

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

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|---|---|-------------------------------|
| Pension Fund Actuarial Valuation 2016 – Valuation Report | Classification NONE | Enclosures 1 |
| | Ward(s) affected ALL | AGENDA ITEM NO. |
| Pensions Committee 29th March 2017 | | |

1. INTRODUCTION

- 1.1 This report sets out the Actuarial Valuation as at 31st March 2016. The Actuarial Valuation is undertaken every 3 years and is an assessment of the assets and liabilities of the pension fund, the funding level and the contributions payable by employers for the 3 years commencing 1st April 2017.

2. RECOMMENDATION

2.1 The Pensions Committee is recommended to:

- **Approve the 2016 Actuarial Valuation**

3. RELATED DECISIONS

- Pensions Committee 24th January 2017 – Draft Funding Strategy Statement
- Pensions Committee 6th December 2016 (Strategy Meeting) – Valuation Update and Asset Liability Modelling
- Pensions Committee 19th September 2016 – Pension Fund Valuation – Initial Report

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND 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. At the 2013 valuation the Fund was 70.1% funded, over a 3 year period the funding level has remained between 60% and

| Valuation Date | 31/03/2013 (£m) | 31/03/2016 (£m) |
|--------------------------|----------------------------|----------------------------|
| Past Service Liabilities | | |

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. BACKGROUND/TEXT OF THE REPORT

6.1 The Pension Fund has to undertake a formal actuarial valuation every 3 years to establish the funding position of the Pension Fund and to set the contribution rates to be applied for the following three years. Members have been provided with an update on the 2016 actuarial valuation with a presentation from the Fund's actuary, Hymans Robertson, at the Committee's strategy meeting on the 6th December 2016

6.2 At that meeting the Fund Actuary presented the draft results for the 2016 actuarial valuation for the Fund as a whole, showing an improvement in the funding level to 77.0% up from 70.1%, as set out in the table below:

| | | |
|--------------------------|--------------|--------------|
| 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% |

6.3 In terms of the contribution rates at a whole Fund level, these were showing an decrease at the employer level from 34.5% to 30.8%, although it should be noted that this reflects the Fund as a whole and the contribution rates that apply to individual employers will reflect their individual positions within the Pension Fund and their experience during the 3 year period between valuations:

6.4 Members will be aware that the valuation is assessed based on a number of criteria which includes longevity (the subject of a different report at the meeting) and depending on the assumptions used, this will impact on the overall funding position.

| Valuation Date | 31/03/2013 (% of pay) | 31/03/2016 (% of pay) |
|---|----------------------------------|----------------------------------|
| Employer Future Service Rate (inc. expenses) | 19.9% | 20.7% |
| Past Service Adjustment (17 yr deficit recovery period) | 14.6% | 10.1% |
| Total Employer Contribution Rate (inc. expenses) | 34.5% | 30.8% |

The assumptions used by the London Borough of Hackney Pension Fund are set out below for both the 2016 valuation and the previous valuation in 2013:

| Financial Assumptions | 31st March 2013 | | 31st March 2016 | |
|------------------------------|-----------------------------------|-------------|-----------------------------------|-------------|
| | Nominal | Real | Nominal | Real |
| Discount Rate | 4.45% | 1.95% | 3.85% | 1.75% |
| Salary Increases | 4.3% | 1.8% | 3.3% | 1.2% |
| Pension Increases | 2.5% | - | 2.1% | - |

6.5 Members will recall that following discussions with the Fund's actuarial adviser, it was felt appropriate to reduce the recovery period for the deficit for the Fund from 20 years to 17 years.

6.6 A copy of the draft Rates and Adjustments Certificate is attached as Appendix 1 to this report. A copy of the draft report will be circulated at the meeting.

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APPENDICES

Appendix 1- Draft 2016 Valuation Rates and Adjustments

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