worcestershire countycouncil

AGENDA ITEM 4

PENSIONS INVESTMENT SUB COMMITTEE
12 JUNE 2019

ACTUARIAL TRIENNIAL REVIEW

Recommendation

1. **The Chief Financial Officer recommends that the Pensions Investment Sub Committee note and comment on the update provided.**

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. Once the valuation is agreed, the Fund Actuary provide a Funding Strategy Statement ("FSS") 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.

Discussions so far

4. Initial discussions have taken place with the actuary early in May to highlight the initial 2019 actuarial valuation. This described:

a) A recap on 2016 assumptions and existing funding strategy in place;
b) National issues affecting the fund;
c) Where we are now based on very preliminary 2019 valuation results; and
d) Where we are going, the key next steps for the 2019 valuation.

Current Funding vs expectations

5. As at the 31 March 2016 the Fund had a deficit of £654m. The projected deficit as at the 31 March 2018 if the valuation assumptions were borne out in practice was estimated to be £618m with a funding level of 78%

6. However, the actual deficit as at the 31 March (on a like for like assumptions) was £93m. Anticipated amendments to the discount rate (targeted rate of return) and mortality assumptions at the 2019 actuarial valuation would lead to an increase in this deficit. For example allowing for a reduction in the discount rate assumption of 0.5% per annum and allowing for updated life expectancy trends would increase the deficit at the 31 March 2018 to £287m. This would represent the Fund being £331m ahead of target allowing for an updated return outlook. This is equivalent to a funding level of 90% which represents a 12% improvement relative to expectations.

7. The projected deficit as at the 31 March if the 2016 valuation assumptions were borne out in practice was estimated to be £626m with a funding level of 79%. The deficit based on the anticipated 2019 actuarial valuation assumptions is estimated to be £245m with a funding level of 92%. This represents the Fund being £381m ahead of target.

What we are doing for Employers

8. There are a number of areas that we are developing or are working on with employers:

- Considering extending the Equity Protection Strategy (see separate report on agenda)
- Investment Strategy – considering the use of different investment buckets to reflect different degrees of risk and flightpath to reduce risk generally
- Covenant monitoring to further develop the employer framework / covenant policy
- Updated the Funding Strategy statement (FSS) to include termination policy, flightpath strategy and incorporate interim valuations
- Funding parameters = reduce risk profile subject to covenant and affordability. Link to risk framework and triggers
- Legislative changes – update FSS

National Issues

9. A number of national issues are currently being discussed and further updates will be provided as we progress the valuation such as:

- McCloud Discrimination case
- Exit credits
- 4 year valuation. Consultation until 31 July proposes an out of cycle valuation in 2022. Contributions from 2019 valuation will be set for 3 years to 2022. Contributions in 2022 valuations will then be set for 2 years to 2024
- Others such as Guaranteed Member pension equalisation, Fair deal, and
- Public sector pay cap removed and increase focus on data quality.

Where we are at the moment

10. There has been a demographics assumptions update, and assessment of data quality and indicative whole fund results, sensitivities and estimated contributions based on current benefits.

Next Steps

11. We currently know that there have been:

- positive returns up to the valuation date as at the 31 March 2019
- Further increase in funding due to life expectancy
- But outlook for future investment returns are lower, and
- It is still expected there will be a funding gain overall, but expected increase in future service benefits.

Key Strategy Milestones

12. These are as follows:

- Decisions regarding the financial and demographic assumptions to adopt

- Approach when setting employer contributions (e.g. length of recovery period and phasing)
- Review of the FSS and Fund policies (e.g. admission, termination, covenant)
- Consider the approach to take when communicating with employers, and
- How to spend the gains from the outcome of the demographic analysis.

13. Further updates will be provided as the actuarial triennial review progresses. Mercers are also providing training on the 19 June,

Contact Points

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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: