------------

KEY PENSION INFORMATION

Membership overview

	As at Valuation			As at 31.03.13		
	No. of Members	% of total	Liabilities £000	No. of Members	% of total	Liabilities £000
Actives	8,898	41.99	327,989	7,749	35.07	595,654
Deferrreds	5,883	27.77	106,093	7,169	32.44	153,923
Pensioners	6,408	30.24	454,057	7,181	32.49	491,031
Total	21,189	100.00	888,139	22,098	100.00	1,240,607

Years to last member leaving	48
------------------------------	----

Payroll

	As at Valuation	As at 31.03.12	As at 31.03.13	Actuarial Assumption
£000	129,523	119,234	113,418	133,448

Contributions

	year end 31.3.11	year end 31.3.12	As at 31.03.13	Total
Total Employers Conts Paid £000	26,411	25,397	24,725	76,532
Future Service Paid £000	20,826	19,557	18,603	58,986
Past Service £000	5,584	5,840	6,122	17,547
Past Service Due as fixed payments	5,753	6,472	7,203	19,428
Underpayment £000	- 169	- 631	- 1,081	- 1,882

	As at Valuation	In Payment	As at 31.03.13
Contribution Rate %	26.50	21.80	39.00
Future Service %	16.40	16.40	24.40
Past Service as %	10.10	5.40	14.60
Past Service as £000	18,474	19,034	30,044

Cashflow

	As at 31.03.13
Cashflow since valuation £000	- 15,871
Cashflow 2011-2012	- 7,859
Cashflow 2012-2013	- 6,419
2012-13 Cashflow as % of assets	-0.76%

Funding Level

	As at Valuation	As at 31.03.13
Funding Level %	76	68
Assets £ 000	671,607	844,315
Liabilities £ 000	888,139	1,240,607
Surplus/Deficit £000	- 216,533	- 396,292

III Health

	Actuarial budget	Experience £	Balance £
10/11 - 12/13	5,311,882	2,482,005	2,829,878

Council XXXXXX Pension Scorecard

Membership Status

Number of members  7749

Change in Active membership  -13%

Pre/Post Retirement Ratio  2.1

Pre/Post Retirement Liabilities Ratio  1.5

Payroll Status

Change in Payroll  -12.43%

Funding Status

Funding Level  68.1%

% Change in Funding level  -9.94%

Cashflow as % of Assets  -0.76%

Cashflow since valuation £000  - 15,870.5

Ill Health Status

Ill Health budget remaining  2,829,878

XXXXXX Council Pool

Key Guarantor Information

Admitted Body	Contract renewal date	Bond Amount (£000)	Current Surplus/Deficit level £000
Contractor A	31/08/2013	£ 5.00	Not Available
Contractor B	31/12/2014	£ 5.00	- 16.50
Contractor C	05/10/2016	£ 1,882.00	Not Available
Contractor D	30/09/2036	£ 7.50	Not Available
Contractor E	05/10/2016	£ 23.50	Not Available
Contractor F		£ 7,500.00	Not Available
Contractor G	01/01/2018	£ 91,000.00	Not Available
TOTAL		£ 132,423.00	- 16.50

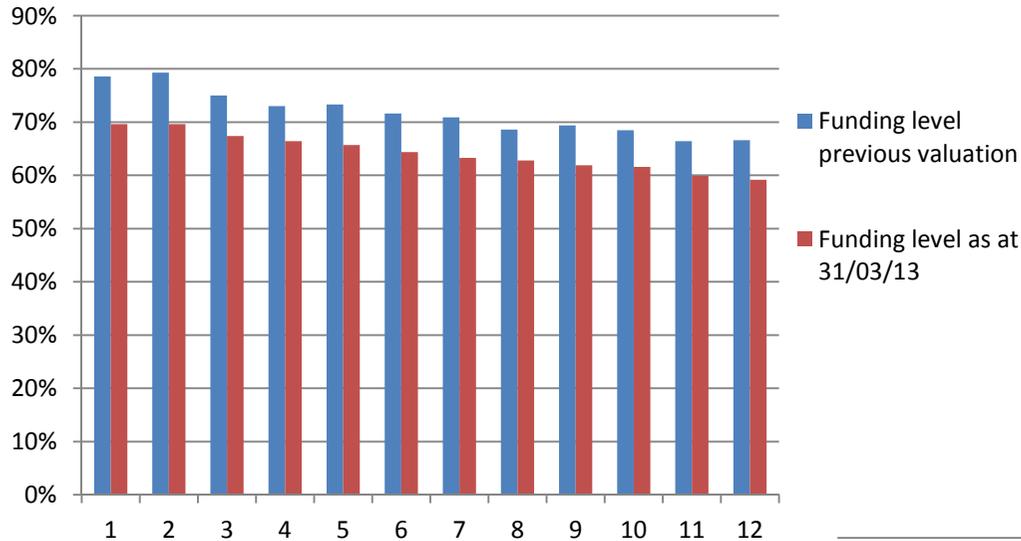
Impact of outsourcing

	Members	Payroll £000	Liabilities £000	Assets £000	Surplus/(Deficit) level £000
Academy A	75	£ 1,118.59	1,218.00	878.00	- 340.00
Academy B	53	£ 653.75	784.00	565.00	- 219.00
Academy C	61	£ 778.20	1,143.00	862.00	- 281.00
Academy D	2	£ 14.24	Not Assessed	Not Assessed	Not Assessed
Academy E	66	£ 606.52	856.00	673.00	- 183.00
Academy F	9	£ 106.07	146.00	115.00	- 31.00
Academy G	32	£ 439.69	1,488.00	1,046.00	- 442.00
Academy H	16	£ 162.06	187.00	132.00	- 55.00
Contractor H	60	£ 730.83	579.00	407.00	- 172.00
Contractor I	79	£ 1,613.06	8,217.00	8,217.00	-
Contractor J	3	£ 52.19	Not Assessed	Not Assessed	Not Assessed
Contractor K	68	£ 909.27	2,241.00	1,472.00	- 769.00
Contractor L	54	£ 390.48	1,804.00	1,200.00	- 604.00
Contractor M	48	£ 330.65	961.00	639.00	- 322.00
Contractor N	4	£ 25.41	Not Assessed	Not Assessed	Not Assessed
TOTAL	782	£ 7,931.00	19,624.00	16,206.00	

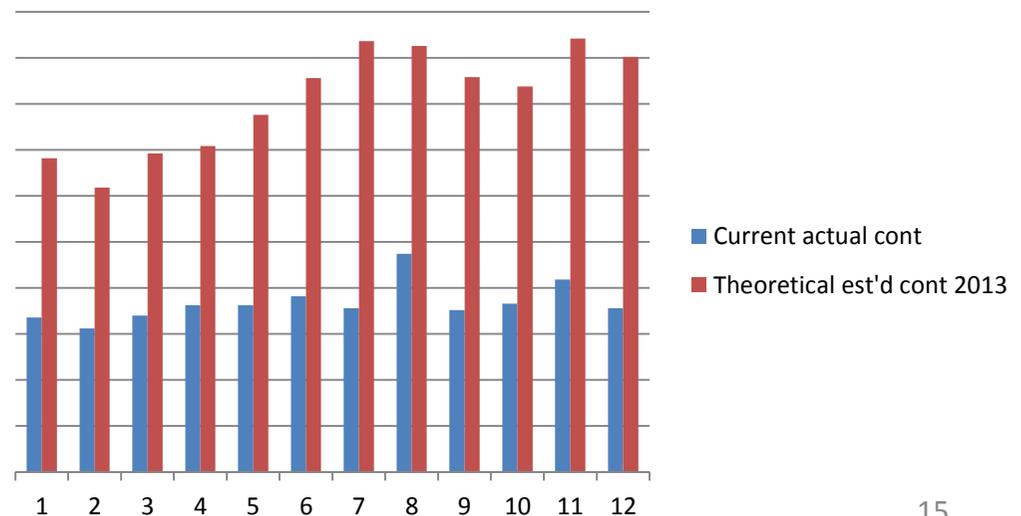
Prospective				
New Organisation	Service	Members	Payroll £000	Date Due
Contractor O	Cleaning Contract	1	2.31	01/08/2012
Contractor P	Catering Contract	2	8.68	29/10/2012
Academy I	New Academy	27	268.45	01/06/2013
Academy J	New Academy	32	360.00	01/06/2013
Academy K	New Academy	29	219.71	01/08/2013
Academy L	New Academy	29	142.06	01/09/2013
Leisure Provider A	Outsourcing Leisure Mgt	500	568.24	01/09/2013
TOTAL		620	1,569.46	

iii. Why does one size no longer fit all?

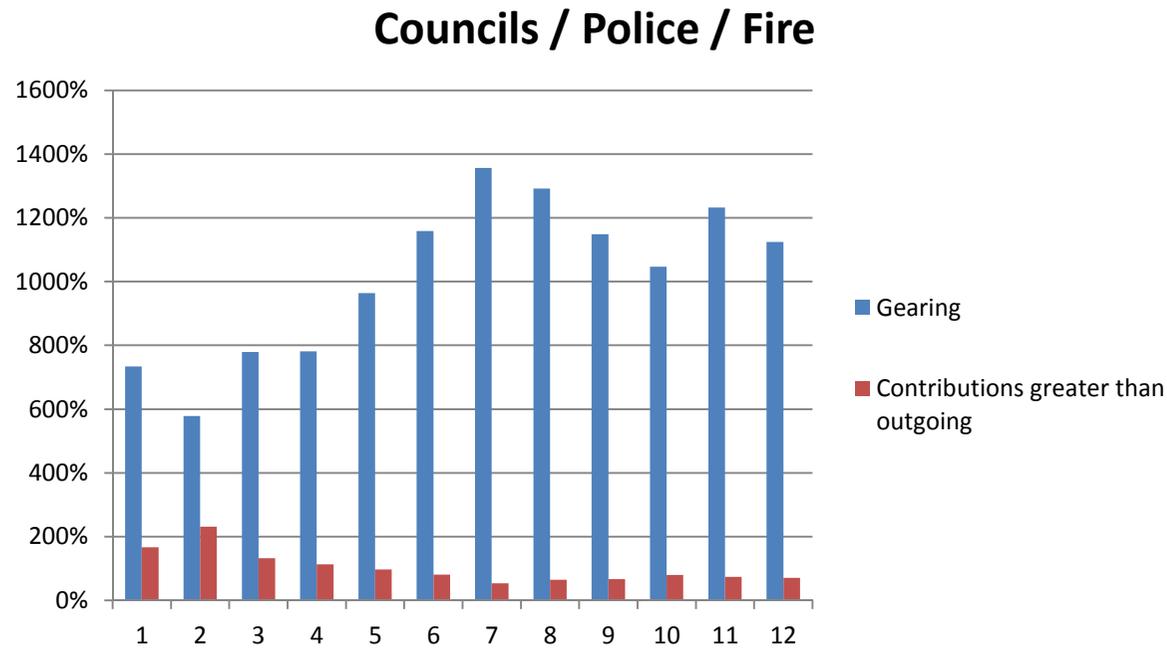
Councils / Police / Fire



Councils / Police / Fire



iii. Why does one size no longer fit all?



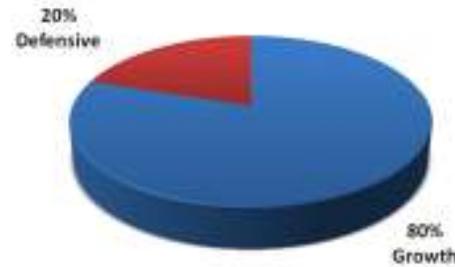
Similar types of employer pose different levels of risk to the Fund

What does this mean for the Investment Strategy

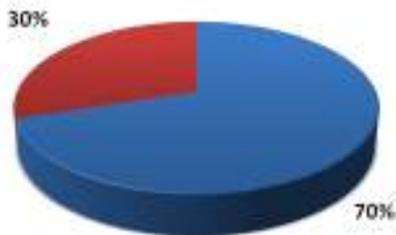
- 140 Employers into 16 Groups
- 16 Groups into 3 Investment Strategies
 - Main fund
 - 100%+ funded
 - other

New Investment Strategies

Existing Strategy



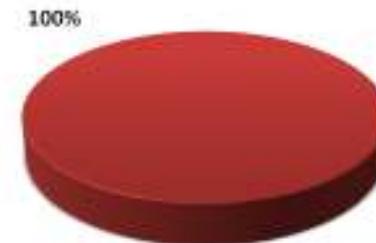
Strategy 1
Main Fund



Strategy 2
e.g. Well Funded Employer



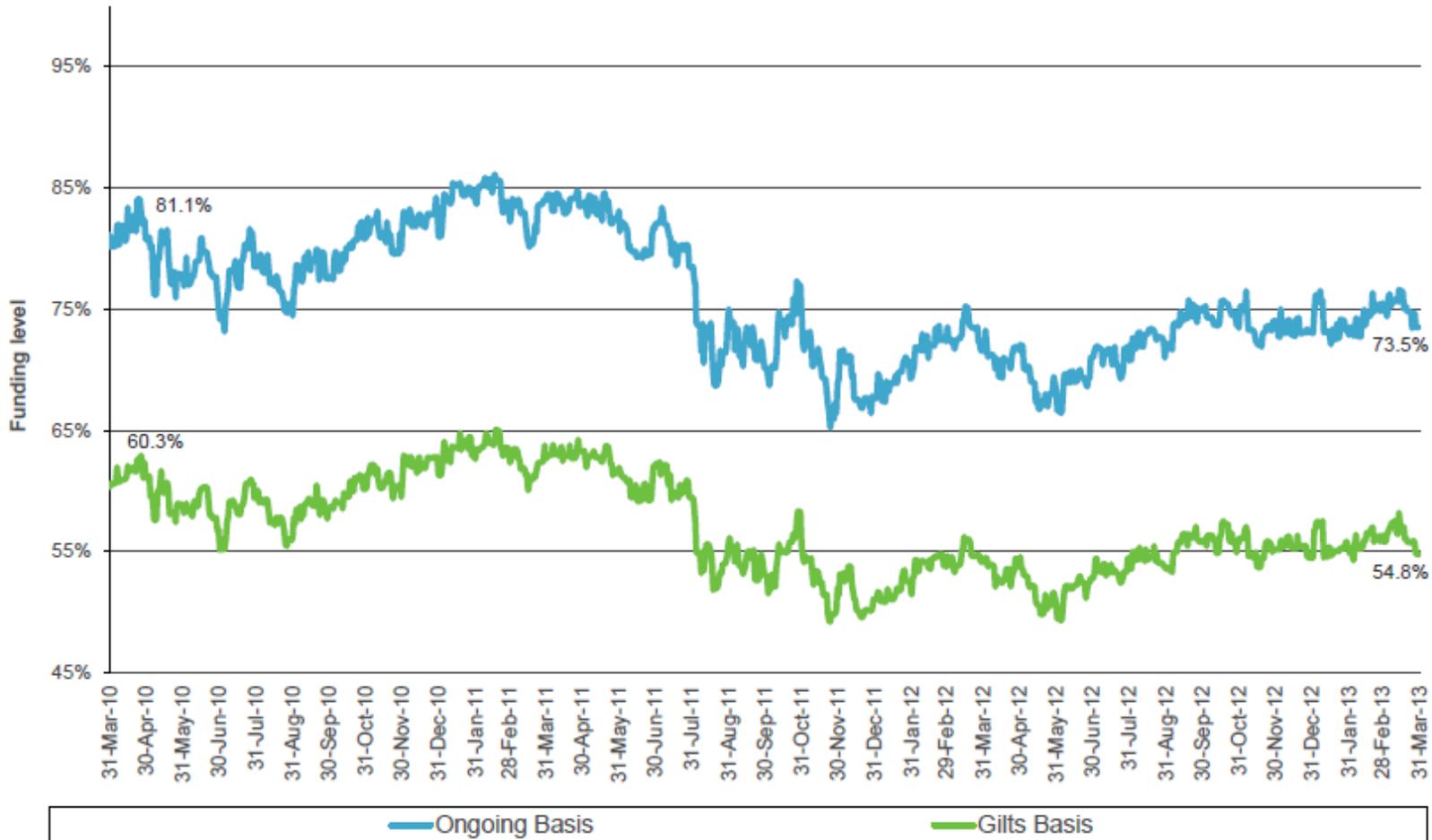
Strategy 3
e.g. Exited Employer



Investment Strategy Flight Path

- Work is now at the point where starting point for investment strategies is known
- Flight path agreed between actuary and investment consultant
- Focus on risk and only taking what we need to means a formal de-risking framework is a logical addition to the strategy

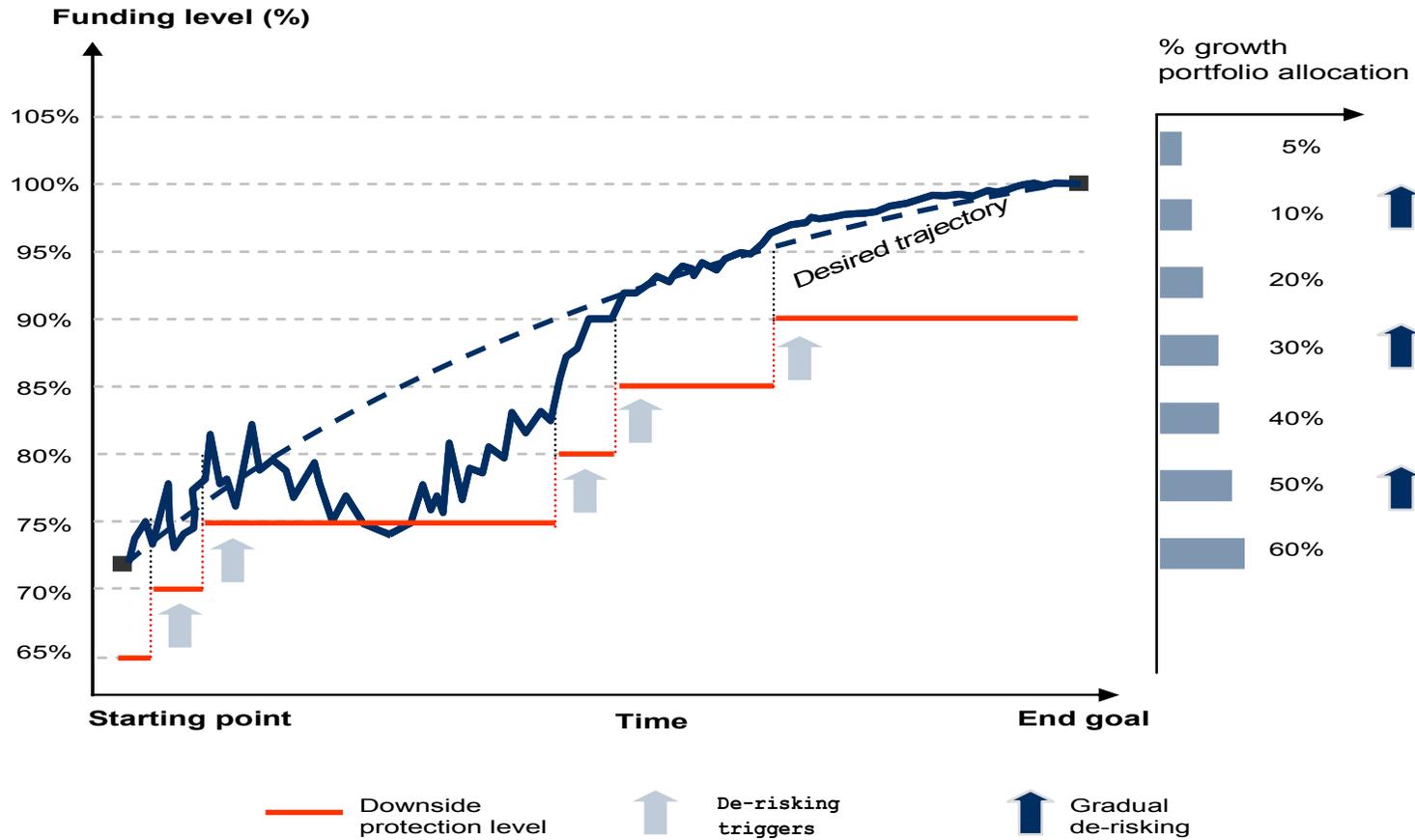
Actual Funding Level Since 2010 Valuation



De (and Re) Risking

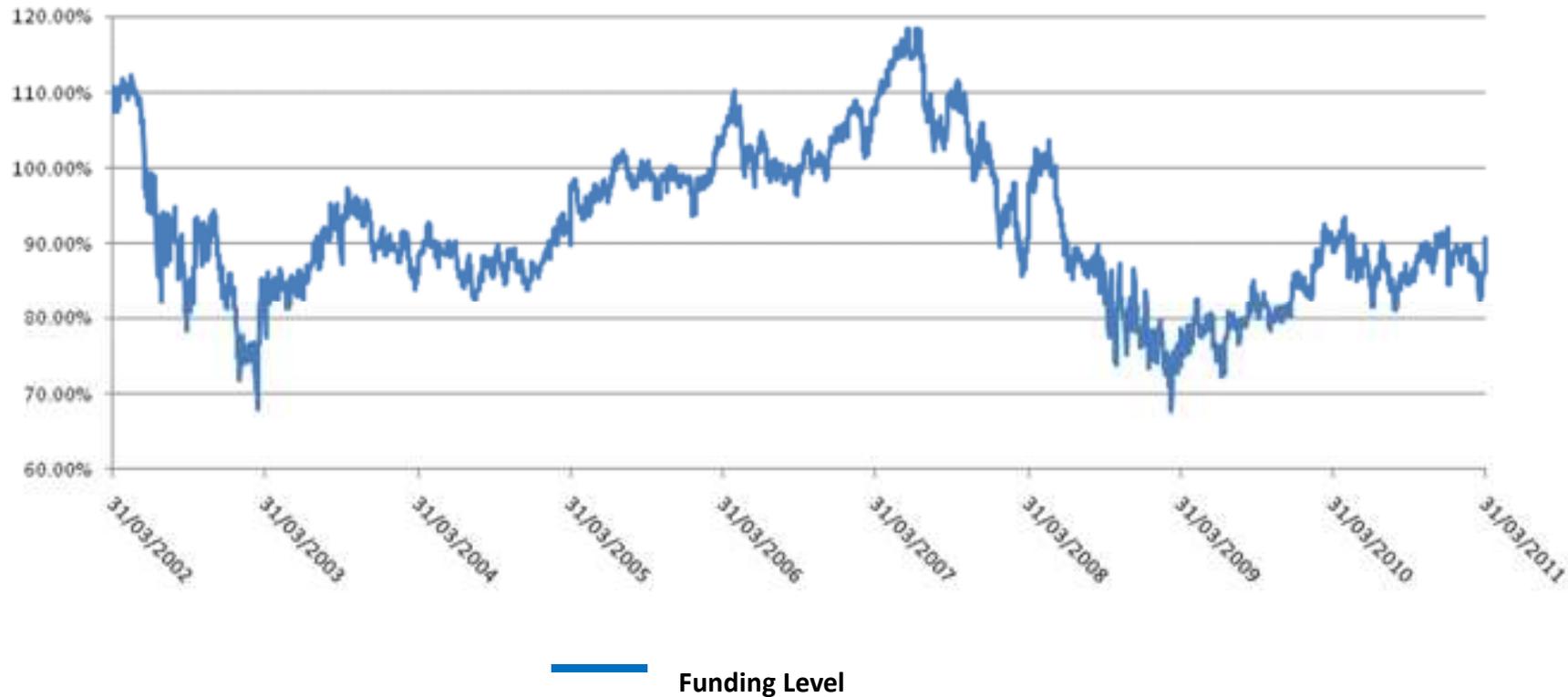
- Aim is to be 100% funded over a defined period of time
- In 2010 funding level 81.1%- has been as high as 86% and as low as 65% since that point
- Trustees keen to capture funding level increases and increase downside protection on flight path to 100% funding
- De-risking will introduce defined triggers that will facilitate move from 'growth' assets to 'less risky defensive assets'
- Each Employer will buy and sell growth and defensive assets

We want this



Not this

Funding Level

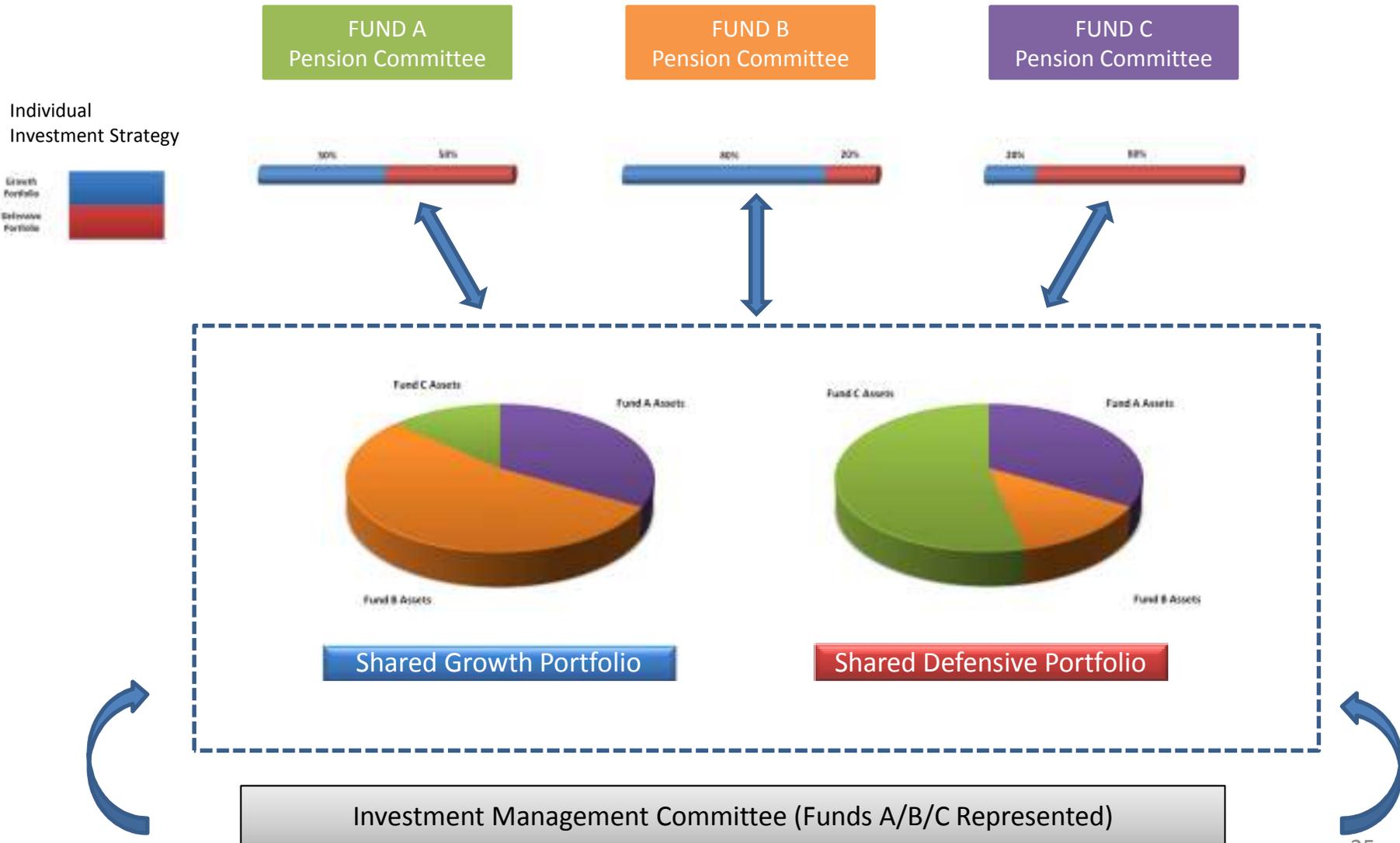


Missed the boat twice - Third time lucky? – only if we put a plan in place NOW!

Future proofing – It’s scalable

	Fund A (£m)	Fund B (£m)	Fund C (£m)	Total (£m)
<u>Growth</u>				
Equities	300	500	155	955
Property	50	75	15	140
Absolute Return	100	150	15	265
Private Equity	50	75	15	140
Total Growth Assets	500	800	200	1,500
<u>Defensive</u>				
Bonds	400	150	600	1,150
Secured Loans	100	50	200	350
Total Defensive Assets	500	200	800	1,500
Total Assets	1,000	1,000	1,000	3,000

Future proofing – It has Local Governance



3) Benefits

- Trustees focus on 'real' issues and understand employers profiles
- Employers make conscious decisions
- Investment Strategy consciously takes appropriate risk
- Formal de risking (capture gains and protect from downside risk)
- It can facilitate collaboration

4) Next Steps

- Implement alongside 2013 Valuation Results
 - Finalise 3 strategies
 - Agree de risking triggers
 - Agree Employer specific positions
- Work with other funds

QUESTIONS

?