Pension Fund Committee
Meeting to be held on 10 June 2016

Electoral Division affected: None

Framework for the 2016 Valuation - Employer Responses to Consultation

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Executive Summary

At its meeting on 30 September 2015 the Committee agreed to consult fund employers on a number of key issues associated with the 2016 valuation of the fund in order to ensure employer views are taken into account in setting the framework for the valuation. This reports provides the Committee with an update on the responses to the consultation exercise and the overall plan for the valuation process.

Recommendation

The Committee is recommended to:

(i) Note the results of consultation with employers on the valuation framework;
(ii) Note the process proposed for managing the valuation process and engaging with employers throughout the process;
(iii) Agree to offer existing, and any future, Multi-Academy Trusts with more than one school within the Fund a common contribution rate;
(iv) Agree to continue the Fund's current policy in relation to not allowing reductions in contribution rates for employers who continue to have a deficit within the Fund.

Background and Advice

Introduction

At its meeting on 30 September 2015 the Committee agreed to consult fund employers on a number of key issues associated with the 2016 valuation of the Fund in order to ensure that employer views were taken into account in the setting of the framework for the valuation. This report provides the Committee with an update on the responses to the consultation exercise and the overall plan for the valuation process.

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Employer Consultation on Key Issues

While there were only a very small number of responses to the formal consultation exercise (4 of 200+ employers with active members) employers were also engaged at a number of regular and ad hoc events such as the annual Director's Brief and the opportunity was taken to attend the regular meeting of local authority Chief Finance Officers and a regular meeting of Academy School finance officers.

From this process of engagement the following represents a consensus employer view:

1. There is support for the proposed change to the valuation methodology which is seen as much more intelligible.
2. There is support for the objective of maintaining the current contribution plan, but many employers would like to see reductions in contribution rates.
3. Local authorities, in particular would like to see the deficit recovery period extended in order to reduce contributions.
4. There is interest in the development of a form of "ill health retirement" insurance for smaller employers.
5. There was no opposition to the use of single contribution rates for Multi-Academy Trusts and support for the position previously taken by the Fund which ensures that there is no cross-subsidy between individual academies.
6. Local authority employers were interested in exploring means of reducing contributions through the use of asset backed vehicles.

Issues relating to the valuation methodology and contribution rates are dealt with below, but dealing with the other points raised.

1. "Insurance" for ill health retirement will be explored as a key task within the refreshed Strategic Plan for the Fund.
2. Existing, and any future, Multi-Academy Trusts with more than one school within the Fund will be offered the option of a common contribution rate.
3. The Fund will be prepared, as has always previously been the case, to discuss with any employer options for providing additional security which might be able to be considered in the setting of contributions.

Preparatory Modelling

The Fund's actuary has undertaken some preparatory modelling using the new valuation methodology to allow Fund Officers to understand whether the objective of maintaining the current contribution plan is feasible. It should be emphasised that this is not a full valuation, but previous exercises of this sort have given a clear indication of possible outcomes at the level of the whole fund.

In addition to looking at the whole Fund this work looked specifically at a small number of employers chosen to represent different characteristics (e.g. younger workforce, older workforce) in order to identify whether there might be issues for some specific types of employer.

The conclusion from this work is that the Fund could achieve its stated objective of maintaining the current contribution plan, including reducing the deficit recovery period, without needing to increase assumed real investment returns to a degree that is unreasonable given the overall long term performance of the Fund.

At the level of individual employers it is possible that some employers would see a reduction in overall contributions because of the switch of emphasis as between future service and deficit contributions implied by the new methodology. In previous valuations where employers with deficits would have seen a reduction in contribution rate the Fund has imposed a so-called "underpin", which means that no reduction is taken and in effect that employer is looking to recover their deficit over a shorted period than the Fund as a whole. This provides an additional level of prudence within the valuation and rightly maintains focus on eliminating the deficit. Given this, while acknowledging employers' desire to reduce contribution rates Fund Officers' advice would be that the Committee agree to maintain this underpin.

It is likely that, due to changes in workforce profile, some employers could see increases in contributions being required. In previous valuations employers with tax raising powers have been allowed (with the agreement of the Fund and the actuary) to assume a higher rate of investment return to address the issue of possible increases in contribution rates, although no specific steps were taken to adjust the investment strategy to achieve this.

It is clear that some form of safety valve such as this will be required to be used at the discretion of Fund Officers in agreement with the actuary. However, it is proposed that the mechanism used be different and will be reflected in specific changes in the investment strategy which rather than chasing higher absolute returns reduce the level of downside risk within the equity allocation which is the most volatile part of the portfolio. Specific proposals for this, together with member training and implementation details will be brought forward by the Head of Fund in due course.

The other issue of specific concern to employers, particularly local authorities, has been the deficit recovery period. As indicated in the September report the strong advice of both the actuary and the Fund's officers is that the recovery period should be brought down to 16 years in line with the previously agreed plan. In addition the Government Actuary who now has a form of oversight role for all LGPS valuations has made clear the expectation that deficit recovery periods will reduce.

While in previous valuations this might have been an option to mitigate the impact of contribution increases, given that the aim is to maintain the current contribution plan and that indications are that this can be achieved without this form of manipulation, officer advice remains that the aim should be for the deficit recovery period to be reduced to 16 years.

The Valuation Process

The broad timetable for the valuation process from here is set out below:

- Mid-June – Fund Officers and Actuary meet to consider any issues emerging from early data analysis.

- End July – Standardised valuation data submitted by Actuary to Government Actuary's Department.
- Early September – Preliminary results available.
- Mid-September – Group meetings with employers (Local Authorities, F&HE, Academies, Other) to present preliminary results and identify issues
- October – Final results issued
- November – 1:1 sessions offered to each employer to meet with the actuary and the Fund. The aim is to agree the contribution rate to be certified by the actuary and deal with issues such as additional security.
- December – Director's Brief conclusion of the engagement process.

Updates will be provided to the Committee at future meetings.

The actuary's final report which will include the certified Rates and Adjustments Certificate will be presented to the Committee in the first quarter of 2017 together with the updated Funding Strategy Statement and the new Investment Strategy Statement.

Consultations

This report is concerned with the responses to a consultation exercise, which the Fund is required to undertake alongside the valuation process in order to develop the new Funding Strategy Statement that has to be produced alongside the valuation.

Implications:

This item has the following implications, as indicated:

Risk management

Effective risk management is central to the valuation process both in terms of the level of investment risk the Fund is prepared to take in order to deliver the returns necessary to eliminate the deficit and the risk presented by the affordability of contributions to individual employers.

Financial

Provision has been made within the Fund's budget for the higher level of actuarial fees that will be incurred as a result of undertaking the additional work required for a full valuation.

Legal

The Fund is required by the relevant LGPS Regulations and Pensions law to undertake regular valuations in order to set contribution rates aimed at achieving the elimination of the deficit. The final determination of the rates is a matter for the actuary who issues these in the rates and adjustments certificate that forms part of his final report.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
N/A		

Reason for inclusion in Part II, if appropriate

N/A