

**Agenda Item No. 4 (d)**

**DERBYSHIRE COUNTY COUNCIL  
PENSIONS AND INVESTMENTS COMMITTEE**

**22 October 2019**

**Report of the Director of Finance & ICT**

**DERBYSHIRE PENSION FUND 2019 ACTUARIAL VALUATION**

**1 Purpose of the Report**

To update the Pensions and Investments Committee (the Committee) on progress towards the completion of Derbyshire Pension Fund's (the Fund/Pension Fund) 2019 Actuarial Valuation (the Valuation).

**2 Information and Analysis**

**The Purpose of the Actuarial Valuation**

The Valuation is a planning exercise for the Fund to determine:

- The expected cost of providing the benefits built up by members at the valuation date in today's terms (the liabilities) compared to the funds held by the Pension Fund (the assets).
- The contributions needed to cover the cost of the benefits that active members will build up in the future (the Primary Contribution Rate).
- An appropriate plan for making up the shortfall if the Fund has less assets than liabilities. This plan will cover the amounts which will need to be paid (the Secondary Contribution Rate) and the timeframe over which they will be paid (the Recovery Period).

The Fund's actuary, Hymans Robertson, determines the information above for individual employers, or pools of employers, as well as for the Pension Fund as a whole in order to determine the appropriate contribution rates and any deficit recovery plans for each employer, or pool of employers.

The Valuation is calculated as at 31 March 2019 and will set the contribution rates and any deficit recovery plans from 1<sup>st</sup> April 2020 to 31 March 2023, which will be detailed in the Rates and Adjustments Certificate appended to the Valuation.

## **Funding Strategy Statement**

As part of the valuation process, the Fund reviews the funding strategy to ensure that an appropriate contribution plan and investment strategy is in place. The funding strategy is set out in the Funding Strategy Statement (FSS) which is the Fund's key governance document in relation to the actuarial valuation.

The FSS sets out the funding policies adopted, the actuarial assumptions used and the timescales over which deficits will be paid off. The Fund's stakeholders, including scheme employers, are consulted about the FSS as part of the actuarial valuation process.

## **Setting the Funding Strategy**

Setting the funding strategy for an open defined benefit pension fund such as Derbyshire Pension Fund is complex. In the LGPS, members' benefits are guaranteed and set out by government regulations. The level of pension benefits payable to a member is linked primarily to that member's pay and length of time in the scheme. The potential time period for paying out benefits earned in the LGPS today could stretch out beyond the next 80 years.

Contributions collected from employees and employers are invested to generate long term income and capital returns to support the payment of pension benefits. Investment returns help to pay for some of the benefits but are not guaranteed. As employee rates are fixed, employers' need to pay the balance of the cost of delivering benefits to members and dependents.

The FSS focuses on how employer liabilities are measured and the pace at which these liabilities are funded. The different categories of employers participating in the Fund are recognised in the FSS. The actuary takes into consideration the differing characteristics of each category of employer when setting:

- the **funding target** which defines the target amount of assets to be held to meet future cashflows and is based on a set of assumptions about the future (e.g. investment returns, inflation, pensioners' life expectancies)
- the **time horizon** which is the period of time over which the funding target is to be reached
- the **likelihood of achieving** the funding target over the time horizon

## **Employer Funding Risk Profiling/Covenant Review**

If an employer is unable to meet its pension liabilities and there is no cover provided by either a guarantor or other body, these pension liabilities will become the responsibility of the Fund as a whole which means that they will need to be covered by the other Fund employers. The impact of this is linked to the size of the relevant deficit of the reneging employer.

The Fund's actuary has carried out a funding risk profiling exercise which gives a broad measure (a funding risk score) of the urgency of funding for each of the Fund's employers taking into consideration a range of metrics, including: funding levels; maturity of the membership; and net cashflows. The extent of an employer's legal obligation and financial ability to support the scheme, the employer covenant, is also an important consideration in funding decisions. The Fund has issued Employer Health Check Questionnaires to all of the Fund's Tier 3 employers (those scheduled and admitted bodies that do not benefit from local or national tax payer backing or do not have a full guarantee or other pass-through arrangement with a body with such backing).

The information received as part of the covenant review is currently being assessed and will be taken into consideration alongside the funding risk scores in the categorisation of Fund employers within the FSS.

### **McCloud**

The Fund's actuary is preparing a paper on the areas that will be impacted by the McCloud judgement to assist with the Fund's decision on how to manage the risk and uncertainty caused by the outcome of the case in funding strategies until a remedy is confirmed.

### **The Valuation Timetable**

**2019**

#### **Completed**

Membership/cashflow/asset value data submission	July/Aug
Agreement of discount rate & salary growth assumptions	Aug
Clean data sign off by the actuary	Oct

#### **Forthcoming**

Review employer profiling/covenants	Oct
Review pooling & stabilisation arrangements	Oct
Committee – valuation update	22 Oct
Actuary & officers discussion -draft employer & whole fund results	Mid Nov
Committee -valuation results & proposed contribution strategy presented by Hymans Robertson	11 Dec

**2020**

Employer results schedule & draft FSS to be issued to employers, FSS consultation to commence	Late Dec
Employer Forum – actuarial valuation presentation by actuary	13 Jan
Committee – consider results of FSS consultation & finalise funding strategy	4 Mrch
Final valuation sign-off (Rates & Adjustments Certificate) by actuary	31 Mrch

### **3 Other Considerations**

In preparing this report the relevance of the following factors have been considered: financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property, and prevention of crime and disorder.

### **4 Officer's Recommendation**

That Committee notes the progress towards the completion of the Fund's 2019 Actuarial Valuation as set out above.

PETER HANDFORD  
Director of Finance & ICT