

## CLWYD PENSION FUND COMMITTEE

<b>Date of Meeting</b>	Wednesday, 12 <sup>th</sup> June 2019
<b>Report Subject</b>	2019 Actuarial Valuation
<b>Report Author</b>	Clwyd Pension Fund Manager

### EXECUTIVE SUMMARY

This is the first report of what is anticipated to be a series of regular reports for all future Committee meetings throughout 2019/20 until the conclusion of the actuarial valuation project. Future reports will be updated as progress is made and developments occur. The purpose of the report is to provide an update on the actuarial valuation project as at June 2019. The actuarial valuation project is critical to the good governance of the Clwyd Pension Fund (CPF).

The main progress so far on the project has been made in the following areas:

- Meetings have taken place to discuss the high level valuation indications with Fund officers (9<sup>th</sup> May) and the Unitary Authorities finance representatives (21<sup>st</sup> May).
- The Actuary has performed the demographic analysis calculations for the Fund. The Actuary has communicated the summary impact to Fund officers and employers as part of the meetings above. The estimated funding level based on a provisional set of revised assumptions was 91.1%. A summary of the initial estimated valuation outcome and associate issues is set out in Appendix 2.
- A consultation on “Changes to the Local Valuation Cycle and Management of Employer Risk” was published on 8<sup>th</sup> May 2019 with a close date for responses of 31 July 2019. This is primarily a consultation on moving the LGPS valuation cycle from 3 to 4 years from 2024 and introduces the ability for Administering Authorities to undertake interim valuations and/or employer contribution reviews mid-valuation cycle if certain conditions are met in the Funding Strategy Statement. This is a critical consultation for the Fund as the valuation is a critical part of the governance structure. A draft response to the consultation from the Fund is enclosed as Appendix 3 for approval.

The Committee will be kept updated regularly on the progress of the valuation at future meetings.

## RECOMMENDATIONS

1	It is recommended that all Committee members note this report, the progress being made with the actuarial valuation project and the planned meetings with employers.
2	That Committee members consider the draft response to the consultation and provide comments and required amendments. The Committee is asked to then delegate the finalisation of the response to officers.

## REPORT DETAILS

<b>1.00</b>	<b>2019 Actuarial Valuation Update</b>
1.01	<p><b><u>Background</u></b></p> <p>Legislation requires that every three years, an actuarial valuation is performed by the Fund Actuary in order to assess the overall funding position of the Fund, and to determine the employer contributions for the following three years.</p> <p>The actuarial valuation represents a major activity in managing the Clwyd Pension Fund and acts as a key governance tool to shape its direction.</p> <p>The effective date of the actuarial valuation is 31 March 2019, and the employer contributions that will be certified by the Fund Actuary are expected to be for the three-year period 2020/23 (or potentially a 5 year period depending on the outcome of the consultation).</p> <p>There are a number of national issues that will affect the 2019 actuarial valuation:</p> <ul style="list-style-type: none"><li>• <b>The Cost Management Process</b> - The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.</li></ul> <p>As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.</p> <p>The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to the McCloud case discussed below.</p> <ul style="list-style-type: none"><li>• <b>McCloud/Sergeant</b> – These are age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other public sector schemes).</li></ul>

	<p>It is not known how these cases will affect the LGPS or the cost management process at this time. The Scheme Advisory Board issued guidance which sets out how the McCloud case should be allowed for within the 2019 valuation.</p> <p>The potential impact of the judgement/cost management outcome will need to be quantified and communicated to employers to ensure that they are able to make provisions within their budgets accordingly.</p> <p>The Committee will be updated on the progress of the case throughout the valuation process.</p> <p>During previous valuations, the Clwyd Pension Fund Officers and the Clwyd Pension Fund Committee have conducted the process in an open and transparent way by working closely with key stakeholders at the Fund employers. This has worked well from all perspectives, and it is planned that the same partnership-orientated approach will be adopted for the 2019 valuation.</p>
1.02	<p><b><u>Process</u></b></p> <p>The valuation project can generally be split into three categories:</p> <ul style="list-style-type: none"> <li>• <b>Initial planning and strategy</b> for the Fund and employers - includes the review and update of the Funding Strategy Statement (FSS) in the light of discussions.</li> <li>• <b>Data provision and actuarial calculations</b>, including collection of the renewal data from the employers, quality testing and the actuarial calculations.</li> <li>• <b>Finalise results and formally certify contribution requirements</b> - includes the conclusion of the FSS consultation and its ratification by the Committee. The employers can consider their results and liaise with the Fund (including the actuary as required) to arrive at the final results within agreed parameters as documented in the FSS.</li> </ul> <p>Appendix 1 provides an overview of the project plan in relation to the 2019 actuarial valuation which now includes the known scheduled meeting dates for 2019/20 and also highlights the key milestones in the coming months with regard to data provision and the delivery of results.</p>
1.03	<p><b><u>Progress to date</u></b></p> <p>The Fund provided membership data to the Actuary in order to commence the demographic analysis exercise. This exercise determined the appropriate assumptions to adopt for the future e.g. the future life expectancy, expected ill health retirement rates, expected withdrawal rates from the Fund etc. The calculations have been completed and the final recommendations are currently being completed.</p> <p>During May 2019, the Actuary updated Fund officers and Councils on the indicative results for the whole Fund and Councils. A summary of these results and associated issues is set out in Appendix 2. This was based on market conditions at the valuation date (31 March 2019), initial return expectations and the initial results of the demographic analysis. Full analysis and proposals on the actuarial assumptions is being completed by</p>

	<p>the Actuary over the next few months. In addition, data is being gathered to analyse the covenant (including contribution affordability) of all employers. This will inform the outcome of the valuation at employer level.</p> <p>The estimated funding level based on a provisional set of revised assumptions was 91.1%. A summary of the initial estimated valuation outcome and associate issues is set out in Appendix 2.</p> <p>The next stage of the actuarial valuation process will see the Actuary and Fund officers commence discussions regarding the updates required for the Funding Strategy Statement. The consultation with employers is expected to commence during September/October 2019. As part of the consultation on the FSS the Fund will continue dialogue with all employers over the coming months.</p> <p>We expect that the membership data required for the actuarial valuation calculations will be provided to the Actuary during early July. The formal calculations will commence at that point with employer results expected during September 2019.</p> <p>The PFC is asked to note the contents of the 2019 actuarial valuation Project Plan, the outline above of the discussions that have taken place over 2019 and the estimated position at 31 March 2019 based on the provisional set of actuarial assumptions.</p>
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<b>2.00</b>	<b>Changes to the Local Valuation Cycle and the Management of Employer Risk</b>
2.01	<p>On 8 May the MHCLG announced a consultation under the title “Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk”. The full document can be found <a href="#">here</a>. It is a series of 19 questions which each require a response.</p> <p>The key proposals in the consultation are as follows:</p> <ul style="list-style-type: none"> <li>• to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one with effect from 2024. The MHCLG’s preferred option for transitioning into this is to allow the 2019 valuation to complete as anticipated (with an output of three years’ contribution requirements), and then have an out-of-cycle valuation performed in 2022 (with an output of two years’ contribution requirements).</li> <li>• the introduction of a power for LGPS funds to undertake interim valuations (in full or in part).</li> <li>• the widening of the power that allows LGPS administering authorities to amend an employer’s contribution rate in between valuations.</li> <li>• the introduction of a ‘deferred employer’ status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong covenant.</li> <li>• allowing an exit payment calculated on a full “buy-out” basis to be recovered over a period of time for cases where ‘deferred employer’</li> </ul>

	<p>status might not be appropriate.</p> <ul style="list-style-type: none"> <li>• a review of the arrangements for paying exit credits in cases where risk sharing provisions exist within the contractual agreements with an employer.</li> <li>• a removal of the requirement for further education corporations, sixth form college corporations and higher education corporations (in England <b>only</b>) to offer membership of the LGPS to their non-teaching staff for new entrants</li> </ul>
2.02	<p>The actuarial valuation and management of employer risk is a key governance tool and is meant to control the risks relating to the CPF's funding position and employer contributions requirements. It is therefore critical that the Fund and employers respond to the consultation to ensure that the outcome is fit for purpose and provides us with the ability to manage cost and risk effectively in the short and long term. The implementation of the outcome of the consultation will need to be done as part of the 2019 valuation as the Fund will need to amend existing policies and implement new policies as a consequence. These will be documented in the Funding Strategy Statement.</p>
2.03	<p>In conjunction with the Fund Actuary a response to the consultation has been drafted for approval by the Committee. The Committee is requested to provide comments and amendments required so officers can update the response and submit this by the consultation end date.</p>

<b>3.00</b>	<b>RESOURCE IMPLICATIONS</b>
3.01	<p>None directly as a result of this report. Significant resource requirements will be required from the administration and investment teams to complete the process.</p>

<b>4.00</b>	<b>CONSULTATIONS REQUIRED / CARRIED OUT</b>
4.01	<p>The Fund is required to consult with employing bodies over the development of the FSS and overall framework of the actuarial valuation. Data is also required to be supplied to the GAD to complete their Section 13 actuarial valuation requirements for all LGPS valuations.</p>

<b>5.00</b>	<b>RISK MANAGEMENT</b>
5.01	<p>This report addresses some of the risks identified in the Fund's Risk Register. Specifically, this covers the following (either in whole or in part):</p> <ul style="list-style-type: none"> <li>• Governance risk: G2</li> <li>• Funding and Investment risks: F1 - F6</li> </ul>
5.02	<p>The actuarial valuation is a key Governance tool and is meant to control the risks relating to the CPF's funding position and employer contributions requirements. The funding strategy (along with the investment strategy) which comes from the actuarial valuation is a key determinant of the overall financial risk levels in the CPF.</p>

5.03	The recent market volatility has increased the relative risk levels in relation to the Fund's solvency position and the required contribution rates from 1 April 2020.
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<b>6.00</b>	<b>APPENDICES</b>
6.01	Appendix 1 – Actuarial Valuation Project Plan Appendix 2 – Short paper on the indicative valuation results Appendix 3 – Draft Response to the consultation on the “Changes to the Local Valuation Cycle and the Management of Employer Risk”

<b>7.00</b>	<b>LIST OF ACCESSIBLE BACKGROUND DOCUMENTS</b>
7.01	Current FSS and 2016 Actuarial Valuation report.  <b>Contact Officer:</b> Philip Latham, Clwyd Pension Fund Manager <b>Telephone:</b> 01352 702264 <b>E-mail:</b> philip.latham@flintshire.gov.uk

<b>7.00</b>	<b>GLOSSARY OF TERMS</b>
8.01	<p>(a) <b>CPF – Clwyd Pension Fund</b> – The Pension Fund managed by Flintshire County Council for local authority employees in the region and employees of other employers with links to local government in the region</p> <p>(b) <b>Administering authority or scheme manager</b> – Flintshire County Council is the administering authority and scheme manager for the Clwyd Pension Fund, which means it is responsible for the management and stewardship of the Fund.</p> <p>(c) <b>PFC – Clwyd Pension Fund Committee</b> - the Flintshire County Council committee responsible for the majority of decisions relating to the management of the Clwyd Pension Fund</p> <p>(d) <b>LPB or PB – Local Pension Board or Pension Board</b> – each LGPS Fund has an LPB. Their purpose is to assist the administering authority in ensuring compliance with the scheme regulations, TPR requirements and efficient and effective governance and administration of the Fund.</p> <p>(e) <b>LGPS – Local Government Pension Scheme</b> – the national scheme, which Clwyd Pension Fund is part of</p> <p>(f) <b>FSS – Funding Strategy Statement</b> – the main document that outlines how we will manage employers contributions to the Fund</p> <p>(g) <b>Actuarial Valuation</b> - The formal valuation assessment of the Fund detailing the solvency position and determine the contribution rates payable by the employers to fund the cost of benefits and make good</p>

any existing shortfalls as set out in the separate Funding Strategy Statement.

(h) **Actuary** - A professional advisor, specialising in financial risk, who is appointed by pension Funds to provide advice on financial related matters. In the LGPS, one of the Actuary's primary responsibilities is the setting of contribution rates payable by all participating employers as part of the actuarial valuation exercise.

(i) **GAD – Government Actuary's Department** - The Government Actuary's Department is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.