ACTUARIAL VALUATION 2016 AND SECTION 13 REPORT

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 Section 13 "dry run" report produced by the Government Actuary's Department, and 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. Work is currently underway on the valuation as at 31 March 2016, with the results due for publication by 31 March 2017. The 2016 valuation will set employer contribution levels for the financial years 2017/18, 2018/19 and 2019/20.
- 1.2 In addition to the normal actuarial valuation carried out the by the Fund Actuary, the Public Service Pensions Act 2013 means that the Department of Communities and Local Government (DCLG) are required to commission a "Section 13" valuation which will look at the 2016 valuation results for LGPS Funds and check whether, in their opinion, the various Funds have carried out their valuations in a way that:
 - Is compliant with the LGPS Regulations
 - Is not inconsistent with other Funds
 - Will ensure solvency
 - Will ensure long-term cost efficiency.

The Section 13 valuation will be carried out by the Government Actuary's Department (GAD). GAD will review whether funding valuations and employer contribution rates have been set to meet these objectives and DCLG can require remedial steps to be taken where the Secretary of State considers appropriate. In the extreme DCLG can essentially impose the level of contributions that employers are required to pay, over riding what has been certified by the Fund actuary.

1.3 GAD have carried out a dry run of the process using the 2013 valuation results in order to allow Funds to be aware of any areas that would have been highlighted. The results of the dry run report can be taken into account by funds and fed into the process for the 2016 valuation.

2. Section 13 Dry Run Report

2.1 The GAD assessment applies six tests around solvency, and seven tests on long-term cost efficiency. Funds can be assessed as green, amber or red on

each of them. Although there are seven tests on long-term efficiency, they are more or less measuring the same thing which is simply whether GAD believes the level of employer contributions is sufficient. The dry run tests, based on the 2013 valuations, are broadly looking at whether their assessment of 2014/15 deficit contributions, if increased in line with assumed salary increases, would be enough to make each fund fully funded in 20 years' time.

- 2.2 The 2013 dry run assessment has identified a number of funds which received red and amber flags. Where funds have received red flags GAD, if this was an official Section 13 valuation, would have engaged with the administering authority to investigate in more detail whether the aims of Section 13 were met. They may also have engaged with some other administering authorities who had a significant combination of amber flags if Section 13 had applied as at 31 March 2013.
- 2.3 The good news is that the Devon Fund received no red or amber flags in the dry run report. However, there are a number of areas where the position of the Devon Fund is not as good as the majority of LGPS funds and is perhaps at risk of gaining a red or amber flag in the 2016 report.
- 2.4 Part of this is a result of different assumptions and methodologies being used by different firms of actuaries. At the 2013 actuarial valuation. Barnett Waddingham calculated a funding level of 84% for the Devon fund. This gave Devon the 21st best published funding level of the 90 different LGPS funds across England and Wales. However, this was in part due to Barnett Waddingham adopting less prudent assumptions than other actuarial firms. The Section 13 dry run report has produced revised funding levels for the 90 funds on a standardised set of assumptions. On this basis Devon's funding level is 82%, i.e. not that different from the Barnett Waddingham valuation, but falls to 73rd out of the 90 funds. Other funds, where arguably their own actuaries have been over-prudent, have seen their funding level increase under the standardised basis. The Cumbria fund, for example, had a 78% funding level on the basis of their own actuary's assessment, but on the standardised basis their funding level has increased to 96%. The different funding levels are shown in Appendix 1.
- 2.5 The impact of the above inconsistency is that the GAD analysis shows that the Devon fund is paying off its deficit at a much slower rate than all but three other LGPS funds. This is shown at Appendix 2. The reason for this is that the deficit recovery contributions payable by employers are based on the assessed funding level. Those with a lower funding are likely to be paying higher contribution rates. Therefore, when their funding levels are reassessed to be higher, they are then paying off their deficit at a much faster rate.
- 2.6 As a result, while GAD assesses that Devon is paying off 7.5% of its deficit each year (with an average actual contribution rate in 2014/15 of 19.26%), Cumbria, for example, (with an average actual total contribution rate in 2014/15 of 30.51%) is paying off over 50% of its deficit each year. At that rate, it will take Devon 15 years to pay off the deficit (still less than Barnett Waddingham's assumed recovery period of 25 years), while Cumbria will pay off its deficit in less than two years. A comparison between the contribution rates being paid by each of the LGPS funds is shown at Appendix 3. Two of the only three funds who are paying off their deficit at a slower rate than Devon have been given amber flags on these criteria.

3. Conclusion

- 3.1 The actuary has to make a number of assumptions in undertaking the Fund valuation. These include assumptions around inflation and life expectancy. The key assumptions in calculating the Fund's liabilities and funding level, and the resulting employer contribution rates are the discount rate applied to liabilities, based on estimated future investment returns, and the recovery period allowed to pay off the deficit.
- 3.2 In the light of the dry run report on the 2013 Valuation, there is some risk that the Devon Fund may be given an amber or red flag when the Section 13 report is done for the 2016 Valuation. It would therefore be sensible to take a more prudent approach to the actuarial valuation to ensure that this does not happen. This would mean adopting a lower discount rate, i.e. a more prudent forecast of future investment returns, and/or a shorter recovery period, to allow the deficit to be paid off more quickly. Discussions will be held with the actuary to determine what assumptions would be prudent, whilst still aiming to keep contribution levels stable as far as possible. However, the likelihood is that adopting more prudent assumptions will result in an increase in employer contribution rates.
- 3.3 Provisional results will be presented at a meeting for Fund employers on 19th October. This will also provide employers to discuss with the actuary their specific circumstances and the impact of the valuation on their individual contribution rates. The provisional outcome of the valuation will then 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.

Mary Davis

Electoral Divisions: All Local Government Act 1972 List of Background Papers – Nil Contact for Enquiries: Mark Gayler Tel No: (01392) 383621 Room G97 Government Actuary's Department

LGPS (England and Wales) Section 13 Dry Run Report

203	13 LOCAL BASES	SA	AB STANDARD BA	ASIS
101%	TEESSIDE		SOUTH YORKSHIRE PTA	114%
96%	WANDSWORTH		DYFED	105%
96%	WEST YORKSHIRE		WANDSWORTH	104%
91%	LONDON PENSIONS FUND		ENVIRONMENT AGENCY ACTIVE	103%
91%	GREATER MANCHESTER		GREATER MANCHESTER	103%
90%	MERTON		GWYNEDD	102%
90%	DYFED		WEST SUSSEX	102%
87%	BEXLEY		BEXLEY	99%
87%	GREENWICH		EAST SUSSEX	98%
86% 86%	WEST SUSSEX	\times \times \times \times	RICHMOND KENSINGTON AND CHELSEA	97%
85%	CITY OF LONDON		DERBYSHIRE	96%
85%	NOTTINGHAMSHIRE		CUMBRIA	96%
85%	HOUNSLOW		CHESHIRE	95%
85%	ENFIELD		HERTFORDSHIRE	94%
84%	DURHAM		SOUTH YORKSHIRE PF	94%
84%	HAMMERSMITH		ISLE OF WIGHT	94%
84% 83%	DEVON		BROMLEY	93% 93%
83%	DORSET		LANCASHIRE	93%
83%	RICHMOND		EAST RIDING	93%
83%	OXFORDSHIRE		CORNWALL	93%
83%	SOUTHWARK		WARWICKSHIRE	92%
82%	HERTFORDSHIRE		AVON	92%
82%	DERBYSHIRE		LONDON PENSIONS FUND	92%
82%	CHESHIRE		CAMDEN	91%
82%	CARDIFF AND GLAMORGAN		NORFOLK	91%
81%	TYNE AND WEAR	\times	CAMBRIDGESHIRE	89%
81%	NORTHUMBERLAND		EALING	88%
81%	ESSEX		LAMBETH	87%
81%	SWANSEA		TYNE AND WEAR	87%
80%	BARNET		NORTH YORKSHIRE	87%
80%	WEST MIDLANDS ITA		WEST MIDLANDS PF	87%
79%	SUFFOLK		LEWISHAM	86%
79%	LANCASHIRE		DURHAM	86%
78%	CUMBRIA		ISLINGTON	86%
78%	AVON		SURREY	86%
78%	RHONDDA CYNON TAF		ENFIELD	85% 85%
78%	NORFOLK	\times / \times \times \times \times \times	NORTHAMPTONSHIRE	85%
78%	ISLE OF WIGHT		GREENWICH	85%
77%	WARWICKSHIRE		LINCOLNSHIRE	85%
76%	SHROPSHIRE		OXFORDSHIRE	85%
76%	SOMERSET	\times	KINGSTON-UPON-THAMES	85%
76%	SOUTH YORKSHIRE PF		LEICESTERSHIRE	85%
76%	CAMDEN		SOUTHWARK	85%
75%	NEWHAM		HOUNSLOW	84%
75%	WESTMINSTER		HARINGEY	84%
74%	CORNWALL		GWENT	84%
73%	NORTH YORKSHIRE		REDBRIDGE	83%
72%	CAMBRIDGESHIRE		HILLINGDON	83%
72%	SURREY		CITY OF LONDON	83%
72%	HILLINGDON		WORCESTERSHIRE	83%
72%	TOWER HAMLETS		HAMMERSMITH	83%
72%	STAFFORDSHIRE		HARROW	83%
72%	EALING		BARKING AND DAGENHAM	83%
71%	LINCOLNSHIRE		KENT	83%
71%	WILTSHIRE		POWYS	82%
71%	GWENT	THE PART	DEVON	82%
71%	NORTHAMPTONSHIRE		HAMPSHIRE	82% 81%
70%	KINGSTON-UPON-THAMES		SUTTON	81%
70%	HARROW		BUCKINGHAMSHIRE	81%
70%	WEST MIDLANDS PF		SWANSEA	81%
70%	BEDFORDSHIRE		CARDIFF AND GLAMORGAN	79%
70%	GLOUCESTERSHIRE	1//	BARNET	79%
70%	HARINGFY		BEDFORDSHIRE RHONDDA CYNON TAF	78%
69%	WORCESTERSHIRE		NEWHAM	75%
68%	CLWYD		SOMERSET	74%
67% 66%			BERKSHIRE WAI THAM FORFST	73%
61%	HAVERING		CROYDON	72%
60%	WALTHAM FOREST		HAVERING	68%
56%	BRENT		BRENT	67%
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Chart 4.6: Standardising local valuation results



LGPS (England & Wales) Section 13 Dry Run Report Appendices

Chart H1: Deficit Repaid by fund: The proportion of deficit paid off annually.



Note: Funds in surplus have been excluded.

LGPS (England and Wales) Section 13 Dry Run Report

TEESSIDE	13.50%	14.80%
CITY OF LONDON	17.00%	16.00%
BERKSHIRE	19.30%	16.00%
DYFED	17.90%	17.20%
GREENWICH	18.50%	17.39%
DORSET	18.60%	17.99%
SOMERSET	20.40%	18.37%
NOTTINGHAMSHIRE	18.80%	18.58%
VIRONMENT AGENCY ACTIVE	23.80%	18.62%
CAMBRIDGESHIRE	30.52%	18.62%
GREATER MANCHESTER	21.76%	18.63%
LEICESTERSHIRE	28.40%	19.05%
DEVON	18.80%	19.26%
OXFORDSHIRE	19.30%	19.30%
BEXLEY	23.60%	19.34%
HILLINGDON	28.68%	19.60%
GWENT	22.80%	19.77%
SHROPSHIRE	25.10%	19.91%
WESTMINSTER	29.80%	19.99%
KENSINGTON AND CHELSEA	17.80%	20.09%
WARWICKSHIRE	29.17%	20.11%
LEWISHAM	35.65%	20.21%
EAST SUSSEX	27.07%	20.44%
ENFIELD	21.37%	20.51%
WANDSWORTH	19.00%	20.59%
GWYNEDD	23.88%	20.75%
LINCOLNSHIRE	31./9%	20.84%
WILTSHIRE	31.00%	21.10%
DURHAM	20.90%	21.31%
LANCASHIRE	22.60%	21.38%
ISLINGTON	27.90%	21.43%
KENT .	20.00%	21.44%
CORNWALL	28.00%	21.40%
WEST SUSSEX	25,90%	21.83%
SOUTHWARK	20.68%	22.01%
WEST MIDLANDS PF	25.90%	22.19%
ESSEX	21.50%	22.20%
REDBRIDGE NOREOLK	28.44%	22.21%
BEDFORDSHIRE	28.37%	22.53%
HAMMERSMITH	21.90%	22.74%
ISLE OF WIGHT	31.36%	22.84%
CARDIFF AND GLAMORGAN	22.24%	22.85%
POWVS	26.10%	22.86%
EAST RIDING	29.21%	23.14%
SWANSEA	21.85%	23.23%
HERTFORDSHIRE	26.09%	23.49%
NORTH YORKSHIRE	21.10%	23.68%
SUBBEY	27.80%	23.71%
SUTTON	34.52%	23.92%
BARKING AND DAGENHAM	31.46%	24.02%
NORTHAMPTONSHIRE	32.10%	24.03%
STAFFORDSHIRE	31.19%	24.11%
RHONDDA CYNON TAF	20.56%	24.12%
CROYDON	31.40%	24.20%
RICHMOND	27.67%	24.47%
HARINGEY	35.51%	24.73%
CHESHIRE	27.49%	25.24%
NORTHUMBERLAND	24.84%	25.55%
TYNE AND WEAR	23.60%	25.74%
HAVERING	37.63%	25.05%
SUFFOLK	28.35%	25.99%
GLOUCESTERSHIRE	32.90%	26.57%
SOUTH YORKSHIRE PTA	23.10%	26.81%
BROMLEY	25.90%	26.89%
TOWER HAMIETS	35,50%	27.09%
CAMDEN	35.06%	27.72%
SOUTH YORKSHIRE PF	24.40%	28.22%
AVON	22.60%	28.48%
BRENT	38.70%	29.25%
CUMBBIA	27.40%	29.26%
LAMBETH	35.58%	32.74%
HACKNEY	34.53%	33.12%
MERTON	21.00%	34.25%
LONDON PENSIONS FUND	20.10%	34.46%
MERSEYSIDE	24.50%	36.15%
WEST WIDLANDS ITA	21.50%	60.2
5	0% 40% 30% 20% 10% 0%	10% 20% 30% 40% 50% 60%

Chart 4.1: Average actual contributions vs. common contribution rates