

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

Report to:	Lincolnshire Pension Board
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 Board note the report.

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 Board received training on the Valuation process from the Fund's Actuary on 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 Board received a further paper to detailing 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. The FSS, detailing how contributions are set and the overall funding strategy, will be brought in draft to the October meeting of the Board, 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 Actuary will present the draft Fund 2019 Valuation report to the Board'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

7. 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

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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