Nottinghamshire County Council

Report to Nottinghamshire Pension Fund Committee

14 March 2017

Agenda Item:7

REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT

TRIENNIAL VALUATION – INITIAL RESULTS

Purpose of the Report

1. To inform members of the results of the triennial valuation of the Fund as at 31 March 2016.

Information and Advice

2. The Fund is required to obtain an actuarial valuation of the assets and liabilities of the Fund every three years in order to determine the contributions payable by each employer. The actuary issues a rates and adjustments certificate specifying the common rate of employer's contribution and any individual adjustments to take account of circumstances particular to each employer. These circumstances include the different membership profiles of each employer and the level of assessed deficit of liabilities over assets.

3. The rates and adjustments certificate covers the three years following the year in which the valuation is prepared. The latest triennial valuation of the Fund was required as at 31 March 2016 with rates being certified for years 2017/18 to 2019/20. A draft final report has now been received, although the valuation will not be finalised until the end of March 2017.

4. In order to carry out the valuation, the actuaries, Barnett Waddingham, require detailed information about the membership of the fund and the investments. This information is used to estimate the cash flows in relation to each member. The actuaries have made assumptions over pay increases, inflation, life expectancy and other relevant issues in order to come up with this estimate. Further assumptions are used (mainly in respect of expected investment returns) to determine a 'discount rate' which is then used to discount the cash flows to estimate the total of the Fund's liabilities.

5. The basic premise of the discount rate is that investment returns can help to cover liabilities in the future – if the Fund has £100 now and can expect investment returns of 5% pa then that £100 is sufficient to cover £105 of liabilities in 1 years' time. Hence the liability figure (in this example £105) is 'discounted' back to the present value (£100) using the assumed rate of investment return. The actuaries therefore look at the asset allocation of the Fund and the expected long term returns of each asset class in deciding the appropriate discount rate. It is important to note that a lower discount rate produces a higher liability figure (and vice versa).

6. Under the revised LGPS governing regulations, Fund actuaries should still have regard to "the desirability of maintaining as nearly constant a common rate as possible", but with the

introduction of the regulatory requirements to secure solvency and long-term cost efficiency into the Regulations there is a clear shift in emphasis in the Regulations from sustainability of the employers in the Fund, to sustainability of the Fund as a whole.

7. The agreed financial assumptions used in the latest valuation are shown below, along with comparisons from the previous valuation.

Financial Assumptions		**31/03/16**	**31/03/13**
Central Discount Rate		5.4%	6.0%
Pay Increases:	Long term	3.9%	4.5%
	Short term	2.4%	2.7%
Retail Price Inflation		3.3%	3.5%
Pension Increases (CPI)		2.4%	2.7%

8. As can be seen, the discount rate has reduced thus increasing liabilities, although the increase is mitigated slightly by assumptions over pay and pension increases. Initial results for the Fund show liabilities of £4,649 million compared to assets of £4,028 million, giving a funding level of 87%. This is up slightly from 85% at 2013.

9. The contributions determined at this valuation payable by each employer are still being finalised but will be set out in the actuary's final report. These are either based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers. Future service contributions are certified as a percentage of payroll. For the majority of employers, deficit recovery contributions have been certified as a monetary amount, payable each year in addition to the future service rate. This is to ensure that deficit contributions are made at the required level regardless of any reductions in payroll. The certified contributions are the minimum that each employer is required to pay.

10. As part of the communication process with employers a briefing note was prepared by the actuaries in January and circulated to employers. It was also made available via the employers section of the Funds website. In addition specific queries were passed to the actuaries for individual responses as they were received.

Statutory and Policy Implications

11. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION

1) That the report be noted.

Nigel Stevenson
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For any enquiries about this report please contact:
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Constitutional Comments (   )

The proposals in this report are within the remit of the Nottinghamshire Pension Fund Committee.

Financial Comments (KRP 27/02/17)

There are no direct financial implications arising from the report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

Draft Valuation Report