

Essex Pension Fund Strategy Board	PSB 03a
Date: 04 March 2020	

2019 Actuarial Valuation and Funding Strategy Statement

Report by the Employer Manager and Fund Actuary, Barnett Waddingham

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1. Purpose of the Report

- 1.1 To provide an update to Members of the Essex Pension Fund Strategy Board on the progress of the 2019 Actuarial Valuation.
- 1.2 To report on the recent consultation exercise on the draft Funding Strategy Statement (FSS) and to submit the updated FSS for approval.
- 1.3 To propose amendments to the Funding Objectives following the conclusion of the 2019 Valuation.

2. Recommendations

- 2.1 The Board **agree** that:

- the updated FSS, be approved for final publication;
- the proposed amendments to the Fund's Funding Objectives; and
- the content of the report be noted.

3. Background

- 3.1 At its last meeting on 18 December 2019 the Essex Pension Fund Strategy Board (the Board) received a verbal update on the progress of the 2019 Actuarial Valuation of the Fund.
- 3.2 In accordance with the Local Government Pension Scheme (LGPS) Regulations, the Valuation must be completed by 31 March 2020 and a Valuation Report including a Rates & Adjustment Certificate issued by that date. The Certificate details the revised employer contribution rates for each employer for the period 1 April 2020 to 31 March 2023.
- 3.3 Essex County Council, as Administering Authority of the Essex Pension Fund (the Fund), is also required under the LGPS Regulations to prepare and publish a FSS and to keep the Statement under review. It is appropriate, to do so alongside the Valuation of the Fund.

4. Progress of the 31 March 2019 Actuarial Valuation

- 4.1 At its December meeting the Board were given a verbal update on the progress of the Valuation and detailed Valuation results. Members were advised that the options for the payments of contributions in line with the provisions of the draft FSS had been issued to the major Tax Raising Bodies, Colleges & Universities.
- 4.2 The Tax Raising Bodies' Forum took place 17 October 2019 where Fund Level results were shared and presentations from the Actuary, Interim Director for Essex Pension Fund and the Employer Manager were given. Since then the Employer Manager has held discussions with individual Councils over various contribution options in preparation for their budget proposals to be taken to respective Full Council meetings. The contribution rates outcome with the Tax Raising Bodies will be presented at the 04 March 2020 Board meeting.
- 4.3 Since the December Board meeting, the Valuation process has continued and the remaining employers – Academies, Community Admission Bodies, Transferee Admission Bodies and Town & Parish Councils - have been issued with results. A few employers are continuing discussions with the Fund.
- 4.4 The distribution of individual employer results has been supplemented with:
- specific Forum for major Tax Raising Bodies;
 - meetings with individual employers as requested;

- webinar for all employers;
- conference calls;
- email correspondence; and
- telephone calls.

- 4.5 Further to the Valuation update provided to the Board by the Actuary at their September 2019 meeting, the funding positions have improved for the majority of employers since the 2016 Valuation. Where deficits remain, recovery periods have generally reduced. Of the 94 Admission Bodies, 86 employers had funding levels of 100% or more on an ongoing basis.
- 4.6 The Actuary has reduced employer contribution rates where large surpluses are present for contractors due to current regulation requirements to repay these upon termination of contracts. This is in line with the expected amendments to the Regulations due imminently, which will take account of local arrangements. An update will be provided to the Board following the issue of these amendments.
- 4.7 The Actuary will issue the Valuation Report, Rates and Adjustment Certificate alongside the final version of the FSS by 31 March 2020. This will conclude the 2019 Actuarial Valuation process in compliance with statutory requirements.

5. Funding Strategy Statement (FSS)

- 5.1 The FSS provides detail of the setting of the employer contribution rates emerging from the results of the Valuation.
- 5.2 At its December 2019 meeting the Board approved the Out of Committee Process to review the revised draft FSS. This was issued to the Board on 4 February 2020, for comments to be provided by 2 March 2020. A marked-up version of the FSS is at appendix A. A verbal update will be provided at the meeting to consider any comments received from the Board.
- 5.3 The draft FSS had also been provided to participating employers for consultation which will conclude on 2 March 2020. A verbal update will be provided to take account any comments received.
- 5.4 In addition, at its July 2018 meeting the Board concluded an exercise to review the Fund's objectives. To align with the 2019 Valuation, the Actuary has revisited

these and proposed some amendments. These are detailed in Section 7 of this report.

6. Academies

6.1 As part of the 2016 Valuation a new approach for academies was adopted.

- all academies were placed in one employer pool;
- all academies to ultimately pay the same contribution rate; and
- the academy contribution rate to combine the ongoing/primary element with the deficit/secondary element and be expressed as a single percentage rate (of pensionable pay)

6.2 The number of academies in the Essex Pension Fund has continued to grow significantly since the 2016 Actuarial Valuation. The total stood at 241 academies which has increased to 404. Were every school in Essex (including Southend & Thurrock) to convert, this total would rise to 660.

6.3 The Actuary set the academy pool contribution rate at the last Valuation as 25%, estimating that it will take up to 9 years to migrate all academies to the same contribution rate.

6.4 The Academy Pool Funding Level at this Valuation has seen an increase from 58% in 2016 to 71% in 2019.

6.5 The current average academy contribution rate is 22.5%, however there remains some degree of dispersion whilst migration to the pooled rate continues.

6.6 The 2019 Valuation as mentioned has seen fund levels increase, however, allied to this future service rates have also increased. The Actuary has concluded that the academy pool contribution rate can remain at 25% until the next review.

6.7 At the end of this Valuation cycle in 2022, 66% of academies will be at the 25% contribution rate with the remaining academies to reach this before the 9-year predicted period concludes.

7. Funding Objectives Review

7.1 As part of the 2019 Valuation the Funding objectives have been reviewed.

7.2 The Actuary has proposed amendments to three of the objectives as follows:

to prudently set levels of employer contributions that aim to achieve a fully funded ongoing position in the timescales determined in the Funding Strategy Statement	to prudently set levels of employer contributions that aim to achieve a fully funded position in the timescales determined in the Funding Strategy Statement
to minimise unrecoverable debt on termination of employer participation	to adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations to minimise unrecoverable debt on termination of employer participation
to maintain liquidity in order to meet projected not cash flow outgoing	to maintain liquidity in order to ensure benefits can be met as and when they fall due over the lifetime of the Fund

7.3 The amendments allow for:

- employers reaching a fully funded position to pay to final cessation where required;
- encompassing a fuller objective for transparency; and
- providing greater clarity on the requirements of the Fund paying out in the distant future.

8. Recommendations

8.1 The Board **agree** that:

- the updated FSS, be approved for final publication;
- the proposed amendments to the Fund's Funding Objectives; and
- the content of the report be noted.

9. Link to Essex Pension Fund Objectives

- 9.1 Prudently set levels of employer contributions that aim to achieve a fully funded ongoing position in the timescales determined in the Funding Strategy Statement.
- 9.2 Recognise in drawing up its Funding Strategy the desirability of employer contribution rates that are as stable as possible.
- 9.3 Manage employers' liabilities effectively, having due consideration of each employer's strength of covenant, by the adoption, where necessary, of employer specific funding objectives.

10. Risk Implications

- 10.1 The risk implications of setting the Funding Strategy are set out in the draft FSS.
- 10.2 Revision of the FSS to incorporate management information emerging from the employer analysis and engagement work carried out in preparation for the Valuation will reduce the risk of an inappropriate Funding Strategy being in place, and of the setting of inappropriate employer contribution rates and irrecoverable deficits.
- 10.3 The Fund's Scorecard also contains measures which relate directly to the Funding Strategy and are reported to each Board quarterly.

11. Communication Implications

- 11.1 The final Valuation Report, Rates and Adjustment Certificate and FSS must be issued to the Minister for Housing, Communities and Local Government and to each participating employer by 31 March 2020.

12. Finance and Resources Implications

- 12.1 It is a requirement to complete the Triennial Valuation and to keep the FSS under review. Resources are planned accordingly.
- 12.2 There will be financial implications for the Fund and its participating employers emerging from the 2019 Actuarial Valuation and from changes made to the FSS, as a result of the new employer contribution rate and payment patterns agreed with individual employers. These are effective from 1 April 2020.
- 12.3 Employer engagement throughout the processes of the Valuation and revision of the FSS should assist participating employers to better manage and understand their financial responsibilities to the Fund.

13. Background Papers

13.1 04 July 2018 PSB Review of Objectives and Risks, agenda item 09.

13.2 11 September 2019 PSB, FSS, agenda item 03.

13.3 11 September 2019 PSB, Employer Risk Analysis, agenda item 14.