

SURREY COUNTY COUNCIL**SURREY PENSION FUND COMMITTEE****DATE: 13 SEPTEMBER 2019****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE****SUBJECT: 2019 VALUATION UPDATE****SUMMARY OF ISSUE:**

To provide members with an update on the delivery of the 2019 actuarial valuation of the Pension Fund, including:

- Valuation timetable
- The methodology for measuring the funding level
- The policy areas within the Funding Strategy Statement (FSS) that are under review alongside the valuation
- Setting employer contribution rates
- Update on the development of multiple investment strategies for employers

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes progress on the delivery of the 2019 actuarial valuation of the Pension Fund.
2. Approves for officers to work with the investment consultant and the actuary to implement multiple investment strategies for employers.

REASON FOR RECOMMENDATIONS:

To comply with best actuarial valuation practice and meet the Fund's strategic funding objectives.

DETAILS:**Valuation timetable**

1. The updated valuation timetable is shown in the table below:

Date	Event
13 September 2019	Present whole of fund valuation to the Committee
Through September 2019	Carry out employer level calculations
30 September and 1 October 2019	Employer forums
28 October 2019	Discuss employer results with officers
4 November 2019	Prepare results schedules

11 November 2019	Agree draft FSS and issue to employers for consultation
13 December 2019	Present employer results, draft FSS and update report on multiple employer strategies* to the Committee
13 March 2020	Present final FSS to the Committee for approval

*subject to approval by the Pension Fund Committee

The methodology for measuring the funding level

2. At the 2016 valuation, for the purpose of showing a funding level at the valuation date, the Fund's approach was to report an assumed investment return that was based on a given margin above the consumer price inflation at 31 March 2016.
3. At the 2019 valuation, the Fund actuary, Hymans, has extended this approach to include a risk based contribution rate setting methodology. This approach allows the Committee to have a better appreciation and understanding of the risk inherent in their funding strategy when looking at the funding level metric. This methodology is laid out in the Hymans report (shown as Annex 1).

The policy areas within the Funding Strategy Statement (FSS)

4. The FSS provides is a clear and transparent reference point for the Fund's stakeholders, to provide evidence of the contribution arrangements. It will also help in any future discussions with employers, perhaps where an approach is queried or questions are raised.
5. The following areas are examples of some areas that will be included in the FSS drafting (further detail is provided in Annex 1):
 - Regulatory update.
 - Contribution stabilisation.
 - Approach to small scheduled bodies.
 - Multiple employer investment strategies.
6. Under the current valuation timetable, a draft of the updated FSS will be issued to all relevant stakeholders in November, alongside their draft valuation results for the required consultation. A finalised draft will be presented to the Committee at the December Committee meeting for approval.

Setting employer contribution rates

7. As part of the 2016 valuation of the Fund, a formal framework was developed by Fund officers to classify employers into risk categories. The use of this framework will be continued as part of this valuation.
8. This framework requires to the Fund to consider the following:
 - The employer's funding target.
 - How long the employer has in the Fund to reach the funding target.
 - An appropriate likelihood of meeting the target (or 'likelihood of success') e.g. 2/3rds, 75%.

Update on the development of multiple investment strategies for employers.

9. At the Pension Fund Committee meeting of 14 September 2018 the concept of multiple employer investment strategies was introduced, in order to help improve funding outcomes for employers and the Fund as a whole.
10. At the Pension Fund Committee meeting of 16 November 2019, the Committee approved for officers to work with the actuary to investigate the how multiple employer strategies could work for the Surrey fund.
11. The paper from Hymans (included as Annex 2) summarises the outcome of this initial investigation and the proposal for the potential next steps in the implementation of a range of investment strategies to help improve funding outcomes for employers and the Fund as a whole.
12. After discussion with actuary, some high-level principles are proposed in relation to using the investment strategy to improve funding outcomes:
 - Alternative investment strategies should be simple, pragmatic and not overly complex.
 - The Fund wishes to help employers manage exit from the LGPS where they have made this choice.
 - Providing some flexibility in investment strategy to meet employers increased yet achievable expectations.
 - Clear governance structures & process must be in place during decision making or implementation e.g. including but not limited to agreement from impacted employers.
13. Work between officers and the actuary to categorise employers used the following metrics:
 - Funding level
 - Net cashflow
 - Liability maturity
 - Gearing (liabilities vs payroll)
 - Duration of liabilities
14. This identified 12 groups of employers. These 12 groups have been further classified under three different investment strategies as follows:
 - Core: growth seeking assets aligned with existing investment strategy – attributable to the largest cohort of employers (e.g. councils)
 - Alternative A: reduction in growth assets – employers targeting exit
 - Alternative B: risk-free assets – exited employers
15. There are other considerations that the Fund must satisfy itself before implementation of multiple investment strategies for employers. These fall in to three categories:
 - Governance: a number of key stakeholders are effected, these include employers, pension members, committee and local board members

- Administration: the most significant considerations are how to track employer asset values (as they could now participate in one of three strategies) and rebalance assets between strategies if / when required
- Implementation: this falls in to four main parts:
 - Analysis and grouping
 - Communications
 - Strategy design
 - Administration

16. It is recommended that the Committee approves for officers to work with the investment consultant and the actuary to implement multiple investment strategies for employers once the 2019 valuation employer results are available and the project can progress.

The next steps will then be to provide the Committee with an update report at the next meeting of 13 December 2019 including: employer groupings, employer choice / fund choice communications, high level investment strategies for each group, next steps re implementation plan.

CONSULTATION:

17. The Chairman of the Pension Fund Committee has been consulted

RISK MANAGEMENT AND IMPLICATIONS:

18. There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

19. There are no financial and value for money implications.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

20. The Director of Corporate Finance is satisfied with the progress in delivering the 2019 valuation.

LEGAL IMPLICATIONS – MONITORING OFFICER

21. There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

22. The reporting of such information will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

23. There are no potential implications for Council priorities and policy areas.

WHAT HAPPENS NEXT

24. The following next steps are planned:

- Officers will continue to work with the actuary and investment consultant to implement the 2019 actuarial valuation

Contact Officer:

Neil Mason, Strategic Finance Manager (Pensions)

Consulted:

Pension Fund Committee Chairman

Annexes:

Annex 1 – Hymans Robertson report on the valuation update

Annex 2 – Hymans Robertson report on the multiple employer strategies update

This page is intentionally left blank