Division(s): N/A

PENSION FUND COMMITTEE – 2 DECEMBER 2016

UPDATE ON FUND VALUATION

Report by Chief Finance Officer

Introduction

1. In line with the LGPS Regulations, the Fund is required to undertake a triennial valuation. The Fund Actuary is currently undertaking the most recent valuation will value both assets and liabilities of the Fund as at 31 March 2016 and set employer contribution rates for the three years from 1 April 2017.

Data

2. The data was due to be submitted to the Fund Actuary by the end of July 2016 in order that provisional results could be discussed at a meeting in November 2016.

3. From previous reports members will be aware that there have been many challenges in getting scheme employers to provide the correct data at end of year. This is an issue which has affected many of the larger scheme employers therefore causing delays in Pension Services providing information to Barnett Waddingham.

4. The delays meant that the Actuary could not provide the provisional results in time for the writing this report. However Barnett Waddingham has provided an interim paper.

Interim Report

5. This report sets out the suggested assumptions to be used in the valuation process that are in line with those used in the 2013 valuation exercise. However, the actuaries are now, in line with provisions of the Public Service Pension Act 2013, to have regard to:

   - Securing the solvency of the Pension Fund, and
   - The long-term cost efficiency of the Scheme

6. Both of these factors will be assessed by a Section 13 valuation carried out by the Government Actuary Department (GAD), on behalf of the Department for Communities and Local Government. . The purpose of these additional steps is to identify any Funds that cause concern in respect of solvency and long-term cost efficiency. The report will also comment on the consistency between valuations of different Fund where assumptions are materially different. This report is due to be published in late 2018.

7. The smoothed funding model used by the Fund Actuary will, using assumptions below, estimate the cashflow to and from the Fund through the future lifetime of existing active members, deferred members, pensioners and their dependents. These projected cashflow are then discounted to assess the amount of money which, if invested now, would be sufficient with income and asset growth to make these payments in the future.

8. The proposed assumptions are shown below. These are due to be confirmed at the meeting with Barnett Waddingham in November. Any changes will be reported to the Committee.

   - Price Inflation – The starting point is the (smoothed) 20 year point on the Bank of England implied Retail Price Index inflation curve which was 3.3% as at 31 March 2016. The 20 year point is consistent with the typical duration of a Fund's liabilities.

   - The Consumer Price Index (CPI) inflation figure is proposed as 2.4% at 31 March 2016. This is at odds with the Bank of England CPI target of 2.0% per annum. Barnett Waddingham is suggesting that the bank will not make this target and that CPI inflation will be higher than target over the next 20 years.

   - Salary Increases - The long term assumption for salary increases has been reduced to CPI plus 1.5% from CPI plus 1.8% at the 2013 valuation. For short term salary increases the Government has announced that average salary increases in the public sector will be restricted in the short term. Our actuaries are, therefore proposing that the short term assumption is limited to CPI for four years from 2016.

   - Discount rate – an initial consideration might be to see what the discount rate needs to be to maintain the current average contributions rate, with the same target of paying off the deficit by 2038. The discount rate applied at the 2013 valuation was 5.8% whereas indications for the 2016 valuation are putting this between 5.3% and 5.5% to maintain a theoretical contribution rate of 19.3%.

   - Statistical assumptions will look at issues such as mortality data; retirement ages; ill-health retirements; deaths; 50/50 membership and commutation of retirement benefits to cash. In these cases the actuary will assess the Fund experience against various published tables to determine whether Fund experience is in line, or whether an adjustment needs to be made.

9. Whilst the report is heavily caveated subject to final confirmation of employer data, the initial results would give an estimated funding level of between 85% and 87% compared to an 82% funding level in 2013.

10. At whole fund level this will mean that the average scheme employer contribution will be relatively stable to the 2013 whole fund rate of 19.3%.

However, individual scheme employers could see variations from this rate depending on their own experience over the last three years, and the profile of their membership.

11. The initial results and assumptions have been compared to the “dry run” Section 13 GAD report, which was based on March 2013 data, as well as the consistent financial assumptions published by the Scheme Advisory Board. The discount rate of 5.3% - 5.5% is comparable with the Scheme Advisory Board figure of CPI plus 3% which equates to 5.4%. If the Board reviews its figure to CPI plus 2.8% in line the reduction in the SCAPE (Superannuation Contributions Adjusted for Past Experience) discount rate, it is not felt that the variation to 5.2% would trigger any red flags within the Section 13 report.

Issue of Results

12. If there are changes to the above a verbal update on this report will be given at the meeting. An interim report will be circulated to member ahead of the scheduled meeting with scheme employers on Wednesday 18 January 2017.

RECOMMENDATION

13. The Committee is RECOMMENDED to note the report and comment on any assumptions used in this exercise.

Lorna Baxter
Chief Finance Officer

Background papers: Nil

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