Report for: Pensions Committee 14th January 2016

Item number: 7

Title: Triennial Actuarial Valuation

Report authorised by: Tracie Evans, Chief Operating Officer (CFO)

Lead Officer: George Bruce, Head of Finance - Treasury & pensions
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Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 The pension fund is subject to an actuarial valuation every three years to determine the level of employers' contributions. The next valuation date is 31st March 2016. The Actuary will discuss the steps in the valuation process, the timetable and interactions with the Committee and employers. Prior to the meeting the Actuary will provide training on the valuation process.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the Committee note the report.

4. Other options considered

4.1 None.

5. Background information

5.1 The pension fund has a long term target to have sufficient assets to meet the promised benefits. Progress towards this objective is measured every three year by way of an actuarial valuation. The next such valuation is at 31st March 2016. The Committee has appointed Hymans Robertson as Scheme Actuary.

5.2 The purpose of the valuation is to determine the employer contribution rates required to provide a reasonable expectation that the fund will have sufficient assets. The calculation is carried out for each employer separately. The actuarial valuation is also required to strike a funding level for each employer as at the valuation date. However, the actuary will emphasis that the calculations of the contribution rates and funding levels are separate exercises.

5.3 There are four variables that impact on the matching of investments and promised benefits. Two of these are outside the control of the Committee; benefits earned (individual employers have influence e.g. salary increases and discretionary benefits) and employee contributions. The third, investment returns is where the Committee is most able to exert influence. Finally, employer contribution rates are determined by the Actuary using basis and assumptions agreed with the Committee.

5.4 At the March 2013 valuation, the level of contributions for the Council increased by 2% to 24.9%, with differing rates for most other employers. The funding level was 70%, with a £369 million deficit.

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5.5 The attached paper from the Actuary sets out the various steps in the process. The valuation must be signed by 31st March 2017 and the new schedule of contributions will be implemented from 1st April 2017. It is anticipated that the Actuary will present his proposed assumptions and initial results in Q3, 2016, with final results to follow in Q4 2016.

5.6 Currently work is underway to review the data that the Actuary will require and to evaluate the financial strength of each employer. The later will have a bearing on the level of prudence required within the valuation.

6. Comments of the Chief Financial Officer and financial implications

6.1 The Actuarial valuation is the forward looking process that determines the contributions payable by each employer. The actuary will make assumptions with a twenty year horizon. In determining these assumptions the actuary is required to exercise a degree of prudence. The extent to this prudence will be discussed with the Committee as the valuation progresses.

7. Comments of the Assistant Director of Corporate Governance

7.1 The Council as administering authority is required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 to obtain (a) an actuarial valuation of the assets and liabilities of each of its pension funds, (b) a report by an actuary in respect of the valuation and (c) a rates and adjustments certificate prepared by an actuary. This must be done every three years from 31st March 2016.

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7.2 The valuation report mentioned in (b) above must contain a statement of the demographic assumptions used in making the valuation and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the LGPS since the last valuation.

7.3 The rates and adjustment certificate must specify the primary rate of the employer's contribution and the secondary rate of the employer's contribution for each year of the three year period, beginning with 1st April in the year following that in which the valuation date falls – in this case, beginning 1st April 2017.

8. Equalities and Community Cohesion Comments

8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None applicable.

11. Use of Appendices

11.1 Appendix 1: Hymans Robertson note on valuation process

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.