ITEM 6

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

21 NOVEMBER 2013

TRIENNIAL ACTUARIAL VALUATION 2013 UPDATE

Report of the Treasurer

1.0 **PURPOSE OF REPORT**

1.1 To advise Members on the latest position regarding the Triennial Valuation 2013.

2.0 **PROGRESS TO DATE**

2.1 The Fund Actuary has attended two meetings at County Hall, Northallerton to present the results of the 2013 Triennial Valuation.

2.2 The first was at the Pension Fund Committee meeting on 13 September 2013 when Members considered the provisional Valuation results at Fund level and discussed the assumptions the Actuary planned to adopt in his final report.

2.3 The second meeting on 7 November 2013 was attended by 42 representatives of the Fund's employing bodies, and again set out the provisional results including the impact of the revised assumptions agreed with the Committee. In addition, a number of options to be made available to individual employers were identified in advance of the receipt of each employer's specific Valuation results.

3.0 **KEY CHANGES FROM THE 2010 TRIENNIAL VALUATION**

3.1 Since 2010 there have been a number of changes to the basis of the Valuation which need to be considered and assessed by the Actuary in determining the results of the 2013 Triennial Valuation. These changes are summarised below.

LGPS 2014

3.2 The new scheme will come into effect from April 2014. The key changes are the increase to retirement age which will be linked to the State Retirement Age, moving from a final salary to a career average scheme, and a change in the accrual rate from 1/60th to 1/49th. The overall effect is estimated to reduce the cost of future service accrual by 2.1%.

Demographic Assumptions and Membership Profile

3.3 The Actuary has conducted a study on the 3 year period between Valuations to compare the demographic position of LGPS Funds against the national position. NYPF's specific data was incorporated into this review. Through a combination of increasing life expectancy, the higher cost of spouses' pensions (more people are married than had previously been anticipated) and a slightly older workforce, the cost of future service accrual is estimated to increase by 0.5%.

Financial Assumptions

3.4 The assumptions for salary growth and for CPI are both lower than those used in the 2010 Valuation, reducing the cost of future service accrual. However, the discount factor used to calculate the present day value of future benefits, which is based on gilt yields, has also fallen. The fall in gilt yields has had a much more significant effect, resulting in a combined increase to the cost of future service accrual of 3.2%. A table showing the changes in key financial assumptions between the 2010 and 2013 Valuations is attached as **Appendix 1**.

NYPF Deficit

3.5 Changes to the assumptions described in paragraphs 3.2 to 3.4 have also had an impact on the deficit. Combined with better than expected performance from the Fund's assets, higher than expected contributions being paid over by employers, and other actuarial adjustments, the deficit has only increased from £659m at March 2010 to £668m at March 2013. Solvency has increased from 67% to 73% over the same period.

4.0 2013 VALUATION RESULTS

4.1 The results of the 2013 Triennial Valuation are summarised in **Appendices 2 – 6**.

4.2 **Appendix 2** shows the **deficit and funding level as at 31 March 2013** (the attached results have been refined since the Committee meeting in September 2013 after firming up the financial assumptions). Between March 2010 and March 2013 assets increased by 37% and liabilities increased by 25%. The funding level has increased from 66% to 73%.

4.3 **Appendix 3** highlights **how the deficit figure has changed over the Valuation period**. Changes in financial assumptions, essentially the discount factor, have had the most significant impact.

4.4 **Appendix 4** summarises the elements contributing to the increase of 1.6% to the Fund's **future service rate** (from 12.2% to 13.8%).

4.5 **Appendix 5** shows examples of the **average employer deficit contributions**, based on a range of recovery periods up to the Fund's maximum of 27 years from April 2014.

4.6 **Appendix 6** summarises some of the **key data used in the 2013 Valuation**.

5.0 CONTROLLED FLEXIBILITY

5.1 The Controlled Flexibility policy utilised in valuations since 2004 is again available for the 2013 Valuation. It is proposed that this Flexibility be offered as follows -

(a) in principle no reduction in employer contribution relative to that paid in 2013/14 will be permitted; however the Committee will review exceptional cases if warranted by an individual employer's specific solvency position

(b) an employer **may be permitted to** offset an increase in employer contributions that might otherwise be payable by requesting the following

- recognising post Valuation date information, including bond yield reversion
- utilise the Improved Investment Return (IIR) allowance to offset increases in the contribution rate. The Actuary will allow a "strong covenant" employer to take additional credit for future investment performance and thus reduce the level of contribution rate that would otherwise be payable
- extend the recovery period from its current duration to a maximum of 27 years to offset increases in the contribution rate

(c) an employer may shorten the deficit recovery period if wanting to recover their deficit in a shorter period; this can be achieved through higher contribution and/or lump sum payments

(d) an employer may phase any increase in contribution over a 3 year period – the full increase must be borne in 2016/17

(d) an employer may adopt a bespoke Investment Strategy whereby the employer takes responsibility for the Investment Strategy of their share of the investment portfolio. Depending on the Investment Strategy adopted, this may increase the contribution required. Currently no employers have taken up this option

5.2 Not all options will be available to all employers. The strength of covenant for each employer will be the most important factor. For example, local authorities will be offered the greatest flexibility, companies with no guarantor or bond and closed to new members the least.

5.3 It is important to recognise that despite the flexibilities described above, most employers will still see an increase in their contribution requirements.

6.0 TIMESCALES

6.1 Before the end of November 2013, the individual employer results of the 2013 Valuation will be circulated including an explanation of the key changes since the Valuation 2010 and all the options available under the Controlled Flexibility policy.

6.2 Employers will be able to request additional information from the Actuary before determining their preferred position for the three financial years commencing April 2014.

6.3 Employers will be requested to submit their returns by Friday 17 January 2014.

6.4 Once all the Employer positions are established the Actuary will produce the formal 2013 Triennial Valuation Report which will be presented to the Committee meeting on 20 February 2014.

7.0 FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (FSS) will need to be revised to reflect the changes and assumptions reflected in the 2013 Valuation. A draft is currently being prepared and will be included in the documentation (referred to in **paragraph 6.1**) to allow employers to give their comments.

7.2 The FSS will then be resubmitted to the Committee on the 20 February 2014 for approval alongside the formal acceptance of the results of the Triennial Valuation.

8.0 RECOMMENDATIONS

8.1 Members are asked to

(i) note the results of the 2013 Triennial Valuation

(ii) agree the terms of the controlled flexibility options that are to be made available to employers (**section 5**) in line with the timescales set out in **section 6**

(iii) note that a draft of the revised Funding Strategy Statement will be circulated to all employers for consultation with the details referred to in (ii) above

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Treasurer
Corporate Director – Strategic Resources

Central Services
County Hall
Northallerton

8 November

2013 valuation - assumptions
Financial assumptions

Appendix 1

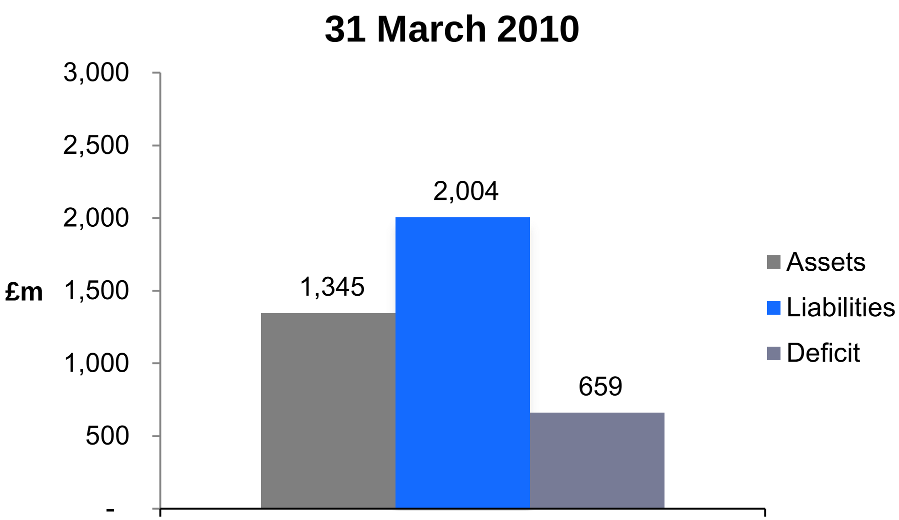
Market data	31 March 2010	31 March 2013
Fixed interest gilt yield	4.5% pa.	3.2% pa.
Index-linked gilt yield	0.7% pa.	-0.4% pa.
Market-implied price inflation (derived by differencing yields on fixed-interest and index-linked gilts)	3.8% pa.	3.6% pa.
Adjustment for Inflation Risk Premium (IRP) and RPI/CPI differential	-0.8% pa.	-1.0% pa.
Assumptions used for liabilities		
Discount rate:	6.1% pa.	4.8% pa.
Inflation: Consumer Prices Index (CPI)	3.0% pa.	2.6% pa.
Long term salary inflation	4.75% pa.	4.1% pa.*
Pension increases	3.0% pa.	2.6% pa.
Assumptions used for future service contributions		
Discount rate	6.75% pa.	5.6% pa.
Other financial assumptions	As for liabilities	

*For liability calculations only, in the short term salaries are assumed to increase:

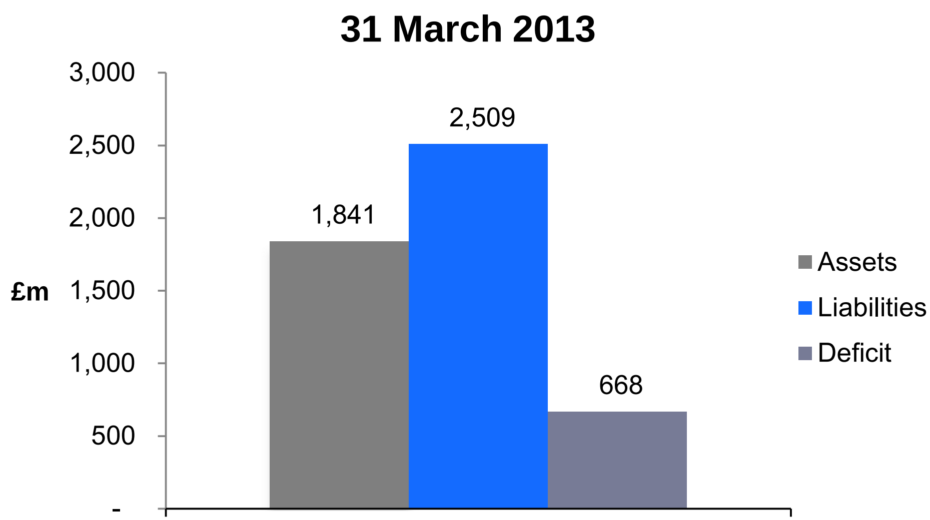
- at 1% per annum for two years, then
- at 2.6% per annum (in line with assumed CPI) for the following three years

2013 preliminary results
Initial proposed 2013 basis - whole fund liabilities

Appendix 2



67% funded

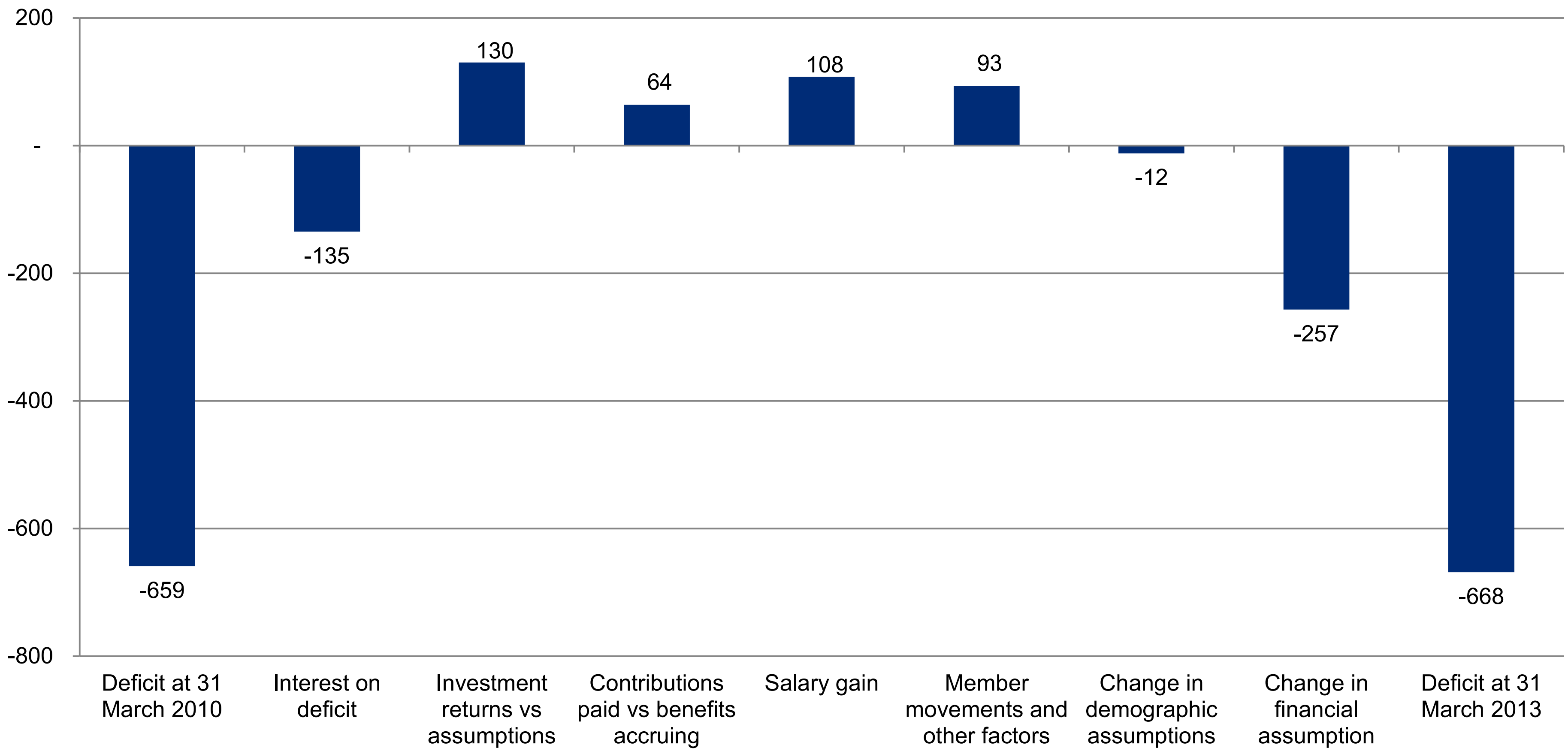


73% funded

2013 preliminary results

Appendix 3

Analysis of change in 2010 past service position to 2013 proposed basis



2013 preliminary results

Analysis of change in future service contribution rate from 2010 to 2013

Change in Future Service Rate Analysis	
Employer Rate as at 31 March 2010	**12.2% of pay**
Change in Membership Profile	+ 0.2% of pay
Change in Demographic Assumptions	+ 0.3% of pay
Change in Financial Assumptions	+ 3.2% of pay
Impact of 2014 LGPS	- 2.1% of pay
Employer Rate as at 31 March 2013	**13.8% of pay**

The impact of 2014 LGPS will differ for each individual employer

2013 preliminary results

Appendix 5

Initial proposed 2013 basis - whole Fund deficit contributions

Deficit Recovery

Recovery period (Years)	Required Payment £m pa. (2010 results increasing at 4.75% pa., 2013 increasing at 4.1% pa.)	
	31 March 2010	31 March 2013**
21	N/A	36
24	N/A	32
27	30*	28

*Based on 30 year recovery period from 2010 (so 27 years remaining). Including three years increases in line with assumed pay growth and prior to allowance for Increased Investment Returns during recovery period.
**2014/15 contributions rates

2013 valuation – assumptions
Demographic assumptions

Life Expectancy
- Analysis has been carried out based on NYPF membership and conclusions shown below.

Retirement Age
- Analysis supports increase in retirement age of 1 year.

Ill health retirements
- Analysis suggests no change to 2010 assumptions required

Proportions married
- Analysis supports a small increase in the % of members married at certain ages

Other
- As per 2010 Valuation

	Male Life Expectancy		Female Life Expectancy	
Membership Category	Current Assumption	Proposed Assumption	Current Assumption	Proposed Assumption
Pensioners	22.2	22.9	24.9	25.4
Actives	23.7	25.1	26.5	27.7
Deferreds	23.7	25.1	26.5	27.7

Notes on life expectancy calculations:

- All life expectancies are normal health "cohort" expectancies from age 65 in 2013
- Non-pensioners' current age assumed to be 45