

Open Report on behalf of Pete Moore - Executive Director of Finance and Public Protection

Report to:	Pension Board
Date:	15 March 2017
Subject:	Valuation Update and Funding Strategy Statement

Summary:

This paper updates the Pension Board on the Triennial Valuation results and brings the draft Funding Strategy Statement for their information. This statement sets out how the Pension Fund aims to become fully funded over the long term, whilst considering affordability, transparency, stability and prudence.

Recommendation(s):

That the Board note this report.

Background

Valuation Update

1. A paper detailing the 2016 Valuation process was taken to the December 2016 meeting of the Pension Board, and it was requested that an update be given at the March meeting. The 2016 Valuation process has now been completed, and contribution rates agreed with all employers in the Fund (included at appendix B).
2. The process has been less difficult than expected, with most employers content with the requested employer contribution rates. In addition to the two days of employer surgeries, just one additional meeting was requested, and the Pension Fund Manager attended a meeting with the Heads of the Lincolnshire Special schools to discuss their contribution rates.
3. All employers, other than one, have agreed to pay either the contribution rate as per their schedule of results, or offered to pay a higher amount. One employer had a new contribution strategy agreed with the Actuary.
4. Declarations confirming the contributions to be paid have been received from 177 employers, with just two remaining to be received at the time of writing this report, both from parish and town councils.

Funding Strategy Statement

5. The Funding Strategy Statement (FSS) (draft attached as appendix A) is a summary of the Pension Fund's approach to funding its liabilities. It is required to be reviewed at least every three years, alongside the triennial valuation.
6. As employees contributions are set by the Government, employers must pay the balance of any cost in delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded, and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.
7. The purpose of the FSS, as defined by the Department for Communities and Local Government (CLG), is:
 - to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;
 - to support the regulatory framework to maintain as **nearly constant employer contribution rates as possible**; and
 - to take a **prudent longer-term view** of funding those liabilities.
8. The aim of this funding policy is:
 - to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
 - to ensure that employer contribution rates are reasonably stable where appropriate;
 - to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers);
 - to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
 - to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.
9. A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a

prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
 2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
 3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.
10. The FSS also includes mechanisms for dealing with employers ceasing, ill-health retirements and early retirement costs.
 11. The key risks, around financial, demographic and governance issues, and the controls in place are detailed in appendix C of the FSS.
 12. The FSS should to be read alongside the Triennial Valuation Report, the Investment Strategy Statement and the Governance Compliance Statement to provide a full overview of the Fund's governance structure.
 13. The FSS was sent to all employers in the Fund for consultation on Thursday 9th February, providing them with an opportunity to raise any questions or comments ahead of the Pensions Committee meeting on 8th March, where the FSS was approved. Employers will also be given an opportunity to ask for clarification at the employer's annual meeting, being held on Thursday 23rd March.

Conclusion

14. The Funding Strategy Statement has been reviewed following the 2016 Triennial Valuation and has been updated to take account of the process used to finalise employer contribution rates.

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

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund Funding Strategy Statement
Appendix B	Employer Contribution Rates

Background Papers

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