

Pensions Committee**Wednesday, 16 October 2019, 10.00 am, County Hall, Worcester****Agenda**

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PENSIONS COMMITTEE
16 OCTOBER 2019**ACTUARIAL VALUATION AND DRAFT PENSION FUND**
STRATEGY STATEMENT CONSULTATION

Recommendation

- 1. The Chief Financial Officer recommends that:**
 - a) the results of the provisional Actuarial Valuation be noted; and**
 - b) the draft Funding Strategy Statement (Appendix – available electronically only) that is subject to employer consultation be approved.**

Background

2. Every three years, in line with legislation, the Fund Actuary, Mercer, carries out a full Actuarial Valuation of the Fund to calculate how much the employers in the Scheme need to contribute going forward to ensure that its liabilities, the pensions due to current and future pensioners, will be paid as they fall due.
3. The purpose of the Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.
4. At present Mercer have left the main structure of the FSS and the supporting Appendices as the existing 2018 document and just added in new wording as required to cover off investment pots, McCloud and other legislative changes
5. As you will see from the attached there are some drafting notes (highlighted in yellow by Mercer) that will need to be removed for the final version before being issued to employers, but these are useful for the Committee to see as part of their initial consideration. In addition, there are also a few items highlighted in green that will not be formally agreed until after the consultation period

Provisional Actuarial Valuation

6. The provisional results at a total Fund level are shown in the Appendix to this report. The Fund's funding level has increased from 75% funded at 31 March 2016 to 91% at 31 March 2019.
7. Members may recall the McCloud case and the judgement in the summer regarding retirement ages. The impact of the case is not yet clear however we are working with Mercers to assess the impact, however the provisional valuation numbers do include some assessment of that impact.

Draft Funding Strategy Statement for employer consultation

8. The draft Funding Strategy Statement is attached as an Appendix to this report. The key points of the statement are shown below:

- The target recovery period for the Fund as a whole is 15 years at this valuation which is 3 years shorter than the corresponding recovery period from the previous valuation. Subject to affordability and other considerations, individual employer recovery periods would also be expected to reduce by 3 years at this valuation. **(Page 2 of draft FSS)**
- A Key change to the method of valuing the Fund's liabilities is the valuation of the real return over CPI inflation for determining the past service liabilities is 1.65% (2.15% in 2016) per annum and for determining the future service ("Primary") contribution rates is 2.25% (2.75% in 2016) per annum. CPI inflation has been assumed at 2.4% over the review period making the total discount rate / investment return target of 4.65% **(Page 4 of draft FSS)**
- As the Committee are aware, the remedy for McCloud is not yet known. However, guidance from the Scheme Advisory Board is for Funds to consider their policy in relation to the costs that could emerge in conjunction with their Actuary. As you will see from the attached, the FSS has been drafted to confirm the relevant estimated costs have been quantified and notified to employers. Employers will then have the choice to include these estimated costs over 2020/23 as part of their certified contributions or to make allowance within their budgets and potentially make backdated contributions if the remedy is known before the next valuation. **(Page 3 of draft FSS)**
- Investment 'pots' – the narrative assumes that the Fund has implemented alternative investment strategies with differential levels of investment risk with effect from 1 April 2010. The aim is to provide greater control over employer's exposure to investment risk **(Page 21 of draft FSS)**

Employer Consultation

9. The provisional individual employer funding results and proposed employer contribution rates for 2020/2021 to 2022/2023 were discussed at the Employer Administration Forum on the 14th October 2019. A presentation from Mercers covered the assumptions used in and the results of the actuarial valuation as at 31 March 2019. Initial meetings were also held with the County Council and District Councils early September 2019.

10. All employers were offered the opportunity to meet up with Mercers, the Funds actuarial advisors to discuss further their results.

11. Employers were also consulted on the specific risk management / contribution rate stabilisation proposals for introducing different investment approaches for employers with similar characteristics instead of continuing with one investment approach for all our employers. The idea being to place employers into potentially one of three to four 'pots' dependent on the perceived Fund risk and resultant investment strategy required.

12. The consultation on the draft FSS will be sent to Employers on the October 21 and will be asked to respond by Friday the 22 November 2019. These will then be considered and the final proposed actuarial valuation and FSS will be presented to the Pension Committee on the 13th December 2019.

Contact Points

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Supporting Information

- Appendix - Draft Funding Strategy Statement (**Available electronically only**)

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) there are no background papers relating to the subject matter of this report.

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