

Committee: Pension Fund Advisory Committee

Date: 28 September 2016

Agenda item: 8

Wards: All

Subject: UPDATE ON THE PENSION FUND TRIENNIAL ACTUARIAL VALUATION

Lead officer: Caroline Holland, Director of Corporate Services

Lead member: Councillor Imran Uddin

Forward Plan reference number: N/A

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Recommendations:

- a) Note the content of this report and that the report is linked to a separate report titled "Update on the Review of the Pension Fund Investment Strategy" to this Committee.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to update the Committee on the on-going triennial actuarial valuation process to examine the financial health of the L. B Merton Pension Fund and set appropriate contribution rates for the employers in the Scheme for the next three years effective from 1 April 2017 and to help the Pension Fund to manage risk. The valuation is being carried out based on the Fund data as at 31 March 2016 in accordance with Regulation 62 of the Local Government Scheme Regulations 2013 (as amended).
- 1.2 The actuarial valuation is being carried out taking account of the new Section 13 report introduced by the Government Actuary's Department (GAD) to test whether LGPS Funds meet four key objectives: compliance, consistency, solvency and long-term cost-effectiveness.

2. NEXT STEPS

- 2.1 Officers have provided comprehensive information and required data to Barnett Waddingham, the Fund Actuary to facilitate initial modelling to produce whole Fund results. This initial output will inform the Actuary's discussion with Council officers at this stage in the valuation process.

- 2.2 A number of key economic and financial assumptions will be evaluated. The aim of the stress-test is to determine the sensitivity of the results to changes in the assumptions on a “best-estimate” basis to aide decision-making.
- 2.3 The Fund Actuary is required to submit the results to the Scheme Advisory Board (SAB) as part of the government’s effort to standardise valuation approach via the use of consistent set of assumptions determined by the SAB.
- 2.4 Refined assumptions agreed between the Fund Actuary and the administering authority will be documented and used to prepare/revise the Funding Strategy Statement in line with CIPFA Guidance.
- 2.5 Scheme employers will be required to agree a deficit recovery plan with the Council as administering authority. This would allow the Fund Actuary to issue a Rates and Adjustment Certificate to certify that the funding target and fully-funded status can be achieved by the end of the recovery period.

3. ACTUARIAL INPUT TO THE INVESTMENT STRATEGY REVIEW

- 3.1 Discussion with the Fund Actuary and the output of the actuarial valuation will be fed into the review of the investment strategy. It is important to review the pension fund investment strategy alongside the actuarial valuation to determine the appropriate asset allocation, benchmarks and performance targets. This would better inform the Committee’s decision on the nature of the mandates to be awarded. Also, it would ensure that fund managers’ approach and style are consistent with the investment objectives and the Committee’s risk appetite and that there is complementarity of fund managers.

4. CONSULTATION UNDERTAKEN OR PROPOSED

- 4.1 N/A

5. FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 5.1 The investment strategy chosen will affect the return on the fund, its actuarial valuation and the cost to the Council.
- 5.2 There will be a one-off cost in carrying out the actuarial valuation, estimated to be under £50k. This will be charged to the pension fund.

6. LEGAL AND STATUTORY IMPLICATIONS

- 6.1 The contributions payable by employers in the LGPS in respect of benefits, expenses and deficit must be set out in a Rates and Adjustments Certificate

issued in accordance with Regulation 62 of the Local Government Scheme Regulations 2013 (as amended).

7. HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

7.1 N/A

8. CRIME AND DISORDER IMPLICATIONS

8.1 N/A

9. RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

9.1 GAD's assumptions and tests to be used for Section 13 purposes at 2016 are unlikely to be clarified before the deadline for completing the actuarial valuation. Delays in the Actuary's ability to ascertain GAD's approach could impinge on the contribution rate setting process.

10. APPENDICES

None

11. BACKGROUND PAPERS

1. Various notes provided by the Fund Actuary.

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