Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES		
Pension Fund Actuarial Valuation 2016 Update and Asset Liability Modelling **Pensions Committee Strategy Meeting 6th December 2016**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None**

1. INTRODUCTION

1.1 This report provides a summary of the progress on the 2016 Actuarial Valuation and whilst at the time of writing the report is not ready for distribution, an update from the Fund's Actuary Hymans Robertson will be provided at the meeting. It also provides information on the Asset Liability Modelling exercise currently underway, which will help to determine the Fund's approach to contribution rate setting over the 3 years from 1st April 2017. The Actuarial Valuation is undertaken every 3 years and is an assessment of the assets and liabilities of the pension fund, which determines the funding level.

2. RECOMMENDATION

2.1 **The Pensions Committee is recommended to:**

- **Note the report.**

3. RELATED DECISIONS

- Pensions Committee 18th November 2015 – Actuarial Valuation 2016 – Training and Preliminary Work
- Pensions Committee 18th November 2015 – Investment Strategy
- Pensions Committee meeting 19th September 2016 – Training Session provided to Committee
- Pensions Committee meeting 19th September 2016 – Actuarial Valuation 2016 – Initial Report

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

4.1 The experience of the Pension Fund in terms of its investments, its liabilities, both over the short and longer term, and the profile of its members between actuarial valuations determines its financial status, its funding level and the contributions required from employers for the following three years. With the Council as both the administering authority and the largest employer contributing to the Pension fund, the level of funding for the Pension Fund and the requirement to fund both past and current employee pension benefits 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; any significant variations to those assumptions could impact upon the 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. At the 2013 valuation the Fund was 70.1% funded, over a 3 year period the funding level has remained between 60% and 80%. Based on the new 2016 valuation assumptions the current 2016 valuation indicates a funding level of 77.0% and the actual financial deficit has decreased by around £56m during the period.

4.3 At the time of the 2013 valuation the common contribution rate for the Fund as a whole was 34.5%, the equivalent rate at the 2016 valuation for the Fund as a whole is 30.8%. The contribution rate currently paid by the Council is 36.9% of the payroll; this applies across the Council and its local authority schools.

4.4 The Pensions Committee's governance role means that they need to ensure that there are realistic strategies in place to meet funding goals and that strategies are affordable, prudent and provide stability for employers in the Fund. Understanding the impact of adopting different approaches to the investment strategy and the setting of employer contribution strategies enables the Committee to consider the longer term financial impact of such decisions and to take reasonable financial decisions when setting investment and contribution strategies. The costs of obtaining the advice are minimal in comparison to the benefits that could be derived from having an appropriate strategy in place with a 'flight plan' set out to achieve full funding.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Local Government Pension Scheme (Administration) Regulations 2013, Regulation 62, requires an Administering Authority to obtain an actuarial valuation of its fund as at 31st March 2016 and every 3 years on 31st March thereafter. The documents obtained by the Administering Authority from the actuary must include: a valuation report and a rates and adjustment certificate.

5.2 Regulation 66 requires the Administering Authority to publish and supply copies of any valuation report and a contribution rates and adjustments certificate to the Secretary of State, each employing bodies contributing into the Fund and any other body liable to make payments to the Fund.

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

6. VALUATION UPDATE

6.1 The Pension Fund is required to undertake a formal actuarial valuation every 3 years to establish the funding position of the Pension Fund and to set the contribution rate for the following three years. The regulatory background to the valuation is contained within the Local Government Pension Scheme (Administration) 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% in 2010 to 70% in 2013 and the contribution rates set for each employer in the Fund for the three years commencing 1st April 2014.

6.2 Members were provided with an initial update at their meeting on the 19th September 2016 based on preliminary results from the valuation process. These indicated a funding level of 77% based on 2016 valuation assumptions. The funding level reflects a 17 year deficit recovery period reflecting the Fund's objective to meet its deficit within the medium to longer term timeframe.

Valuation Date	**31/03/2013 (£m)**	**31/03/2016 (£m)**
Past Service Liabilities		
Active Employees	403	424
Deferred Pensioners	382	441
Pensioners	575	658
Total Liabilities	**1,360**	**1522**
Net Assets	**954**	**1,172**
Surplus / (Deficit)	(406)	(350)
Funding Level %	**70.1%**	**77.0%**
Contribution Rates	**31/03/2013 (% of pay)**	**31/03/2016 (% of pay)**
Employer Future Service Rate (inc. expenses)	19.9%	20.7%
Past Service Adjustment (17 deficit recovery period)	14.6%	10.1%
Total Employer Contribution Rate (inc. expenses)	**34.5%**	**30.8%**

6.3 The funding level and contribution rates are set out in the table below with a comparison against the corresponding 2013 valuation figures:

6.4 The 2013 valuation funding level of 70.1% was based on the position of the Fund having assets of £954m and liabilities of £1,360m, i.e. for every £1 of liabilities the Fund has the equivalent of 70.1p of assets. Looking at the 2016 valuation, the table shows that this position is the equivalent of 77.0p of assets for every £1 of liabilities, also note the actual monetary deficit has decreased from £406m to £350m.

6.5 The net assets are an amalgamation of pension contributions paid in to the Fund by employers and employees and all the asset classes managed by external fund managers such as equities, bonds, property and multi asset. The total liabilities are a summation of all the pension payments which have been accrued up to the valuation date in respect of all active scheme members, pensioners and deferred members which will be paid over the remaining lifetime of all members; these could potentially stretch out beyond 60 years. The actuary uses a variety of assumptions to calculate the contribution rates required for the Fund to meet its liabilities in respect of both future service and any historic deficit.

6.6 As discussed at the September meeting of the Pensions Committee, some early modelling work was undertaken in advance of the formal valuation to look at the management of employer contribution rates due to commence on 1st April 2017. The outcome of this work, in conjunction with the Whole Fund results indicated that for the Council, continuing the contribution rates to 31st March 2017 as currently set out in the rates and adjustments certificate would allow for some reduction in contributions from 1st April 2017. The initial modelling exercise has now been updated using 2016 data, with the results due to be presented at the meeting.

6.7 Other individual employer rates are currently being assessed and will be discussed with employers as soon as is feasible. 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; despite the improvement in the Whole Fund funding position, it is possible that some employers could face an increase in their individual employer contribution rates. Results will be made available as soon as possible and employers will be given the opportunity to meet with the Officers and Fund actuary to discuss their results should they wish to do so.

6.8 The actuary will be attending the meeting and will be available for further discussion of the valuation results.

7. ASSET LIABILITY MODELLING

7.1 As set out in Section 6.6, some early Asset Liability Modelling work was undertaken in advance of the formal valuation to look at the management of employer contribution rates due to commence on 1st April 2017. The modelling used 2013 valuation data to assess a variety of contribution, asset allocation and asset outperformance scenarios, assessing the probability of success and tail risks associated with each. These results were then used to provide an early indication of the appropriateness of the different scenarios.

7.2 The outcome of this work, in conjunction with the Whole Fund results indicated that for the Council, continuing the contribution rates to 31st March 2017 as currently set out in the rates and adjustments certificate would allow for some reduction in contributions from 1st April 2017. The initial modelling exercise has now been updated using 2016 data and the new asset outperformance assumption (1.65), with the results due to be presented at the meeting. These results will be used to help finalise contribution rates and inform the allocation to growth assets that will feed through into the investment strategy.

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