Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 13th December, 2013, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Charles Gerrish (Vice-Chair) and Lisa Brett

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), William Liew (HFE Employers), Shirley Marsh (Independent Member), Steve Paines (Trade Unions) and Councillor Steve Pearce (Bristol City Council)

Co-opted Non-voting Members: Clive Fricker (Town and Parish Councils), Richard Orton (Trade Unions) and Paul Shiner (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor), Paul Middleman (Mercer), Jignesh Sheth (JLT Benefit Solutions) and Julian Brown (JLT Benefit Solutions)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Alan South (Technical and Development Manager), Geoff Cleak (Pensions Benefits Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

34 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

35 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Gabriel Batt, Mike Drew and Ian Gilchrist.

36 DECLARATIONS OF INTEREST

There were none.

37 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

38 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

Members considered a letter informing the Committee of a resolution passed by Bristol City Council urging the Mayor of Bristol to press the Avon Pension Fund and its members to disinvest from tobacco products entirely. The Mayor had forwarded the resolution to the Committee without comment.

The Head of Business, Finance and Pensions recalled the various discussions that the Committee had had on this topic and that it would be revisited next year. It was officers' current understanding of the law that the Fund's fiduciary duty to its members was primarily a financial one. However the Law Commission was currently consulting on this issue, following the publication of Professor John Kay's *Final Report on UK Equity Markets and Long Term Decision Making.* The Commission would be making recommendations to the Government next year. In addition, the local authority pensions scheme Shadow Advisory Board had asked a QC for advice on a number of issues, including this one. The Chair said that the Committee's future discussions would be informed by the outcomes of these two reviews.

The Vice-Chair pointed out that if funds were assured that they could choose to disinvest from tobacco, there could be significant falls in tobacco shares.

A Member referred to a recent legal judgement of which he had a copy. The Chair asked him to pass it to officers.

39 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

40 MINUTES: 27 SEPTEMBER 2013

These were approved as a correct record and signed by the Chair.

41 ACTUARIAL VALUATION OUTCOME

The Investments Manager presented the report. She said that comparative data for the funding levels of other LGPS funds was not currently available, but would be reported to the Committee at a future meeting.

The Fund's actuary, Mr Middleman, gave a presentation on the 2013 valuation results and funding strategy. A copy of his slides is attached as an appendix to these minutes.

Members raised a number of issues during the presentation and in the discussion afterwards.

<u>Deficit Reduction Strategy</u>

Mr Middleman assured a Member who had expressed concern, that his recommendations for new contributions rates would not impose undue burdens in the future, given that the assumptions had been set with a level of prudence within acceptable bounds.

<u>Ill-Health Retirements</u>

Mr Middleman said these had dropped dramatically since the 1980s. They were now much more tightly controlled via LGPS regulations, and this is reflected in the assumptions adopted.

The Discount Rate for Pension Liabilities

In reply to a question from the Chair, Mr Middleman clarified that lower interest rates increased the deficit by about £900m, which was offset by a reduction of about £300m due to lower inflation at the end of March 2013.

Contribution Rates and Deficit Payments

The Investments Manager and Mr Middleman explained that rates were set by the actuary in accordance with the Funding Strategy Statement previously agreed by the Committee.

A Member asked why there appeared to be two valuations, one at 31 March 2013 and one at 31 August 2013, and why contribution rates were being based on the 31 August valuation. Mr Middleman explained that the actuary's fiduciary duty under the Regulations required him to state the valuation position as at 31 March 2013. The figure for August 2013 took account of market movements (in particular increases in the discount rate due to bond yield reversion) and other factors, and allowed lower deficit contribution payments to be set. These lower contribution payments had been stress-tested for sustainability against the target of 100% funding and had been found entirely satisfactory within reasonable bounds of likelihood.

The Actuary advised that the declared valuation as at 31 March 2013 should take account of short term pay restraint as evidenced by most employers.

A Member suggested that pay for some local authority workers might rise more than the Chancellor's limit of 1%, because of pressures to pay a living wage and other factors. The Chair pointed out that the 1% limit applied to the total pay bill; there was a risk that a future government might raise pay more.

A Member expressed concern that some of the Fund's employers might not exist at the time of the next valuation. The Investments Manager said that those not guaranteed were mostly small charities and that their combined liabilities were very small. The funding strategy for those employers had been varied to consider these issues within the bounds of affordability. The Chair asked for a report on this at the next meeting. The Head of Business, Finance and Pensions pointed out that academies were guaranteed by the Secretary of State.

RESOLVED to note the outcome of actuarial valuation 2013.

42 CLG CONSULTATION - POOLING ACADEMIES

The Investments Manager presented the report. She said that the response submitted on behalf of the Fund had taken the line that the Fund's current treatment of academies was transparent, in line with the DfE's guidance and therefore that the Fund did not support pooling.

RESOLVED to note the Fund's response to the consultation paper on pooling arrangements for academies.

43 UPDATE ON 2014 LGPS AND CALL FOR EVIDENCE

The Technical and Compliance Manager presented the report. He said that discussions were still on-going about the future of the Councillors' pension scheme. The following options were being considered:

i) retain the exiting scheme for councillors;
ii) abolish the scheme;
iii) restrict the scheme to certain categories of councillor;
iv) retain the scheme only for existing members;

Regulations were imminently expected, and if the issues surrounding the Councillors scheme were not resolved in time, separate Regulations might have to be issued for the Councillors' scheme in future.

Members discussed the possible restructuring of LGPS funds. The Chair noted that there could be a single fund for all local authorities in Wales. He thought that there was interesting information in the chart on page 57 of the agenda entitled "Gross Value Added". The Investments Manager said that some of the data underlying the chart would be available for consideration in future debates about the structuring of funds. She drew attention to the forward timetable in paragraph 6.12.

RESOLVED

1. To note the current position regarding changes to the LGPS in 2014.

2. To note the information on administration and investment costs.

44 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report. The Panel had recommended that the Committee adopt the policy framework for infrastructure. It had also met Schroder and had set a timetable for evaluating the impact of recent organisational changes on their performance, as detailed in Exempt Appendix 3. A summary of the appointment for the Diversified Growth Fund mandate was given in Exempt Appendix 4.

RESOLVED to note:

1. the draft minutes of the Investment Panel held on 15th November 2013;

2. the recommendations and decisions made by the Panel this quarter as set out in 4.1.

45 INFRASTRUCTURE INVESTMENTS

The Investments Manager presented the report. She said that the proposed policy framework for infrastructure investment was less specific than would be expected for other asset classes, but this represented the nature of infrastructure investment. The evaluation of tenders, however, would be as robust as usual.

Julian Brown said that the JLT report had been well summarised by officers in the covering paper. He thought the framework needed to be wide-ranging in order to secure access to many different specific investments.

A Member said that the briefing session held before today's meeting had been very helpful; he wondered who would set the criteria for the appointment of a manager for infrastructure investment. The Investments Manager said that work was only just beginning on this; it would be discussed with the Investment Panel. Co-operation with other funds in the manager procurement process might result in lower fees.

A Member asked whether it might be beneficial to select more than one infrastructure investment manager. Mr Brown replied that it would be an open tender, which did not preclude appointing more than one manager. However a fund of funds might give the appropriate level of diversification.

RESOLVED to agree the proposed policy framework in section 6.

46 REVIEW OF INVESTMENT PERFORMANCE

The Assistant Investments Manager summarised the headline figures.

RESOLVED to note the information as set out in the report.

47 PENSION FUND ADMINISTRATION

The Finance & Systems Manager (Pensions) presented the budget report. Salaries were £20,000 below budget because of delayed appointments. Investment Governance & Member Training were £50,000 below budget. Investment Manager Fees were £821,000 above budget because of strong markets since the budget was set. He tabled an update to Appendix 7 (pages 193-194) to the report. He pointed out that Appendix 8 (risk register) was now more detailed, following comments from a Member at the previous meeting.

The Pensions Benefits Manager presented the administration report. He drew attention to the small increase in active members. The administrative performance of the unitary authorities had remained steady. There were still concerns about the supply of data by Bristol City Council; notification of approximately 400 scheme leavers since April 2013 were outstanding. Pensions staff had met officers of BCC in November. Since March the Pensions Team had trained staff from 57 employers accounting for 71% of Fund members in electronic data delivery. Electronic data delivery would take a significant step forward when South Gloucestershire implemented i-Connect software in 2014. Bristol CC gave notice of redundancy to a large number of staff in November and another batch was expected in the near future. The Pensions Team would support Bristol CC and send staff to pensions surgeries. In 2014 the Pensions Team would participate in member roadshow events about the new LGPS in 2014. It has also planned separate events for employer practitioners with separate sessions targeting both academies and town and parish councils.

The Head of Business, Finance and Pensions gave on an update on the convalescence of the Pensions Manager and his planned return to work.

RESOLVED to note:

1. Administration and management expenditure incurred for 7 months to 31 October 2013.

2. Performance Indicators and Customer Satisfaction feedback for 3 months to 31 October 2013.

48 WORKPLANS

The Investments Manager presented the report.

A Member noted that there was no timescale for the appointment of the Infrastructure Manager. The Investments Manager replied that there was still preparatory work to do on this, including an indicative timetable.

It was noted that the timing of Fund Governance and Assurance on the training plan (page 211) should be June 2014, not June 2015.

RESOLVED to note the workplans for the period to 31 March 2014.

The meeting ended at 4.08 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

MERCER TALENT • HEALTH • RETIREMENT • INVESTMENTS

2013 VALUATION RESULTS AND FUNDING STRATEGY
AVON PENSION FUND

13 December 2013

Paul Middleman FIA

Liverpool - Exchange Station

MARSH & McLENNAN COMPANIES

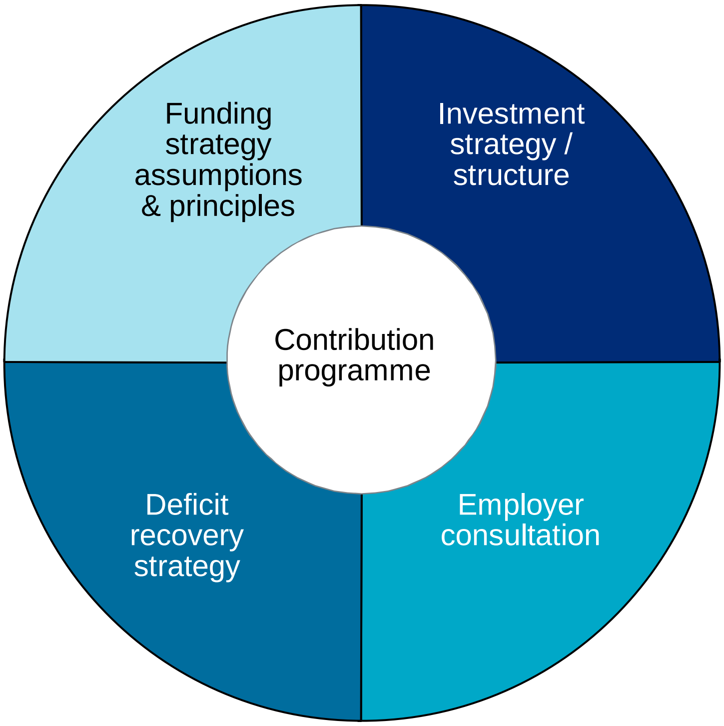
Agenda

- Valuations and FSS
- 2013 valuation - Whole Fund Results
- Stabilisation of Rates and FSS considerations
- Summary and Next steps

- Appendix A – Whole Fund data
- Appendix B – Demographic Analyses
- Appendix C – Actuarial advice and Important Notices

Review of contribution programme

Purpose



2013 Valuation - Whole Fund Results

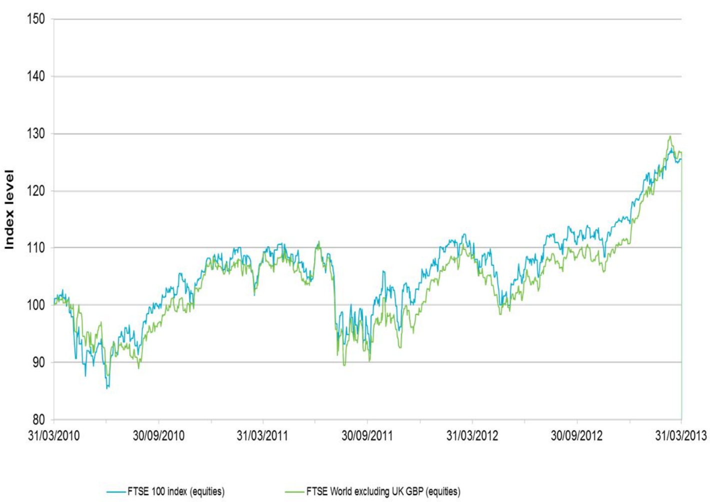
2010 valuation recap
Whole Fund Results

	31 March 2010
Assets	**£2,459m**
Liabilities	**£3,011m**
Deficit	**£552m**
Funding level	**82%**
Future service contribution rate	**11.8% p.a.**
Current deficit contributions over 20 years* (indexed at 4.5% p.a.)	**£33m** p.a.**

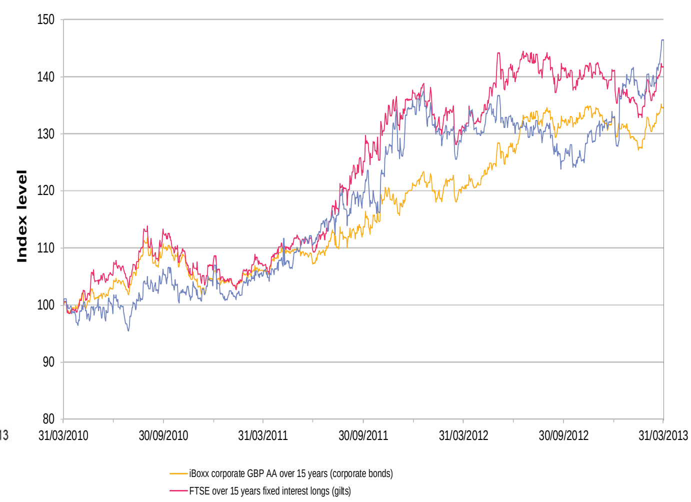
*Based on the average 23 year recovery period (from 2010) less 3 years
**Including three years' indexation to 2014/15

Inter-Valuation Financial Markets
Asset and Liability Changes From March 2010

ASSET PERFORMANCE



LIABILITY CHANGES



Over the three-year inter-valuation period, equity and bond returns have been positive, so assets will be higher (APF return c27% over the period). Liability values have increased significantly, driven by falling (nominal and real) bond yields. Since the valuation date yields have risen although returns have been volatile.

2013 Valuation
Financial assumptions

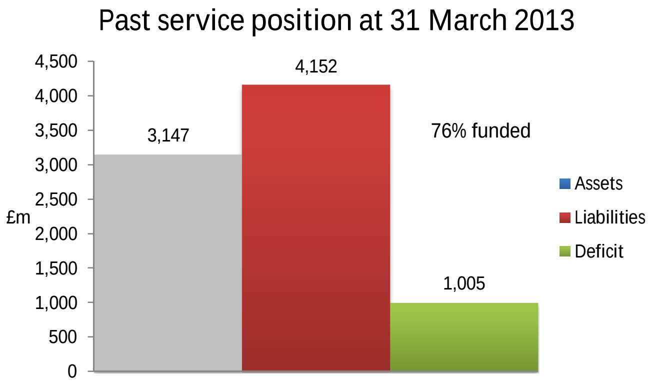
Market data	31 March 2010	31 March 2013 Initial Proposed
Fixed interest gilt yield	4.5% p.a.	3.2% p.a.
Index-linked gilt yield	0.7% p.a.	-0.4% p.a.
Market-implied RPI price inflation (derived by differencing yields on fixed-interest and index-linked gilts)	3.8% p.a.	3.6% p.a.
Adjustment to derive CPI inflation assumptions	*-0.8% p.a.*	*-1.0% p.a.*
Assumptions used for assessment of Liabilities		
Discount rate:	6.1% p.a.	4.8% p.a.*
Inflation: Consumer Prices Index (CPI)	3.0% p.a.	2.6% p.a.
Salary inflation	4.5% p.a.	4.1% p.a.
Pension increases	3.0% p.a.	2.6% p.a.

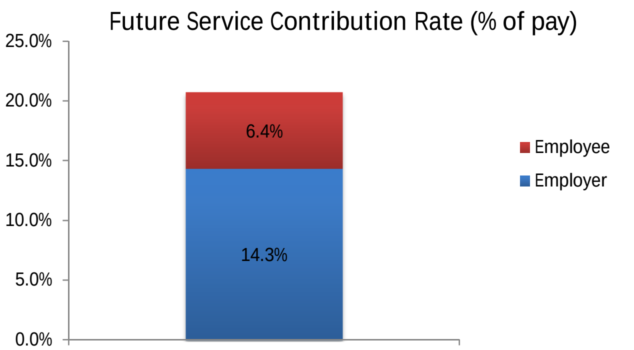
* Future service assumptions are as for liabilities with the exception of the discount rate, which was a long term rate of 6.75% p.a. at 31 March 2010 and is proposed to be 5.6% p.a. at 31 March 2013.

2013 valuation
Demographic assumptions

Life Expectancy	• Analysis has been carried out based on Fund membership. For pre retirement Life Expectancy we are updating based on LG wide experience.
Retirement Age	• Analysis supports increase in retirement age of 1 year – important for Pre 2008 benefits.
Ill health retirements	• Analysis suggests change to 2010 assumptions required based on Fund and LG wide experience
Proportions married	• Analysis supports a small increase in the % of members married at certain ages
Other	• As per 2010 Valuation

2013 Results
2013 Basis - Whole Fund ("Baseline Position")

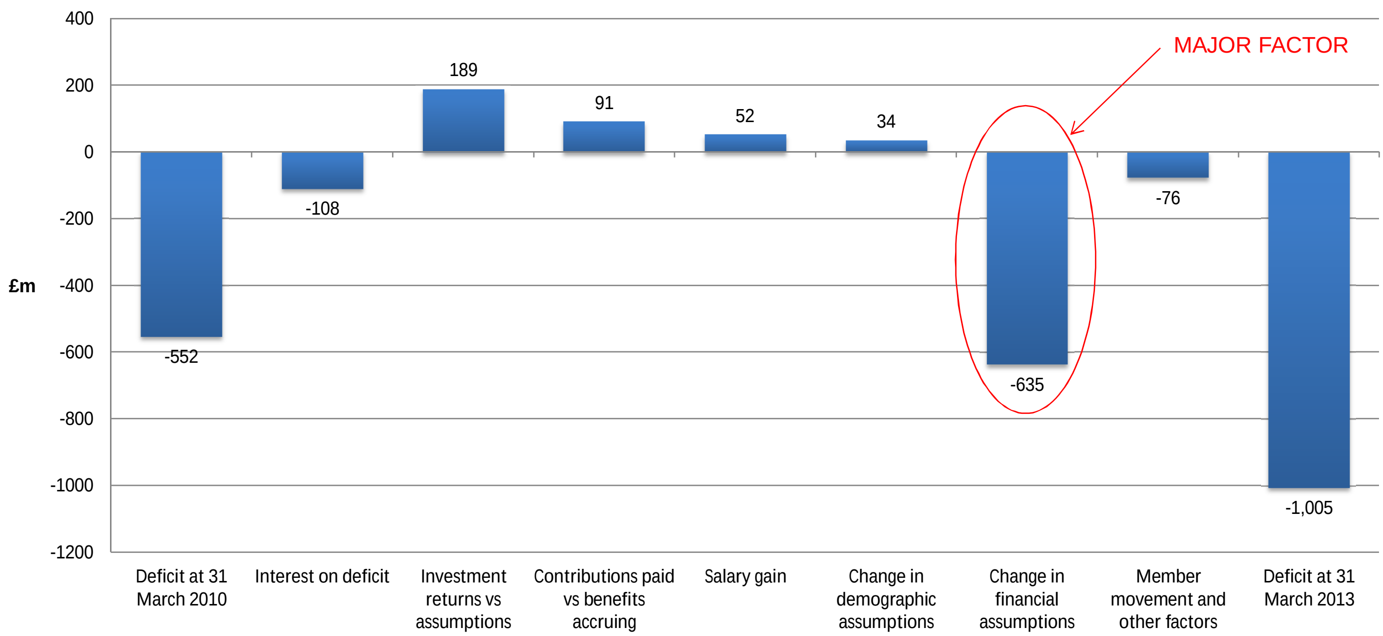




Rates include expenses. Based on post 2014 Scheme and expressed as a % of post 2014 pay based on the draft Regulations and pay provided. The old scheme employee rate would have been 6.3% of pay.

Implied deficit contributions (2010 equivalent deficit contributions of £33m p.a.)	
Recovery period (Whole Years)	Required Payment (increasing with assumed pay growth of 4.1% p.a.)
20	**2014/15 - £56m** **2015/16 - £58m** **2016/17 - £61m**

2013 Results
Analysis of change in 2010 past service position to 2013 baseline position



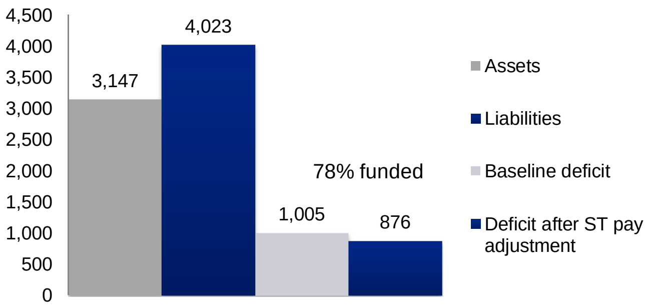
2013 Results
Analysis of change in future service contribution rate from 2010 to 2013

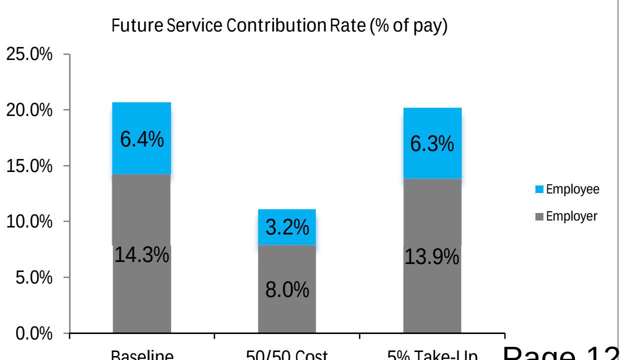
Change in Future Service Rate Analysis	
Average Employer Rate as at 31 March 2010	**11.8% of pay**
Change in profile of membership	neutral
Change in demographic assumptions	+ 0.6% of pay
Change in financial assumptions	+ 3.6% of pay
Impact of 2014 LGPS	- 1.7% of pay
Average Employer Rate as at 31 March 2013	**14.3% of pay**

The impact will differ for each individual employer

2013 Results
Whole Fund – short term pay growth (1% p.a. for 3 years) and 5% (by payroll) take up of 50/50 option

Past service position at 31 March 2013





Rates include expenses. Based on post 2014 Scheme and expressed as a % of post 2014 pay based on the draft Regulations and pay provided. No change to baseline rates as CARE scheme

Implied deficit contributions (2010 equivalent deficit contributions of £33m p.a.)	
Recovery period (Whole Years)	Required Payment (increasing with assumed pay growth of 4.1% p.a.)
20	**2014/15 - £49m** **2015/16 - £51m** **2016/17 - £53m**

Stabilisation of Contribution Rates and FSS Considerations

Further considerations
Possible approaches to stabilisation of contributions

SMOOTHING OF FUNDING POSITION

- Extreme smoothing of base funding position does not easily aid objective decision making
- Recognising known post valuation date information is reasonable
- Options include
  - Short term pay growth, significant membership changes etc
  - Market yield changes and future investment expectations possible

STABILISATION OF CONTRIBUTIONS

- Results would be declared as normal but contributions certified could allow for stabilisation mechanisms
- Options include
  - Altering recovery periods
  - Stabilising Future Service Rate – 50:50 take-up?
  - Phasing any increases in contributions
  - Allowing for bond yield changes in deficit recovery plans

  Stochastic Testing of funding outcomes
- Employers would not be allowed to reduce £ deficit input (indexed) vs. 2010 funding plan in general

Further considerations
Position at 31 August 2013 - 2014/15 contribution outcomes

	31 March 2013	31 August 2013
	Baseline Position (including short term pay growth)	Update position (including short term pay growth)
Funding Level	78%	83%
Illustrative Deficit (£m)	876	650
Average "Smoothed" Future Service Contribution Rate (% Pensionable Earnings) allowing for 5% 50:50 take-up	13.9%	13.9%
Required Deficit Payment (£m p.a. indexed each year)		
Recovery Period (years) 20	2014/15 - £49m 2015/16 - £51m 2016/17 - £53m	2014/15 - £34m 2015/16 - £35m 2016/17 - £37m

Deficit recovery contributions under the current plan would be £33m p.a. (indexed)

Since 31 March 2013, net yields have risen thus reducing liability values. Asset returns have been positive. The overall impact at 31 August was a c5% increase in funding level.

Funding Strategy Principles
2010 valuation vs 2013 valuation

Maximum recovery period reduced from 30 years at 2010 to 27 years

Minimum deficit contributions to be based on indexed 2010 valuation pattern unless notified otherwise

2013 valuation contributions outcome will take into account post valuation date information for certain employers to aid stability

Allowance for LGPS 2014, including impact of 50/50 option for certain employers where turnover can justify it

Where necessary phasing of any increases in contributions will be allowed

Individual Employers
Range of Outcomes

Individual Employers
Range of Outcomes

Funding Levels and Deficit Recovery

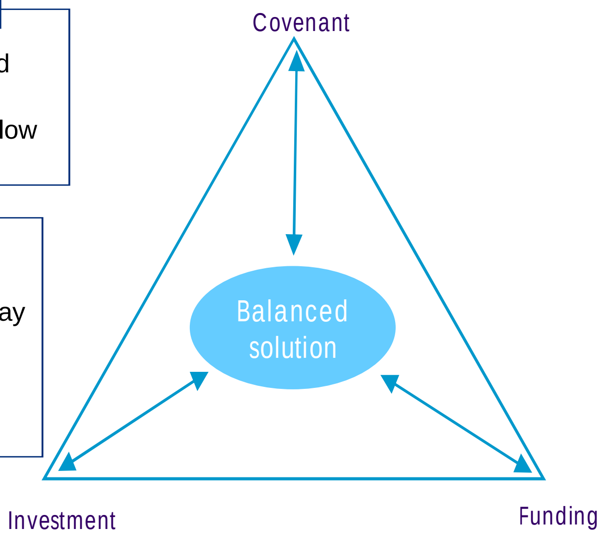
- Range from 10% to 127% depending on start position and history
- Deficit recovery contributions will generally not reduce below 2010 funding plan levels over 2014/17

Future Service Rate requirements

- Not directly linked to market yields except where notified
- Rates range from 7% to 30% of Post 2014 pensionable pay (incl non contractual overtime)
- New Scheme Savings range from 3.8% to a cost of 5.3% depending on profile

Stabilisation of Contributions

- Depends crucially on covenant and time horizon in Fund
- Added security will assist in managing cash requirements vs. affordability
- Certain approaches may not be possible e.g. 50:50 take-up



Summary and next steps

Summary

- Despite positive investment performance, low bond yields have increased the cost of pension provision and the funding deficit has therefore increased significantly. Outcomes will vary for individual employers.
- Administering Authority and Actuary have considered the assumptions used to value the liabilities and also the flexibilities within the Funding Strategy to set future contributions.

Next steps

- FSS approved in principle by Committee after consultation with Employers:
  - Financial and demographic assumptions, contribution flexibility agreed
  - Confirmation of final rates to employers in progress

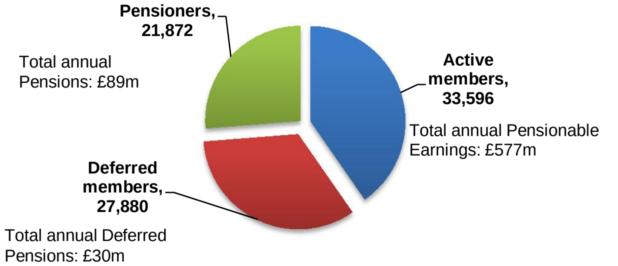
Funding plan for each employer needs to be robust, justifiable and recognise the challenges employers face but not at the expense of the long term financial health of the Fund

APPENDIX A
WHOLE FUND DATA

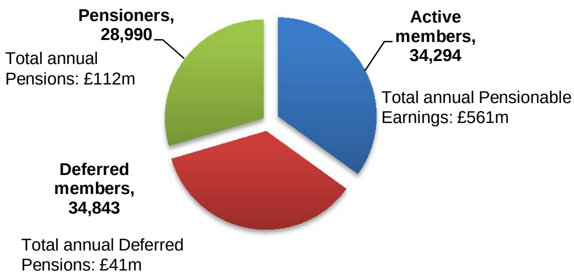
Avon Pension Fund
31 March 2013 Actuarial Valuation data summary

Membership development

31 March 2010 total membership



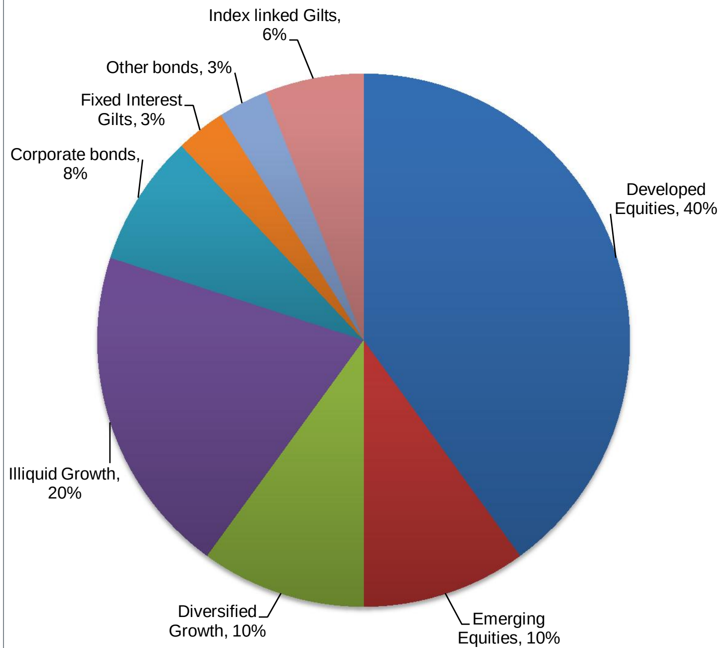
31 March 2013 total membership



Membership data provided by the administering authority (excludes members with leaver options pending). Pension payrolls at 2013 include 2013 increase . **Pay at 2013 does not include non-contractual overtime**

Benchmark at 31 March 2013

Market value of Assets £3,147m



APPENDIX B
DEMOGRAPHIC ANALYSES

Summary of analysis recommendations

Post-retirement mortality base table – updated table based on Fund's profile and experience for both past and future service

Post-retirement mortality future improvements – CMI 2012 model with 1.5% long-term improvements for both past and future service

Death before retirement – adjusted assured lives table based on aggregate LGPS data

Ill health retirement distribution between tiers – maintain 2010 valuation proportions

Ill health retirement rates – based on updated LGPS experience, with a Fund-specific adjustment

Retirement in normal health (pre 1/10/06 joiners) – based on aggregate LGPS experience

Proportions with dependants - revised rates based on 110% of 2010 proportions, with underpin at older ages

Financial Impact

	Effect on total past service liabilities (% of total past service liabilities)	Effect on future service cost (% of pensionable pay)
Post-retirement mortality	+0.1%	+0.4%
Death before retirement	-0.2%	-0.1%
Ill health retirement	+0.1%	+0.3%
Early retirement in normal health	-1.3%	-0.1%
Proportions with dependants on death	+0.5%	+0.1%

Overall financial effect:

- **0.8% *decrease*** in the past service liabilities
- **0.6% *increase*** to future service cost

APPENDIX C
ACTUARIAL ADVICE AND IMPORTANT NOTICES

Actuarial advice

- This presentation contains actuarial advice to the Administering Authority concerning their potential decisions on calculating the liabilities and preparing the Funding Strategy Statement and Contribution Schedule.
- It is covered by and compliant with the following Technical Actuarial Standards (TAS) issued by the Board for Actuarial Standards: TAS R – Reporting Actuarial Information; TAS D – Data; TAS M – Modelling; and Pensions TAS.
- This presentation forms part of a suite of material that will be used by the Administering Authority in making their decision.
- It forms part of the audit trail for the scheme funding valuation and should be read in conjunction with other valuation material provided.
- The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Scheme and determining an appropriate contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor does Mercer accept liability to the Administering Authority if the information provided in the report is used for any purpose other than that stated (for example for accounting or corporate mergers/acquisitions).

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