

2019 ACTUARIAL VALUATION and FUNDING STRATEGY STATEMENT	PART I	
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Committee	Pensions Committee
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Officer Reporting	Sian Kunert, Finance
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Papers with this report	
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HEADLINES

The draft triennial valuation whole fund results have completed and this item will be led with a presentation from Hymans, the fund actuary, on the assumptions, results and funding position.

In addition the Fund is required under the Local Government Pension Scheme regulations to maintain and publish a Funding Strategy Statement (FSS). The purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

This report provides some background to the development of this FSS and seeks approval from Pension Committee to consult on the contents with Fund employers.

The draft FSS and the Initial Result report are provided in the Part II papers.

RECOMMENDATIONS

It is recommended that Pensions Committee :

- 1. Agree the draft Funding Strategy Statement for consultation with scheme employers**
- 2. Note the whole fund triennial valuation results**
- 3. Approve the assumptions used in the triennial valuation**

SUPPORTING INFORMATION

Triennial Valuation

The triennial revaluation of the pension fund to value the fund as at 31 March 2019 is almost complete. Membership, Cash flow and Investment data has been submitted to the Fund Actuary to enable completion of the valuation. In addition, the fund commissioned three papers to enhance the assumption setting specific to the Hillingdon Fund. The Fund Actuary has produced initial whole fund results. The initial fund results will be presented as

part of this item. Hyman's will also participate in an employer forum during November, to enable scheme employers to ask questions on their individual results.

The initial results show that the funding level has significantly improved from 75% at 31 March 2016 to 87% at 31 March 2019. The funding level only provides a high level snapshot at a point in time and has limitations as set out in the Hymans paper. The initial results enable the fund to set its funding strategy and in turn set contribution rates for all employers. It is important to note the reported funding level does not directly drive contribution rates for employers, a funding plan is set which considers that the assets and liabilities will evolve over time in different economic situations.

Funding Strategy Statement (FSS)

The draft FSS has been prepared by the Administering Authority of the London Borough of Hillingdon Pension Fund in collaboration with the Fund's actuary, Hymans Robertson LLP.

The Fund needs a FSS as employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns help pay for some of the benefits, although there is volatility in investment returns. Employees' contributions are fixed within the Regulations, at a level which covers only part of the cost of the benefits. Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- prudence in the funding basis
- affordability and stability of employers contributions, and
- transparency of processes.

There are also regulatory requirements for an FSS, which are detailed of the FSS.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement.

The FSS sets out the objectives of the Fund's funding strategy, such as:

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

As a result of the McCloud ruling there is an expectation that the benefits to members will change increasing liabilities, however the specifics are unknown at this time. The actuary has taken this into account in setting the FSS by increasing the likelihood of achieving the funding target when setting contribution rates.
