

CAMBRIDGESHIRE PENSION FUND



Pension Fund Board

Date: 3rd May 2019

Report by: Head of Pensions

Subject:	Valuation of the Pension Fund
Purpose of the Report	To provide the Local Pension Board with an update on the Pension Fund valuation.
Recommendations	The Board is asked to note the valuation update.
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1. Background

- 1.1 The Pension Fund is subject to an actuarial valuation every three years. The latest valuation has an effective date of 31st March 2019. The valuation will be carried out throughout the 2019/20 scheme year, culminating with the publishing of the valuation report and rates and adjustments certificate by 31 March 2020.
- 1.2 This report is to provide an update on progress of some of the key activities of the valuation.

2 Engagement with employers

- 2.1 A communication was sent to employers at the end of April providing a high level overview of the valuation including key timelines. An employer forum will be held on 17th May 2019 focussing entirely on the valuation.

3 Pre-valuation activities

3.1 Setting of key financial assumptions

- 3.1.1 At its March meeting, the Pension Fund Committee agreed the key financial assumptions to be used for the valuation. These key assumptions were:
 - 3.1.1.1 future salary growth of active members; and
 - 3.1.1.2 the proportion by which it is expected investment returns will outperform returns on government gilts.

3.1.2 Following two separate reports and a presentation from the Actuary, the Committee agreed to a salary increase assumption with a short term assumption of 2% until 2020 and a longer term assumption that salaries will increase by the Retail Price Index (RPI) less 0.2% thereafter.

3.2 Contribution rates for large scheduled bodies

3.2.1 The Actuary has carried out the process of modelling contribution rates for large scheduled bodies, known as “Compass modelling”. The large scheduled bodies are County, District and Borough Councils plus the Police and Fire authorities.

3.2.2 Due to the stabilisation approach applied to the contribution strategy for these employers, a different approach is taken for setting their contribution rates. This includes setting a general principle for changes to the contribution rate for this group as a whole, using outliers to model the appropriateness of the strategy.

3.2.3 Officers discussed the results of the modelling with the Actuary in April and will hold a briefing for the Chief Financial Officers of these employers at the employer forum.

3.3 Ill-health pooling

3.3.1 Officers have discussed options for managing ill health risks on whole fund pooling basis. Two options were discussed:

3.3.1.1 Option A – Creating a dummy employer which would act like an insurer, collecting “premiums” from each employer and reimbursing them for any ill health strain costs that occur.

3.3.1.2 Option B – Reimbursing each employer for any strain costs and deducting the required level of assets from all other employers, after the event, using Hymans Employer Asset Tracker (HEAT).

3.3.2 Option B was chosen as this involves no additional work required by officers, over and above what would be required by option A and was significantly less expensive at approximately half the costs of option B.

4. **Relevant Pension Fund Objectives**

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. (Objective no 1)
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund’s stakeholders, particularly the scheme members and employers. (Objective 2)
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. (Objective no 3)
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. (Objective no 5)

Ensure employer contributions are as stable as possible, recognising the characteristics, circumstances and affordability constraints of each employer. (<i>Objective no 9</i>)
Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund. (<i>Objective no 15</i>)

5. Finance and Resources Implications

5.1 None

6. Risk Management

6.1 The Fund carries out an actuarial valuation every three years. The Pension Committee and Local Pension Board are expected to be involved in this process and make informed decisions where necessary.

6.2 The risks associated with failing to be involved in the process and make required decisions have been captured in the Fund's risk register as detailed below.

Risk No	Risk mitigated	Residual risk
7	Those charged with the governance of the Fund are unable to fulfil their responsibilities effectively.	Green
16	Failure to provide relevant information to the Committee and Board to enable informed decision making.	Green
19	Failure to act upon expert advice and/or risk of poor advice.	Green
20	Failure to assess and monitor the financial strength of an employer covenant to ensure employer liabilities are met.	Green

6.3 The Fund risk register can be found at the following link –
<https://pensions.cambridgeshire.gov.uk/app/uploads/2019/04/Cambridgeshire-Risk-Register.pdf>

7. Communication Implications

Direct Communications	Not applicable
Website	Not applicable

8. Legal Implications

8.1 Not applicable

9. Consultation with Key Advisers

9.1 Consultation with the Funds advisers was undertaken for this report.

10. Alternative Options Considered

10.1 Not applicable

11. Background Papers

11.1 Not applicable

Checklist of Key Approvals	
Has this report been cleared by Head of Pensions?	Mark Whitby – 12 th April 2019.