Report for: Pensions Committee 22nd November 2016

Item number: **8**

Title: 2016 Triennial Valuation – Initial Results

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

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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. To consider the draft actuarial valuation report as at 31st March 2016, including the methodology and assumption used by the actuary.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That the Committee agree the assumptions and methodology used by the Actuary to determine the actuarial funding level and standardised employer contribution rate.

3.2. That the Committee note the draft results of the triennial valuation of the Fund.

4. Reason for Decision

4.1. The Council is required by law to undertake an actuarial valuation of the Fund's assets and liabilities. The Pensions Committee under delegated authority should agree the underlying assumptions of the valuation with the actuary.

5. Other options considered

5.1. None.

6. Background information

6.1. The Pension Fund Actuary is responsible for determining the funding level of the overall scheme and of each employer. The funding level and therefore the contribution rates payable are highly dependent on the assumptions concerning future economic conditions. Although the actuary is responsible for setting the assumptions, there is a process of consultation that enables the Council and other employers to challenge the draft valuation report.

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. The result of the actuarial valuation is a snapshot of the funding position of the Pension Fund. The funding level has increased from 70% to 79% with favourable investment returns and a positive Fund experience against expectation contributing to a reduction in overall deficit by £89m.

8.2. The recommended assumptions are prudent, but do reflect the fact that the Committee is expected to agree an investment strategy targeting a return above that achievable from bonds.

Legal

8.3. 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 as at 31st March 2016 and on 31st March in every third year afterwards; (b) a report by an actuary in respect of the valuation; and (c) a rates and adjustments certificate prepared by an actuary.

8.4. The valuation report mentioned in (b) must contain a statement of the demographic assumptions used in making that valuation and these assumptions must relate to actual events that have occurred in relation to members of the LGPS since the last valuation.

8.5. The rates and adjustment certificate must specify a common employer contribution rate and any individual adjustments for each year of the 3 years period beginning on 1 April.

8.6. Members should note that only the valuation report is contained within this report.

Equalities

8.3. There are no equalities issues arising from this report.

9. Use of Appendices

9.1. Appendix 1 – Draft Triennial Valuation Results (March 2016)
Appendix 2 – Employer Risk Profile (Anonymised)

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. Actuarial Valuation

Introduction

11.1. The Council has appointed Douglas Green of Hymans Robertson as Scheme Actuary. Hymans are required to carry out an actuarial valuation of the fund every three years to determine the funding level (comparison of assets with the value of promised future benefits) and the future contribution levels payable by the Council and other employers. The ongoing valuation is calculated as at 31st March 2016. Scheme benefits and the contributions payable by employees are determined by the Government.

11.2. The Actuary will be attending the meeting to present the initial valuation results. The report is for the fund as a whole and does not discuss individual employer rates.

11.3. The attention of the Committee is drawn to an analysis of employer (details have been anonymised) risk profiles that is attached at Appendix 2 to this report. The strength of an employer's covenant can be directly linked to how quickly the Fund should require that employer to repay any deficits it has accrued. Therefore, this analysis will be used to inform the recovery period recommended for the employers in the Fund once individual employer results are ready.

Whole Fund Initial Results

11.4. A summary of the results are shown on page 1. The highlights are:

- The funding level has improved marginally from 70.0% to 79%.
- In monetary terms the deficit has reduced by £89m to £280m from £369m at March 2013.

11.4. Page 6 of the actuarial report analyses the change in the deficit. The main reason for the reduced deficit is the better than expected performance of the markets/return on investments and membership experience being better in terms of financial impact on the Fund.

11.5. It is noticeable from page 6, that the outcomes for the valuation assumptions that are controllable by the Council (investment returns, retirements & salary increases) have positively impacted the results, where as the assumptions that are outside the Council's control (gilt yields and inflation during the valuation period) have had a negative impact on the results. For the first time in recent times, mortality rate has trended downwards – this has had a slight positive impact on Fund liabilities.

Future Contribution Rates

11.6. The Actuary determines contribution rates separately and specifically for each employer, including the Council. In 2016, the Council paid 17.1% of payroll for future service rate contribution. Other employers, pay rates ranged between 18.7% and 27.2% and in most cases also paid annual lump sums to cover past service deficits. The Council will pay £8.6m in 2016/17 to cover past service deficit. The employer risk profile analysis will assist the actuary in determining the appropriate recovery period and consequently contribution rate for each of the employer in the Fund.

11.7. Following consultation with other employers, the Actuary may be asked to undertake additional modelling to test the impact of changing the contribution rates that they pay during the next valuation cycle.

Next Steps

11.8. The subsequent steps in the valuation process are summarised below.

December 2016

Receive feedback from individual employers on their estimated funding level and contribution rates.

Carry out any additional contribution rate modelling.

Finalise Funding Strategy Statement ("FSS").

March 2017

Present final Actuarial report including schedule of contributions from April 2017 to March 2020 together with the FSS to the Pensions Committee.