

**Report to: Pension Board**

**Date of meeting: 4 August 2016**

**By: Chief Finance Officer**

**Title: Progress report on the 2016 actuarial valuation**

**Purpose: To provide the Board with an update on the 2016 actuarial valuation and to ensure that the valuation process is being carried out according to legislation and best practice.**

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## **RECOMMENDATIONS**

**The Board is recommended to note the report**

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### **1. Background**

1.1 The actuarial valuation is an opportunity to take stock of the financial health of the Fund. This includes:

- monitoring the Fund's (and each employer's) solvency position over time;
- assessing the impact of specific changes (e.g. membership profile);
- understanding the potential risks to the fund and specific employers;
- Identifying appropriate measures to manage and mitigate financial risk;
- setting individual contribution rates for all fund employers;
- setting a credible long term funding plan;
- taking advantage of market opportunities e.g. locking in investment gains by de-risking.

1.2 Legislation requires an actuarial valuation of the Fund every three years. The effective date of the 2016 actuarial valuation is 31 March 2016. The Board is responsible for assisting the Administering Authority to secure compliance with:

- the Local Government Pension Scheme (LGPS) Regulations;
- any other legislation relating to the governance and administration of the Fund; and
- any requirements of The Pensions Regulator.

### **2. 2016 actuarial valuation - progress**

#### ***Employer engagement***

2.1 Work on the 2016 valuation began well before 31 March 2016. In the summer of 2015, the Fund Actuary was commissioned to review the funding arrangements for employers for whom no funding guarantee is provided by another Scheme Employer (e.g. 'third sector' employers such as charities). Due to the short term nature of these employers' participation in the Fund, it is likely that contributions payable by these employers to the Fund from April 2017 will increase. Following receipt of the Actuary's analysis, Pension Fund Officers and the Actuary met with employers to explain the funding approach likely to apply at the 2016 valuation and the potential impact of this on contribution rates payable from April 2017. Discussions with these employers are ongoing.

## **Data Cleansing**

2.2 A lot has changed since the 2013 valuation of the Fund, including the implementation of the new CARE benefit structure from April 2014. By way of good governance and best practice the Fund commissioned the Fund Actuary to carry out a data cleansing exercise towards the end of 2015 and his findings were reported back to the Business Operations Pensions Administration Team for action.

2.3 Following the data cleanse report, Business Operations carried out two investigations:

- a. Non-Post report which picked up any members without contributions for 2014-15; and
- b. A status 2 report which picked up all members who were listed as undecided leavers.

Business Operations actioned both reports and contacted all affected Employers, and records were updated accordingly.

2.4 In addition to the data cleansing exercise the Fund Actuary (alongside many other LGPS Fund actuaries) has been engaged with other LGPS stakeholders (including Heywoods) to develop a single LGPS Universal Data Capture (UDC), which will make the process of extracting and validating data less onerous for the pensions administration team.

## **Valuation assumptions**

2.5 The Fund Actuary carried out a review of the key valuation assumptions to ensure these remain appropriate at the 2016 valuation. As a result of the Actuary's analysis, the following provisional working 2016 valuation financial assumptions apply:

- Discount rate of 3.8% pa (compared to 4.6% pa at the 2013 valuation);
- Long term salary growth of 2.4% pa (4.3% pa); and
- Pension increases of 2.2% pa (2.5% pa).

2.6 In addition to the work outlined above, the following valuation work has also been completed to date:

- Review of the funding arrangement for employer's who are part of the Town and Parish Council pool; and
- Analysis of LGPS demographic experience for the purpose of setting 2016 valuation demographic assumptions.

## **3. Early estimate of the valuation results**

3.1 The actual 2016 valuation results will be known in the autumn once the Fund Actuary has completed his calculations. The Fund Actuary expects the funding level for the Whole Fund to have increased slightly since the 2013 valuation, due to the proposed changes to the 2016 valuation assumptions (noted above) and strong asset performance since the 2013 valuation.

## **4. Next Steps**

4.1 A detailed valuation plan (Appendix 1) sets out the dates of the key 2016 valuation deliverables. The next key deliverable is 30 September 2016, which is the date when the initial valuation results (determined using the assumption prescribed by the national Scheme Advisory Board) should be sent to the Government Actuary's Department.

## **5. Conclusion and reasons for recommendations**

5.1 It is a regulatory requirement of the Local Government Pension Scheme that the administering authority instructs the actuary to undertake a triennial valuation. A valuation of the

Pension Fund is undertaken every three years, and the ongoing 2016 valuation exercise will determine employer contributions rates for three years effective from 1 April 2017.

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Background Documents  
None