Report of the Director, West Yorkshire Pension Fund to the meeting of Joint Advisory Group to be held on 31 January 2019.

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Subject: 2019 Actuarial Valuation

Summary statement:

The next triennial actuarial valuation of the Fund will be prepared based on the situation at 31 March 2019, and will determine the level of employers' contributions from April 2020 onwards.

Recommendation

That this report is noted.

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Portfolio:

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Overview & Scrutiny Area:

1. SUMMARY

This report provides the Joint Advisory Group with a summary of the proposed approach to the actuarial valuation at 31 March 2019 by the Fund's actuary.

2. BACKGROUND

2.1 In accordance with the Local Government Pension Scheme Regulations the Fund is subject to an actuarial valuation by its appointed consulting actuary at 31 March 2019.

2.2 The main aims of carrying out an actuarial valuation of the Fund are to:

- Review the financial position of the fund,
- Determine the employers contribution rates; and
- Ensure that the legal requirements in relation to the actuarial valuation are met.

2.3 The Fund will work with the Funds Actuary to try and ensure, wherever possible, any changes to employer's contributions are minimal, to enable accurate budgeting by employers. This is consistent with the Regulations, which specify that the actuary must have regard to the desirability of maintaining as nearly constant a common rate as possible.

2.4 Meetings will be held once the valuation process has started to discuss the assumptions to be used by the Actuary in calculating the valuation of the Fund.

2.5 The last actuarial valuation at 31 March 2016 resulted in a funding level of 94%, with employers paying the aggregate employer future service contribution rate of 16.2% of pensionable pay. In addition some employers were required to pay additional monetary contributions to cover any deficits to restore the funding ratio to 100% using a recovery period of 22 years.

2.6 The contributions payable by each Employer or group of Employers may differ because they allow for each Employer's particular membership profile, funding ratio, assumptions and recovery periods appropriate to their circumstances.

3. Approach to the Valuation at 31 March 2019

3.1 The aim is for a valuation result with a minimal contribution change while keeping the funding risk at an acceptable level. The preferred primary tool for adjustment to achieve the acceptable level of contributions is the assumed rate of investment return.

3.2 Data needs to be submitted to the actuary by the Fund in summer 2016. Employers have been reminded that meeting the deadline for the year end returns is essential, as this will ensure that the data submitted to the actuary is as accurate as possible.

3.3 Under the Aon's risk based approach there are three key decisions to be made in relation to each employer in the Fund (in practice many employers can be grouped together for these decisions). These are:

- The solvency target for each employer.
- The trajectory period for each employer (i.e when you want to reach the solvency target).
- The required probability of funding success i.e how likely do you wish it to be that you achieve the solvency target by the end of the trajectory period.

3.4 The aim will continue to be to achieve 100% funding in due course.

3.5 The objective will be to maintain as steady a contribution rate for the main employers as is possible, as stated in 3.1. For the other employers there will be slightly differing approaches.

3.6 Unfortunately, the amount assessed by the Actuary as required to meet cost of paying benefits ("the liabilities") is likely to have increased. This is due to the low interest rate environment which has persisted much longer than most people expected.

3.9 The Funding Strategy Statement will be reviewed and employers formally consulted prior to the actuary issuing the results.

3.10 The Rates and Adjustments certificate, which forms part of the 2019 Actuarial Valuation, will set employers' contributions to be paid from 1st April 2020.

4. Training

4.1 The Actuary will be providing a training session immediately prior to this meeting for all Joint Advisory Group, investment AdvisoryPanel and Pension Board members as part of the preparation for the 2016 valuation.

5. Section 13 Report

5.1 The Government Actuary (GAD) has been appointed by the Ministry of Housing Communitiesand Local Government (MHCLG) to report under section 13 of the Public Service Pensions Act 2013 in connection with the Local Government PensionScheme (LGPS)

5.2 Section 13 of the Public Service Pensions Act 2013 requires the Goverment Actuary to report on whether four main aims are achieved, every three years

- compliance: whether the fund's valuation is in accordance with the scheme regulations
- consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS
- solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund

- long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

5.3 The results from the review of the 2016 valuation were issued in late September and GAD reported that in aggregate the LGPS is in a strong financial postion and funds have made significant progress since the 2013 valuation (a dry run exercise was carried out on the 2013 vautuion results).

5.4 WYPF was assessed against a number of metrics, which it passed, however the Fund was flagged as amber under GAD's assest shock metric. GAD have included a comment in the report about Metroploitan funds being more likely to trigger on the assest shock metric but whilst they acknowledge that this isn't due to differences in investment strategies, they don't really seem to have considered what the cause might be.

5.5 All four Actuarial firms have some concerns about the report and have issued a joint letter to Cllr Phillips as Chair of the Scheme Advisory board about their concerns. These concerns relate to GAD's

- lack of recognition of the LGPS's updated financial position and outlook;
- approach to engagement during the process;
- interpretation of consistency as applied to LGPS funding plans; and
- understanding of LGPS funding plans and expectation of how deficit recovery plans should be set.

6. Recommendation

6.1 That this report is noted.