SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **13 MARCH 2020**

LEAD OFFICER: **ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE**

SUBJECT: **2019 VALUATION UPDATE**

SUMMARY OF ISSUE:

Strategic objectives
Funding

Members are provided with a copy of the draft final valuation, as produced by the Fund's actuary, Hymans Robertson. This incorporates the final Funding Strategy Statement (FSS). Members are also provided with details of the Government Actuary's Department (GAD) scheme-level Section 13 valuation, which seeks to evaluate funds against four measures of compliance, consistency, solvency and long term cost efficiency.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approves the draft 2019 valuation.
2. Authorises the delegation of authority to the Director of Corporate Finance, in consultation with the Chairman of the Pension Fund Committee, to approve the 2019 valuation and funding strategy statement, once the rates and adjustments certificate is finalised (prior to the 31 March 2020 deadline).
3. Notes the report from Hymans Robertson regarding the expected compliance of the Fund with the Government Actuary's Department (GAD) scheme-level Section 13 valuation.

REASON FOR RECOMMENDATIONS:

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

DETAILS:

The draft 2019 valuation and funding strategy statement

1. The Surrey County Council Pension Fund's funding objectives are:

- To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

- To ensure that employer contribution rates are reasonably stable where appropriate, but, are set at an appropriate level to ensure the solvency of the pension fund and the long term cost-efficiency of the LGPS, so far as relating to the Surrey Pension Fund;

- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;

- To reflect the different characteristics of employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

2. In order to achieve these objectives, it is necessary to assess the fund's financial position on a periodic basis and determine future contribution rates. LGPS pension funds are actuarially valued on a triennial basis and the fund's actuary, Hymans, has just completed the fund's valuation as at 31 March 2019.

3. The report from Hymans, shown as Annexe 1, sets out the draft outcome of the actuarial valuation.

4. Negotiations with employer bodies are ongoing and will be reflected in the final rates and adjustments certificate. It is recommended that the Pension Fund Committee authorises the delegation of authority to the Director of Corporate Finance, in consultation with the Chairman of the Pension Fund Committee, to approve the final 2019 valuation and funding strategy statement, once the rates and adjustments certificate is finalised (prior to the 31 March 2020 deadline).

5. At 31 March 2019, the fund has a funding level of 96%, i.e., the Fund's assets of the fund are adequate to meet 96% of the Fund's future liabilities.

6. While the fund is managed as a whole, it is effectively a number of sub funds for each individual employer. This means that each employer contributes according to a contribution rate that specifically reflects the individual employer's membership profile. Under guidance from the actuary, we have continued to set deficit recovery as monetary amounts. Employee contributions are payable in addition to the employer contributions.

7. Where there are prospects of early retirement, thus giving rise to additional short-term costs in the form of immediate access to pension benefits, this will result in an element of actuarial strain (but specifically not including any redundancy cost). Additional contributions will be paid on top of the rates indicated in respect of early retirements where appropriate.

8. The Pensions Fund's funding plan is set out in the Funding Strategy Statement (FSS). Individual employer funding plans and each employer's contribution rates have been determined in accordance with the FSS.

9. Depending on each employer's individual circumstances, different approaches to the funding of benefits have been adopted, as part of the FSS consultation process.

10. The FSS has been subject to a consultation process. As a result of this there are no material amendments to the draft FSS that was approved by the Pension Fund Committee at its meeting of 20 December 2019.

The Government Actuary's Department (GAD) scheme-level Section 13 valuation

11. Following the local actuarial valuations, the GAD will carry out the scheme-level Section 13 valuation to evaluate funds against the four measures of compliance, consistency, solvency and long term cost efficiency.

12. The upcoming Section 13 valuations intend to focus on two areas:

    - Consistency of treatment of potential McCloud costs: the GAD intend to review Funding Strategy Statements (FSSs) and valuation reports to check if the approach towards potential additional McCloud costs has been clearly set out;
    - Falling contribution rates: where funds have reduced overall contribution rates, they will review the FSS and valuation report to check this has not led to an 'adverse impact' on future taxpayers.

13. In line with our FSS some stabilised employers (who make up the majority of the Fund) have either had a contribution freeze or small reductions. Other employers are also generally seeing small overall reductions in contributions. At fund level we expect the aggregate contribution rate to be lower than the equivalent figure in 2016.

14. The Fund and the Fund actuary have no concerns about the contribution rates that have been agreed at the 2019 valuation, and we believe that they set an appropriate pace of funding which balances both burden and risks between current and future taxpayers (and members/employers).

15. The Fund actuary has tested the funding strategies for the Council at 17 years, while the FSS formally retains the deficit recovery period of 20 years. However, this means that under GAD's interpretation the deficit recovery end date is now three years further in the future, 31 March 2039. Therefore, GAD will view this as an extension of the deficit recovery timeframe and may be flagged.

16. The Fund actuary is satisfied that a continuation of a deficit recovery period of 20 years is appropriate for the following reasons:

    - The do not view GAD's expectation around reducing deficit recovery timeframes to be appropriate for open pension schemes;

- The primary objective during the valuation is to set long term, affordable and robust funding plans that the Fund's Actuary, Officers and Committee believe are appropriate and these objectives have been met.

17. The report from the Fund actuary (shown as Annexe 2) outlines a formal justification to GAD on the 2019 valuation and includes the following:

    - A brief recap of the funding strategy including the McCloud treatment, and justification of the key parameters such as time horizon, likelihood of success, etc;
    - Headline measures used to illustrate the change in funding strength and contributions since 2016;
    - Headline measures to describe the level of prudence in the funding plan e.g. the likelihood of success;
    - Explanation of why the Fund actuary believes the certified contributions are appropriate and how they balance the costs and risk of the scheme today and in the future.

CONSULTATION:

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

RISK MANAGEMENT AND IMPLICATIONS:

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

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

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

EQUALITIES AND DIVERSITY

23. 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

24. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

25. 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:

1. Draft 2019 valuation
2. GAD Section 13 compliance report

Sources/background papers:

1. The draft Funding Strategy Statement

   https://mycouncil.surreycc.gov.uk/documents/s65125/Item%208%20-%202019%20Valuation%20update%20-%20Annex%201.pdf

2. GAD's letter to the SAB (26 November 2019)

   https://www.lgpsboard.org/images/PDF/CMBDAJanuary2020/Item8PaperB_2019Section13Report_DraftGADletter.pdf

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