

**Open Report on behalf of Andrew Crookham,
Executive Director - Resources**

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| Report to: | Pensions Committee |
| Date: | 18 July 2019 |
| Subject: | 2019 Valuation Assumptions |

Summary:

This report details the final assumptions that the Fund's Actuary, Hymans Robertson, is proposing to use for the 2019 Triennial Valuation.

Recommendation(s):

That the Committee:

- 1) note the report; and
- 2) approve the 2019 Valuation assumptions.

Background

1. The LGPS Regulations require that a valuation of the Fund's assets and liabilities is undertaken every three years by the Fund's appointed Actuary. This is known as the Triennial Valuation and the output provides a funding level percentage (value of assets compared to value of liabilities) and sets the contribution rates (both primary and secondary) that each Fund employer is required to pay for the next three years.
2. The Committee received presentations and training on the Valuation process from the Fund's Actuary on 13 December 2018 and 26 February 2019. This detailed:
 - An overview of how Lincolnshire Pension Fund is funded;
 - Why a valuation is carried out;
 - What assumptions are included;
 - The role of the Committee in the valuation process;
 - How employer contributions are set;
 - The Funding Strategy Statement (FSS);
 - How key assumptions are set; and
 - The timeline and tasks required to complete the Valuation.
3. At the March meeting, the Committee received a further paper to enable them to consider and approve the process of the Valuation, with the two

areas being how the key assumptions are set and the contribution strategy for employers, which feeds into the development of the FSS.

4. This paper details the assumptions now proposed by the Actuary to be used in the Valuation, following further discussion with officers and advisors, for the Committee to approve. The FSS, detailing how contributions are set and the overall funding strategy, will be brought in draft to the October meeting of the Committee, ahead of being circulated to all Fund employers for consultation and then to the March 2020 meeting for final approval.
5. The paper attached at appendix A explains in detail how the financial and demographic assumptions have been set, and the table below summarises the assumptions used in the 2016 valuation, the proposed assumptions for the 2019 valuation and the reason for any changes.

| Assumption | 2016 assumptions | Proposed 2019 assumptions | Reason for change |
|--|---|---|--|
| Investment return margin → Long term margin above risk free rate from year 20 | 1.8% p.a. | 2.0% p.a. | Increase due to output from modelling of portfolio returns |
| Pension Increases → RPI-CPI gap | RPI – 1.0% p.a.(=CPI) | RPI – 1.0% p.a.(=CPI) | No change |
| Salary Increases → Inflationary | RPI – 0.6% p.a. | RPI – 0.7% p.a. | No change in methodology. Expectation that short-term salary increase will remain low. |
| Longevity → Baseline → Future Improvements | Club Vita analysis CMI model, 2013 version, long-term rate of improvements of 1.25% p.a. | Club Vita analysis CMI model, latest version, long-term rate of improvements of 1.25% p.a. | No change in methodology. Later version of CMI table reflects more recent experience. |

6. The Committee are asked to approve the assumptions proposed, as shown above, for use in the 2019 Valuation process.
7. The Actuary will present the draft Fund 2019 Valuation report to the Committee's October meeting, alongside the draft FSS. Individual employer reports and contribution rates will be calculated and sent to all employers in November, with the draft FSS for consultation. The statutory deadline for completing the Valuation process and approving the FSS is 31 March 2020.

Conclusion

8. The Triennial Valuation process is a statutory requirement to provide a funding level for the Pension Fund and contribution rates for the employers to pay over the following three years. Officers work very closely with the Fund Actuary throughout the process of completing the valuation, calculating the employer rates and preparing the FSS.

Consultation

a) Have Risks and Impact Analysis been carried out?

Yes

b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

Appendices

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| These are listed below and attached at the back of the report | |
| Appendix A | Hymans Robertson Assumptions Setting Paper |

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

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