



LOCAL PENSION BOARD

8 DECEMBER 2016

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**INITIAL INDICATION OF 2016 ACTUARIAL VALUATION OUTCOME AND RESULTS
ON STANDARDISED ASSUMPTIONS**

Purpose of the Report

1. The purpose of the report is to inform the Board of the early indications of the funding level of the Leicestershire County Council Pension Fund at 31st March 2016, and to advise on the outcome of the valuation when it was calculated using the standard assumptions required by the LGPS Scheme Advisory Board (SAB).

Background

2. Under legislation the Fund is required to have an actuarial valuation carried out every three years, with the most recent one being based on the position at 31st March 2016. The actuarial valuation assesses the funding level (value of assets divided by value of liabilities) at the date of the valuation, and this calculation is initially carried out at a Total Fund level. Funding levels for every employing body within the Fund are also calculated, but this has not yet been completed.
3. The funding level is important as it calculates whether an employer has a deficit or surplus within their sub-fund, but it is the actual cash deficit or surplus that is more important to employers. Contribution rates set as part of the actuarial valuation process will take account of the size of the deficit/surplus, and also the cost of paying for future service as it accrues.
4. The outcome of an actuarial valuation, and the contribution rates set by it, are sensitive to the assumptions used. As a result it is not possible to compare the outcomes across different LGPS Funds on a like-for-like basis and the Scheme Advisory Board has a requirement that a valuation is also carried out using certain standardised assumptions. This will allow them to form a much better judgment on the overall position of the LGPS, and of individual Funds, although not all assumptions are standardised. One of the key standardised assumptions is the discount rate, in effect the future expected rate of return on investments.

Funding Level – funding basis

5. Hymans Robertson have calculated the funding ratio at a Total Fund level at 31st March 2016 to be 76%, which is an improvement on the 72% funding ratio calculated as part of the 2013 actuarial valuation. In cash terms the deficit has reduced from £1,024m to £989m. There are a number of reasons for this improvement in funding and they include actual investment returns over the three

year period being higher than those assumed in 2013, a small reduction in expected future inflation and an assumption of lower future pay growth than that used in 2013. The biggest negative impact by some distance was the lower assumption used for future investment returns, which comes as a result of a large reduction in government bond yields.

6. Although the funding position has improved, the cost of paying for future service as it accrues has increased substantially from 18.2% to 21.8% of pay. There will, therefore, be continuing upward pressure on employers' contribution rates for the vast majority of employing bodies.
7. The above information is at a Total Fund level and there is significant disparity within the maturity and profile of the sub-funds of different employers. The information should be treated with caution and cannot be considered to be relevant to all employers.

Funding level – standardised basis

8. Using the SAB standardised basis, the funding level has been calculated at 92% and the main reason for the increase is that the discount rate used in the standardised valuation is much higher than that used in the funding valuation. The standardised basis is irrelevant for any other purpose than comparing different LGPS Funds against each other.
9. There is currently insufficient information available on the results of the standardised valuations to be able to comment on the Leicestershire Fund's position relative to other LGPS Funds.

Recommendation

10. The Board is asked to note this report.

Equal Opportunities Implications

None specific

Background Papers

None

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