City of Westminster

Pension Board

Date:	**27 November 2019**
Classification:	**General Release**
Title:	**Draft Actuarial Valuation**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
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1. EXECUTIVE SUMMARY

1.1 This paper introduces the initial results of the 2019 triennial actuarial valuation process for the City of Westminster Pension Fund, which are further discussed in Appendix 1 attached by the Pension Fund's actuary, Barnett Waddingham (BW).

1.2 The key highlights are:

- The Fund's funding level, as a whole, has risen to 100% from the 80% level in 2016.
- The two major changes to the assumptions are a reduction in the real discount rate and a reduction in the long-term improvement in pensioner longevity.
- These two changes combined broadly net off, with the liabilities reducing by £10m in total as a result.

2. RECOMMENDATIONS

2.1 That the Pension Board note and comment on the initial actuarial results.

3. DRAFT ACTUARIAL RESULTS

3.1 In the period from 2016 to 2019, the Pension Fund has increased its overall funding level from 80% to 100%. The main drivers for this improvement were the significant investment returns of £209m above what was assumed in 2016.

3.2 The funding level for Westminster City Council (as a single employer) stands at 86%, improving from 70% previously.

4. CHANGES TO ACTUARIAL ASSUMPTIONS

4.1 There are a number of assumptions made during the triennial actuarial valuation process, with the two most significant ones being longevity projections and the real discount rate used to value liabilities.

4.2 Longevity rates have shown a decline in improvement since 2011, which implies that mortality expectations have started to flatten out. The actuary has taken into account this trend by reducing the long-term improvement expectations from 1.5% per annum to 1.25% per annum. This small adjustment makes a substantial difference to the valuation of the liabilities, reducing the total by approximately £83m.

4.3 The real discount rate, a proxy for the real investment return, has fallen from 2016 to 2019, falling from 2.7% (5.1% investment return less 2.4% CPI) to 2.2% (4.8% investment return less 2.6% CPI).

4.4 The discount rate has reduced for investments as BW has considered that investments have risen significantly in recent years and have factored in a higher level of prudence going forward.

4.5 As a result of the financial changes and demographic changes above, the net increase to the Fund's overall contribution rate is 0.7%, rising from 16.9% to 17.6%.

5 NEXT STEPS

5.1 The next steps for the Pension Fund Committee will be to agree a Funding Strategy Statement at the 23 January 2020 Pension Fund Committee meeting, followed by the final actuarial valuation report and new investment strategy statement in March 2020.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Draft Actuarial Valuation
Appendix 2: Actuarial Valuation Timeline