City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**19 March 2020**
Classification:	**General Release**
Title:	**Triennial 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 final 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). The Funding Strategy Statement is attached as Appendix 2.

1.2 The key highlights are:

- The Fund's funding level, as a whole, has risen to 99% from the 80% level in 2016, which is broadly due to the excellent investment returns over the period, increasing by £209m more than expected.

- 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 increasing by £10m in total as a result.

1.3 This paper builds on the initial draft valuation brought to the Pension Fund Committee on 23 October 2019.

2. RECOMMENDATIONS

2.1 That the Pension Fund Committee approves the 2019 triennial actuarial valuation and the Funding Strategy Statement.

3. FINAL ACTUARIAL RESULTS

3.1 In the period from 2016 to 2019, the Pension Fund has increased its overall funding level from 80% to 99%. 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 1.50% 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). The discount rate has reduced for investments as BW has considered that investments have risen significantly in recent years and has factored in a higher level of prudence going forward.

4.4 As a result of the financial changes and demographic changes above, the net increase to the Fund's overall contribution rate is 1.0%, rising from 16.9% to 17.9%.

4.5 Employers have been fully consulted on their employer contribution rates ahead of the new financial year and have been provisionally agreed.

5 WESTMINSTER AS AN EMPLOYER

5.1 For Westminster City Council as an employer, the average primary contribution rate has risen from 15.7% to 16.8%. The overall contribution rate charged to services has been kept stable for 2020/21 at 24.6%, reflecting the continued deficit recovery requirement.

5.2 Westminster as an employer will continue to pay a deficit recovery amount, which has been set at £22.7 million for 2020/21 in line with 2019/20 budgets. The Council has provisionally agreed to pay off its remaining deficit during the 2019 to 2022 valuation cycle, by paying a lump sum in 2021/22 to save on long term interest costs against the deficit. The latest figure as at December 2019 is a requirement to pay £80m which would be charged to revenue over the 13-year deficit recovery period.

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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: Triennial Actuarial Valuation
Appendix 2: Funding Strategy Statement