

## ABERDEEN CITY COUNCIL

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COMMITTEE	PENSIONS COMMITTEE
DATE	16 MARCH 2018
REPORT TITLE	UPDATE ON THE DRAFT FUNDING STRATEGY STATEMENT
REPORT NUMBER	PC/MAR18/FSS
DIRECTOR	DIRECTOR OF RESOURCES
REPORT AUTHOR	CLAIRE MULLEN

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### **1. PURPOSE OF REPORT:-**

- 1.1 To seek approval for the draft Funding Strategy Statements for both the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) in order to allow the scheme actuary to sign off the 2017 triennial valuation and set the employer contribution rate requirements in time for the deadline of 31 March 2018.

### **2. RECOMMENDATIONS**

- 2.1 It is recommended that the Committee:
- i. Approve the draft NESPF Funding Strategy Statement including the proposed assumptions that have been recommended by the scheme actuary
  - ii. Approve the draft ACC Transport Fund Funding Strategy Statement including the proposed assumptions that have been recommended by the scheme actuary
  - iii. Approve the proposal to disaggregate the 'Council's Group' and the 'Other Employers Group' from 1 April 2017
  - iv. Note the remainder of the report.

### **3. BACKGROUND/MAIN ISSUES**

#### **3.1 2017 Actuarial Valuation and Funding Strategy Statement(s)**

- 3.1.1 A report to the Pensions Committee in December 2017 (Appendix III) provided details of the valuation carried out by the scheme actuary for both the NESPF and the ACC Transport Fund as at 31 March 2017.

3.1.2 In accordance with the scheme regulations a full consultation with all participating employers was carried out from 8 November 2017 to 31 January 2018 to invite comments on the new 2017 Funding Strategy Statement and the proposed assumptions used by the scheme actuary to calculate the value of the liabilities held within the Funds.

### 3.2 **NESPF Consultation**

3.2.1 During the consultation period a pleasing amount of employers engaged with the Fund in order to seek adjustments to their proposed contribution rates, to request further information or to provide comments on the assumptions applied.

3.2.2 The Fund was given scope by the scheme actuary to make adjustments to the individual employer contribution rates where it was deemed appropriate. Adjustments that could be made by the Fund were in relation to short term pay restraint assumptions, phasing any increase over the valuation period and making adjustments to the deficit recovery/surplus spread period.

3.2.3 As a result of the consultation the Fund agreed to apply a short term pay restraint assumption of 1% per annum or CPI+0% for several employers where they could provide evidence that the standard assumption of CPI+1.5% would be overly generous.

3.2.4 Where the proposed rates had increased by more than 3% phasing of the increase was applied for employers that made this request on the grounds of affordability.

3.2.5 For employers that were to see a significant increase to their rate, and where membership profiles allowed, the scheme reduced the surplus spread period or increased the deficit recovery period from the standard period of 16 years in order to reduce the employer contribution requirement.

3.2.6 Where there continued to be issues for any employers the scheme actuary was consulted to allow consideration to a reduction in contribution rates on the grounds of affordability, taking into account employer covenant.

3.2.7 Although affordability continues to be a concern for a lot of the participating employers, many of the respondents to the consultation commented that long term stability of rates was particularly desirable and they were supportive of the prudent approach adopted by the Fund and scheme actuary.

3.2.8 As a result of the consultation responses from the participating employers the Fund do not propose to make any changes to the assumptions outlined in the 2017 Funding Strategy Statement (Appendix I)

### **3.3 ACC Transport Fund Consultation**

- 3.3.1 As the only participating employer within the ACC Transport Fund, First Group took the opportunity to respond to the consultation on the draft FSS (Appendix II). They are content with the continued low risk approach to the valuation of the Transport Fund given the maturity of the Fund but had comments on the appropriateness of two of the assumptions used by the actuary.
- 3.3.2 In response to the comments the scheme actuary was comfortable with making amendments to the assumption used for salary growth but did not accept that any changes should be made to the assumptions for longevity.
- 3.3.3 The 2017 ACC Transport Fund FSS has been amended to reflect the accepted changes.
- 3.3.4 Due to the maturity of the Transport Fund and the de-risking flight plan that is currently in place with the Fund Manager Schrodgers continuous monitoring of the Fund will continue throughout the inter-valuation period.

### **3.4 Disaggregation of the remaining valuation groups**

- 3.4.1 Due to the positive outcome of the 2017 valuation and the increased emphasis by the Pensions Regulator (tPR) on solvency and long term cost efficiency the Fund proposes to disaggregate the remaining valuation groups with effect from the valuation date. This would mean that from 1 April 2017 the employers within the 'Councils' group and the 'other employers' group will stand alone and all employers will now have their own employer contribution rate based on their individual membership profile, fund experience and funding level.
- 3.4.2 The participating employers have been supportive of the intention to disaggregate all groups, understanding that it will bring transparency to the valuation process and a better understanding of how liabilities are calculated and how individual employer experience affects funding levels.

## **4. FINANCIAL IMPLICATIONS**

- 4.1 The actuarial valuation sets the employer contribution rates for all participating employers within the Funds. It is essential that the underlying assumptions used to determine the contribution requirements are set in such a way that ensures that the Funds remain solvent whilst also taking into consideration the desirability to create stability for employers.
- 4.2 Whilst the Funds recognise that affordability is a concern with all employers that actively participate within the scheme the regulations require that the emphasis is put on overall solvency of the scheme and minimising risk for the Funds as a whole.

- 4.3 Failure to set accurate assumptions or set high expectations on the future investment performance will mean that employer rates are not set accurately and will have a detrimental effect on the funding levels for future valuations.
- 4.4 The Fund is aware that the scheme actuary continues to apply prudent assumptions to the calculation of the liabilities for both the NESPF and the ACC Transport Fund and remain comfortable with this approach.

## **5. LEGAL IMPLICATIONS**

- 5.1 There are no direct legal implications arising from the recommendations of this report.

## **6. MANAGEMENT OF RISK**

- 6.1 There are no direct risk implications arising from the recommendation of this report.

## **7. IMPACT SECTION**

- 7.1 The Fund's Statement of Investment Principles has been revised following the 2017 tri-ennial valuation to ensure that the investment returns continue to meet the requirements of the Fund to achieve the funding target.

## **8. BACKGROUND PAPERS**

- 8.1 None

## **9. APPENDICES**

- 9.1 **Appendix I**, NESPF Fund Funding Strategy Statement 2017 (draft)  
**Appendix II**, ACCTF Funding Strategy Statement 2017 (draft)  
**Appendix III**, Valuation Report brought to Committee December 2017

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