Division(s): N/A

PENSION FUND COMMITTEE – 6 DECEMBER 2019

2019 VALUATION AND THE DRAFT FUNDING STRATEGY STATEMENT

Report by the Director of Finance

RECOMMENDATION

The Committee is RECOMMENDED to note the latest position with regard to the 2019 Valuation and approve the draft Funding Strategy Statement and the basis for formal consultation.

Introduction

1. Under the current regulatory framework, the Pension Fund is required to arrange for a Valuation of the Pension Fund every three years. The latest Valuation is based on the position as at 31 March 2019, with a requirement for the Fund Actuary to produce their report and certify the employer contribution rates for 2020/21 onwards by 31 March 2020.

2. In completing the Valuation, the Fund Actuary must have regard to the Committee's approved Funding Strategy Statement which sets out the key policies to be followed in determining the approach to the Valuation. As this is the first Valuation for Oxfordshire to be completed by Hymans Robertson, they have reviewed the current Funding Strategy Statement to bring it into line with their preferred approach to the Valuation.

3. Hymans Robertson have produced an update on the results of their work on the 2019 Valuation to date and this is included as Annex 1 to this report. In conjunction with the Officers, they have also produced a first draft of the Funding Strategy Statement which sets out the key principles followed in the Valuation work to date. Subject to any comments from the Committee, this draft, which has been included as Annex 2 to this report, now needs to be formally issued for consultation with key stakeholders. The final version of the Funding Strategy Statement and the 2019 Valuation Results will be presented to the March meeting of this Committee.

Update on the 2019 Valuation

4. Annex 1 to this report has been produced by Hymans Robertson to summarise the key issues within the 2019 Valuation process, including the initial results at whole Fund level. The detailed work to produce a full set of results at individual scheme employer level will be concluded once the Committee have signed off a draft Funding Strategy Statement.

5. One of the key numbers traditionally associated with the tri-ennial valuation process is the funding level, which expresses the total Fund assets as a percentage of the total liabilities of the Fund. Whilst this figure is often seen as a good measure of the financial position of the Fund, the limitations on its use have been set out in Annex 1 by Hymans Robertson. In particular, the figure is a simple snapshot in time and is very dependent on the assumptions used in valuing the scheme liabilities. It does not include an assessment of how likely the assumptions used will be borne out in practice, nor the potential range in the funding level where reality differs markedly from the assumptions.

6. However, it is measured, it is clear that the funding level will have improved since the 2016 Valuation due to the investment returns achieved being significantly above those assumed at the last valuation. Hymans Robertson have calculated a funding level as at 31 March 2019. This is based on future investment returns of 4.3% per annum, which they have assessed as likely to be met in 67% of the future economic scenarios they model. This gives a funding level of 99% compared to 91% at the 2016 Valuation.

7. Whilst the improvement in funding level would normally feed through into a reduction in employer contribution rates, there are also pressures pushing contributions upwards, including a less optimistic assumption about investment performance going forward. It is also true that the results for individual employers can vary significantly from the whole fund results based on their employee profile, previous funding positions and risks going forward. Initial analysis suggests the rates for many employers can be held stable for the next 3 years, with moderate increases for others. Officers and the Actuaries will be looking to work with individual employers where more significant increases are required to ensure the increase can be managed. This will include the use of one-off injections of cash to the Fund and/or phased increases in contribution rates.

8. In terms of the known risks, the Fund Actuary has needed to allow for the increased costs associated with the McCloud judgement. At present, it is not certain what changes will be made to the benefits structure resulting from the McCloud case. It is not possible therefore to determine the total increase in the cost of pension liabilities going forward, nor how they differentially impact individual scheme employers. The Actuary has allowed for that uncertainty by raising the target probability that any scheme employer will be fully funded in future, which in turn places upwards pressure on the contribution rates.

9. As discussed in the report to the September Committee meeting, the Hymans Robertson approach includes key differences to the approach used by the Fund's previous Actuary. This has required changes to the Funding Strategy Statement and these are summarised on page 6 of Annex 1. The full draft Funding Strategy Statement is included as Annex 2 and must be subject to formal consultation with key stakeholders before it can be formally adopted. The consultation process includes a presentation from the Fund Actuary at the re-arranged Employer Forum on 17 January 2020.

10. The Pension Board considered the draft Funding Strategy Statement when it met on 25 October 2019. There key comment was the need for some form of an Executive Summary, including the table contained on page 11 which summarised the key factors applied to the different employer groups. We will review this request further with Hymans Robertson.

Lorna Baxter
Director of Finance

Contact Officer: Sean Collins
Tel: 07554 103465

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