HERTFORDSHIRE COUNTY COUNCIL

PENSION BOARD (LGPS)

TUESDAY, 6 DECEMBER 2016 AT 10:00AM

Agenda Item No:
5

FORMAL FUNDING VALUATION INITIAL RESULTS 2016

Report of the Director of Resources

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1. Purpose of the Report

1.1 To provide the Pension Board with the initial results of the formal valuation of the Hertfordshire Pension Fund at 31 March 2016. These results were shared with the Pension Committee at its meeting on 18 November 2016.

1.2 To recommend the approach for the review, consultation and final approval of the Funding Strategy Statement.

2. Summary

2.1 The Hertfordshire Pension Fund is formally valued by the Fund's actuary Hymans Robertson every three years, triennial valuation. The Fund when last valued at 31 March 2013 was valued at 82%. The report attached as appendix A, shows the initial results for the valuation at the 31 March 2016. The interim results show that the Funding level at 31 March 2013 was valued at 91%. Please note that these results are whole Fund results and that individual employer results including employer contribution rates will be issued from November. Individual employer results will also report different funding levels due to the nature of the characteristics of their member profiles, cash flows, and funding level at the last valuation.

2.2 As part of the Valuation process the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The FSS is prepared every three years in collaboration with the Fund's actuary Hymans and after consultation with the Fund's employers. The FSS must be agreed and approved by the 31 March 2017.

3. Recommendations

3.1 That the Pension Board notes
   a. the initial results of the 2016 formal Funding valuation.
   b. the process for the review of the Funding Strategy Statement, consultation with employer bodies and final agreement by the Pension Committee at its meeting on 24 February 2017

4. Initial Valuation results

4.1 The Local Government Pension Scheme (LGPS) regulations require that a formal valuation of the Fund takes place every three years, known as the triennial valuation. The report attached as appendix A sets out the initial results for the Fund as a whole. The main headline to report to this Committee is that there has been an overall improvement in the Funding level of the Fund and a reduction in the reported Fund deficit; this is a very positive result for the Hertfordshire Fund. The table below compares the Funding level and deficit position for the Fund at 31 March 2013 and at 31 March 2016.

Valuation Date	Funding Level (%)	Surplus/Deficit (£m)
31 March 2013	82	(617)
31 March 2016	91	(336)

4.2 As part of the valuation process the actuary will agree with the administering authority a set of assumptions for investment returns, gilts and inflation, and membership experience. The investment consultant Mercer will also take part in this conversation particularly when setting the assumption for asset out performance i.e. investment return. The results set out in appendix A compare the actual experience against the assumptions agreed with the actuary back in 2013. The actuarial assumptions for this valuation were agreed by this Committee at its meeting on 10 June 2016.

4.3 **Investment experience**
For the period 2013 to 2016 the actual investment experience for the Hertfordshire Fund was greater than the assumption set by the actuary and AA, this was a **positive** contribution for the Fund.

Investment returns	Expected	Actual	Difference
Over 3 years	15.1%	22.2%	7.1%

4.4 **Gilts and inflation**
The fall in gilt yields during the period which is used as part of the discount rate to discount liabilities had a negative impact on the Fund in that it increased the value of the liabilities. Actual inflation experience during the period was better than assumed and was another **positive** contribution to the funding value.

Assumption/measure	2013	2016	Difference
Long-dated gilt yields p.a.	3.0%	2..2%	(0.8%)
Expected inflation	3.3%	3.2%	(0.1%)

4.5 **Membership experience**

Membership experience during the period was overall a **positive** contribution to the improvement in funding level in that there were fewer ill health and early retirements than assumed. Salary and benefits increases were also less then assumed. However, the number of pensions in payment ceasing was less than than expected which reflects the improvement in life expectancy but increases the liability on the fund.

4.6 In summary, although the liability position has increased over this period the assets have also increased and at a faster rate than the liabilities which is illustrated in the table below.

Valuation date	**31 March 2013**	**31 March 2016**
Liabilities	£3,525m	£3,920m
Assets	£2,908m	£3,584m
Surplus/(Deficit)	(£617m)	(£336m)
Funding level	82%	91%

5. Scheme Advisory Board results

5.1 The Fund's actuary is also now required to submit valuation results to the Scheme Advisory Board (SAB) which are based on common assumptions issued by the Government Actuary Department (GAD). This allows the SAB and GAD to compare Funds on a like for like basis. Based on the assumptions used by GAD, the funding level of the Hertfordshire Fund is 107%, the results reported by GAD so far (28 out of 89 LGPS Funds) show a range from between 78% to 123% in funding levels. The Hertfordshire Fund is in the top 5 of reported funds.

6. Funding Strategy Statement

6.1 Administering Authorities are required to maintain and publish a Funding Strategy Statement (FSS). The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies such as the Statement of Investment Principle (Investment Strategy Statement wef. 1 April 2017). It is a regulatory requirement for each Fund to have a FSS and it is reviewed every three years during the valuation process. The FSS applies to all employer bodies participating in the Fund. The draft FSS, attached as appendix B, has been prepared in conjunction with the scheme actuary, Hymans and sets out how the Administering Authority has balanced the conflicting aims of:

a. Affordability of employer contributions;
b. Transparency of processes;
c. Stability of employers' contributions; and
d. Prudence in the funding basis.

6.2 The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The pension benefits accrued by employees through their participation in the LGPS are guaranteed by the LGPS regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. The balance for the payment of accrued and future benefits is met by employee and employer contributions. The contributions made by employees are fixed under the regulations and therefore, the employers need to pay the balance of the cost of delivering the benefits to members and their families. The FSS is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund.

6.3 As part of the review process of the FSS, this document is shared with members of the the Pension Board for review and comment and will then be circulated to all scheme employers for a consultation period of eight weeks. Following this review and consultation, the revised FSS will come back to the Pension Committee for final approval at its meeting on 24 February 2017.

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