Non-Executive Report of the: **Pensions Committee** 24 September 2019	TOWER HAMLETS
Report of: Neville Murton, Corporate Director of Resources	**Classification:** Unrestricted
31st March 2019 Triennial Training, Valuation Update and Draft Funding Strategy Statement	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All wards

Summary

This report provides the Committee with a summary of progress to date on the 2019 actuarial valuation process. The London Borough of Tower Hamlets Pension Fund in accordance with Local Government Pension Scheme (LGPS) regulations undergoes a full actuarial valuation once every three years, the results of which are used to determine contribution rates for each employers within the Fund for the following three years.

The valuation is an assessment of the assets and liabilities of the pension fund, which then determines the funding level. The final valuation will determine the contribution rates payable by all employers participating in the Fund, which includes the Council.

Employee contributions are set by the Government, so employers must pay the balance of any cost in delivering the benefits to members.

The Funding Strategy Statement (FSS) focuses on the pace at which these liabilities are funded, and insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The draft FSS will be circulated to all employers who participate in the Fund in Q4 2019 to allow comments to be made prior to its finalisation.

Comments received from consultation will be brought to the attention of the Committee along with the final FSS on 19 March 2020.

Recommendations:

The Pensions Committee is recommended to:

- Note the content of this report;
- Note and agree the assumptions and methodology proposed by the Actuary to determine the actuarial funding level and standardised employer contribution rate;

- Approve the Funding Strategy Statement principles and delegate to the Corporate Director of Resources the employer consultation and resulting changes to the FSS and other changes from further communication with the actuary;
- Note that a final FSS will be presented to the Committee at the 19 March 2020 meeting.

1. REASONS FOR THE DECISIONS

1.1 The Council is required by law to undertake an actuarial valuation of the Fund's assets and liabilities. The Pensions Committee under delegated authority should agree the underlying assumptions of the valuation with the actuary.

1.2 The understanding of the Pension Fund in terms of its investments, the Fund's liabilities both short and long term and the profile of its members between actuarial valuations determines the financial status of the pension fund, its funding level and the contributions that employers need to make into the Fund for the following three years.

1.3 The level of funding for the Pension Fund and the requirement to fund employee pension benefits, both past and current can directly impact on the level of resources available for other Council services. The valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation and any significant variations to those assumptions could impact upon Fund's financial position.

1.4 Following consultation with such persons as it considers appropriate, the administering authority will prepare and publish its funding strategy by having regard to:

a. the guidance issued by CIPFA for this purpose; and

b. the Statement of Investment Principles (SIP) or investment strategy statement (ISS), whichever is appropriate;

1.5 The FSS will be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or investment strategy statement.

1.6 The revised FSS should be completed and approved by the Pension Committee (or equivalent) prior to the completion of each valuation.

1.7 The Fund actuary must have regard to the FSS as part of the fund valuation process.

2. ALTERNATIVE OPTIONS

2.1 There are no alternatives because the requirements to carry out the triennial revaluation and prepare a Funding Strategy Statement are prescribed in regulations.

3. DETAILS OF REPORT

3.1 Valuation Assumptions
It is good governance to review all actuarial assumptions as part of each triennial valuation to ensure they reflect current expectations of the future.

3.2 Demographic assumptions impact the timing of payments, and financial assumptions impact the amount of payments. The value placed on the liabilities is sensitive to these assumptions so the choice of assumptions has to be reasoned and robust. While any assumption about the future is subjective by nature, there is significant analysis which can be done as a basis to inform the assumptions selected by the Fund

3.3 Demographic assumptions are generally split into two categories – pre retirement and post retirement. Post-retirement is mostly concerned with how long will a pension be paid to members i.e. life expectancy.
Before retirement, the actuary is mainly concerned in the likelihood of events which will influence the timing of when benefits may come into payment and the magnitude of the benefits. The five main events are listed in the table below:

Parameter	National LGPS change from 2016 valuation (default assumption)	Fund Specific assumption (vs default assumption)
Withdrawal from active service	Slight increase from 2016	Apply further increase to default
Pre-retirement mortality	No change from 2016	Apply default
Ill-health retirement	Slight decrease from 2016	Apply default
Promotional salary scale	No change from 2016	Difficult due to data issues and fluctuating pay – stick with default
Cash commutation	Keep at 50% of HMRC limits	Apply default
50:50 take-up	Decrease from 2016	Apply further decrease from default

3.4 Future salary growth assumption is one of the key actuarial assumptions used to estimate the cost of benefit. This assumption comes in two parts;

- Annual 'inflationary' salary awards, historically set in order for employees pay to at least keep up withj the cost of living and;
- Promotional salary awards or those awarded as part of a defined salary scale.

The long term actuarial assumptions were RPI less 1% thereafter, short term assumption of 4% and 2.5% in subsequent years. A blended equivalent rate of RPI less 0.80% was then factored in the actuarial calculations.
Salary growth assumption is also an important factor in estimating the size of future payroll and contributions.

3.5 The discount rate assumption is how the actuary allows for future investment returns on the Fund's assets. This is a key element and risk in funding. In setting the discount rate, the actuary also considers the impact of altering the discount rate.

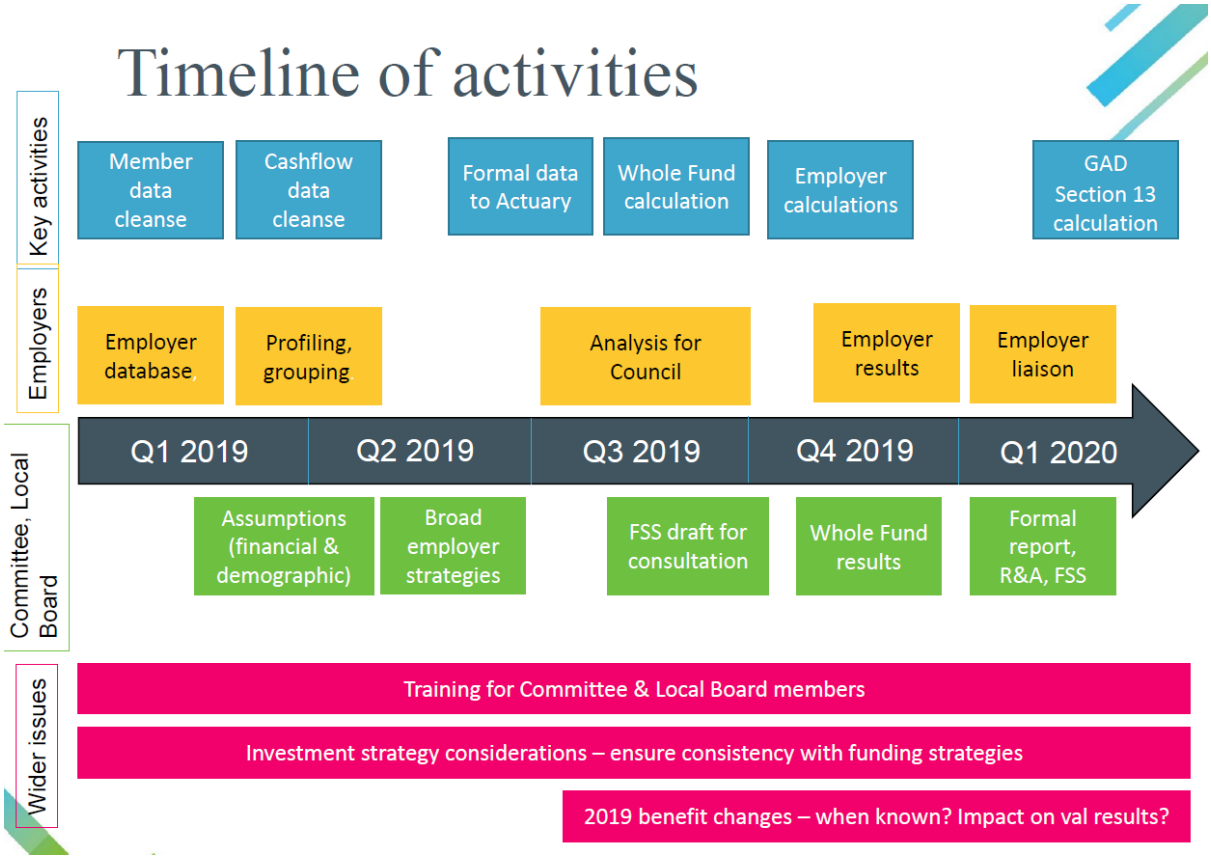
Investment strategy	Likelihood of achieving this margin above risk-free rate from year 20		
	1.8% pa	2.0% pa	2.2% pa
Current Strategy	68%	65%	62%
10% Lower Growth	64%	60%	56%
20% Lower Growth	55%	50%	46%

3.6 Actuarial Valuation process Update

The Fund's actuary, Hymans Robertson, has been reviewing the data supplied to them by the Administering Authority, Tower Hamlets, over the summer and is in the process of assessing the current funding position and contributions payable by both the Council and other employers in the Fund.

3.7 The actuary will produce an initial overall fund results which will be presented in November 2019.

3.8 Timeline of activities



4. FUNDING STRATEGY STATEMENT (FSS)

4.1 The FSS sets out the funding targets and assumptions, time horizons and differentiation between employers. Its main purpose is to state how contributions are set for different types of employers and how contributions may vary in different circumstances.

4.2 The draft FSS set out in Appendix 2 has been drawn up by the Fund's actuary, Hymans Robertson, this will be reviewed in conjunction with Officers of the Council.

4.3 As set out in the FSS the objectives of the statement are to:

a) 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;

b) ensure that employer contribution rates are reasonably stable where appropriate;

c) 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 (NB., this will also minimise the costs to be borne by Council Tax payers);

d) reflect the different characteristics of different 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

e) 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.

4.4 In addition to the objectives set out above, the FSS also sets out the different treatments for different types of employers ranging from tax raising bodies such as the Council and other scheduled bodies such as Academies, Community and Transferee Admission Bodies.

4.5 Proposed Changes to the Funding Strategy Statement include:

- LGPS (Amendment) Regulations 2018 – "exit credits"
- McCloud ruling/impending LGPS benefit improvements
- Academies transferring to/from Multi-Academy Trust (MATs)
- Policies on bulk transfers to/from the Fund

5. Next Steps

5.1 The subsequent steps in the valuation process are summarised below.

November 2019:-

- Present whole Fund results;
- Present draft individual employer estimated funding level and contribution rates;
- Carry out any additional contribution rate modelling; and,
- Finalise Funding Strategy Statement ("FSS").

March 2020

- Present final Actuarial report including Rates and Adjustment certificate
- Present final FSS to the Pensions Committee.

6. CONCLUSION

6.1 At the November 2019 Committee meeting, the Committee will be asked to note the new contribution rates for employers to be effective from 1st April 2020 for the next three years up to 31st March 2023.

7. COMMENTS OF THE CHIEF FINANCE OFFICER

7.1 The comments of the Corporate Director of Resources have been incorporated as required, throughout this report.

8. LEGAL COMMENTS

8.1 The Local Government Pension Scheme Regulations 2013, Regulation 62, requires an Administering Authority to obtain an actuarial valuation of its fund as at 31st March 2019, and as at 31st March every third year thereafter.

8.2 Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires the Council as an administering authority to publish and maintain a funding strategy statement.

8.3 When reviewing the funding strategy statement, the Council is required to have regards to:

a) the CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement; and

b) the Council's statement of investment principles/Investment Strategy Statement.

The review of the funding strategy statement has been undertaken by the Fund Actuary and Fund officers with reference to a and b above as required.

8.4 When performing its functions as administrator of the LBTH pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

9. ONE TOWER HAMLETS CONSIDERATIONS

9.1 A significant element of the Council's budget is the employer's contribution to the Fund. Therefore, any improvement in the efficiency of the Fund that leads to improvement in investment performance or cost savings will likely reduce contributions from the Council and release funds for other corporate priorities.

10. BEST VALUE (BV) IMPLICATIONS

10.1 The level of funding for the Pension Fund and the requirement to fund employee pension benefits, both past and current can directly impact on the level of resources available for other Council services. The valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation and any significant variations to those assumptions could impact upon Fund's financial position.

10.2 The understanding of the Pension Fund in terms of its investments, the Fund's liabilities both short and long term and the profile of its members between actuarial valuations determines the financial status of the pension fund, its funding level and the contributions that employers need to make into the Fund for the following three years.

11. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

11.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

12. RISK MANAGEMENT IMPLICATIONS

12.1 The valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation and any significant variations to those assumptions could impact upon Fund's financial position. Therefore a prudent approach is crucial in minimising the key risks involved in managing the Pension Fund.

13. CRIME AND DISORDER REDUCTION IMPLICATIONS

13.1 There are no any Crime and Disorder Reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 – 2019 Valuation – Assumptions and Funding Strategy Statement

Local Government Act, 1972 Section 100D (As amended)
List of "Background Papers" used in the preparation of this report

- As shown in appendices above.

Officer contact details for documents:
Miriam Adams, Pensions & Investments Manager x4248