CT/16/17
Investment and Pension Fund Committee
26 February 2016

ACTUARIAL VALUATION 2016

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: That the Committee notes the planned approach to the 2016 triennial valuation of the Pension Fund.

1. Introduction

1.1 The LGPS Regulations require administering authorities to complete an actuarial valuation of their Pension Fund on a three yearly cycle. The next valuation date is at 31 March 2016, and the results must be published by 31 March 2017. The 2016 valuation will set employer contribution levels for the financial years 2017/18, 2018/19 and 2019/20 (the contribution levels for 2016/17 were set at the previous valuation in 2013).

1.2 This report summarises the plan for the valuation which has been discussed with the scheme actuary, Barnett Waddingham. Further background to the valuation process was provided in the presentation by Barnett Waddingham at the Committee training session in November 2015.

2. Actuarial Valuation 2016

2.1 An actuarial valuation aims to set a suitable level of employer contributions to ensure that the Fund achieves its long-term solvency objective. As part of the valuation the actuary estimates the scheme's long-term liabilities, compares the liabilities with the current value of the Fund's assets and calculates the surplus or deficit. The key factors in calculating the Fund's position will be the experience of the last three years compared with the assumptions made by the Actuary at the 2013 Valuation and the revised assumptions used by the Actuary in calculating future liabilities.

2.2 A timetable for the 2016 valuation has been agreed with Barnett Waddingham. The key dates are as follows:

Date	Activity
June/July 2016	Provision of Data to Barnett Waddingham
September 2016	Officer meeting with Actuary – • Preliminary results understood • Final Valuation assumptions agreed
Mid/Late October 2016	Presentation of preliminary results to employer meeting
November 2016	Presentation of results to Investment and Pension Fund Committee

Date	Activity
March 2017	• Confirmation of employer contribution rates. • Actuary issues Rates and Adjustments certificate.

2.3 At the 2013 valuation the Devon Fund was assessed to have a funding level of 83%. The experience of the last three years will have an impact on whether the funding level will show an improved or worsening position at the 2016 valuation. Low levels of inflation over those three years will have kept pension increases down and have been below the actuary's assumed level of increases. The two year investment return over the 2013/14 and 2014/15 financial years was above the actuary's assumed return. However negative markets during the current financial year to date are likely to result in the total three year return being below the actuary's assumed return. The actuary will also need to assess the number of pensions in payment that have ceased over the period in comparison with previous projections. The impact of these factors is likely to be mixed, and at this stage is unclear.

2.4 The actuary will also revise his assumptions looking forward. A detailed assessment of life expectancy will be undertaken to inform any changes in the assumptions on how improvements in mortality will impact on future liabilities. The actuary will also review his assumptions on inflation over the shorter and medium to long terms, and the discount rate he uses to calculate the present value of the liabilities. The discount rate is based on the Fund's investment strategy and the likely returns that can be achieved by each asset class over the longer term.

2.5 The key output of the valuation is the schedule of employer contributions for the next 3 financial years. Each employer's individual contribution rate is composed of an element for past service, which will recover any existing deficit, and an amount to cover the future accrual of pension rights in each year. The deficit recovery part of the contribution rate will depend in part on the length of the deficit recovery period, the time allowed for the deficit to be paid off. At the last valuation the Fund deficit recovery period was 25 years, with variations for different employers from 20 years up to 27 years. Ideally the recovery period should reduce at each valuation to indicate progress towards achieving a funding level of 100%. At this valuation it is proposed that an assessment of risk should be used to inform the recovery period set for each employer, i.e. if there is a higher risk that an employer will not be able to meet contribution payments for the longer term, they will be expected to pay off their deficit over a shorter period.

2.6 There will be an ongoing dialogue with employers over the valuation period to ensure that any concerns they have about the process and the future level of contribution rates. The timetable for the valuation assumes that preliminary results will be available for a proposed employer meeting in October 2016. The plan is for the actuary to be available to meet individual employers at that meeting, although queries can also be addressed separately.

2.7 The 2016 valuation is likely to be scrutinised to a greater degree than previous valuations as a result of increased focus on the affordability of the LGPS by the Government and media. Following the valuation conducted by the fund actuary a further exercise will be completed by the Government Actuaries Department (GAD). This will look to compare LGPS funds on a "like for like" basis in order to highlight funds that are poorly funded, and also feed into the cost control mechanisms set up to determine whether changes are required to either pension benefits or employee contribution rates to ensure the affordability of the scheme to the taxpayer.

3. Conclusion

3.1 The actuary has a duty to ensure the solvency of the Pension Fund, but also to keep contribution levels stable as far as possible. While it would be unwise to prejudge the outcome of the actuarial valuation, it would be prudent to anticipate a small increase in contribution rates over the three years from 2017/18.

3.2 The outcome of the valuation will be reported to the Committee in November. A revised Funding Strategy Statement will then be produced in 2017 to reflect any significant changes to funding assumptions. The results will also feed into future reviews of the Fund's investment strategy.

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Electoral Divisions: All
Local Government Act 1972
List of Background Papers – Nil
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