ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	2ND DECEMBER 2016
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT:	INTERIM VALUATION RESULTS FOR THE NORTH EAST SCOTLAND PENSION FUND
REPORT NUMBER:	PC/DEC16/IAV (1)

1. PURPOSE OF REPORT

This report provides elected members with details of the outcome of the Interim Actuarial Valuation for the main fund that was commissioned by the Fund as at 31 March 2016.

2. RECOMMENDATION(S)

i. To note the report

3. FINANCIAL IMPLICATIONS

As this is an interim valuation the funding levels provided by the scheme actuary are not published by the Fund and has no impact on the employer contribution rates.

4. OTHER IMPLICATIONS

None

5. REPORT

5.1 Background

5.1.1 As a result of the deteriorating funding position since the triennial valuation in 2014 the Fund commissioned the scheme actuary, Mercer, to carry out an interim valuation based on the assets and liabilities held within the Fund as at 31 March 2016. These results will be used to prepare the Fund for the 2017 triennial valuation, allow for early discussions for the development of the 2017 Funding Strategy Statement and form the background for discussions with employers regarding for full implementation of the NESPF covenant assessment policy.

5.1.2 The scheme actuary, Paul Middleman, visited Aberdeen to discuss the initial results with the NESPF in early October.

5.2 Data Quality

5.2.1 Paul and his team remarked on the high quality of the data provided by the Fund. The level of quality resulted in considerably less queries to the pensions department, helped Mercer with their processing and ensured the accuracy of the valuation. The accuracy of the data and the ability to provide the information to Mercer in a timely manner are a direct result of receiving monthly information through i-Connect from our large employers for the year 2015/16.

5.2.2 A full data quality report was provided by Mercer which will allow the Employer Relationship Team to identify any areas that continue to be a problem and resolve those prior to the full valuation in March 2017.

5.3 Level of Prudency

5.3.1 It is important that the level of prudency adopted by the scheme actuary is maintained from valuation to valuation. Traditionally, Mercer, have adopted a more prudent approach to the valuation of scheme liabilities than other actuarial firms. This is a level which the Fund is comfortable with and wishes to maintain whilst being aware of the affordability of the scheme for participating employers.

5.4 Discount Rate

5.4.1 The discount rate applied to both past service liabilities and the future service rate for the triennial valuation as at 31 March 2014 mirrored the value of gilt yields. However, given the low value that has been put on gilt yields in recent years, the actuary feels that to continue this approach would be too prudent.

5.4.2 The recommendation is that the Fund adopt an approach of linking the assumption for the discount rate to real returns. This would ensure that the level of prudency is in line with previous valuations, ensure that employer rates remain stable in accordance with the scheme regulations and better reflects the asset performance of the Fund.

5.5 Whole Fund Results

5.5.1 Based on a discount rate of CPI plus 2.50%p.a. for future service rate the funding level as at 31 March 2016 is 97% for the whole fund. The resulting deficit is £102 million compared to the deficit published in 2014 of £191 million (94% funded.)

5.5.2 Individual employer results will vary considerably from the whole fund position. The funding positions for all participating employers will be available later in 2016. These results will form the basis for discussions with employers on managing risk and maintaining affordability of the scheme.

5.6 Considerations

5.6.1 The Fund and scheme actuary will continue to monitor the funding position carefully between now and March 2017 when the full valuation is required. Market volatility continues to be a concern for the Fund, especially in the light of Brexit and the potential for enacting article 50 over the valuation period.

5.6.5 Given the concerns on the impact of Brexit it may be appropriate for the Fund to adopt a slightly more prudent approach to applying future assumptions for the forthcoming valuation.

5.6.3 Further consideration has to be given to the employer grouping for future valuations. It is likely that the 'other employers group' will be disaggregated during the next valuation but also the Fund needs to consider whether it is appropriate to maintain the Council group given the different strategies that they employ with regards to outsourcing.

5.6.4 The results of the interim valuation as at 31 March 2016 are not part of the required triennial valuation and will not be published in the annual reports for the Fund. Employer rates will not be established as part of these results although they will help to prepare both the Fund and the employers for consultation on the rates for 2018/19 onwards.

6. REPORT AUTHOR DETAILS

Claire Mullen
Employer Relationship Manager
cmullen@nespf.org.uk
01224 264166