	Pension Fund Committee **26 June 2018**
Title	**Scheme Funding Update**
Report of	Director of Finance
Wards	All
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Actuarial update as at 31 March 2018 Appendix B – Report from Government Actuary's Dept.
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Summary

The rate of contributions paid by employers is assessed every three years by the Scheme Actuary. The next review date is 31 March 2019. Attached is an updated funding position as at 31 March 2018. This provides an indication of the changes in the funding position since the last triennial valuation.

The Government Actuary's Department (GAD) has reviewed Barnet's 2016 actuarial valuation and their scorecard is attached. They have noted that Barnet has one of the lowest (bottom decile) funding positions of LGPS funds.

Recommendations

1. **That the Pension Fund Committee note the funding update and the GAD scorecard.**

1. WHY THIS REPORT IS NEEDED

1.1 The Committee are responsible for appointing a scheme actuary and commissioning a triennial actuarial valuation in addition to formulating long term funding and investment strategies that ensure that the scheme has sufficient assets to pay benefits as they fall due.

1.2 Two reports are discussed in the paper:

- The Scheme Actuary's funding update as at 31 March 2018
- The Government Actuary's Department's scorecard on Barnet's 2016 triennial valuation.

Funding Update as at 31 March 2018

1.3 The Scheme Actuary has calculated a revised funding level (difference between assets and pension liabilities) as at 31 March 2018. See appendix A. In summary, the changes are:

	31-Mar-13 £m	31-Mar-16 £m	Impact	31-Mar-18 £m	impact
Value of liabilities	1,000	1,256		1,545	
Value of Assets	789	916		1102	
Deficit	**-211**	**-340**		**-443**	
Key Assumptions					
Assumed discount rate	*6.00%*	*4.20%*	*negative*	*3.60%*	*negative*
Inflation (CPI)	*2.70%*	*2.10%*	*positive*	*2.34%*	*negative*
			positive		
Future salary increases	*4.50%*	*2.40%*		*2.64%*	*negative*
Longevity - males pensioners	*22.1 years*	*21.9 years*	*positive*	*21.9 years*	*nil*

1.4 The estimated deficit (excess of liabilities over assets) has increased by £103 million. Although assets have increased by £186 million, the value placed on the liabilities has increased by £289 million.

1.5 The change in the value of the liabilities is not because the Fund will be paying out more benefits than previously expected. Instead, it is a measure of the assets required to be held to meet the benefits already earned. This has increased because the assumed investment return (discount rate in the table above) has fallen by 0.6%. If the scheme's investments earn less in future, then more assets are required to pay the benefits. The assumptions that estimate the future benefit payments – inflation, salary and longevity – have moved in the direction of lower benefits since 2013.

1.6 The discount rate used by the Actuary is influenced by the return on government bonds, which have fallen to historical lows. The Actuary's note identifies the sensitivity of the results to changes in government bond yields, with funding levels between March 2016 and March 2018 varying between 66% and 76%.

1.7 Changes in the funding level caused by the discount rate do not necessarily lead to higher employer contributions. This is because when modelling the required contribution to pay for past and future service the Actuary factors in the range of possible future investment returns, most of which will be in excess of the discount rate. Thus, part of the deficit will be met from investment returns above the discount rate.

1.8 It is impossible to speculate based on these results the direction of employers' contribution rates. Each employer has their own funding level and contribution rate. The Council's rate is currently increasing by 1% p.a. It is proposed that the Scheme Actuary is invited to meet the Committee to discuss the 2019 triennial valuation and the outlook for contributions. One of the Committee's aims is stability of contribution rates for employers and early engagement with the Actuary can identity the extent to which any contribution increases can be mitigated.

Government Actuary's Department – Review of the 2016 actuarial valuation

1.9 The Ministry of Housing, Communities and Local Government has commissioned GAD to review the 2016 actuarial valuation for each local authority and comment on whether:

- the valuation is in accordance with regulations
- individual valuations are consistent with other valuations
- the solvency of the scheme is ensured
- the pattern of contributions is cost effective

1.10 The purpose is to bring a degree of standardisation to the approaches and assumptions used by scheme actuaries, to identify those schemes that are being more optimistic than others when setting assumptions and also to identify when increases in contributions are being postponed leading to higher overall contribution rates in the long term. MHCLG can ask funds to alter their triennial valuation methods and assumptions should they consider that they do not comply with regulations (ensuring solvency and cost efficiency).

1.11 GAD has developed measures to test each valuation against the last three criteria above. The results for Barnet are set out in the scorecard. Each measure is coloured green (acceptable), amber or red. Of the 12 scores, Barnet is rated green in 10 and amber in two. Following a meeting between officers, GAD and MHCLG, the second amber flag (changes in contribution rates) will be re-rated as green.

1.12 The one remaining amber flag is the funding level calculated on the Scheme Advisory Board's standardised basis of 82.3%. Barnet has one of the lowest funding levels on this basis (lowest 10% of funds). Despite the low starting

point, the other green flags indicate that the Barnet plan to achieve full funding does not raise any concerns with GAD.

1.13 The table at the top right-hand side of appendix B indicates the sensitivity of funding levels to the assumptions used. In addition to Barnet's own calculation as at March 2016 (73%), the standardised basis is 82% and the best estimate (no prudence) is a little over 90%.

1.14 The conclusion from the scorecard is that continuing our current approach to scheme funding is unlikely to trigger criticism from GAD or action from MHCLG.

2. REASONS FOR RECOMMENDATIONS

2.1 No action is required as a consequence of these updates.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 None - statutory function

4. POST DECISION IMPLEMENTATION

4.1 The Scheme Actuary will be invited to attend a subsequent Committee meeting.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

5.1.1 Employers paid £48 million of contributions into the pension scheme in 2017/18. Changes in contribution rates can have a significant cashflow implication for employers and will impact on the Council's ability to spend in other areas.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no immediate financial implications from the report. However, higher deficits (particularly if sustained) may translate into higher contributions from the Council and other employers. Engaging with the Scheme Actuary in advance of the 2019 triennial valuation will enable the Committee to identify ways to stabilise future contribution rates.

5.3 Social Value

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 Legal and Constitutional References

5.4.1 The Council's Constitution (Article 7) – includes within the responsibilities of the Pension Fund Committee,

"To consider actuarial valuations and their impact on the Pension Fund."

5.4.2 The Local Government Pension Scheme Regulations 2013 (regulation 62) requires the Council to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2016 and as at 31 March in every third year afterwards. Regulation 58 requires the administering authority to prepare a funding strategy statement.

5.5 **Risk Management**

5.5.1 The accuracy of the valuation relies on the accuracy of the data provided to the actuaries. Any errors in the provision of the data could have a significant impact on the required contribution rates, particularly for the smaller scheduled and admitted bodies.

5.5.2 The value of the Pension Fund assets at any point in time is determined by the market and a large movement in the markets could have a significant impact on the surplus or deficit of the fund.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.

5.7 **Consultation and Engagement**

5.7.1 Not required.

5.8 **Insight**

5.8.1 The report provides insight into the future direction of employers' contribution rates.

6. BACKGROUND PAPERS

6.1 None