NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

24 NOVEMBER 2016

TRIENNIAL VALUATION 2016 UPDATE

Report of the Treasurer

Appendices 1-5 contain exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) (Variation) Order 2006.

1.0 PURPOSE OF REPORT

1.1 To update Members on progress towards the 2016 Triennial Valuation.

2.0 PROGRESS TO DATE

2.1 The Fund Actuary has attended three meetings at County Hall, Northallerton to present the results of the 2016 Triennial Valuation.

2.2 The first was at the PFC meeting on 26 February 2016 to discuss the proposed approach to the Valuation, and the second was at the PFC meeting on 15 September 2016 when Members considered the provisional Valuation results at Fund level and discussed the assumptions the Actuary planned to adopt.

2.3 The third meeting on 11 November 2016 was attended by 20 representatives of the Fund's employing bodies, and again set out the provisional Fund level results including the impact of the revised assumptions agreed with the Committee.

3.0 2016 TRIENNIAL VALUATION RESULTS

3.1 This is the first time that our current Actuary (Aon Hewitt) has carried out the Triennial Valuation for NYPF. This has resulted in a change in approach between this Valuation and the 2013 Valuation undertaken by Mercer. **Appendix 1** describes the discount rate approach taken by Aon which is now linked to the probability of funding success.

3.2 **Appendix 2** summarises the key assumptions used in the 2013 and 2016 Valuations. Discount rates have decreased in the 2016 Valuation from those used in the 2013 Valuation, which has had the effect of significantly increasing liability values. The discount rate and probability of funding success are linked. The lower the discount rate, the lower the probability of funding success. 75% is near the mid-point for Aon's LGPS clients. This equates to a discount rate for scheduled bodies of 4.4%.

3.3 To remind Members, orphan bodies are employers with admission agreements and are able to close the scheme to new entrants or in certain circumstances to close it altogether, thereby ending their participation in NYPF. Should this happen, an exit payment would be very likely due. Use of a lower orphan body discount rate goes some way to anticipating this by setting contribution requirements in between those required on an ongoing funding basis and an exit basis.

3.4 **Appendix 3** shows the Fund level results for the 2013 and 2016 Valuations (these results have been refined since the last presentation to the Committee in September 2016 after firming up assumptions used). The funding level has increased from 73% in 2013 to 88% and the deficit has decreased from £668m to £320m. A significant part of the changes in funding level and deficit result from the differing approaches taken by the current and former actuaries in calculating liability values.

3.5 **Appendix 4** shows the factors affecting the deficit in cash terms over the valuation period. The major factors are:

- the interest on shortfall of -£101m, which represents the value of future liabilities as at 31 March 2013 which were discounted back to that date for the previous Valuation, discounted back to 31 March 2016 instead

- the investment profit of +£262m, being the outperformance of the Fund's assets above the target set by the Actuary at the 2013 Valuation

- the change in the valuation approach of +£351m, compared to the approach taken by the former Actuary

- the change in market conditions of -£301m being primarily the fall in the discount rate

3.6 **Appendix 5** shows what the results mean in terms of changes to the primary contribution rate and deficit payments in cash terms. The primary contribution rate has increased from 13.8% to 18.3% at a Fund level, and the deficit requirement has fallen by approximately £12m per annum. This reflects the different approach Aon takes compared to Mercer. Aon use a single set of assumptions for past and future service, which increases the prudence in calculating the value of newly accruing benefits and decreases it for past service.

4.0 NEXT STEPS

4.1 Employers will receive their individual results by the end of November 2016 which will include an explanation of the key differences since the last Valuation and any flexibility options available.

4.2 There will then be a 6 week consultation period for employers to negotiate on their results. During this period, employers will be able to request additional information from the Actuary before determining their preferred position for the three financial years commencing April 2017.

4.3 Flexibility available to employers on their results is allowed for the purposes of ensuring employer affordability and reducing of deficits as quickly as possible. The flexibility offered to employers will include the following:

- phasing of increases in contribution rates over multiple years
- the ability to pay lump sums to reduce deficit recovery periods
- the setting up of potential guarantors

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

In principle, no reduction in employer contribution relative to that paid in 2016/17 will be permitted for employers with a deficit. It is also important to recognise that despite the flexibilities described above, most employers will still see an increase in their contribution requirements.

4.5 The consultation period with employers will finish on 13 January 2017, after which each employer will be informed of the primary contribution rate and deficit requirements for the period April 2017 to March 2020.

4.6 Once all the employer positions are established the Actuary will produce the formal 2016 Triennial Valuation Report which will be presented to the Committee on 23 February 2017.

5.0 FUNDING STRATEGY STATEMENT

5.1 The Funding Strategy Statement (FSS) will need to be revised to reflect the approach taken in the 2016 Valuation. A draft is currently being prepared and will be included in the documentation sent to employers (referred to in **paragraph 4.1**) who will be asked for comments.

5.2 The finalised FSS will then be submitted to the Committee on the 23 February 2017 for approval alongside the formal acceptance of the results of the Triennial Valuation 2016.

6.0 RECOMMENDATION

6.1 Members to note the contents of this report.

GARY FIELDING
Treasurer
Central Services
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10 November 2016

Background documents: None