Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
PENSION FUND ACTUARIAL VALUATION 2016 – INITIAL REPORT **Pensions Committee** **19th September 2016**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** one

1. INTRODUCTION

1.1 This report provides the Committee with a summary of progress to date on the 2016 actuarial valuation. Whilst a full report is not yet available for distribution, preliminary work gives a guide to the outcome. The results of this preliminary work will be presented at the Committee by the Fund's actuary, Hymans Robertson. The Actuarial Valuation is undertaken every 3 years and is an assessment of the assets and liabilities of the pension fund, which then determines the funding level. The final valuation will determine the contribution rates payable by all employers participating in the Fund, which includes the Council.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report

3. RELATED DECISIONS

N/A

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The experience of the Pension Fund in terms of its investments, the Fund's liabilities both short and long term and the profile of its members between actuarial valuations determines the financial status of the pension fund, its funding level and the contributions that employers need to make into the Fund for the following three years. The level of funding for the Pension Fund and the requirement to fund employee pension benefits, both past and current can directly impact on the level of resources available for other Council services. The valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation and any significant variations to those assumptions could impact upon Fund's financial position.

4.2 Members have been kept informed of the progress of the Funding position through the quarterly updates on the funding status. Since 2013, there has been a deterioration on the 2013 basis to 66% from 70% at the valuation. At the time of the 2013 valuation the common contribution rate for the Fund as a whole was 34.6%, all else being equal, the common contribution rate based on 2013 assumptions would be 51.2%, representing a significant increase on the 2013 valuation. However, this does not take account of the specific movements in the membership of the Fund since that time or the membership experience with regard to pay rises and Pension Increases, which have varied considerably relative to expectations. Additionally, it also reflects the valuation of the Fund's assets in the immediate aftermath of the vote to leave the EU. It is anticipated that, given the provisional whole fund results, and the results of some earlier modelling work, that there may be scope to either hold, or slightly reduce, the Council's contribution rate from its current level.

4.3 The contribution rate currently paid by the Council is 36.9% of payroll; this applies equally to the Council and to its schools.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Local Government Pension Scheme Regulations 2013, Regulation 62, requires an Administering Authority to obtain an actuarial valuation of its fund as at 31st March 2016, and as at 31st March every third year thereafter. The documents obtained by the administering authority must include a report by an actuary in respect of the valuation, and a rates and adjustments certificate provided by the actuary. The report must contain a statement of the demographic assumptions used in producing the valuation, and how these assumptions relate to events which have actually occurred in relation to the scheme membership. These documents must be received before the first anniversary of the valuation date.

5.2 Regulation 66 also requires the Administering Authority to supply copies of any valuation report, rates and contributions certificates to be supplied to the Secretary of State, employing authorities participating in the Fund and any other bodies liable to make payments to it.

5.4 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

6.1 The Pension Fund is required to undertake a formal actuarial valuation every 3 years to establish its funding position and to set the contribution rate for the following three years. The regulatory background to the valuation is set out in Appendix 1 to this report and contained within the Local Government Pension Scheme Regulations 2013. The last formal actuarial valuation of the London Borough of Hackney Pension Fund was carried out as at 31st March 2013, which showed an improvement in the funding level from 66% to 70% and set the contribution rates for the three years commencing 1st April 2014.

6.2 The Fund's actuary, Hymans Robertson, has been reviewing the data supplied to them by the Administering Authority, Hackney, over the summer and is in the process of assessing the current funding position and contributions payable by both the Council and other employers in the Fund. The actuary has produced a draft set of whole fund results; however, issues around the quality of data provided by employers have meant that a number of assumptions have been required to produce these. These are not believed to have a material impact on the whole fund results, but do mean that additional work is likely to be required for some individual employers. Data quality is an important issue which has been raised by the Pensions Regulator (tPR); the Fund has been working hard to improve the quality of data provided but this work remains ongoing and is not yet complete.

6.3 An initial presentation of the provisional overall funding position and common contribution rate payable by the fund as a whole will be given by Hymans Robertson during the meeting on 19th September. Members will be updated with the initial results and will be presented with a range of discussion points.

6.4 The Pensions Sub-Committee have received regular funding updates on the position of the Fund during the inter-valuation period with the last update provided at the June meeting and a further update provided within the quarterly reporting for the Committee meeting in September. These funding updates are based on a roll forward approach from the last valuation in 2013, but do provide the Committee with an overview of how the funding level has progressed. The latest funding update provided as at 30th June indicates that the funding level had fallen to 66%. This is based on the same valuation assumptions as were used in the 2013 valuation.

6.5 The outcome of the 2013 valuation was that although the monetary deficit amount increased from £378m to £406m, the Fund saw its funding level increase from 66% to 70%. This funding position was based on the Fund having assets of £954m and liabilities of £1,360m

6.6 The assets are the amalgamation of all the asset classes which the Fund manages, including equities, bonds, property, etc valued as at 31st March. The liabilities are a summation of all the pension payments which are due to all scheme members, pensioners, deferred members and active members over the remaining lifetime of all members, which could stretch out beyond 60 years. The actuary then calculates the contributions which would be required in order for the Fund to meet its liabilities and to recover any deficit which has arisen. At that time, the decision was taken to continue with a relatively cautious approach with a reduction in the deficit recovery period from 22 to 20 years and a low expectation for asset outperformance. Consequently the Fund remained at the more prudent end of the scale compared with other Funds.

6.7 Some early modelling work has been undertaken in advance of the valuation to look at the management of employer contribution rates. The modelling work looked at a range of scenarios resulting in a wide dispersion of outcomes. The outcome of this work indicated that for the Council, continuing the contribution rates to 31st March 2017 as currently set out in the Rates and Adjustments Certificate should allow for some reduction in contributions from 1st April 2017. However, this exercise used data from the 2013 valuation; an updated exercise is due to be carried out using 2016 valuation data, which will help to inform the actual contribution set. Further work will also need to be undertaken to determine likely rates for the other employers in the Fund.

6.8 The background to other employers varies significantly depending on what their formal status is within the fund, their contract life and funding position. Some employers arise from TUPE transfer situations when the Council outsources contracts which involve the transfer of staff. These are either Community Admission Bodies or Transferee Admission Bodies. As a general rule, when staff are TUPE'd across to new admission bodies, any historic deficit remains with the Council and the new employer is set up with a 100% funding position i.e. it has sufficient assets to cover any liabilities as at the date of transfer. Scheduled bodies, such as the academies, receive a share of the deficit on transfer where these arise as a result of TUPE. A number of the earlier academies in Hackney were established as completely new entities and therefore did not result in TUPE transfers; hence the contribution rates can vary significantly between academies. The contribution rate which is set for such an employer is such that it should be sufficient to ensure that at the end of the contract life, the employer is 100% funded at the end. Any deficit which arises during the contract life should therefore be met during the period of the contract, however, if at the end of the contract a deficit position has arisen then an admitted body employer is expected to make good that deficit.

6.9 The triennial valuations adjust contribution rates that employers are required to pay to try to ensure that any deficit at end of contract is kept to a minimum and employers will be informed of indicative contribution rates payable during the autumn. Employers will also be given the opportunity to meet with the Fund actuary to discuss the valuation following the Employer Forum to be held in November.

6.10 At the time of writing, the actuarial work is still underway but it is anticipated that initial results will be available to discuss with Members at the Committee meeting itself. A further strategy meeting is planned for later in the year to assess the results in more detail.

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Appendices:
Appendix 1 - Valuation timetable 2016

Background Papers
None