

# Pensions Committee

22 March 2017

<b>Report title</b>	2016 Actuarial Valuation and Funding Strategy Statements	
<b>Originating service</b>	Pension Services	
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## Recommendations for action or decision:

The Committee is asked to approve:

1. The attached Funding Strategy Statements for both the West Midlands Pension Fund (“Main fund”) and the West Midlands Integrated Transport Fund (“ITA Fund”).

## Recommendations for noting:

The Committee is asked to note:

1. The consultation undertaken in relation to the 2016 actuarial valuation.
2. The progress made towards finalising the valuation and planned delivery of the Actuary’s valuation report and rate and adjustments certificate by the statutory deadline of 31 March 2017.

## **1.0 Purpose**

- 1.1 To update Committee on the consultations undertaken as part of the 2016 actuarial valuation and present the revised Funding Strategy Statements for both the Main Fund and ITA Fund for approval.

## **2.0 Background**

- 2.1 The Fund is required to carry out an actuarial valuation every three years and review and set the funding strategy and employer contribution rates for the following three years. As part of the valuation, effective 31 March 2016, the Fund Actuary will certify the employer contribution rates due for the three years 2017/18 – 2019/20. The Actuary's report and certificate must be obtained by the Fund by the statutory deadline of 31 March 2017.
- 2.2 The Actuary prepares the valuation based on the Fund's own Funding Strategy Statement (FSS), which has been updated since it was last reviewed in 2014, to reflect the changing regulations and updated actuarial advice received as part of the 2016 actuarial valuation. The FSS forms an integral part of the valuation, as it sets out the Administering Authorities strategy and policy on funding scheme benefits.
- 2.3 A key change to the funding strategy in 2016/17 is a greater integration of the Fund's employer covenant risk framework with the funding strategy, which has led to the categorisation of scheme employers and differentiation in approach (and therefore contribution outcomes) for employers in different groups.
- 2.4 The draft FSS for the Main Fund was issued to employers for consultation in December, following a series of employer presentations on the subject in November 2016. Fund officers have been discussing individual funding strategies with the employers participating in the ITA Fund following issue of preliminary results in November 2016.
- 2.5 Consultation formally closed on 31 January 2017, although discussions with a number of employers have continued into February and early March 2017.

## **3.0 Consultation**

- 3.1 The Fund issued preliminary valuation results to employers in November 2016 and has subsequently engaged in dialogue with employers to discuss their contribution outcomes, employer categorisation and funding strategy (including actuarial assumptions) as a whole. Over the period to 31 January 2017:
- 179 employer representatives attended group consultation meetings
  - Over 100 responses have been received through the consultation enquiry submission process (via on-line survey)
  - Fund officers have met with almost 100 different employers and held/attended group meetings with different categories of employer and met with other representative groups

- 3.2 Overall, the Fund officers estimate the consultation exercise has engaged employers covering over 98% of the total liability. The Main Fund draft FSS was circulated to all employers and posted on the Fund website in December 2016.
- 3.3 Feedback from the consultation process has focused on four main areas
- The increase in the level of the future service contribution rate
  - Classification of employers into risk groups
  - The reduction in the deficit recovery plan period
  - Individual employer data and liability queries
- 3.4 Overall, responses have been triggered by an increase in the level of contributions requested by the Fund. For many employers, this comes at a time when they have additional and completing strains on their finances, with some sectors going through significant change (and restructure) increasing the complexity of discussions within this review. During the consultation process, the Fund has collated additional information to enable individual employer circumstances and updated financial information to be taken into account in review of individual employer contribution plans.
- 3.5 In response to feedback from employers, the Fund (following the advice of the Fund Actuary) has provided some easement to employers through phasing increases in contributions and offering alternative payment profiles with a slight reduction in contributions for advance payment. In some cases, lower contributions have been agreed in exchange for the employer providing some form of additional security or guarantee to the Fund, to mitigate employer covenant risk.
- 3.6 Final contribution arrangements are currently being set and confirmed with the Fund Actuary for inclusion in the 2016 actuarial valuation report and rates and adjustments certificate. It is expected that the Fund will receive over £800 million in contributions due from employers, in advance, during April 2017.

#### **4.0 Funding Strategy Statements**

- 4.1 The Funding Strategy Statements for both funds have been prepared based on the guidance provided and updated by CIPFA in September 2016 and reviewed by the Fund Actuary. They include
- An outline of how the FSS works alongside the employer covenant framework and investment strategy statement;
  - The aims and objectives of the funding strategy;
  - An explanation of the “primary” (cost of ongoing benefits accrual) and “secondary” (deficit recovery) elements of employer contribution rates;
  - A summary of the underlying method and assumptions, and how these vary by employer category; and
  - Additional considerations relating to some employer groups (e.g. academies)

4.2 These statements reflect feedback received from employers during the consultation process. Committee is asked to review and approve the statements to enable completion of the actuarial valuation.

4.3 The updated CIPFA guidance requires Funds to enable their Local Pension Board to review the valuation process. At the request of the Board, the valuation process was considered at the Board's meeting in January. No comments or suggested changes were received from the Board.

## **5.0 Actuarial valuation report and rates and adjustment certificate**

5.1 Subject to completing final discussions with employers and approval of the accompanying FSS, the Fund Actuary will complete and sign his report to the Fund by 31 March 2017. A copy of this report will be published on the Fund website. Once certified in the rates and adjustment certificate by the Actuary, the contributions become a legal obligation on Fund employers.

5.2 The Fund will continue to monitor receipt of contributions, at the revised rates, from April 2017.

## **6.0 Financial implications**

6.1 The results of the 31 March 2016 actuarial valuation may have financial implications for participating employers in setting employer contribution rates for the three years commencing April 2017.

## **7.0 Legal implications**

7.1 The report has potential legal implications in that the outcomes of the GAD Section 13 could (based on the draft investment regulations) trigger Secretary of State intervention in the funding and investment strategy.

## **8.0 Equalities implications**

8.1 This report contains no equal opportunities implications.

## **9.0 Environmental implications**

9.1 This report contains no environmental implications.

## **10.0 Human resources implications**

10.1 This report contains no direct human resources implications.

## **11.0 Corporate landlord implications**

11.1 This report contains no direct corporate landlord implications.

## **12.0 Schedule of background papers**

- 12.1 Pensions Committee Reports 14 September 2016 and 7 December 2017 (PRIVATE) - Actuarial Valuation 2016 Update.
- 12.2 Pension Board Report 24 January 2017 – 2016 actuarial valuation process

## **13.0 Schedule of Appendices**

- 13.1 Appendix 1 - WMPF 2016 Funding Strategy Statement
- 13.2 Appendix 2 - WMITAPF 2016 Funding Strategy Statement