

# OXFORDSHIRE LOCAL PENSION BOARD – 18 JANUARY 2019

## 2019 FUND VALUATION

### Report by the Director of Finance

#### Introduction

1. This report has been provided to the Board following a request of one of its scheme member representatives. The objective of the report is to set out the key stages within the 2019 Fund Valuation and the associated timescales, so that the Board can consider its involvement in the process and can future agenda items accordingly.

#### 2019 Fund Valuation - Context

2. Whilst known as the 2019 Fund Valuation, the process for the valuation started in 2018 and will not conclude until the end of March 2020. This is the first Fund Valuation to be completed for the Oxfordshire Fund since the appointment of Hymans Robertson as Fund Actuary, and as such will follow a slightly different approach to those valuations completed by Barnett Waddingham in recent years.
3. The key output from the 2019 Fund Valuation process is to set the employer contribution rates for the three years from 1 April 2020. In undertaking the work, the Fund Actuary must be guided by the Funding Strategy Statement agreed by the Pension Fund Committee, as well as the relevant professional and actuarial standards.
4. The results of the valuations completed for each of the English and Welsh Administering Authorities will be scrutinised by the Government's Actuarial Department (GAD) under Section 13 of the Public Sector Pensions Act 2013. Under the Act, GAD must provide an opinion on four separate areas:
  - Compliance – whether each Fund's valuation has been completed in accordance with the scheme's regulations
  - Consistency – whether each Fund's valuation is not inconsistent with other LGPS valuations
  - Solvency – whether contribution rates have been set to ensure assets will cover 100% of estimated pension liabilities over an appropriate period, and the scheme employers between them have sufficient financial capacity to fund the expected contributions
  - Long-Term Cost Efficiency – whether contribution rates have been set to ensure the long - term efficiency of the Fund, such that sufficient contributions are being collected to cover current benefit accrual, and deficit periods have not been inappropriately extended.

5. Where GAD identifies that a fund valuation has failed one or more their tests in the above 4 areas, it has the power to require the scheme manager to take remedial action.

### **2019 Valuation – Key Stages and Timescales**

6. The 2019 Fund Valuation process kicked off in 2018 with a number of preliminary meetings between the Fund Actuary and officers of the Administering Authority. The purpose of these initial meetings was for Hymans Robertson to set out their broad approach to the valuation process, some initial thinking about key financial assumptions, and to agree an approach for engaging with scheme employers.
7. A further meeting was then held with the Directors of Finance (or their nominees) of the main employers within the Fund (the County, City and District Councils and Oxford Brookes University) to set out the broad approach to be followed, and to receive feedback from them about what they hoped to see from the 2019 process. In particular the Fund Actuary was keen to understand the risk appetite of the main scheme employers, and their preference for stability in future contribution rates, over potentially lower short-term rates with greater future volatility.
8. Other work which was kicked off during 2018 was a review of the financial covenant of the major scheme employers and the options open to the Administering Authority for dealing with those employers with weaker financial covenants, including the shortening of recovery periods, looking at taking security against other assets held by the scheme employer and/or looking at setting up lower risk investment strategies and higher contribution rates.
9. A final key area of work which was begun during 2018, was a review of the data requirements for the 2019 valuation, looking at current data quality, and timescales and processes for data submission.
10. Over the first 3 months of 2019, there will be follow up work to that started during 2018, including a wider scheme employer briefing provided by the Fund Actuary at the annual Scheme Employer's Forum on 11 January 2019, and the collection of scheme employer data, including contract lengths for transferee admission bodies, any pooling or financial guarantee arrangements etc.
11. After 31 March 2019, the effective date of the 2019 Fund Valuation, the Fund Actuary will look to finalise the financial assumptions to be used within the process, taking into account actual financial data as at 31 March 2019. It is expected that the financial assumptions will be finalised in May 2019.
12. The outcome of the employer discussions will need to be reflected in the Funding Strategy Statement. It is proposed to take any changes to the Funding Strategy Statement to the June meeting of the Pension Fund Committee for initial discussion. The Funding Strategy Statement will not

though be agreed until later in 2019/20 following full consultation with scheme employers.

13. Data for the 2019 Fund Valuation will be provided to the Fund Actuary during June/July 2019 following the checking of the end of year returns received by the scheme employers. The Fund Actuary can work with less than perfect data, but where they need to make assumptions to fill in gaps in the data provided, they will take a cautious approach, which can lead to employer contribution rates being set higher than they would have been with perfect data.
14. The Fund Actuary hopes to produce high level results at the level of the Fund as a whole by the end of August. The initial results for individual employers will then follow during September and October. This will allow the initial results to be reviewed against the expectations and wishes set out in the initial employer discussions, and earlier decisions refined where appropriate. Any final changes to the Funding Strategy Statement will also be made during this period, prior to the formal consultation with the scheme employers.
15. The final approval of the Funding Strategy Statement is scheduled for the March 2020 Pension Fund Committee. The Final 2019 Valuation results report is also scheduled to be issued in March 2020.
16. **The Board is invited to consider the information and timescales identified in the report; and determine what further role it would wish to undertake within the process.**

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