Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**11 DECEMBER 2015**
TITLE:	**INTERIM ACTUARIAL VALUATION 2015**
WARD:	**ALL**
AN OPEN PUBLIC ITEM	
List of attachments to this report: **Appendix 1 – Interim Valuation Report 2015**	

1 THE ISSUE

1.1 Local Government Pension Scheme Regulations 2013 require the Fund to carry out an actuarial valuation every three years, the next due as at 31 March 2016. Between these mandatory valuations, the Fund periodically requests interim valuations to assess whether the funding strategy is on track and to begin the discussions with the actuary, committee and employers about the 2016 valuation.

1.2 The Fund commissioned an interim valuation as at 31 August 2015 which provides the current context for the 2016 valuation.

1.3 The interim valuation provides an update as to the current funding level of the Fund. It does not re-calculate contribution rates or deficit payments. **It is important to note that the interim valuation is a snapshot of the funding level at a particular point in time.**

1.4 The Actuary presented the interim valuation report at a Committee workshop on 12 October 2015. The workshop included a training session on valuation methodology and a presentation of the outcome of the interim valuation. The report used at the workshop is in Appendix 1.

2 RECOMMENDATION

That the Avon Pension Fund Committee notes:

2.1 The information set out in the report including the timetable for the 2016 valuation.

3 FINANCIAL IMPLICATIONS

3.1 The actuarial valuation sets the contribution rates and deficits payments required from scheme employers for the three years following the valuation. The Interim valuation provides some insight into how the funding position has progressed against the funding strategy set out at the 2013 valuation.

3.2 It therefore provides an indication of the scale of the potential changes in contributions required at the 2016 valuation which will set the employer contributions from 1 April 2017.

4 THE REPORT

4.1 The Interim Valuation Report from the Actuary is in Appendix 1.

4.2 The interim valuation updates the 2013 valuation using the same membership data and demographic/actuarial assumptions. Actual cashflow data since 2013 is used and the financial assumptions are updated to reflect changes in market values as at 31 August 2015.

4.3 A key assumption which drives the value of the pension Fund liabilities (the future benefit payments) and therefore deficit is the discount rate. This is set by the Actuary to reflect the overall investment return which we expect to achieve on the Fund's assets over the long term with a suitable allowance for prudence. In terms of setting contributions, the relationship of the expected investment return compared to the rate of expected future increases in benefit payments i.e. CPI inflation is critical (in other words we need to reflect the "real" investment return expected on the Fund assets).

4.4 In 2013 the discount rate/investment return assumption was derived as gilts **plus** a fixed asset out performance to arrive at the overall expected return at that time. Since 2013, long term gilt yields have fallen significantly (from 3.2% to 2.5%), whilst the expected real return on the assets held by the Fund has remained broadly constant. Therefore, simply following the same "mathematical" approach from 2013 to derive the discount rate/investment return assumption would result in a lower discount rate and therefore a higher value of the liabilities. Based on initial discussions with the Actuary this would arguably build in too much "prudence" into the funding strategy given the long term objectives of the Fund.

*4.*5 The Actuary has therefore recommended re-expressing the discount rate for the 2016 valuation as the real expected asset return above the CPI baseline assumption. Importantly this discount rate would build in the same level of real return above CPI as that used in 2013 valuation, meaning that there is consistency in the assumed level of asset return and therefore the same level of prudence versus the long term investment strategy expectations.

4.6 The table below sets out the financial data applicable to the 2013 valuation and 2015 interim valuation

	31 March 2013	31 August 2015
Gilt yields	3.2%	2.5%
CPI Inflation	2.6%	2.4%
Discount rate for past service (gilts +1.6%) used in 2013 valuation	**4.8%**	4.1%
Discount rate for past service (CPI +2.2%) used in 2015 interim valuation	4.8%	**4.6%**
Discount rate for future benefits (CPI +3%)	5.6%	5.4%
Deficit	£876m payable over 20 years	£764m payable over 19 years

4.7 In absolute terms the deficit has fallen slightly from £876m in 2013 to £764m in 2015 (the funding level is unchanged at c. 83%). Had the same discount rate based on gilt yields from the 2013 valuation been used, the deficit in 2015 would have widened to £1,181m.

4.8 The narrowing of the deficit is due to the following:

a) Better than expected investment returns

b) An extension of pay restraint by 1 year (into 2019)

c) A reduction in the inflation assumption

The above offset the reduction in the discount rate from 4.8% to 4.6%.

4.9 However, to help keep employer contribution rates affordable, the funding plans in 2013 were adjusted for the improvement in gilt yields post the valuation date. The rise in gilt yields meant the discount rate rose from 4.8% to 5.2%, adjusting the deficit post valuation date to c. £650m. Therefore, the interim valuation indicates slight upward pressure on deficit contributions from those set in 2013.

4.10 The 2015 interim valuation also indicated upward pressure on future service costs particularly for the councils as a result of the 2013 assumption on the level of members taking up the 50/50 option not being borne out in practice. Furthermore, the discount rate applied to the calculation of the future service rate may need to be revisited which may put upwards pressure on contributions although this may be offset by other factors. At the employer level the future service costs are very sensitive to membership profile changes. At this stage there has been no consideration of the member profile changes at a total Fund or individual employer level and this will be taken into account at the 2016 valuation.

4.11 The actuary discussed the interim position in detail at a workshop on 12 October 2015. It was also discussed with employers at the Employers Conference held on 10 November 2015 in order to provide finance managers with a context for 3 year budget planning from April 2016.

5 2016 VALUATION TIMETABLE

5.1 The actuary has set out the indicative timetable for the 2015 valuation on slide 49 of their report (see Appendix 1). The process will be as follows:

a) The actuary and officers will develop the funding strategy during 4Q15/1Q16 and assess the impact of the market derived financial assumptions in April/May. At this stage the membership data as at 31 March 2016 will not have been processed.

b) A Committee workshop will be held in March/April 2016 to introduce the Funding Strategy Statement (FSS). The draft FSS which sets the parameters for the valuation including the actuarial assumptions and the deficit recovery policy will be agreed at the June meeting. The draft FSS will then be circulated to employers for consultation (as required in the regulations).

c) The final Funding Strategy Statement will be agreed at the September Committee meeting following which the individual employer results will be calculated by the actuary and disseminated to employers.

d) 2016 valuation report to be presented at December committee meeting.

6 RISK MANAGEMENT

6.1 The funding strategy is key to ensuring pension liabilities can be met in the future and therefore the strategy must be regularly monitored so that the Fund and employers are aware as to whether the current funding level deviates from the long term funding plan and the scale of any shortfall / surplus. Such information can assist employers in planning their medium term budgets and assist the Fund officers in managing those employers that pose a greater financial risk to the Fund.

7 EQUALITIES

7.1 An Equalities Impact Assessment has not been completed as the report is for information only.

8 CONSULTATION

8.1 N/a

9 ISSUES TO CONSIDER IN REACHING THE DECISION

9.1 N/a

10 ADVICE SOUGHT

10.1 The Council's Monitoring Officer (Divisional Director – Legal and Democratic Services) and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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Background papers	
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