

# Pensions Board

24 January 2017

<b>Report title</b>	2016 Actuarial valuation process	
<b>Originating service</b>	Pensions	
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## Recommendations for noting:

The Board is asked to note:

1. The process undertaken by the Fund to deliver the 2016 actuarial valuation for both the West Midlands Pension Fund (Main Fund) and the West Midlands Integrated Transport Fund (WMITA Fund).

## 1.0 Purpose

- 1.1 To provide an overview of the valuation process to enable the Local Pensions Board to review the 2016 valuation process.

## 2.0 Background

- 2.1 Regulation 62 of the Local Government Pension Scheme Regulations 2013 requires Administering Authorities to obtain every three years, an actuarial valuation of the Fund assets and liabilities as at 31 March. The 2016 valuation and associated actuarial valuation report and rates and adjustments actuarial certificate (specifying individual employer contributions) prepared by the Fund Actuary, must be obtained by 31 March 2017.

- 2.2 Through the actuarial valuation process, the Administering Authority is required to:

- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a Funding Strategy Statement (FSS) after proper consultation with interested parties
- monitor all aspects of the Fund's performance and funding, and amend the FSS (and Investment Strategy Statement (ISS) as required) accordingly
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and scheme employer
- enable the local pension board to review the valuation process as set out in their terms of reference.

- 2.3 Regulation 58 of the Local Government Pension Scheme Regulations 2013 provides the statutory framework from which LGPS administering authorities are required to prepare and maintain the FSS.

In preparing the FSS, the administering authority must have regard to:

- CIPFA guidance – *“Preparing and Maintaining a funding strategy statement in the LGPS – 2016 edition”*
- Its statement of investment principles (SIP) or investment strategy statement (ISS), whichever is appropriate.<sup>1</sup>

A revised FSS, updated for the purposes of undertaking the 2016 actuarial valuation, has been prepared by the Fund, following advice from the Fund Actuary. This has been published for consultation. It will be finalised and approved by the Pensions Committee prior to the completion of the valuation.

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<sup>1</sup> Under The Local government Pension Scheme (Management and Investment of Funds) Regulations 2016, the current SIP will be replaced by a new ISS from April 2017.

### **3.0 Process overview**

- 3.1 The diagram in Appendix 1 summarises the process followed to deliver the actuarial valuation, including the key stages, considerations and influencing factors. There have been a number of changes since the 2013 actuarial valuation which have driven a change in approach for 2016.
- Updated LGPS regulations and CIPFA guidance – together these encapsulate a change in focus, moving away from contributions stability and towards sufficiency and timeliness to ensure solvency and efficiency, with a greater focus on risk of employer default.
  - Introduction of an independent actuarial review of all LGPS fund valuations and funding KPIs – the Government Actuary Department (GAD) will review and report on the outcomes under section 13 of the Public Service Pensions Act 2013 and the Scheme Advisory Board (SAB) will measure “success” through a suite of KPIs.
  - LGPS cost review – following completion of the 2016 valuations two “cost cap” review processes will run to check the cost of the new LGPS 2014 Career Revalued Average Earnings (CARE) Scheme against a notional benchmark set when the scheme was introduced.
  - New team – the above changes have impacted the advice and approach of fund actuaries and the Fund has also changed Fund actuary since 2013, replacing Mercer with Barnett Waddingham in 2015 following a competitive tender process.
- 3.2 Elements of the process undertaken are described in more detail below. The cost reviews will be undertaken by GAD and SAB over the course of 2017 and are independent of the local funding valuation but could lead to changes in Scheme benefits and/or member contributions rates in the future which may impact on future funding reviews. The Scheme Advisory Board and both the valuation and cost reviews were introduced by the Public Service Pension Act 2013.
- ### **4.0 Collation of data and information**
- 4.1 The Fund has undertaken separate exercises to collate and review data and information about scheme members and employers to inform the valuation process. In addition to reviewing Fund membership data and experience, the Fund actuary has drawn on market information and the Fund investment strategy to inform his advice on the actuarial assumptions.
- 4.2 Additional data needed to be collated for the 2016 actuarial valuation to allow for the introduction of the new CARE scheme from April 2014. A new “Universal Valuation Data” extract was agreed by all the actuarial firms and administration software providers and Fund officers have worked closely with both parties to enable extraction of new data in the new format to facilitate the 2016 actuarial valuation and GAD review. Membership data has been reviewed by the Fund Actuary with any queries addressed and resolved.

4.3 Employer information and data has been collated through both public information sources and targeted employer questionnaires (tailored to employer-type e.g. education sector) to inform the employer covenant review and enable greater integration with funding and investment strategy. In some cases additional information has been sought or provided by employers to allow a more detailed review of their financial capacity.

## **5.0 Developing strategy and the funding strategy statement**

5.1 Since the 2013 actuarial valuation the Fund employer base has significantly expanded and changed in terms of financial backing and support for meeting any unpaid pension liabilities. Many employers are also under increasing financial pressures driven directly or indirectly from funding cuts and austerity measures, increasing the likelihood of default. To protect all employers from the risk of employer default, the Fund has more closely integrated the funding strategy and covenant monitoring framework as part of the 2016 valuation.

5.2 As part of the 2016 actuarial valuation the Fund has;

- reviewed and updated the in-house covenant monitoring framework
- obtained bespoke covenant advice for individual cases where the financial risks or changes within a sector are a material concern to the Fund; and
- reviewed the legal aspects of admission agreements, existing guarantee arrangements and any individual funding arrangements

5.3 The Fund investment strategy is under review alongside the 2016 actuarial valuation, as returns (together with employer contributions) form a key component of enabling the Fund to pay pensions when they fall due. The Fund Actuary has provided advice on the funding strategy and the integration of the investment strategy, outlook for returns and employer covenant segmentation within this.

5.4 The Fund commissioned an independent review and benchmarking of Fund life expectancy and mortality rates through Hyman Robertson's Club Vita service and the outcomes of this have been incorporated into the actuarial advice. As part of the 2016 actuarial valuation the Fund is facilitating access to insurance to cover unplanned ill health benefit strain costs and help employers manage their liabilities.

5.5 The Fund has developed the draft 2016 funding strategy statement (FSS) in conjunction with the Fund Actuary taking into account the most up-to-date guidance issued by CIPFA in September 2016 and the GAD Section 13 "dry run" report issued in August 2016. The FSS reflects the advice obtained by the Fund, discussions with other funds and their advisers, review of the preliminary valuation outcomes and the implications for employer contributions and initial feedback from employer consultation meetings in November 2016.

## 6.0 Consultation

- 6.1 The Fund has been reviewing and consulting on the funding strategy throughout 2016. Discussions have been held with a number of groups of employers (representatives from district councils, the universities, academies through the Birmingham Association of School Business Managers and the WMITA employers as well as the employer peer group), employers in the FE sector undergoing re-structuring through the Area Review process and other individual meetings have been held on request.
- 6.2 Consultation activity has included;
- a number of valuation briefings to employers in June/July 2016,
  - issue of a special briefing note in July 2016.
  - Issue of preliminary results to all employers in November 2016 and a number of consultation meetings in December 2016/January 2017
  - presentation by the Actuary at the Fund AGM at the end of November
  - draft funding strategy statement issued to all employers and posted on the Fund website in December 2016
  - reminders (via email and the employer briefing) issued advertising the one-to-one consultation meeting dates available and the consultation deadline of 31 January 2017.
- 6.3 Separate discussions have taken place with the employers of the WMITA Fund and their advisers. As this Fund is closed to new members, supported by two private sector companies and is significantly more mature than the Main Fund, the funding (and investment) strategy is being considered in the context of the “wind-down” of this Fund and greater need to mitigate employer covenant risk. In addition, following comments made in relation to the WMITA Fund in the GAD Section 13 “dry run” report, the Fund has an open dialogue with GAD on the measures being taken to manage the inherent funding risk in the WMITA Fund, with a view to reducing the references to this Fund in the GAD 2016 report.
- 6.4 Throughout the consultation process Fund officers have managed any potential/perceived conflicts of interest through dialogue with the parties involved. In general, information about an individual employer would not be shared with any other party (e.g. guarantor, other interested party) without the consent of the employer concerned. For the purposes of the actuarial valuation, the Fund has informed employers of the intention to share funding information with their guarantor on request unless the employer explicitly requests otherwise.
- 6.5 The Section 151 officer of the Administering Authority has attended both meetings of the Pension Committee, the West Midlands Finance Directors Group and meetings to discuss individual associated employers, where relevant. In each case potential conflicts have been declared and managed.

## **7.0 Conclusion**

- 7.1 Queries and comments raised throughout the consultation process are being recorded and individual responses will be issued, as required, before issue of the response and final FSS in February 2017.

The Fund Actuary will then make any final adjustments to the results and the Fund will issue final results to all employers, confirming the contributions effective from April 2017 through to March 2020. The associated valuation reports and rates and adjustment certificates for both Funds (Main and WMITA) will be finalised and in place by 31 March 2017.

## **8.0 Financial implications**

- 8.1 The outcomes at the 31 March 2016 determine the level of contributions the Fund aims to collect over the three years to March 2020. The level of contributions collected will impact on funding development of the scheme and its solvency and ability to pay pensions, efficiently over the long term.

The contribution requirements set for individual employers may have financial implications for participating employers and could impact on their ability to operate and deliver services.

## **9.0 Legal implications**

- 9.1 Completion of the actuarial valuation by 31 March 2017 is a statutory obligation. Any extension to this deadline can only be granted by the Secretary of State. The outcomes of the GAD Section 13 review could (under clause 8 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 effective from 1 November 2016) trigger Secretary of State intervention in the funding and investment strategy.

## **10.0 Equalities implications**

- 10.1 None

## **11.0 Environmental implications**

- 11.1 None

## **12.0 Human resources implications**

- 12.1 None

## **10.0 Corporate landlord implications**

- 10.1 None

## 11.0 Schedule of background papers

The Local Government Pension Scheme Regulations 2013

- Link to regs <http://www.lgpsregs.org/index.php/regs-legislation/timeline-regulations-2014>

CIPFA guidance on preparing a funding strategy statement – 2016 edition

- (copy available on request)

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

- Link to regs <http://www.legislation.gov.uk/uksi/2016/946/contents/made>

West Midlands Pension Fund, 2016 Funding Strategy Statement (DRAFT)

- Link to website <http://www.wmpfonline.com/CHttpHandler.ashx?id=11566&p=0>

West Midlands Pension Fund, 2016 Statement of Investment Principles

- Link to website <http://www.wmpfonline.com/CHttpHandler.ashx?id=7813&p=0>

## 12.0 Appendices

### 12.1 Appendix 1 – process overview