MUNICIPAL YEAR 2019/2020 REPORT NO. **225**

MEETING TITLE AND DATE:
Pension Investment & Policy Committee
27th February 2020

REPORT OF:
Director of Finance

Contact officer and telephone number:

Bola Tobun – 020 8379 6879

E mail: Bola.Tobun@enfield.gov.uk

Agenda – Part: 1	**Item: 13**
Subject: Final 2019 Triennial Valuation Results and Funding Strategy Statement	
Wards: All	
Key Decision No:	

Cabinet Member consulted:

1. EXECUTIVE SUMMARY

This report brings the Final results of 2019 triennial actuarial valuation of the **whole Fund** and the Funding Strategy Statement (FSS) to the Committee for approval.

Over the three year valuation cycle to 31 March 2019 the funding level has increased to 103%	The Fund is now in surplus position from deficit position of £131.9m as at 31st March 2016 with a gain of £171.2m to a surplus position of £39.3m as at 31st March 2019.
The Fund's asset has increased over the period, by £269.2m, and liabilities increased by 98m	The Fund's assets were £916.3m and the value of the liabilities was £1,048.2m, which corresponds to a deficit of £131.9m, and a funding ratio of 87% in 2016. And Fund's assets were £1,185.5m and the value of the liabilities was £1,146.2m, which corresponds to a surplus of £39.3m and a funding ratio of 103% in 2019.
The key elements of gain or loss leading to this change in funding level are investment profit, demographic and financial assumptions	The three major changes to the assumptions are: i) Investment returns above the discount rate adopted at the 2016 valuation, given rise to a gain of about £140m ii) A reduction in the long-term improvement in pensioner longevity given rise to a gain of about £82m iii) The fall in the real discount rate given rise to £70m loss (which on its own worsened the funding position).
Aggregate Employers contribution rate change from 22.8% to 20% (including 1.5% McCloud allowance)	Employees contributions are set by the Government, so employers must pay the balance of any cost in delivering the benefits to members. The cost of future benefits on the 2019 valuation result has decreased significantly.

1. EXECUTIVE SUMMARY (continue)

Fund Employers' has been consulted and no dispute	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.

2. RECOMMENDATIONS

The Committee is recommended to:

- approve the final results of 31st March 2019 triennial actuarial valuation attached to this report as Appendix 1 and the employer contribution rates therein; and
- final Funding Strategy Statement (FSS) of Enfield Pension Fund attached to this report as Appendix 2.

3. BACKGROUND

3.1 The 2019 Final valuation results demonstrated the funding position of the **Fund as a whole** has significantly improved.

3.2 The valuation report is set out in Appendix 1. The highlights are that since the last valuation was carried out as at 31st March 2016:

i) The funding level has improved from 87% to 103%.

ii) In monetary terms the Fund is now in surplus from deficit position of £131.9m at 31st March 2016 and has improved by £171.2m to a surplus position of £39.3m at 31st March 2019.

iii) The Fund's assets were £916.3m and the value of the liabilities was £1,048.2m, which corresponds to a deficit of £131.9m, and a funding ratio of 87% in 2016. And Fund's assets were £1,185.5m and the value of the liabilities was £1,146.2m, which corresponds to a surplus of £39.3m and a funding ratio of 103% in 2019 as shown below.

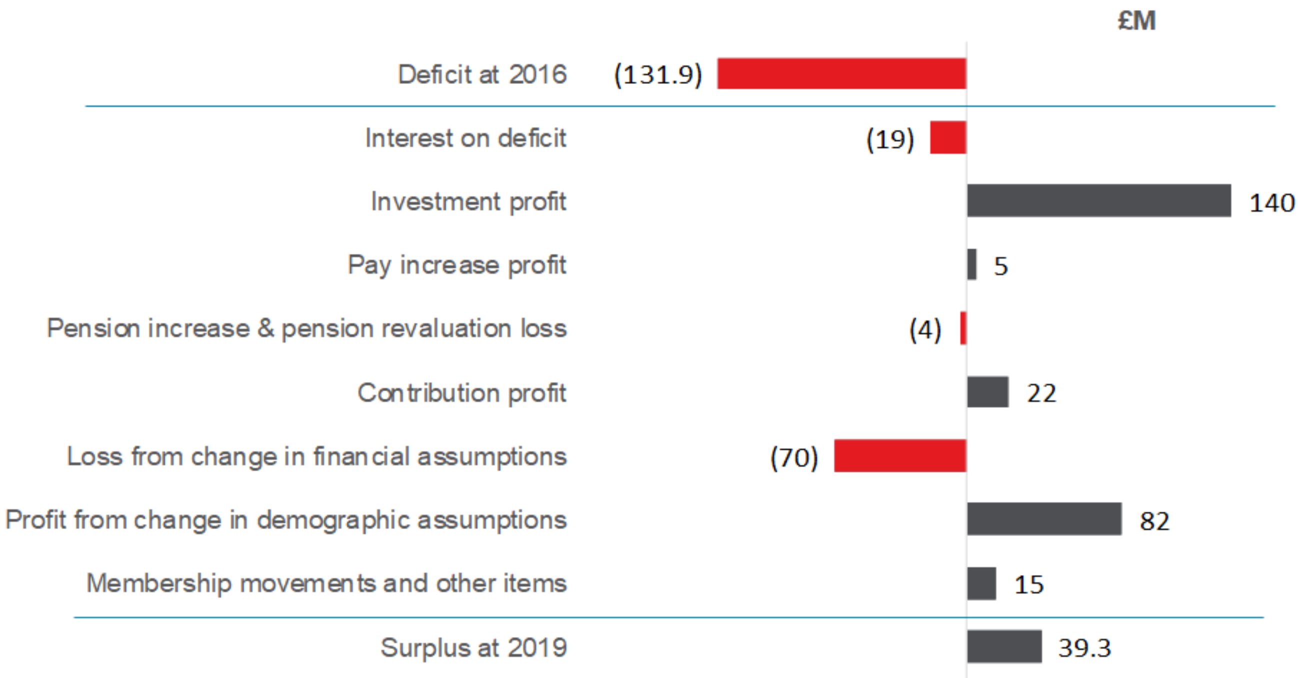
Assumption	31st March 2016 Valuation Results	31st March 2019 Initial Valuation Results
Main scheduled body funding target:		
Probability of funding success	69%	80%
Discount rate	**4.50%**	**4.20%**
Ongoing orphan funding target:		
In service discount rate	4.10%	3.30%
Left service discount rate	2.50%	1.60%
RPI inflation	3.10%	3.20%
CPI inflation (pension increases / CARE reva	2.00%	2.10%
Post 88 GMP pension increases	1.80%	1.90%
Pay inflation	3.50%	3.60%
Value of Assets	£916.3m	£1185.5m
Value of Liabilities	(£1.048.2m)	(£1,146.2m)
(Deficit)/Surplus	**(£131.9m)**	**£39.3m**
Funding Ratio	**87%**	**103%**
Primary Contribution	17.70%	18.50%
Secondary Contribution (to reduce deficit)	**5.10%**	**0%**
Extra -ordinary Contribution (possible cost of McCloud)		**1.50%**
Total Employer Contribution	**22.80%**	**20.00%**

3.3 The table shown above analyse the change in the deficit. The main reason for the for Fund to be in surplus are as follows:

i) Investment returns above the discount rate adopted at the 2016 valuation, giving rise to a gain of approximately £140m

ii) A reduction in the long term improvement in pensioner longevity giving rise to a gain of about £82m

iii) The fall in the real discount rate causing a £70m loss (which on its own worsened the funding position).



3.4 It is noticeable from the chart above, that the elements of the valuation assumptions that are controllable by the Council (investment returns, retirements & salary increases) have positively impacted the results; whereas the assumptions that are outside the Council's control (gilt yields and inflation during the valuation period) have had a negative impact on the results.

Contribution Rates

3.5 The contribution rates carried out by the Fund Actuary (AON) at the valuation, are made up of two elements:

i) the estimated cost of future benefits being accrued, ***(the "Primary Rate")*** – this is the cost of an officer earning an extra year of pension benefit; plus

ii) an adjustment for the funding position of the benefits accrued in the past – usually where there is a deficit in the pension fund, ***(the "Secondary Rate")***. If there is a deficit/surplus there will be an increase/decrease in the employer's contribution rate, with the surplus or deficit spread over an appropriate period.

3.6 ***Individual Employer Contribution Rates*** - While the fund is managed as a whole, it is effectively a number of sub funds for each individual employer. This means that each employer contributes according to a contribution rate that specifically reflects the individual employer's membership profile. Under guidance from the actuary, we have continued to set deficit recovery as a percentage of pensionable pay. Employee contributions are payable in addition to the employer contributions.

3.7 The cost of benefits that members will earn in the Fund are shown below, alongside the results from the previous valuation.

% of Pensionable Pay	Previous valuation results	2019 result (80% PoFS)
Value of benefits accruing	23.5%	24.2%
Death in service lump sum	0.3%	0.2%
Expenses	0.5%	0.7%
Less member contributions	(6.6%)	(6.6%)
Net Employer cost pre McCloud (Primary contribution rate)	17.7%	18.5%

3.8 The results of the previous valuation as at 31 March 2016 were as follows:

i) The Fund's assets were £916.3m and the value of the liabilities was £1,048.2m, which corresponds to a deficit of £131.9m, and a funding ratio of 87%.

ii) The assessed employer cost of future service benefits was 17.7% of pay across the Fund as a whole.

iii) Additional contributions of 5.1% of pay were required to return the Fund to fully funded over 19 years.

3.9 The results of 31 March 2019 valuation are as follows:

iv) The Fund's assets were £1,185m and the value of the liabilities was £1,146.2m, which corresponds to a surplus of £39.3m and a funding ratio of 103%.

v) ***Primary rate*** - the assessed employer cost of future service benefits was 18.5% of pay across the Fund as a whole and 1.5% (in money terms £10.6m) to be added as an allowance for possible cost of McCloud / Cost cap for past service liability over 19 years.

vi) ***Secondary rate*** - no additional contribution is required as the Fund is fully funded for the next 19 years provided the primary rate is maintained.

Changes affecting benefits/membership

3.10 Since the last valuation, the following developments have affected or may affect Fund benefits / membership:

3.11 Extension of the interim arrangements whereby full pension increases on Guaranteed Minimum Pensions (GMPs) are to be met by the Fund for members reaching State Pension Age (SPA) between 1 April 2016 and 5 April 2021.

3.12 The Government being denied leave to appeal the McCloud/Sargeant judgement which found that the transitional protections granted to members within 10 years of pension age in the Firefighters' and Judges' pension schemes when those schemes were reformed in 2015 was illegal age discrimination. Following the Ministerial Statement on 15 July, this is expected to lead to changes being required to all of the public service schemes.

3.13 The introduction of an exit cap which may affect the extent to which employers can waive part or all of the early retirement reductions in certain circumstances.

3.14 Changes in the SCAPE discount rate and longevity assumptions on which many of the Scheme-wide actuarial factors, including early and late retirement factors, are based.

Uncertainties

3.15 There are a number of uncertainties regarding the benefits payable to LGPS members which may affect the valuation results. The actuary has made an approximate allowance for these uncertainties in this result, at a whole of Fund level only. These uncertainties relate to:

i) GMP equalisation and indexation after 5 April 2021

ii) The cost management process

iii) The remedy which may be agreed in relation to the McCloud/Sargeant case

3.16 The actuary’s final valuation report is set out in Appendix 1. The Pension Fund is required by statute to publish a Funding Strategy Statement (FSS), to keep the Statement under review and to revise it whenever there is a material change in the policy set out within it.

Funding Strategy Statement (FSS)

3.17 The Funding Strategy Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which provides the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

3.18 The FSS set out in Appendix 2 has been drawn up by the Fund’s actuary, in conjunction with Officers of the Council. The Pension Fund previously published a FSS following the 2016 valuation and this has been updated to reflect changes made for the 2019 valuation.

3.19 In accordance with Regulation 58(3), all employers participating within the London Borough of Enfield Pension Fund would be consulted on the contents of this Statement and their views would be taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole

3.20 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.

3.21 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 to Community and Transferee Admission Bodies. Various factors are considered during the contribution setting process, including the funding target (the assets required to pay member benefits), the time horizon and the probability of reaching the funding target over that time horizon. Each of these factors may be varied according to employer type, as this will influence the level of risk posed by each employer.

3.22 The FSS also covers the links to investment strategy which are set out in Investment Strategy Statement. The investment strategy for the Pension Fund is set for the longer term. The investment strategy is an important and time consuming activity that the Committee needs to devote its time to. This may include dedicated strategy meetings to consider the longer term investment strategy for the Fund as well as looking at options for risk reduction over the longer term, should the funding level improve.

3.23 The FSS includes a number of detailed appendices covering key points around responsibilities, risks and regulations.

3.24 The FSS would be circulated in draft to all employers who participate in the Enfield Pension Fund to allow comments to be made prior to its finalisation. Employers would be invited to respond with any comments by Monday 2nd December 2019

3.25 Following the consultation, the FSS will be considered and approved by the Committee at its 27th February 2020. Comments received from consultation will be brought to the attention of the Committee.

3.26 The Committee are asked to consider and agree the draft Funding Strategy Statement for consultation with other employers in the Fund.

4. ALTERNATIVE OPTIONS CONSIDERED

i) There is no alternative because the requirements to carry out the triennial revaluation and prepare a Funding Strategy Statement are prescribed in regulations

5. REASONS FOR RECOMMENDATIONS

i) Regulation 58 of the Local Government Pension Scheme (Administration) Regulations 2013 (as amended) together with the guidance issued by CIPFA provides the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS).

ii) Following consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy with all relevant interested parties involved with the fund – for example, local authority employers, admitted bodies, scheduled/resolution bodies.

iii) The administering authority will prepare and publish its funding strategy by having have regard to: -

- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) or investment strategy statement (ISS), whichever is appropriate;

iv) 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 the statement of investment principles or investment strategy statement.

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

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

6. COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

i) There are no immediate financial implications arising from this report, although investment performance has an impact on the Council’s employer contribution to the Pension Fund and this is a charge to the General Fund.

ii) The funding level for London Borough of Enfield **(as a single employer)** stands at 102%, improving from 87% previously as shown in the table below.

iii) The employers' contribution rate for the London Borough of Enfield **(as a single employer)** is currently set at 24.8% for 2019/20. This has reduced to 20.2% as a result of the 2019 triennial review.

Probability of Funding Success	Balance sheet at this valuation		Current contributions		Theoretical contributions 2020/2021				
	Surplus / (deficit) £M	Funding level	Current contribution rate % pay	Additional amount 19/20 £000s	Recovery period (years)	Future Service Rate % pay, before addition for McCloud	Total Rate	Addition for McCloud % pay	Total rate (including McCloud)
80%	21.2	102.0%	24.8%	0.0	19	18.7%	18.7%	1.5%	20.2%

6.2 Legal Implications

i) The Constitution delegates to the Pension Policy & Investment Committee the function of setting the overall strategic objectives for the Pension Fund.

ii) 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.

iii) When preparing, maintaining or publishing the funding strategy statement, the Council is required to make such revisions as it considers appropriate following material change to the policy set out in the statement; any revisions must be made following consultation with such persons as the Authority considers appropriate.

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

- the CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement; and
- the Council's statement of investment principles/Investment Strategy Statement.

v) 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.

vi) When performing its functions as administrator of the LB Enfield 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).

7. KEY RISKS

i) All material, financial and business issues and possibility of risks have been considered and addressed within the report and its appendices, and that the actuarial report and funding strategy statement will provide the Pension Fund with a solid framework in which to achieve a full funding status over the long term.

ii) The Funding Strategy Statement forms part of the broader framework for funding and management of the London Borough of Enfield Pension Fund. It sets out how the Fund will approach the future funding of its liabilities and the recovery periods for recovering any deficit.

Background Papers – None

Appendices
Appendix 1 – 2019 Triennial Actuarial Valuation Results
Appendix 2 – Funding Strategy Statement (February 2020)

Officer contact details for documents:
Bola Tobun - Pension &Treasury Manager
Tel no. 020 8364 6879
Civic Centre, B Block South
Silver Street, Enfield
London EN1 3XF