

FUNDING STRATEGY STATEMENT & CONSULTATION RESPONSE

Report of the Director of Resources

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1 Purpose of the Report

- 1.1 To provide the Pensions Committee with the results of the consultation undertaken on the 2016 Funding Strategy Statement (FSS) for the Hertfordshire Pension Fund, as well as provide the final version of the statement for review and approval.

2 Summary

- 2.1 The draft 2016 Funding Strategy Statement, which was presented to Pensions Committee in November 2016 and Pensions Board in December 2016 was circulated to fund employers for an 8 week consultation period on 21st November. The consultation period closed on 20 January 2017.
- 2.2 Feedback was received from a number of employers and the fund will provide responses to all comments received, as detailed in section 4 of the report.
- 2.3 The draft FSS has been amended where feedback highlighted a lack of clarity or transparency in the document.

3 Background

- 3.1 As part of the Valuation process the Administering Authority is required to prepare a Funding Strategy Statement. The FSS is prepared every three years in collaboration with the Fund's actuary Hymans Robertson and after consultation with the Fund's employers. The FSS must be agreed and approved by the 31 March 2017.
- 3.2 The requirement to maintain and publish a FSS is contained in the Local Government Pension Scheme Regulations. The FSS is a summary of the Fund's approach to funding its liabilities, and includes reference to the Fund's other policies such as the Statement of Investment Principle (Investment Strategy Statement wef. 1 April 2017). The FSS applies to all employer bodies participating in the Fund and sets out how the Administering Authority has balanced the conflicting aims of:

- Affordability of employer contributions;
- Transparency of processes;
- Stability of employers' contributions; and
- Prudence in the funding basis.

4 Outcome of Consultation

4.1 Consultation responses were received from a number of employers, and their comments are summarised below in Table 1, along with the response of the fund to the points raised.

Table 1: Consultation Feedback and Responses

Comment	Response	Outcome
Approach taken that each employer or pool is assessed individually and employer contribution are set accordingly is fair and sensible	Comments noted	N/A
Actuarial assumptions adopted should be employer specific, in particular for life expectancy	Life expectancy assumptions are tailored to fit the membership profile of the Fund, however underlying this, at an employer level, the characteristics of each individual employer's membership are taken into account when setting contribution rates	Additional clarity provided in section C3 (d) on page 27 of the FSS on approach taken to setting assumption for life expectancy down to employer specific level
Should the Fund continue to allow for future improvements in life expectancy	The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. As noted in the FSS, it is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. However, there is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future	Response provided to scheme employer
Sustainability of the level of employer contribution rates	The Fund seeks to balance affordability, stability and prudence in setting employer contribution rates. The contribution towards the future accrued benefits is made up of three elements:	Response provided to scheme employer

	<ul style="list-style-type: none"> • The contributions paid by members (fixed by legislation) • Investment returns from fund assets (variable) • Employer contributions (variable). <p>The actuary and the Fund's investment consultant expect investment returns to be lower in the future (due to future market expectations for global growth) and this has therefore put pressure on the employer contributions which need to rise to ensure that the future accrual is met in full</p>	
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- 4.2 The FSS has been amended following the consultation, and is attached at Appendix A. The following updates and amendments have also been made, following the calculation and distribution of valuation results to employers:
- Confirmation of the maximum time horizon and probability bar for achieving funding target for each employer group (section 3.3 on page 9 of the FSS)
 - Clarification on the approach for calculating cessation debts for employers ceasing in the Fund (note j on pages 13-14 of the FSS)
 - Clarification on the secondary contribution rate and the approach to calculating this (section D3 on page 30 of the FSS).

3. Recommendations

- 3.1 That the Pensions Committee reviews and approves the updated Funding Strategy Statement.