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Report of the Director, West Yorkshire Pension Fund, to the meeting of Pension Board to be held on 19 April 2017.

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Subject: 2016 Actuarial Valuation

Summary statement:

The triennial actuarial valuation of the West Yorkshire Pension Fund (WYPF) has been prepared based on the situation at 31 March 2016, and has determined the level of employers' contributions for the period 1 April 2017 to 31 March 2020.

The results of the valuation are that WYPF is 94% funded, compared to the situation at 31 March 2013 when it was 96% funded.

As a result each of the five District Councils will see an increase in the total of their primary and secondary (deficit) contributions of less than 2% (based on the theoretical contributions 17/18).

Recommendations

- That this report be noted.

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Portfolio:

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Overview & Scrutiny Area:

1. Background

1.1 Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation be completed every three years by the actuary, to include a rates and adjustments certificate. The primary rate of employer's contributions to the fund should be set so as to secure its solvency. The actuary must have regard to the desirability of maintain as nearly as constant a primary rate of employers contributions as possible in addition to the requirement to secure the solvency of the pension fund and the long term cost efficiency of the scheme, so far as relating to the pension fund. The actuary must also have regard to the Funding Strategy Statement.

2. Position at previous valuation (2013)

2.1 WYPF was 96% funded as at 31 March 2013, as determined by the consulting actuaries, Aon Hewitt, based on the assumptions agreed by the Fund.

2.2 The common contribution rate at 31 March 2013 was set at 14.3% of payroll. This is the contribution rate required together with employee contributions, to cover the cost of service being accrued by active members. In addition to this amount some employers also have accrued a deficit. In order to recover the deficit an additional monetary amount has to be paid over a recovery period of up to 22 years.

2.3 The contribution rates set for the five District Councils at the last valuation were:-

Council	**2014/15**		**2015/16**		**2016/17**	
	Contribution Rate	Deficit Payment	Contribution Rate	Deficit Payment	Contribution Rate	Deficit Payment
Bradford	14.2%	Nil*	14.2%	Nil*	14.2%	Nil*
Leeds	13.6%	3,400,000	13.6%	3,700,000	13.6%	4,000,000
Calderdale	14.4%	1,490,000*	14.4%	1,520,000*	14.4%	1,550,000*
Kirklees	13.8%	Nil *	13.8%	Nil *	13.8%	Nil *
Wakefield	14.0%	4,500,000	14.0%	4,500,000	14.0%	4,500,000

*An amount was paid before 31March 2014 to cover the deficit contributions for the following 3 years. Therefore the amount certified is shown above because the following payments were made:

- Bradford paid £6.6M at 31 March 14
- Calderdale paid £1.5M at 31 March 14 so deficit amounts for following three years were reduced
- Kirklees paid £5.8M at 31.March 14

2.4 The theoretical deficit payment for 2017/18 from 2013 valuation and as notified to the districts were:

Council	Theoretical deficit payment 17/18 (from 2013 valuation)
Bradford	£4.2M
Leeds	£4.3M
Calderdale	£1.8M
Kirklees	£0.9M
Wakefield	£5.0M

3. 2016 Valuation

3.1 The results of the actuarial valuation as at 31 March 2016 show that the Fund is 94% funded, compared with 96% as at 31 March 2013.

3.2 The market value approach has been adopted, and the provisional figures provided by the consulting actuary, Aon Hewitt, are as follows:-

	2013 valuation £m	2016 valuation £m
Value of past service benefits		
Active Members	4,324.6	4,628.4
Deferred Members	1,432.6	1,801.5
Pensioners	4,653.9	5,524.9
Value of Liabilities	10,411.1	11,954.8
Assets	9,956.7	11,211.5
Past Service Deficit	454.4	743.3
Funding Ratio	96%	94%

4. Reasons for a change in the past service position

4.1 The valuation results using the 2016 basis show that the shortfall of £454.4M in the Fund at the previous valuation has become a deficit of £743.3M at this valuation.

4.2 The principal reasons for the change in the funding position are as follows:

- The change in the financial assumptions principally the fall in the discount rate relative to inflation (the discount rate is the expected future return on investments).

- Investment returns below the discount rate adopted at the 2013 valuation

These have been partially offset by the following main factors, which have improved the funding position:

- Lower than assumed pay and pensions increases

- Contributions paid by employers towards paying off deficit disclosed at the 2013 valuation

- A reduction in the real pay growth assumptions

- Changes to the demographic assumptions, in particular the short term longevity improvement assumptions

5. Primary contribution rate

5.1 The cost of future benefits has increased significantly (as a percentage of pensionable pay since the previous valuation). The main reasons for this are:

- The changes in the financial assumptions, principally the fall in the discount rate relative to inflation, and

- The material reduction in the assumed take-up of the 50/50 option in light of actual experience.

These have been partially offset by the changes in the demographic assumptions

5.2 The common contribution rate has been set at 16.2% of payroll.

6. Employer Deficit (Secondary) contributions

6.1 Additional employer contributions will be required to eliminate the deficit in the Fund at 31 March 2016.

6.2 At the 2013 valuation the Funds funding strategy was to broadly achieve a position of 100% funding over 22 years. (In practice the deficit recovery contributions were set based on each employer's or group of employers' underlying position using a recovery period appropriate to the employer).

6.3 As the assets and liabilities have increased over the period, the monetary amount of the deficit is larger than it was at the last valuation. The same recovery period has been adopted for this valuation (22 years) in effect extending the point at which full funding is being targeted.

7. Employers' Contribution Rates

7.1 Since the valuation date there have been a number of significant events, including the result of the Referendum on the UK's membership of the EU on 23 June and the US presidential election on 8 November. In part due to depreciation in the value of sterling, the returns achieved on the Fund since the valuation have been very strong and the Administering Authority asked the Fund Actuary to take this into account when setting the contributions for 2017/18 for the large 5 Councils, and the Police and Fire authorities.

7.2 As there is now a lot less flexibility within the LGPS Regulations in relation to the setting of employer contributions, the Actuary advised that in order to demonstrate that the contributions have been set to ensure the solvency and long-term cost efficiency of the Fund allowance must also be made for the reduction in expected future returns that have accompanied rising asset values. The proposed contributions as set out below therefore allow for the estimated position as at 30 September 2016. These will be the contribution amounts certified for 2017/18. With economic conditions being so uncertain, we need to take care that we do not find the fund in a materially worse position at the 2019 valuation, which would cast doubt on our approach of allowing for the improvements in the funding position between 31 March and 30 September 2016. As a result, we have asked the Actuary to revisit the position as at 30 September 2017 and 30 September 2018 with a view to increasing contributions from 1 April 2018 and 1 April 2019 if necessary, should the Actuary identify a significant increase in the contribution requirements.

7.3 The employers' contributions for the five District Councils and Police and Fire 2017/18 are:-

	Primary Contributions %	**Employer Deficit (Secondary contributions) £**
Bradford	17.5%	145,000
Leeds	15.6% (rising to 15.9% in 18/19 and 16.2 in 19/20)	Nil
Calderdale	17.5%	Nil
Kirklees	16.1%	Nil
Wakefield	17.4%	952,000
WY Police*	15.3%	Nil
WY Fire	17.2%	Nil

*WY Police Authority may elect to opt out from this arrangement.

8. Funding Strategy Statement

8.1 The Local Government Pension Scheme Regulations 2013 provide the statutory framework under which the Administering Authority is required to prepare a Funding Strategy Statement. The funding strategy statement was issued for consultation to all employers and members of Joint Advisory Group, Investment Advisory Panel and Pension Board members. No issues were raised during the consultation and the final version is now available on WYPF website.

9 Conclusion

9.1 At 94% funded, WYPF is in a sound financial position, and will be in a better funding position than most local authority pension funds at the 2016 valuation.

10. Actuarial Contract

10.1 The current Actuarial contract with Aon is due to end on the 30th June 2017. The process to retender the Actuarial contract using the National LGPS framework for Actuarial, Benefit and Governance Consultancy Service is currently underway.

11. Recommendations

- That this report be noted.