

<b>Pension Panel</b>	
<b>27 January 2020</b>	<b>Part I</b>
<b>Actuarial Valuation</b>	
<b>Report by Director of Finance and Support Services</b>	

## Summary

The Pension Fund has nearly completed its triennial valuation.

The Valuation process seeks to ensure the long-term solvency of the Fund through ensuring that it holds sufficient assets to be able to pay all its members benefits and calculates employer liabilities – and their contribution.

The Panel have been advised of a number of factors which may impact the outcome or the period that rates need to be set. Each of these matters remains unresolved and the Actuary has therefore calculated Fund and employer liabilities on the known benefit structure at 31 March 2019. The Actuary has completed his calculation of the whole Fund position (112%).

Since the Panel met, further work is required to calculate the position for individual employers.

## Recommendation(s)

- (1) The Panel agree the current version of the Funding Strategy Statement for publication by 31 March 2020, unless amended.
- (2) The Panel agree that any further amendments to the Funding Strategy Statement can be agreed by the Director of Finance and Support Services, in consultation with the Chairman to allow the Statement to be published by 31 March 2020.

## Proposal

### 1. Background and Context

- 1.1 The Fund has nearly completed its triennial valuation. In the absence of any further guidance this will set employer contributions from 1 April 2020 until 31 March 2023.
- 1.2 A number of developments which provide significant uncertainty remain (e.g. the McCloud judgement, HM Treasury's cost control mechanism and the Scheme Advisory Board's (SAB) cost control mechanism and the outcome of several consultations or Government decisions, including a consultation on the frequency of the Local Government Pension Scheme valuation cycles). Whilst the Actuary has reviewed the level of additional prudence in the discount rate in the context of these outstanding matters, the valuation has

been completed on the basis of the known benefit structure as at 31 March 2019.

## 2. Timetable

2.1 The table below shows the progress against the key valuation milestones.

Milestone	Date	Status
Data Submission	12/08/2019	Complete
Data Validation	12/08/2019	Complete
Resolution of data queries	12/08/2019	Complete
Clean data sign off	30/08/2019	Complete
Compass (Asset Liability) Modelling	02/09/2019	Progressing
Provision of initial Whole Fund results	04/10/2019	Complete
Provision of initial individual employer results	04/10/2019	Progressing
Finalisation of employer results	29/02/2019	
Final valuation report (Regulatory Req.)	31/03/2020	

## 3. Amendments to the Funding Strategy Statement

3.1 The Panel received an update on the Funding Strategy Statement when they met in October 2019. The purpose of the Funding Strategy Statement is to set out the Administering Authority's approach to funding its liabilities and how employer liabilities are measured (the value of the benefits to be paid to members), the pace at which these liabilities are funded (the balance between investment risk and the level of contributions required) and how employers or pools of employers pay for their own liabilities.

3.2 Following the Actuary's work on individual employer results further amendments have been made to the Funding Strategy Statement and the full document has been shared with employers for their comments (included in Appendix 1). This reflects:

- Drafting amended to reflect McCloud movement and reserving of additional prudence given the uncertainty.
- Reference to asset and liabilities remaining with the Local Authority / Police (ceding employer) for pass through arrangements – including on exit and the alignment of likelihood and time horizon for contribution modelling for pass through employers with their ceding employer to manage short term market conditions putting pressure on rates.
- Inclusion of exception to reduce the primary rate (future service rate) where an employer is exceptionally well funded (>120%). This is to prevent a surplus building up – but acknowledges the need for a cushion.
- Addition of specific reference to prepayment opportunity for some employers and timescales associated.
- Addition of specific wording for cessation assessment.

#### **4. McCloud**

- 4.1. A paper covering how contribution rates, opening positions, cessations transfers and accounting reports will be impacted by the McCloud judgement has been prepared by the Actuary. This will be considered by the Director of Finance and Support Services.

#### **5. Employer covenant work**

- 5.1. PwC was commissioned to carry out high level employer covenant assessments as part of the valuation. The initial results of these assessments were presented to officers in November 2019. Further work is being carried out as final positions become available from the Actuary.
- 5.2. PwC has been asked to carry out a more detailed analysis relating to one employer to assist the Fund in deciding the contributions and any security that might be required from the employer.

#### **6. Compass (Asset Liability) Modelling**

- 6.1. The Actuary has been commissioned to model the Fund's investment and contribution strategies to ensure that they remain appropriate and highlighting issues for consideration in the future. Whilst it was anticipated that the outcomes would be presented to the Pension Panel at this meeting the work has been delayed pending further consideration by the Pension Panel on their income asset allocation and the growth and protection mandates.

### **Factors taken into account**

#### **7. Consultation**

- 7.1. Employers within the Fund have been consulted throughout the process.

#### **8. Risk Implications and Mitigations**

<b>Risk</b>	<b>Mitigating Action (in place or planned)</b>
Additional time and cost from the Actuary when conducting the valuation.	Continue to work with the Actuary. Liaise with Hampshire Pension Services regarding the Data Improvement Plan.
Inaccurate and/or incomplete data retained by the Pension Fund.	All employers participating in the scheme are provided with Administration Guide and Employer Guide which sets out their roles and responsibilities whilst participating in the Scheme and understand what member data are required and the process for supplying it. Liaise with Hampshire Pension Services regarding the quality of data and how this can be improved. Liaise with the Actuary to ensure expectations are understood.

**9. Other Options Considered**

9.1. N/A

**10. Equality Duty**

10.1. N/A

**11. Social Value**

11.1. N/A

**12. Crime and Disorder Act Implications**

12.1. N/A

**13. Human Rights Implications**

13.1. N/A

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**Appendices**

**Appendix 1** Funding Strategy Statement showing amendments

**Background Papers:** None