

ABERDEEN CITY COUNCIL

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| COMMITTEE | Pensions Committee |
| DATE | 11 December 2020 |
| EXEMPT | No |
| CONFIDENTIAL | No |
| REPORT TITLE | Tri-ennial Valuation and Funding Strategy Statement |
| REPORT NUMBER | PC/DEC20/VAL |
| DIRECTOR | Steven Whyte |
| CHIEF OFFICER | Jonathan Belford |
| REPORT AUTHOR | Claire Mullen |
| TERMS OF REFERENCE | 1.1 and 4.1 |

1. PURPOSE OF REPORT

- 1.1 To provide details of the 2020 triennial valuation for the North East Scotland Pension Fund including the proposed assumptions outlined in the Draft Funding Strategy Statement.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 agree the Funding Approach outlined in the 2020 Funding Strategy Statement including the assumptions used in the calculation of the Fund liabilities for the triennial valuation as at 31 March 2020; and
- 2.2 note the overall whole Fund valuation as at 31 March 2020 (using the proposed assumptions).

3. BACKGROUND

- 3.1 There is a requirement under the Local Government Pension Scheme (Scotland) Regulations 2018 that the Fund instructs a Scheme actuary to carry out a valuation of the liabilities every three years based on the data held on the administrative system at the date of valuation. Mercer, the appointed Scheme Actuary for the North East Scotland Pension Fund, have therefore provided indicative results on a whole Fund basis as at 30 March 2020.

Funding Strategy Statement (FSS)

- 3.2 The Draft FSS outlines the approach used by the Scheme actuary to calculate the liabilities held. The assumptions used in these calculations are introduced in page 5 of the draft document, with further detail provided under pages 1 – 7 of appendix A – Actuarial Method and Assumptions.

- 3.3 Both the financial and demographic assumptions determine the outcome of the valuation and are subject to the discretion and approval of the Fund and the guidance and agreement of the Scheme actuary.
- 3.4 The results are particularly sensitive to the assumptions on the discount rate. The discount rate reflects the assumed level of investment return on the assets held by the Fund. This assumption has been determined using real returns since the 2017 valuation which better reflects the actual experience of the Fund rather than using the previous method of measuring against the value of gilt yields.
- 3.5 For the purpose of the 2020 valuation the proposed discount rate is Consumer Price Index (CPI) plus 1.25% for determining past service liabilities and CPI plus 1.5% for future liabilities. This is a reduction in the discount rate from the 2017 valuation which was CPI plus 1.75% for both.
- 3.6 Other notable assumptions are made around inflation, future salary increases for members, mortality rates and expected member movements.

Employer Consultation

- 3.7 The regulations require the Fund to consult with all participating employers around the draft FSS. The consultation has now been issued to all employers along with their proposed employer contribution rate requirements for the three year inter-valuation period. The consultation period will run from 4 November 2020 with all responses to be received by the Employer Relationship Team by 4 December 2020.
- 3.8 Employers have been asked to comment on the actuarial approach, the suggested assumptions and provide any comments that they may have on the policies imbedded within the draft document.
- 3.9 Consultation responses will be discussed with the scheme actuary to determine any adjustments or action to be taken.

Preliminary Whole Fund Results

- 3.10 Based on the assumptions laid out in the FSS, the NESPF has a funding level of 103% as at 31 March 2020. This has been determined using a value placed on the liabilities held of £4.256m and a calculated surplus of around £127m when compared against the assets held as at the valuation date.
- 3.11 Individual employer results can differ significantly from the whole Fund as these are based on their own membership profile, the experience of their membership since the previous valuation and the asset returns based on actual cashflows.
- 3.12 Employers have received their suggested contribution rate requirements and discussions are ongoing around any requested adjustments that can be made on affordability, risk and future budgets and plans. Any adjustments to rates will be carried out in conjunction with the scheme actuary and any decisions

taken by the Fund will be based on evidence provided by the participating employer.

Completion of the Valuation

3.13 Following finalisation of the assumptions and discussions with all participating employers around their contribution rates requirements the valuation can be completed and signed off by the scheme actuary in time to meet the deadline of 31 March 2021.

3.14 Following completion of the process the signed valuation report and contribution certificate will be provided by Mercer and made available to all employers as well as the Pensions Committee and Board. A copy will also be provided to the Scottish Government as per their requirements.

4. FINANCIAL IMPLICATIONS

4.1 Meeting the liabilities of the Fund is the responsibility of the participating employers. As part of the valuation process the employer contribution requirements for all individual employers for the years 2021/22 to 2023/24 are determined using the approved assumptions.

4.2 Determining the assumptions with the appropriate level of certainty/prudence will impact on the contribution requirements for each employer based on their own liabilities and funding levels.

5. LEGAL IMPLICATIONS

5.1 The Fund is required under the Local Government Pension Scheme (Scotland) Regulations 2018 to consult with all participating employers and the Pensions Committee around the funding approach for the triennial valuation. The valuation is to be completed and signed off by the scheme actuary by 31 March 2021.

6. MANAGEMENT OF RISK

| Category | Risk | Low (L) Medium (M) High (H) | Mitigation |
|--------------------|--|--|---|
| Compliance | Failure to meet the requirements of the LGPS (Scotland) Regulations. | H | Robust procedure in place between the Fund and the scheme actuary to ensure that the target date of March 2021 is achieved. |
| Operational | Incomplete valuation will mean that employers will not be able to apply the correct contribution rates from April 2020 | L | Communication plan in place by the Employer Relationship Team to ensure that employers are contacted and contributions are determined prior to cut off date |

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|------------------|--|---|---|
| Financial | Failure to complete valuation could lead to employers under or overpaying contributions from April 2021. | L | Contributions are to be determined by 31 January 2021 allowing ample time to implement any changes for April payroll rollout. |
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7. OUTCOMES

The proposals in this report have no impact on the Council Delivery Plan.

8. IMPACT ASSESSMENTS

| Assessment | Outcome |
|-----------------------------------|--------------|
| Impact Assessment | Not required |
| Data Protection Impact Assessment | Not required |

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix I, NESPF Funding Strategy Statement 2020

11. REPORT AUTHOR CONTACT DETAILS

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