

Suffolk Pension Fund Committee

Report Title:	Funding Strategy 2017
Meeting Date:	28 February 2017
Chairman:	Councillor Andrew Reid
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Brief summary of report

1. This report sets out the Funding Strategy Statement for the Suffolk Pension Fund and includes the proposed contribution rates for all employers in the Fund for the next three financial years.

Action recommended

The Committee is recommended:

- a) To approve the Funding Strategy Statement for the Pension Fund set out in **Appendix 1** and
- b) To approve the contribution rates for all employers in the Fund for the next three financial years set out in **Appendix 2**.

Reason for recommendation

2. The report sets out matters relevant to the Committee's responsibilities. The proposed Funding Strategy will ensure the long-term solvency of the Pension Fund.
3. There are no alternative options.

Main body of report

4. The Committee, at its September meeting, received the results of the triennial valuation of the Fund from the Fund's Actuary, Hymans Robertson LLP. This showed that the actuarial position for the Pension Fund at 31 March 2016 was a funding level of 91%, compared with the level of 79% at the last full actuarial valuation at March 2013. This represented a reduction on the deficit of the fund from £468 million at the last valuation to £216 million at March 2016.
5. The Committee also considered and approved a draft Funding Strategy Statement. This was used by the actuary and the officers to determine draft contribution rates for each employer, for the next three years.

6. The draft funding strategy statement and each employer's contribution rates were sent out to each employer in November 2016, for consultation. The consultation period closed on 23 December 2016.

Funding Strategy Statement for the Suffolk Pension Fund

7. The Funding Strategy Statement has been developed for the Suffolk Pension Fund on the basis of three broad principles:
 - a) **Prudence.** The Committee's objective to ensure the right balance between risk and reward in setting the funding and investment strategy of the fund, and in setting the individual employers' contributions to the fund.
 - b) **Stability.** The Committee's objective to ensure, as far as possible, that employer contributions should not vary significantly from one valuation to the next.
 - c) **Affordability.** The Committee's objective to recognise the impact of changes in employers' contributions on their overall budgets and resources, and to mitigate the adverse impact that any required changes might have, for example by the phasing of additional contributions, where this is feasible and prudent.
8. **Appendix 1** sets out the Funding Strategy Statement for the Pension Fund.
9. During the consultation period, no representations were received requesting any alterations to the Draft Funding Strategy Statement
10. The Committee is asked approve the Funding Strategy Statement for the Pension Fund set out in **Appendix 1**.

Employer contribution rates

11. A draft copy of the Actuary's rates and adjustment certificate is attached in **Appendix 2**. This set's out the contribution rates that the Committee is asked to approve for each employer for the next three financial years.
12. The contribution rate that is determined for each of the fund employers is composed of two parts:
 - a) The primary rate (formerly known as the future service rate), which is the contribution rate (expressed as a percentage of pay) which is required to meet the cost of the pension rights being built up by ongoing membership of the fund;
 - b) The secondary rate (formerly known as the deficit contribution rate), which is any additional contributions which are required to return an employer to a fully funded position, where there is an actuarial deficit at the valuation date. The deficit contributions can be expressed as a percentage of payroll, or as a series of lump sum payments.
13. At individual employer level, the improvement in the fund's valuation has seen some employers receive a reduction in their future contributions, which has been welcomed. However, some have remained the same and others have seen increases (these generally were paying lower levels of contributions previously).

14. There are some employers in the Fund who no longer give access to the Local Government Pension Scheme to new employees (known as a closed employer). Some of these have had a significant reduction in active members since the 2013 valuation, and may in the future be exiting as an employer in the Fund. Employers in this situation are being required to build up actuarial surpluses (on the Fund's ongoing funding basis) in order to help meet the cost of cessation when the last employee leaves and therefore have been requested to increase their lump sum contribution.
15. The responses to the consultation on employers rates are summarised below:-
 - a) Some clarification questions were received from a number of employers and these were satisfactorily responded to by officers.
 - b) Two employers asked for a phasing in of increased lump sum payments over the three years. This was discussed with the Actuary and agreed that it provided the employer with more time to fund the increase whilst still providing the Fund with additional monies over the three years.
 - c) Mid Suffolk and Babergh District Councils requested that their contribution rates are harmonised over the next three years. In addition, Babergh has also requested to pay a lower contribution rate and a higher lump sum payment in 2017/18 (to aid their budget process – the total cash being received by the Fund will still be the same). Again this has been discussed with the Actuary and has been agreed.
16. Should any further responses be received from employers before the Committee meeting, these will be reported verbally.
17. The Committee is asked to approve the contribution rates for all employers in the Fund for the next three financial years set out in **Appendix 2**.

Sources of further information

- a) Funding Strategy Statement 2014 – Agenda Item 9 – 27 February 2014
- b) Initial Valuation Results – Agenda Item 13 – 22 September 2016
- c) Pension Fund Funding Strategy Statement – Agenda Item 14 – 22 September 2016

