

Report of the Director, West Yorkshire Pension Fund to the meeting of Joint Advisory Group to be held on 30 January 2020

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Subject: 2019 Actuarial Valuation and consultation on the draft Funding Strategy Statement

Summary statement:

The triennial actuarial valuation of the West Yorkshire Pension Fund (WYPF) is being prepared based on the position at 31 March 2019, and will determine the level of employers' contributions for the period 1 April 2020 to 31 March 2023.

The indications are that WYPF will be 106% funded, compared to the situation at 31 March 2016 when it was 94% funded.

As a result each of the five district councils will see a slight reduction in their employer contributions.

Recommendations

- That this report be noted.
- That the draft Funding Strategy Statement is approved

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Overview & Scrutiny Area:

1. Background

- 1.1 In accordance with the Local Government Pension Scheme Regulations the Fund is subject to an actuarial valuation by its consulting actuary as at 31 March 2019.
- 1.2 Employer contributions and funding levels are determined as part of the actuarial valuation. 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 (2016)

- 2.1 WYPF was 94% funded as at 31 March 2016, as determined by the consulting actuary, Aon, based on the assumptions agreed by the Fund.
- 2.2 The common contribution rate at 31 March 2016 was set at 16.2% 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 had accrued a deficit. In order to recover the deficit an additional monetary amounts were certified using a 22 year recovery period.
- 2.3 The contribution rates set for the five District Councils at the last valuation were:-

Council	2017/18		2018/19		2019/20	
	Contribution Rate	Deficit Payment	Contribution Rate	Deficit Payment	Contribution Rate	Deficit Payment
Bradford	17.5%	145,000	17.5%	149,700	17.5%	154,600
Leeds	15.6%	Nil	15.9%	Nil	16.2%	Nil
Calderdale	17.5%	Nil	17.5%	Nil	17.5%	Nil
Kirklees	16.1%	Nil	16.1%	Nil	16.1%	Nil
Wakefield	17.4%	962,00	17.4%	982,900	17.4%	1,014,900

3. 2019 Valuation

- 3.1 The provisional results of the actuarial valuation as at 31 March 2019 indicate that the Fund is 106% funded, compared with 94% as at 31 March 2016.
- 3.2 The market value approach has been adopted, and the provisional figures provided by the consulting actuary, Aon, are as follows:-

	2016 valuation £m	2019 valuation £m
Value of past service benefits		
Active Members	4,626.5	5,180.7
Deferred Members	1,803.4	2,050.7
Pensioners	5,536.0	6,264.8
Value of Liabilities	11,965.9	13,496.2
Assets	11,211.5	14,363.0
Past Service Surplus/ (Deficit)	(754.4)	866.8
Funding Ratio	94%	106%

4. Reasons for changes in the past service position

- 4.1 The initial valuation results using the 2019 basis show that the shortfall of £754.4M in the Fund at the previous valuation has become a surplus of £866.8M at this valuation.
- 4.2 The principal reasons for the change in the funding position are as follows:

- Investment returns above the discount rate adopted at the 2016 valuation
- Lower than assumed pay growth on pre 2014 benefits in the period
- A reduction in the real pay growth assumptions
- Changes to the demographic assumptions, particularly longevity

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

- 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).
- Pension increases and revaluation on pension accounts being higher than assumed.
- Membership experience

5. Summary of Key Assumptions

	2016 valuation	2019 valuation
Probability of Funding Success	69%	75%
Discount Rate – scheduled bodies	4.7%	4.35%
Discount Rate – orphan bodies		
In service	4.1%	3.3%
Left service	2.5%	1.6%
Discount rate - intermediate	n/a	4.1%,3.95%,3.8%
CPI pension increase	2%	2.1%
Pay growth	3.25%	3.35%

6. Primary contribution rate (future service cost)

6.1 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
- An allowance has been made for the outcome of cost cap/McCloud

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

6.2 The Primary contribution rate at 2016 was 16.2% and at 2019 is 18.6% of payroll.

7. Employer contributions

7.1 At the 2016 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.

7.2 As the Fund/main employers are now in surplus the Fund will maintain a recovery period of 22 years rather than amortising surplus over a shorter period.

7.3 For employers which are still in deficit additional employer contributions will be required to eliminate the deficit at 31 March 2019.

8. Employers' Contribution Rates

The proposed employer contribution rates for the five district councils for 2020/21 to 2022/23 will be:

	Primary contributions %		
	2020/21	2021/22	2022/23
Bradford	17.1%	17.1%	17.1%
Leeds	15.9%	15.9%	15.9%
Calderdale	17.1%	17.1%	17.1%
Kirklees	15.9%	15.9%	15.9%
Wakefield	17.5%	17.5%	17.5%

However with economic conditions being so uncertain, the Fund needs to take care that it does not find itself in a materially worse position at the 2022 valuation. The five councils have therefore agreed that the Funds Actuary will be asked to review the funding position annually. If necessary, should the Actuary identify that the funding position has deteriorated an increase in the contributions may be required.

9. Funding Strategy Statement

- 9.1 The Local Government Pension Scheme Regulations 2013 provide the statutory framework under which the Administering Authority is required to prepare a Funding Strategy Statement, and consult interested parties on its contents. Attached at Appendix A is the draft Funding Strategy Statement for the 2019 Valuation.
- 9.2 The draft Funding Strategy Statement has been consulted on with all stakeholders with a closing date of the 10 January. A summary of comments received are shown at Appendix B.

10. Conclusion

- 10.1 At 106% funded, WYPF is in a sound financial position, and will be in a better funding position than most local authority pension funds at the 2019 valuation.

11. Recommendations

- That this report be noted.
- That the draft Funding Strategy Statement is approved.

12. Appendix

- Appendix A – Draft Funding Strategy Statement (with tracked changes)
- Appendix B – Summary of comments received from the draft Funding Strategy Statement consultation