

**REPORT OF CORPORATE DIRECTOR RESOURCES**

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**ACTUARIAL VALUATION 2016**

**Reason for this Report**

1. To update the Committee concerning the triennial Actuarial Valuation.

**Background**

2. All LGPS funds are required to obtain an actuarial valuation of their assets and liabilities every three years. The first valuation under the current 2013 Regulations is as at 31 March 2016.
3. The 2016 valuation will also be the first valuation under Section 13 of the Public Service Pensions Act 2013 which requires the Government Actuary's Department (GAD) to carry out a LGPS-wide review following the completion of each triennial valuation.
4. AON Hewitt (formerly Hewitt, Bacon & Woodrow) are one of the four firms of actuaries carrying out valuations for the LGPS and have been the Fund Actuary for the Cardiff & Vale of Glamorgan Pension Fund since 2001.

**Issues**

5. Following end of year processing and data cleansing, the Pensions section submitted its data to the Actuary on 3 August, in line with the agreed timetable. Additional data was provided so that a study of the Fund's longevity and mortality characteristics based on the post codes of Fund members could be undertaken.
6. The Actuary presented initial results to officers on 7 October. Demographic assumptions had been amended to reflect the outcome of the longevity study – both the postcode analysis and the Fund's historic data indicated that life expectancy factors could be changed to reduce the Fund's projected liabilities. Incidence of ill health retirements has also been lower than assumed in the previous valuation so this assumption has also been revised accordingly. Financial assumptions were largely consistent with those of previous valuations (relative to market conditions) but slightly more prudent. The discount rate (i.e. the required rate of return on investments) was set at 4.6% and the actuaries calculated a "probability of funding success" (a measure of the risks implied by the assumptions) of 72% compared with 71% in 2013.
7. The initial whole of fund outcome is that the Fund's liabilities total £1,952 million compared to assets of £1,653 million, giving a deficit of £299 million and a funding ratio

of 85%. This compares with a deficit of £311 million in 2013 and a funding ratio of 82%. Increases in liabilities from worsening financial assumptions have been offset by reductions from the changes in demographic assumptions and gains from investments and deficit contributions. The average future service contribution rate for employers has increased by 1.2% from 15.4% to 16.6%.

8. The actuary presented an overview of the valuation at the annual Employer's Forum which was held on 1 December 2016.
9. The Actuary will refine the valuation by generating results for each contributing employer. The results will include a deficit figure, based on the employer's liabilities and a notional allocation of fund assets, and the employer specific future service rate. The officers of the Fund will then engage with each employer to discuss affordability issues arising and options for deficit recovery payments. The desirability of being responsive to individual employer circumstances has to be balanced with the requirement for the administering authority to have a consistent funding strategy across the whole Fund. The administering authority also has to be mindful of the consequences of its funding strategy for the GAD Section 13 review.
10. The administering authority is required to maintain and publish its Funding Strategy Statement (FSS) which sets out how the Fund aims to meet the regulatory requirement of ensuring that funds are available to meet pensions liabilities as they fall due whilst keeping employer contribution rates as nearly constant as possible. The FSS will be updated in consultation with the Actuary and Fund employers and submitted to the Committee for approval at its meeting in February.
11. The Valuation report and employers' contribution rates certificate will be issued before 31 March 2017. The GAD review is not expected to be completed until early in 2018.

### **Legal Implications**

12. There are no direct legal implications arising from this report.

### **Financial Implications**

13. There are no direct financial implications arising from this report, however individual employers will need to include additional resources in their budgets for 2017/18 onwards as a result of the exercise.

### **Recommendations**

14. That the Committee notes the progress of the triennial valuation.
15. That the Committee notes the proposed timetable for preparing and publishing the FSS.

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**CORPORATE DIRECTOR RESOURCES**