

## PENSIONS PANEL

14 December 2016

<b>Title:</b> Triennial Valuation Draft Results	
<b>Report of the Strategic Director, Finance &amp; Investment</b>	
Public Report	<b>For Information</b>
<b>Wards Affected:</b> None	<b>Key Decision:</b> No
<b>Report Author:</b> David Dickinson, Group Manager Pensions and Treasury	<b>Contact Details:</b> Tel: 020 8227 2722 E-mail: <a href="mailto:david.dickinson@lbbd.gov.uk">david.dickinson@lbbd.gov.uk</a>
<b>Accountable Director:</b> Kathy Freeman, Finance Director	
<b>Accountable Strategic Director:</b> Jonathan Bunt, Strategic Director – Finance and Investment	
<b>Recommendations</b>	
The Panel is recommended to note:	
<ol style="list-style-type: none"><li>i. the initial results of the actuarial valuation, including the improved funding level and reduced deficit recovery period;</li><li>ii. that the Funding Strategy Statement will be updated where necessary for the assumptions made by the actuary and consulted with admitted and scheduled bodies together with their proposed employer contribution rates; and</li><li>iii. that the final actuarial valuation results be reported to the March 2017 Pension Panel meeting</li></ol>	

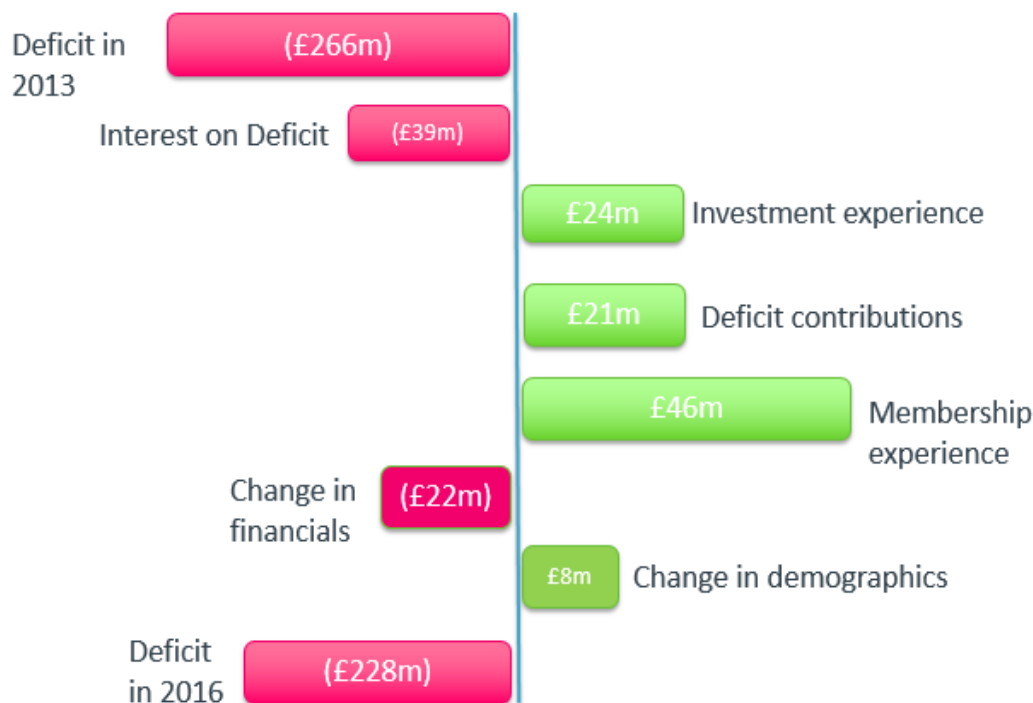
## 1. Introduction

- 1.1 Every three years the Pension Fund is required to have a full valuation of its liabilities carried out by its actuary.
- 1.2 The Fund's actuary, Hymans Robertson, will provide a presentation to Members at this Panel on the Triennial Valuation process, the draft results and the process that needs to be followed prior to the valuation being signed off in March 2017.

## 2. Whole Fund Valuation Results

- 2.1 Officers have discussed the valuation assumptions with the actuary and agreed the main assumptions, including the deficit contributions rate, the discount rate and salary increase assumptions. As a result of these discussions the actuary could produce the whole fund valuation calculations. The results show that, at a whole Fund level, the deficit has reduced from £266m to £228m and the funding level has improved to 77.2% from the 2013 level of 70.6%.
- 2.3 The main contributors to the reduced deficit and improved funding level are outlined in the chart below:

**Chart 1: Movements in Triennial Valuation Assumptions**



- 2.4 Overall the fund has adopted a prudent discount rate of 4.1%. This is lower than the 4.7% used in the 2013 valuation. Members are asked to note that if the Fund used a discount rate of 5%, as used by the government's actuary, that its funding level would be 91%. The deficit recovery period has reduced from 20 years to 17 years and this reflects improvements within the performance of the Fund.
- 2.5 Below is a summary of the agreed financial assumptions and the results:

Valuation Date	2004	2007	2010	2013	2016
Past Service Liabilities	£Ms	£Ms	£Ms	£Ms	£Ms
Employees	-£193	-£285	-£298	-£316	-£324
Deferred Pensioners	-£48	-£81	-£117	-£180	-£221
Pensioners	-£175	-£239	-£314	-£406	-£456
<b>Total Liabilities</b>	<b>-£416</b>	<b>-£605</b>	<b>-£729</b>	<b>-£902</b>	<b>-£1,001</b>
Assets	£360	£530	£549	£636	£772
<b>Surplus / (Deficit)</b>	<b>-£56</b>	<b>-£75</b>	<b>-£180</b>	<b>-£266</b>	<b>-£229</b>
<b>Funding Level</b>	<b>87.0%</b>	<b>88.0%</b>	<b>75.4%</b>	<b>70.6%</b>	<b>77.2%</b>
<b>Discount Rate</b>	6.3	6.1%	6.1%	4.7%	4.1%
<b>Salary Increases</b>	4.4	4.7%	5.3%	3.8%	2.6%
<b>Price Inflation</b>	2.9	3.2%	3.3%	2.5%	2.1%

### 3. Employer draft results

- 3.1 A meeting was held on the 17<sup>th</sup> November 2016 with the with the actuary and the Fund's various employers to discuss the draft Triennial Results. Representatives from the University of East London, Barking College and a representative for many of the Fund's academies were present.
- 3.2 The draft triennial results indicated that most employers within the scheme will see a drop or will maintain the same level of contribution rate.
- 3.3 The UEL, which is the second largest employer within the Fund after the Council, has effectively closed its Local Government Pension Scheme to new entrants. This makes the deficit recovery plan riskier as there are less members contributing to the deficit recovery. To reduce this risk, but also to ensure that their contribution rate remains affordable, the UEL has advised that they would be willing to provide a charge against their assets to cover the deficit.
- 3.4 Officers are currently working with the UEL on ways that this can be implemented and will bring back full details for Members to discuss at the March Pension Panel.

### 4. Next Steps

- 4.1 The actuary is in the process of finalising the contribution rates for the borough and all the admitted and scheduled bodies. The actuary and officers will produce a draft Funding Strategy Statement that will then be distributed to Fund employers for their views as part of a consultation.
- 4.2 Once this has been completed the final report can be prepared and the contribution rates certified. Any agreed changes to the Funding Strategy Statement can also be made. Both documents will then be reported back to the Committee's meeting in March 2017 for agreement.
- 4.3 In addition an Investment Strategy review will be carried out by Aon Hewitt, in consultation with the Independent Advisor, the Actuary and officers. A training session will be held in January for the Advisors and officers to go through the

recommendations with Members as part of Member training. The Investment Strategy Statement (previously the Statement of Investment Principles) will be reported back to the Committee's meeting in March 2017 for agreement.

- 4.4 Subject to any amendments, a final version will be taken to the Pension Panel in March for agreement.

## **5. Consultation**

- 5.1 Council's Pension Fund governance arrangements involve continuous dialogue and consultation between finance staff and external advisers.

The Strategic Director, Finance & Investment and the Fund's Chair have been informed of the commentary in this report.

## **6. Financial Implications**

*Implications completed by: Jonathan Bunt, Strategic Director, Finance & Investment*

- 6.1 The triennial valuation is a legal requirement and the cost of the actuarial valuation is met by the Pension Fund.

## **7. Legal Implications**

*Implications completed by: Paul Feild Senior Governance Solicitor*

- 7.1 Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 requires triennial valuations to be carried out by an actuary.

## **8. Other Implications**

- 8.1 There are no other immediate implications arising from this report though the Public Service Pensions Act changes will have an impact on the short and long term workload of the Pension Fund. This will continue to be monitored.

### **Background Papers Used in the Preparation of the Report:**

- LGPS Consultation on investment reform.

**List of appendices:** None