Complete Agenda

Democratic Service
Swyddfa'r Cygnor
CAERNARFON
Gwynedd
LL55 1SH

Meeting

PENSION BOARD

Date and Time

2.00 pm, TUESDAY, 24TH SEPTEMBER, 2019

Location

Ystafell Gwyrfai, Council Offices,

Caernarfon, Gwynedd. LL55 1SH

Contact Point

Lowri Haf Evans

01286 679878

lowrihafevans@gwynedd.llyw.cymru

(DISTRIBUTED 17/09/19)

PENSION BOARD

MEMBERSHIP

EMPLOYER REPRESENTATIVES

Councillor Aled Ll. Evans Cyngor Gwynedd Council

Huw Trainor North Wales Police

Vacant seat

MEMBER REPRESENTATIVES

Hywel Eifion Jones (retired – formerly Anglesey Council)

Osian Richards Members Representative

Sharon Warnes (retired - formerly Gwynedd Council)

A G E N D A

1. ELECT CHAIR

To elect chair for 2019 - 20

2. ELECT VICE CHAIR

To elect vice chair for 2019 - 20

3. APOLOGIES

To receive any apologies for absence

4. DECLARATION OF PERSONAL INTEREST

To receive any declaration of personal interest

5. URGENT ITEMS

To note any items which are urgent business in the opinion of the Chairman so that they may be considered

6. MINUTES 5 - 10

The Chairman shall propose that the minutes of the meeting of this committee held on 17 May 2019 be signed as a true record.

7. MINUTES AND MATTERS ARISING FROM THE PENSIONS COMMITTEE 11 - 14

To submit, for information, minutes of the Pensions Committee meeting held on the 29 July 19 and consider any matters arising

8. GENERAL UPDATE - PENSION ADMINISTRATION 15 - 17

To consider the Pensions Manager Report

9. TRIENNIAL ACTUARIAL VALUATION 2019 18 - 20

To consider the Head of Finance's Report

10. 2019 VALUATION ASSUMPTIONS 21 - 35

To consider the Head of Finance's Report

11. LOW CARBON EQUITY INVESTMENT

36 - 38

To consider the Head of Finance’s Report

12. WALES PENSION PARTNERSHIP UPDATE

To receive a verbal update from the Head of Finance on recent developments

PENSION BOARD, 17.05.19

Present: Anthony Deakin (Cartrefi Conwy) (Chair), Councillor Aled Evans (Gwynedd Council), H. Eifion Jones (Scheme Members' Representative) and Huw Trainor (North Wales Police)

Others invited: Councillor John Pughe Roberts (Chair of the Pensions Committee).

Officers: Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager), Nicholas Hopkins (Pensions Manager), Meirion Jones (Senior Communication Officer - Pensions) and Lowri Haf Evans (Member Support Officer).

1. ELECTION OF CHAIR

RESOLVED - to defer the item until the next meeting on 24 September 2019

2. ELECTION OF VICE-CHAIR

RESOLVED - to defer the item until the next meeting on 24 September 2019

3. APOLOGIES

Apologies were received from Sharon Warnes and Osian Richards

4. DECLARATION OF PERSONAL INTEREST

None to note

5. URGENT ITEMS

None to note

6. MINUTES

The Chair signed the minutes of this meeting, held on 13 March 2019, as a true record.

7. PENSIONS COMMITTEE MINUTES

The minutes of the Pensions Committee held on 14 March 2019 were accepted for information. There were no matters arising from the minutes.

8. PENSION BOARD CHAIR (DRAFT) REPORT FOR 2018/19

Submitted - an amended draft report, prepared jointly with the Chair, which included the observations made by Board members at the meeting held in March 2019. Members were reminded that the report would be included in the Gwynedd Pension Fund annual general report.

RESOLVED to accept the report.

9. UPDATE ON INVESTMENT PERFORMANCE

Submitted - a table summarising the performance of equity and bond mandates, and it was reported that the majority were performing above the benchmarks. It was explained that not all Funds reported on their performance punctually, and therefore the returns had been estimated. It was explained that there was only just over six weeks' performance available for two of Wales Pension Partnership's sub-funds, namely the 'WPP Global Growth Fund' and 'WPP Global Opportunities Fund', and it was therefore accepted that an extended period was required prior to assessing performance. It was noted that performance monitoring was a long term process in the field of pensions, and that the situation would be monitored and reviewed carefully in moving forward.

A request was made to reveal the sum that remained in the Wales Pension Partnership pool once the situation had stabilised, in order to provide a clear picture as the assets were transferred.

RESOLVED to accept the information.

10. RISK REGISTER

The risk register was presented to Members, so that they could scrutinise the latest version, and confirm that the identified risks were being monitored accurately. It was noted that the document was a working document, with the risks being regularly reviewed, and mitigation controls put in place.

Members had already requested that the Risk Register be a standing item at each meeting, in accordance with a suggestion from CIPFA. It was agreed that this would be an item to report on changes only, not to open a discussion on any aspects.

Observations from the discussion:

- There was a suggestion to include risk for case law (arising from the recent McCloud case).
- In response to an employer failure, it was noted that employer contributions were collected on a monthly basis. Any concerns would be monitored, but the Fund had a guarantee from a previous employer.
- As the Pensions Committee had agreed an additional investment in staff resources for the Pensions Administration Service, should the risk score for 'adequate staff resources' be reduced? In response it was noted that the significant pressure on the Fund Investment Service would continue, in relation to reconciling transfers to the Wales Pension Partnership pool, and that the situation could be reviewed in 12 months' time.
- Officers noted that the Pensions Administration Service had received punctual information from employers this year, which was a significant improvement, but the accuracy of the information had yet to be checked. With the development and use of the i-Connect system, officers anticipated that there would be further improvement in future. The officers were thanked for their work in strengthening the communication and engagement process with employers.

RESOLVED to accept the content of the risk register and to add the above proposals.

11. MINISTRY OF HOUSING, COMMUNITIES AND LOCAL GOVERNMENT'S (MHCLG) POLICY CONSULTATION - 'LOCAL GOVERNMENT PENSION SCHEME'

For information, a report was submitted on the Ministry for Housing, Communities and Local Government's consultation - Local Government Pension Scheme: Changes to the local valuation cycle and the management of employer risk policy. It was reported that the Westminster Government was proposing to amend regulations so that the Local Government Pension Scheme valuations would change from a three-year to a four-year cycle.

It was reported that a three-year cycle was appropriate for funded schemes, such as the Gwynedd Fund, and the initial argument was that it would be negligent to change to four-year cycle due to reasons of convenience and to standardise the UK Government's national arrangements. It was added that there were no clear reasons for the proposed change, and that there was no business case to justify it.

It was explained that the consultation would close on 31 July 2019, and that officers would seek guidance from the Fund's actuaries and other professional bodies. It was intended to prepare a draft response in consultation with the Pensions Committee Chair, and to submit this response for approval by the Pension Committee on 29 July 2019.

In response, it was noted that the current arrangements were effective, and therefore the need for change was questioned - the reasons had not been clarified by the Ministry for Housing, Communities and Local Government, and that they had no business case. A request was made for Finance officers to circulate a copy of the guidance provided by the Fund's actuary, Hymans Robertson, and the draft response on behalf of the Gwynedd Fund.

RESOLVED to accept the information and support the officers in their response to the consultation

12. WALES PENSION PARTNERSHIP - ENGAGEMENT WITH PENSION BOARD CHAIRS

A report was submitted for information, outlining the Wales Pension Partnership's engagement arrangements with the Chairs of the eight Local Government Pension Fund Board Chairs. The Chair explained that the desire to arrange a meeting had arisen in response to the need to find a practical method of sharing and discussing the work programme of the host authority, Carmarthenshire, and the concerns that had arisen. Although some Pension Board Fund Chairs proposed that concerns could be highlighted through correspondence, it was decided that a two-way joint discussion would be the best method of addressing these issues. A meeting had been held at County Hall, Cardiff on 2 April 2019, with the Head of Finance Department and the current chair of Gwynedd Pension Board in attendance, and reference was made to the minutes that were attached to the report.

It was reported that the meeting had been very beneficial, and solutions had been proposed. It was accepted that there would be inevitable teething problems when establishing a new Partnership:

The Chair noted the following matters that had arisen during the meeting:

- much work had been undertaken in transferring investments

- the host authority had a detailed action plan in place
- acceptance of the need for improving communication and information on the website
- the membership of some of the Boards were different, and therefore introduced different aspects of scrutiny and challenging
- agreement that meetings would be held every six months – this was encouraging.

The information was accepted.

13. PUBLIC SECTOR EXIT PAYMENT CAP

For information, a report was submitted on the Westminster Government's consultation on capping public sector exit payments – implementing a £95k exit payment cap.

It was noted that the details in the report were somewhat ambiguous and that it currently led to more questions than answers, as Welsh Government had not yet decided their view on the matter. It was noted that Welsh Ministers had powers to relax the restrictions, and there was a suggestion within Welsh local government that an exit cap for Wales should not include pension strain. Welsh Government could relax the requirement as appropriate, and could consider reducing the £95k.

It was explained that the consultation would close on 3 July 2019, and that no direction on its implementation had been submitted by the Westminster Government.

It was proposed that the response should express support for removing the pension strain from the exit cap, and that concern should be noted about restricting the flexibility. Officers were requested to investigate how many employees / members would be affected, especially those who would receive in excess of £50k.

RESOLVED to encourage Gwynedd Fund employers to respond to the consultation.

14. BOARD MEMBER RECRUITMENT AND APPOINTMENT

Following the Chair, Tony Deakin's announcement that he would be retiring at the beginning of August, the Head of Finance Department noted that he accepted his resignation, and that the process of recruiting and appointing a new employer representative for the Pension Board would commence by corresponding with employers.

He reiterated his gratitude to Tony Deakin for his service as a Board member and Chair, and congratulated him and Cartrefi Conwy on receiving an award at the Public Finance Award ceremony for alternative methods of service provision, that had offered employment opportunities to local residents.

The Chair, Tony Deakin, expressed his gratitude to the Head of Finance Department and officers for their support, and to the Board members for their good work and respect towards their work. He noted that he had enjoyed his time as Chair and all the experiences that he had gained.

On behalf of the Members, Mr Hywel Eifion Jones thanked the Chair, and wished him a happy retirement.

15. PENSION MEETING DATES

Submitted, for information, the dates of Pension meetings until May 2020 to enable members to plan accordingly.

Attention was drawn to a possible change to one of the dates. It was reported that it was possible that the Wales Pension Partnership Joint Committee meeting would be held on 4 September 2019, not 20 September, as noted in the report.

In accordance with the arrangements for nominating a Board member to observe a meeting of the Pensions Committee, Mr Tony Deakin was nominated to attend the meeting to be held on 29.7.19. Further nominations at the next Board meeting would be needed for the subsequent meetings.

RESOLVED to accept the information and to review the attendance of Board members at Committees at the next meeting.

16. ATTENDANCE IN CONFERENCES

Submitted - a report informing the members about relevant conferences and events and seeking nominations for attendance on behalf of Gwynedd Pension Fund.

RESOLVED - the following, and suggesting a further discussion at the next meeting regarding nominations for the other events.

LGPS Local Pension Board Members' Annual Event
26 June 2019
Osian Richards

Responsible Investor's 12th Annual RI Europe Investment Conference
11 – 12 June 2019
Aled Evans

'LGC Investment Seminar', Carden Park, Cheshire
27 – 28 February 2020
Hywel Eifion Jones

17. 2019/2020 AMENDED WORK PROGRAMME

Submitted - the amended work programme for 2019/2020 following comments received at the last Board meeting. Members were reminded that the document was a working document, to be amended as required.

It was suggested that the following matters should be included in the work programme:

- A benchmarking exercise in accordance with CIPFA's key performance indicators - there were currently concerns that Altair, the pensions administration software, was unable to provide all the necessary information in a format that was acceptable to CIPFA. The request for an update was approved.
- An update on end of year returns – analyse information about the accuracy and quality of the returns.

The meeting commenced at 10.00am and concluded at 11.30am.

PENSIONS COMMITTEE 29.7.2019

Present: Councillors: John Pughe Roberts (Chair), Stephen Churchman, David Cowans (Conwy Borough Council), Peredur Jenkins, Aled Wyn Jones and Ioan Thomas

Officers: - Dafydd Edwards (Head of Finance Department), Caroline Roberts (Investment Manager), Nicholas Hopkins (Pensions Manager), Delyth Wyn Jones-Thomas (Pensions Accountant and Treasury Management), Meirion Jones (Senior Communications Manager (Pensions)) and Lowri Haf Evans (Member Support Officer)

Others invited Osian Richards (observing – member Pensions Board), Aron John (observing - Trainee - Finance) and Helen Lloyd Williams (observing - North Wales Police)

1. APOLOGIES

Apologies were received from Councillors John Brynmor Hughes, Peter Read and Robin Williams (Anglesey County Council)

2. DECLARATION OF PERSONAL INTEREST

None to note.

3. URGENT ITEMS

- LGPS Governance Conference, Principal Hotel, York
  23 - 24 January 2020

It was noted that Councillor Peredur Jenkins was not available to attend the conference in York. Councillor Aled Wyn Jones was nominated to attend in his place.

4. MINUTES

The Chair signed the minutes of the previous meeting of this committee, held on 16 May 2019, as a true record.

5. FINAL ACCOUNTS OF THE GWYNEDD PENSION FUND FOR THE YEAR ENDING 31 MARCH 2019 AND RELEVANT AUDIT

Submitted, for information, the final accounts for the Gwynedd pension fund. It was noted that the statement contained details of the Fund's financial activities for the year ending 31 March 2019. Along with the accounts, which were subject to an audit by Deloitte, an ISA260 report was submitted on behalf of the Auditor General for Wales, detailing the auditor's findings. It was reported that the Audit and Governance Committee had approved the accounts, and the letter of representation authorised by the Chair of the Audit and Governance Committee and the Head of Finance Department at the Committee meeting on 29 July 2019.

Reference was made to two of the Fund's key strategies, the finance strategy statement and the investment strategy statement.

Attention was drawn to the Fund's account, which noted the value of the Fund as it stood on 31 March 2019. There was an increase of £143 million in net assets over the 2018-2019 year, which brought the value of the Fund to over £2 billion.

The increase in expenditure on asset management fees was explained and, in response to an observation, the fall in contributions between 2017-2018 and 2018-2019 was explained. This was because 2017-2018 had been a year in which three years' worth of deficit recovery contributions were made (reference was made to note 7 in the report).

RESOLVED to accept
- **the Statement of the Accounts 2018-19 (post audit)**
- **the ISA260 Deloitte Report for the Gwynedd Pension Fund**
- **the Letter of Representation**

6. THE GWYNEDD PENSION FUND ANNUAL REPORT 2018/19

A draft version of the Gwynedd Pension Fund Annual Report was presented and which provided a review of the 2018-2019 year, a management report and details of the Fund's financial activities. The Head of Finance Department explained that the accounts audit timetable had changed and, consequently, had provided the opportunity to complete the report sooner than expected. This gave members the opportunity to make observations before making a formal presentation to all employers at the Pension Fund's Annual General Meeting on 24.10.2019. It was emphasised that the accounts had already been approved and could not therefore be amended.

It was highlighted that the value of the fund on 31 March 2019 was now greater than £2 billion and that the fund's value had been increasing regularly since 2000. Reference was made to the membership statistics, noting that the number of pensioners along with the number of contributors had increased. In response to a comment that this was perhaps contrary to a consideration in the context of staff numbers, considering the current climate, it was suggested that part time v full time work contracts was one explanation.

Over the past 12 months, it was explained that the relationship with the fund's employers had improved, and training workshops had been held to ensure that the data received was accurate and timely for the accounts.

Staff members were thanked for their work and reference was made to the recognition received in the report of the Auditor General for Wales for the standard of the work.

The Head of Finance Department took the opportunity to announce that Caroline Roberts (Investment Manager) and Nicholas Hopkins (Pensions Manager) would be retiring before the end of the year. Both were thanked for their hard work over the years.

RESOLVED to accept the report

7. INVESTMENT IN THE WALES PENSION PARTNERSHIP (WPP)

Submitted - the report of the Investment Manager stating the need for the Committee to make an official decision to transfer Gwynedd Pension Fund's Insight Absolute Return Bond Fund. It was reported that Hymans Robertson, at a recent meeting of the Investment Panel (16 May 2019) had presented and discussed the options and that the panel resolved to transfer all assets from Insight to a Wales Pension Partnership Absolute Return Bond Fund.

It was also explained, when equity was transferred to the Wales Pension Partnership, a proportion of the assets were withheld, in order to reduce the risk by investing in the

Wales Pension Partnership Multi Asset Credit Fund. It was reiterated that this transfer from Fidelity would take place at the same time as the transfer from Insight.

RESOLVED in accordance with the view of the Investment Panel, to confirm investments in the following Wales Pension Partnership funds:

- **Absolute Return Bond Fund** (all assets from Insight).
- **Multi Asset Credit Fund** (worldwide equity assets from Fidelity).

8. LOW CARBON EQUITY INVESTMENT

Submitted - the report of the Investment Manager stating the need for the Committee to confirm low carbon investments. At a recent meeting of the Panel with Hymans Robertson, possible low carbon investment options were discussed in order to achieve the 12% strategic benchmark within the Gwynedd Fund's allocation of 29% of the current permissible equity. The Panel's view was to invest 12% of the fund's total in the BlackRock World Low Carbon equity fund. As BlackRock funds were part of the 2016 permissible equity procurement process held by the Wales Pension Funds, it was explained that a formal procurement process would be unnecessary.

It was reiterated that this investment was responsible and responded to the Council's requirements and the investment principles of the Pensions Committee.

RESOLVED, in line with the view of the Investment Panel, that 12% of the Gwynedd Pension Fund would move from the current general permissive equity allocation with BlackRock to a low carbon permissive equity fund with BlackRock.

9. TRIENNIAL ACTUARIAL VALUATION 2019

Submitted, for information, a report by the Head of Finance Department providing general information and an overview of the current pricing process for conducting a triennial actuarial valuation, and a proposed timetable.

It was explained that the valuation data had been presented to the actuary on 16 July and that work had already commenced on the response to further enquiries from Hymans.

It was noted that it was the employer's responsibility to submit accurate and timely information to officers at the Pensions Unit. It was reported that the quality of the data this year was acceptable at first glance, and that every employer had met the time requirements. The work of the employers and staff of the Pensions Unit was appreciated.

RESOLVED to accept the information.

10. 2019 PRICE PROJECTIONS 2019

The report of the Head of Finance Department was presented in which it asked the Committee to consider and approve the proposed projections in order to set funding targets for the Fund's current triannual valuation as on 31 March 2019. The full details of the projections were referred to in a report received from the Fund's Actuary, and included as an appendix to the report. It was highlighted that projections had not been submitted to the Committee previously and it was considered that it would be appropriate to share the information to ensure transparency. It was reiterated that the Committee's main priority was to ensure that the fund's investments were secure, but that work was also being done to keep the pension fund's balance against employer costs.

It was reported that only one change was made to the projections that to salary increases. Following advice from Hymans, it was decided to amend the figure to CPI +0.3% that would respond to higher short term salary increase expectations, thus reflecting recent trends. A formal consultation would be held with the employer on the projections along with other amendments to the Funding Strategy Statement of the 2019 valuation later on in the year.

Responding to an observation that too much information could be complex and the taxpayer simply wished to see an increase in value, it was noted that it was appropriate to share the information and the need for new proposals to seek better investments in the fund should be highlighted.

RESOLVED to approve the proposed projections in order to set the funding target for the Fund's current triennial valuation as on 31 March 2019.

The meeting commenced at 2:00pm and ended at 3:05pm

Meeting:	Pension Board
Date:	24/09/2019
Title:	Pension Administration
Author:	Meirion Jones, Pensions Manager
Purpose:	For information only

Introduction

This report provides a general overview of pension administration over the last 6 months. It contains information on the work that has been accomplished over the period, an update on various projects that has previously been mentioned, changes in the regulations and also lists the challenges that the department faces from day to day.

Staffing

Following the approval of the new staffing structure at the Pension Committee in January 2019, work has been ongoing to appoint new members of staff to join the team.

Since April we have successfully recruited 4 new Pension Assistants, a Systems Officer and a Systems Technician. Each member of staff have settled well into their roles and are currently undertaking relevant training.

Nicholas Hopkins, the current Manager is currently on a period of flexible retirement and will be retiring completely from the Council at the end of November 2019. We are grateful to Nick for all his hard work and friendship over the last 37 years and wish him all the best for the future. Merion Jones has been appointed as Nick's successor.

Valuation

One of the major project for 2019 has been the valuation.

Over the last few months works has been ongoing to update record members and to clear as many errors as possibly.

Hymans Robertson have signed off the data early September 2019 and are currently busy calculating the contribution rates. Draft employer results and contribution rates will be released to the Fund on 27/09/2019, with an employer meeting arranged for 24/10/2019, where the actuary will presenting the 2019 results to the employers. Board members are welcome to attend this meeting.

Annual Benefit Statements

An Annual Benefit Statement must be produced for each scheme member by the end of August each year. This statement gives members details of the benefits accrued up to the end of the previous financial year and forecasts the benefits payable at their Normal Pension Age. The statement also contains pay details and explanatory notes as to how the benefits are calculated.

Since 2018 these statements are available electronically on the Member Self Service section of our website. The 2019 statements were loaded onto the system for active and deferred members on 16/08/2019.

1,050 members have written in to confirm they wish to continue to receive a paper copy of their statements. These statements were sent out on 17/08/2019.

Training

Three members of staff have recently successfully completed the Chartered Institute of Payroll Professionals (CIPP)'s Certificate in Pensions Administration course. This course involved the completion of six assignments and one examination.

A further four members of staff have recently started studying towards a Foundation Degree in Pensions Administration and Management. The foundation degree is a mixture of assignments and exams and will take 2 years to complete.

A full day training session on Understanding Aggregation has been arranged for all pension section staff on the 29th September 2019. Mr Karl White from the LGA will be delivering this training session in Caernarfon.

Pension Increase 2019

The Consumer Price Index for September 2018 was 2.4%. This was the figure used in April 2019 to increase pension payments for our Pensioners and deferred benefits.

A letter was sent in April to all our pensioners to inform them of their increased pension amount and payment dates for 2019/20.

Member Self Service website

It was hoped that the new Member Self Service (MSS) website would be up and running by now. Unfortunately, due to the resignation of the Systems Officer earlier this year, work on this process was halted for the time being.

I am however pleased to report that the contract to install the new MSS website has recently been signed and the website will be introduced as soon as possible. A demonstration of the new system will be provided at a future Board meeting.

The new website should give our members an improved online experience, with an easier to use and more attractive looking interface. The MSS system allows members to:

- View and update personal details and changes of address
- Find out how much they will receive on retirement
- Calculate the amount of additional lump sum they can take on retirement
- View their service history, including any service which has been transferred
- View and update their nominated beneficeries

- View their Annual Benefit Statements

i-Connect

Work has been ongoing to encourage employers to use the i-Connect system.

I-Connect ensures that members' records are updated monthly, rather than once a year as at present. The system also automates a number of procedures within the department and thus release staff to address other duties within the department.

85% of the employers are currently using the i-Connect system on a monthly basis, with work continuing to move the 5 major employers over to the system in 2019/20 - Meetings have taken place recently to discuss the way forward.

It is hoped that the member matching process with Gwynedd Council will commence shortly.

End of Year Returns

Due to moving over to the i-Connect system not many employers were required to submit end of year details this year via an excel spreadsheet.

A submission date of 30th April 2019 was set for the submission of the data. Overall, the employers were able to meet this deadline, with one employer being granted a week's extension.

The quality of the data this year was very high, with a small number of queries being sent back to certain employers for clarification.

We are grateful to the employers for their assistance in supplying timely an accurate data in order to meet the various deadlines in respect of providing details for the valuation and issuing the annual benefit statements.

Agenda Item 9

COMMITTEE: PENSION BOARD

DATE: 24 SEPTEMBER 2019

TITLE: TRIENNIAL ACTUARIAL VALUATION 2019

PURPOSE: FOR INFORMATION

AUTHOR: DAFYDD L EDWARDS, HEAD OF FINANCE

Reason for this Report

1. The triennial actuarial valuation of the Gwynedd Pension Fund will identify the value as at 31 March 2019. This report provides an overview of the ongoing valuation process and timetable.

Background

2. Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013 requires an administering authority to obtain an actuarial valuation of the assets and liabilities of its pension fund every three years. The current valuation will therefore be as at 31 March 2019.

3. The results of each valuation must be reported to the authority within twelve months of the valuation date.

Issues

4. To carry out the valuation the actuary must confirm the total value of the Fund's assets as at the valuation date. The asset value is normally taken from the Fund's audited statement of accounts.

5. The actuary must also estimate the present value of the Fund's liabilities i.e. the pension benefits which are due to the members of the Fund and their spouses, partners and other beneficiaries as defined by the LGPS Regulations. The process uses the relevant data from the Fund's administration system and financial accounts, together with demographic and financial assumptions (e.g. life expectancy, incidence of ill health retirements, inflation and interest rates, returns on investments) to calculate the liabilities. If the Fund's assets exceed its liabilities, there is a funding surplus as at the valuation date; if the liabilities exceed the assets there is funding deficit.

6. The actuary will advise the contribution rates that will be required from Fund employers in order to meet the costs of pension benefits accruing in the future. Any funding surplus or deficit for an individual employer will be repaid or recovered either through an adjustment to the contribution rate, or as monetary amounts due each financial year.

7. The key governance document for the valuation is the Fund’s Funding Strategy Statement (FSS). Each LGPS administering authority is required by the LGPS Regulations to prepare, publish and maintain a FSS. The FSS sets out the processes by which the authority aims to meet the Fund’s pension liabilities, complying with the regulatory requirements to maintain stable contribution rates whilst ensuring the solvency and long-term cost efficiency of the Fund. It includes the authority’s approach to matters such as notional apportionment of Fund assets to each employer, and recovery of funding deficits. The FSS is normally reviewed during the valuation process in consultation with the Fund actuary and employers. Approval of the FSS falls within the remit of the Pensions Committee.

8. The working timetable for the 2019 Valuation is shown in the Appendix.

9. The Pensions Manager will provide a verbal update on progress to date during the administration update item.

10. The Funding Strategy Statement will be presented to the Committee for approval following the consultation period on 16 January 2020. The Fund Actuary has been invited to present the initial valuation results to the employers’ meeting on the same day as the Fund’s AGM on 24 October.

Recommendation

11. That the Board notes the report.

Proposed timescale	Event
Early February 2019	Valuation Planning meeting
Early February 2019	Discuss ComPASS modelling proposal with officers (including scenarios)
Early Ferbruary 2019	Issue 'Your Guide to the 2019 valuation' document
Mid February 2019	Issue valuation assumptions modelling proposal to officers
28 February 2019	Issue valuation assumptions modelling results to officers
Early March 2019	Commence data cleansing ahead of 2019 valuation (using Data Portal)
Mid May 2018	Ongoing discussions regarding data cleansing
Mid June 2019	Consideration of contribution strategy for stabilised employers
Late June 2019	Employer risk profiling discussion
July 2019	Issue Employer Risk Profiling results to officers
16 July 2019	Submission of valuation data to Actuary
23 July 2019	Provision of data queries from Actuary
30 July 2019	Response to queries from Actuary
13 September 2019	Clean data sign off
Sep-19	ComPASS modelling begins
26 September 2019	Provision of whole fund results to officers
27 September 2019	Initial results meeting
27 September 2019	Provision and discussion of ComPASS results with officers
03 October 2019	Provision of draft individual employer results to officers
Early October 2019	Approve FSS for consultation with employers
04 October 2019	Draft employer results meeting
11 October 2019	Draft employer results meeting - further discussion
14 October 2019	Agree contribution rates for employer results schedules
18 October 2019	Provision of employer results schedules
24 October 2019	Employer Forum
24 October 2019	1-to-1 Employer Surgeries with individual employers (if required)
25 October 2019 - December 2019	Formal employer consultation
January 2020	Sign off FSS
14 February 2020	First draft of final report
31 March 2020	Sign off valuation
31 March 2020	Sign off final report and R&A

COMMITTEE: **PENSION BOARD**

DATE: **24 SEPTEMBER 2019**

TITLE: **2019 VALUATION ASSUMPTIONS**

PURPOSE: **TO EXPLAIN AND SCRUTINIZE THE ASSUMPTIONS**

AUTHOR: **DAFYDD L EDWARDS, HEAD OF FINANCE**

Introduction

1. This paper provides the Board with the opportunity to consider the assumptions approved by the Committee, in order to set the funding target for the Fund's ongoing triennial valuation as at 31 March 2019.

Background

Valuation Assumptions for the 2019 Valuation

2. The officers received proposals from the Fund Actuary setting out options of how to build and set valuation assumptions. The proposals set out below have also been discussed with the Committee Chairman.

3. Following on from these discussions, the actuary's formal paper was presented (**Appendix** to this paper), proposing assumptions to set the funding target for the Fund's ongoing triennial valuation as at 31 March 2019.

4. In the meeting on 29 July, the Committee considered and endorsed the assumptions in the Executive Summary below.

5. Employers will be formally consulted on these assumptions, along with other revisions to the Funding Strategy Statement from the 2019 valuation, in one consultation in the later part of 2019 or early 2020.

6. These assumptions are presented so that the Board has an opportunity to question officers and challenge changes between 2016 and 2019.

Recommendations

7. The Board are asked to note the assumptions in the following summary table, and detailed in the Appendix.

Summary of proposed assumptions for 2019 valuation:

Assumption	**2016 assumption**	**Proposed 2019**	**Reason for change**
Discount rate • Margin above risk free rate	1.7% p.a.	1.7% p.a.	No change, level of prudence consistent with 2016 valuation
Pension Increases • RPI-CPI gap	CPI lower by 1.0% p.a.	CPI lower by 1.0% p.a.	No change
Salary increases • Inflationary	RPI less 1% (=CPI)	CPI + 0.3% p.a. (RPI less 0.7%)	Expect higher short term pay increases
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.
Withdrawals	Apply scaling of 85% to Hymans Robertson's default assumption for part-time males and 90% to all females respectively, and apply the default assumption for full-time males		
Ill health retirements	Tier 1; Apply scaling of 70% to the Hymans Robertson's default assumption for full-time females, otherwise apply the default assumption. Tier 2; Apply the Hymans Robertson default assumption		
Promotional salary increases	No change (apply the Hymans Robertson default assumption)		
50:50 take up option	2%	0.5%	Reflect continued low take up rate
Cash commutation	No proposed change from 2016 valuation assumption		
Pre-retirement mortality	No proposed change from 2016 valuation assumption		
Proportions married	No proposed change from 2016 valuation assumption		
Retirement age	Slight adjustment to reflect emerging experience		

8. Full details about the assumptions are set out in the Actuary's report enclosed here as an Appendix.

Setting assumptions for the 2019 valuation

Executive Summary

The Gwynedd Pension Fund ("the Fund") will undertake a triennial valuation as at 31 March 2019. The valuation is a statutory requirement of the Local Government Pension Scheme Regulations which facilitates a health check of the Fund against an appropriate funding target and a review of its funding plan. Actuarial assumptions are required to calculate the liabilities that feed into the funding target and plan.

The assumptions are informed estimates about future experience. Over time they may need to be updated to reflect emerging evidence and changes in the regulatory and environmental background. We have carried out a review of the assumptions that were used at the 2016 valuation to check if they remain fit for purpose at the 20190 valuation.

The results of our review are summarised below. Where we have suggested a change in assumption from 2016 we have also noted the reason. Fuller details about the assumptions are contained within this paper.

Assumption	2016 assumption	Proposed 2019 assumption	Reason for change
Discount rate - Margin above risk free rate	1.7% p.a.	1.7% p.a.	No change
Pension Increases - RPI-CPI gap	CPI (= RPI – 1.0% p.a.)	CPI (= RPI – 1.0% p.a).	No change
Salary increases - Inflationary	CPI (= RPI – 1.0% p.a.)	CPI + 0.3% p.a.	Expected upward pressure on pay increases
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.
Withdrawals	Apply scaling of 85% to Hymans Robertson's default assumption for part-time males and 90% to all females respectively, and apply the default assumption for full-time males		
Ill health retirements	Tier 1; Apply scaling of 70% to the Hymans Robertson's default assumption for full-time females, otherwise apply the default assumption. Tier 2; Apply the Hymans Robertson default assumption		
Promotional salary increases	Apply the Hymans Robertson default assumption		
50:50 take up option	2%	0.5%	Reflect continued low take up rate
Cash commutation	No proposed change from 2016 valuation assumption		
Pre-retirement mortality	No proposed change from 2016 valuation assumption		
Proportions married	No proposed change from 2016 valuation assumption		
Retirement age	Slight adjustment to reflect emerging experience		

Contents

Addressee

This paper has been commissioned by Gwynedd Council in its capacity as Administering Authority to the Gwynedd Pension Fund ("the Fund"). It has been prepared by Hymans Robertson LLP in our capacity as actuaries to the Fund.

Purpose

The purpose of this paper is to propose assumptions to set the funding target for the Fund's upcoming formal valuation as at 31 March 2019.

Background

Pension schemes exist to pay benefits earned by their members during their years of eligible service. In the LGPS, the scheme is split into separate funds which pay benefits earned by employees of participating employers; the Gwynedd Pension Fund is one such fund. The actual cost of paying all the benefits cannot be known with certainty until the final benefit payment is made to the last remaining member. In funded schemes, like the LGPS, the benefits must be paid for out of funds set aside in advance. In order to determine how much money to set aside, it is necessary to make assumptions about the level of the benefits and the returns that will be achieved on the Fund's assets (financial assumptions) and when benefits will be paid to members (demographic assumptions). These assumptions are agreed by the Fund based on advice from its actuary and are used to set the funding target.

The Fund will undertake a triennial valuation as at 31 March 2019. The valuation is a statutory requirement of the Regulations which facilitates a health check of the Fund against an appropriate funding target and a review of its funding plan. In order to carry out the valuation, actuarial assumptions are required to set an appropriate funding target.

The assumptions are informed estimates about future experience. Over time they may need to be updated to reflect emerging evidence and changes in the regulatory and environmental background. Ahead of the 2019 valuation, we have carried out a review of the assumptions used to set the funding target at the 2016 valuation. The results of our review are summarised below. Where we have suggested a change in assumption from 2016 we have also noted the reason.

The following sections examine the main financial and demographic assumptions in detail.

Financial assumptions

Broadly speaking, financial assumptions relate to the level of benefits (i.e. the amount in £) when they are in payment and their equivalent value in today's terms.

Discount rate

What is it?

The discount rate assumption is how we allow at the valuation for future investment returns on the Fund's assets. This is a key element and risk in funding and it's therefore important to develop a good understanding of how future investment returns, or the discount rate, have been modelled and incorporated into the funding strategy.

At the 2016 valuation, the Fund adopted a risk based approach to setting contribution rates. This approach projects the Fund's future investment returns for the next 20 years under a range of different economic scenarios generated by Hymans Robertson's proprietary Economic Scenario Service (ESS). This model projects 5,000 different economic scenarios, on a year by year basis, and then analyses the expected performance of each of the asset classes the Fund holds under each scenario to generate the best possible understanding of the range of possible asset returns over the 20 year period. The range of investment returns over the next 20 years is therefore captured in the risk based modelling rather than via a single discount rate assumption.

Beyond a 20 year time horizon, the future becomes even more uncertain and we move to valuing future benefit payments by making a fixed assumption about future investment returns, or a long term target discount rate. This assumption is part of the funding target, and therefore the level of prudence in this assumption dictates the amount of assets the Fund wants to hold to pay for future benefits.

Each of the projected 5,000 scenarios represents different prevailing economic conditions in 20 years. Choosing a single value across all 5,000 scenarios would not be appropriate: e.g. a high discount rate would not be prudent in scenarios with a weak outlook for economic growth. Instead, we need some way of setting the prudent return so it is appropriate in each of the 5,000 scenarios in force in 20 years' time. We do this by expressing the discount rate relative to a variable which serves as a suitable proxy for the economic outlook in each scenario.

Our preferred choice for this variable is the long-term 'risk-free' interest rate, estimated using the yield on long-term UK government bonds at year 20 (as generated by our model for each scenario). This choice is justified on the basis that the Fund's investment strategy will include a proportion of risky assets whose long-term returns can be expected to exceed the 'risk-free' rate. Indeed, the Fund will usually have expectations of what the margin is above 'risk-free' when investing in these different asset classes.

The chart below illustrates how the investment returns generated by the model vary over time, including the transition to a flat assumption after year 20. Although the assumption stops varying *within* each scenario after this point, it still varies *across* the different scenarios depending on the economic outlook in each one.

Results of our analysis

The following table shows the likelihood of the Fund's assets achieving a specific return (or margin) above the 'risk free' rate, both assessed from year 20 This assumes that the current investment strategy will remain in place.

Likelihood of achieving this margin from year 20	Margin above the risk-free rate (% p.a.)		
	1.5%	1.7%	2.0%
Current strategy	75%	73%	70%

Comparison with 2016 valuation

The margin used in the discount rate at the 2016 valuation was 1.7% p.a., based on market expectations at that point. In the 2016 exercise, a margin of 1.7% p.a. had an associated likelihood of success of 72% based on the investment strategy at that time.

What are the implications of choosing a higher margin?

If the Fund was to choose a higher margin, it would be opting to target a less prudent funding position. This would mean that:

- The Fund would gradually hold less money than it otherwise would have (all other things being equal).
- Long term asset liability modelling would show an increased likelihood of full funding assuming a fixed contribution rate (as the funding target would be lower so it will cost less to get there).
- There is less chance of investment performance achieving this return each and every year in the future. If there is any investment underperformance (relative to expectations), all other things being equal, higher than expected contributions would be required to compensate for the lost return.

In summary, reducing prudence tends to lead to immediate downwards pressure on employer contributions, but increases the likelihood of future contribution increases due to a larger risk of investment underperformance (since the 'investment bar' has been raised).

National comparison of LGPS funding positions

For comparison purposes, all LGPS funds will be required by the national Scheme Advisory Board to report their 2019 valuation funding position on a like-for-like basis i.e. using the same actuarial assumptions. This effectively strips out prudence from local funding valuations to allow more meaningful comparisons about the strength (or otherwise) of funding strategies across all LGPS funds.

Recommended assumption

<u>Given that the results of the analysis are similar to that undertaken at the last valuation, and following discussions with the Fund's Officers, we are not aware of any desire to alter the level of prudence in the funding strategy. We therefore recommend that the margin above the risk-free rate for the 2019 valuation remains at 1.7% p.a.</u>

Inflation / pension increases

LGPS benefits increase each year in line with the Consumer Prices Index ("CPI") measure of inflation, which is therefore a key financial assumption for the valuation. The most objective way to measure future financial values is to use information from the financial markets. In theory, the CPI assumption would be set based on the prices of CPI-linked government bonds, which would give the market's expectation of future CPI increases. If the return on a conventional government bond was 3% p.a. and the return on an (otherwise identical) CPI-linked government bond was 1% p.a., this would imply that the market expects long-term CPI inflation to be 2% p.a.. However, in the UK the only inflation-linked government bonds are based on the Retail Prices Index ("RPI"), an alternative measure of price increases. We therefore calculate the market-implied value of future RPI increases and adjust it to get an assumption for CPI.

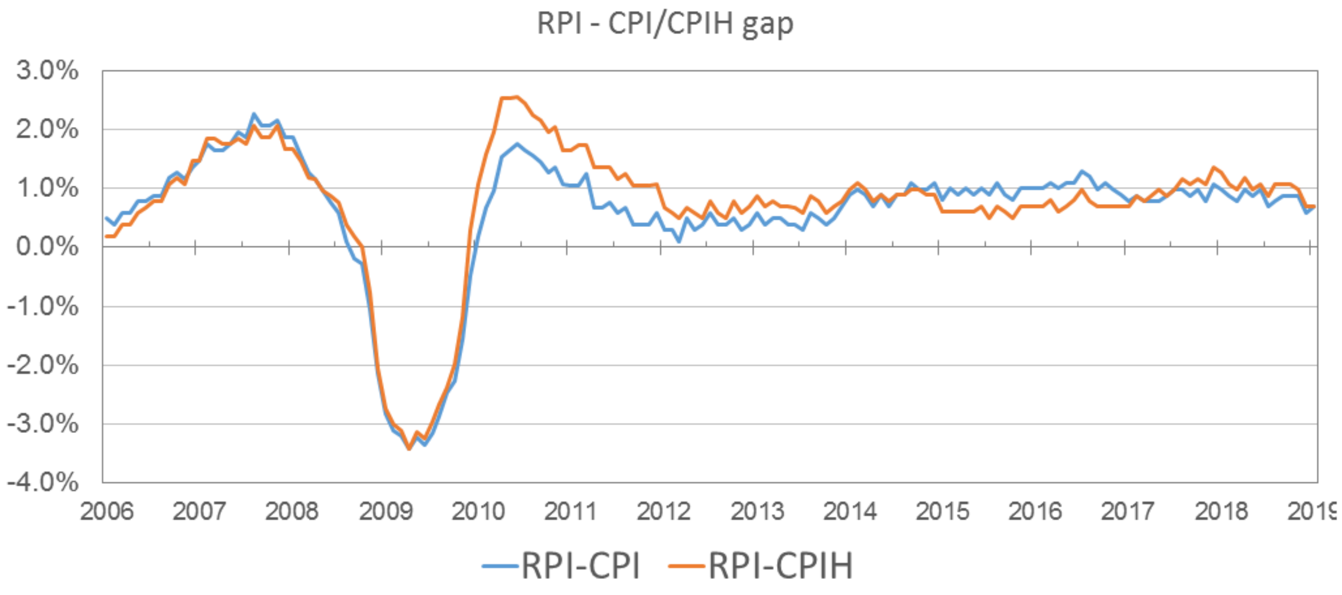
The two main differences between RPI and CPI are

- The 'basket' of goods that each measure is based on (e.g. CPI doesn't include mortgage payments); and
- The 'formula effect' which is related to the way the index is calculated from the price changes of the goods in the basket.

At the 2016 valuation, CPI was assumed to be 1.0% less than RPI.

When considering the assumption for the 2019 valuation, we have taken into account:

- Proposed changes to the indexation measure of public sector pensions: in the 2018 Budget, the Chancellor announced that all public sector pensions, including the LGPS, will move the inflation indexation measure "over time" from CPI to a measure known as CPIH (similar to CPI but it includes owner occupier's housing costs) "when and where practicable". There is no set timeframe on this move, therefore we propose to make no explicit allowance for this change at the 2019 valuation.
- Observed differences between RPI and CPI/CPIH : the chart below tracks these since 2006.



The gap between RPI and CPI has remained relatively steady since the start of the decade at around 1.0%.

Recommended assumption

Based on the above analysis and reasoning, we recommend the CPI assumption at the 2019 valuation remains at 1.0% p.a. less than assumed RPI.

Salary increases

The salary increase assumption comes in two parts:

- Annual 'inflationary' salary awards, historically set in order for employees' pay to at least keep up with the cost of living
- Promotional salary awards or those awarded as part of a defined salary scale.

This part of the paper considers the first element of the salary growth assumption only. Assumptions about promotional salary awards are considered later under Demographic Assumptions.

At the 2016 valuation, the assumption for 'inflationary' increases needed to take into account:

1 A large proportion of the Fund's overall past service liabilities were still linked to final salary i.e. those benefits accrued before 31 March 2014; and

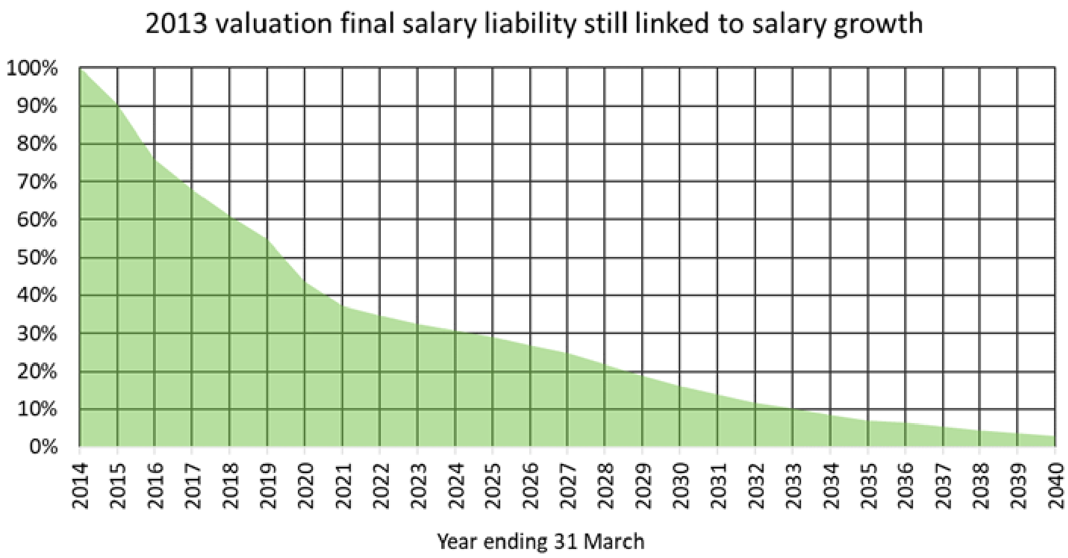
2 The Government's 2015 Summer Budget announced that funding would only be provided to meet public sector salary increases of 1% p.a. up to March 2020.

Therefore the 2016 valuation salary increase was based on an underlying assumption of short term restraint (1% p.a.) to 31 March 2020, followed by long-term increases in line with Consumer Prices Index (CPI) inflation +0.5%. The single equivalent rate based on these assumptions, allowing for the expected run-off of final salary liabilities, was RPI less 1.0% p.a., which was equivalent to CPI.

When considering the assumption to use at the 2019 valuation, we have revisited the two considerations outlined above.

Run-off of final salary liabilities

The chart below shows the expected run-off of the Fund's pre-2014 active member liabilities from the Fund's analysis at the last valuation i.e. the proportion of final salary liabilities remaining at each future year. The chart starts at 100% and falls eventually to zero as current active members with final salary benefits leave active status (due to retirement, withdrawal or death).



The declining proportion of active liabilities with a link to salary increases means that the importance of the salary growth assumption decreases over time, at least as far as the liability value is concerned. By 2019, around half of the pre-2014 active liability will no longer be active. Furthermore, from 2019 onwards the run-off plateaus and becomes more gradual, which will place more weight on longer term pay expectations compared to the 2016 valuation.

Future pay progression

Short term increases

Public sector pay increases were suppressed for many years following the 2008-09 economic crisis and the introduction of austerity policies, and this restraint had been expected to continue until at least 2020. Until 2017, central government operated a 1% cap on pay increases which was broadly mirrored in local government. However, with higher inflation and low unemployment the pressure to increase wages has risen markedly in recent years, particularly as public sector pay lagged behind the private sector. The government announced in July 2018 that it was awarding the highest pay increases in ten years to a range of public sector workers including teachers, NHS workers and the armed forces, perhaps signalling a return to 'normal' pay increases with a closer link to price inflation.

However, pay increases in local government are determined by local councils rather than central government, and the effects of austerity are still being felt in strained local authority budgets. It may therefore be reasonable to expect some continued restraint in the short term albeit higher than the 1% previously assumed. An assumption of 2% p.a. until 2022 was proposed following discussion with officers.

Long term increases

Similar arguments apply now as at the previous valuation in 2016. In the long term, increases are likely to fall between two extremes:

- Pay is increased substantially from current levels in order for public sector pay to 'catch-up' with historic averages (and the private sector).
- Continued low real pay rises reflecting, for example, higher inflation, economic uncertainty, outsourcing to private sector contractors, etc.

In practice, long term public sector salary growth beyond 2020 will depend on a variety of factors and it is extremely difficult to predict with any certainty what it is likely to be.

The RPI measure of inflation is arguably the better measure experienced by the 'in-work' population, due to the inclusion of housing costs (which are not included in the official CPI measure of inflation). In addition, some of the key elements of an individual's expenditure are set relative to RPI, for example regulated rail fares are currently increased each year in line with RPI plus 1% p.a. Post 2022 pay growth negotiations may therefore be conducted on grounds that salaries stay closer in line with the annual growth in RPI and therefore this is seen as an appropriate assumption to use for pay growth post 2022.

When we combine the short term pay restraint of 2% p.a. until 2022, and the longer term pay growth view, we can calculate a weighted average single pay increase assumption. Based on the Fund's membership profile, and assuming long term pay growth in line with CPI +0.5%, the weighted average single pay increase assumption is equal to CPI +0.3%.

Recommended assumption

Based on the above analysis and reasoning, we recommend a pay growth assumption of CPI + 0.3% for the 2019 valuation.

Demographic assumptions

Broadly speaking, demographic assumptions relate to the timing of benefits, i.e. when they start and for how long they are paid.

Longevity

Of all the demographic factors, longevity is the one that presents the greatest uncertainty to an LGPS fund. There are two components when setting an assumption for longevity:

1 How long people live for based on current observed life expectancies ('baseline longevity'); and

2 An allowance for possible future improvements to longevity ('future improvements').

The LGPS Longevity Index[1] shows that life expectancy in the LGPS has been steadily increasing over the last 20 years. This has been reflected in the longevity assumptions set by actuaries at successive valuations, which have often led to an increase in the value of the past service liabilities and higher contribution rates payable by employers, as improvements outstrip expectations.

However, death experience in recent years has bucked the trend. Evidence from Club Vita, our specialist longevity consulting company, tells us that there have been more deaths of LGPS pensioners than expected since 2016. We would therefore anticipate there to be fewer pensions in payment in 2019 than expected. This will, for a typical scheme, lead to a reduction in liabilities at the 2019 valuation (although the actual effect will vary across different funds and employers depending on the actual experience of their members).

Baseline longevity

The effect of recent experience will be reflected and allowed for (in part) in the 2019 valuation baseline longevity assumption. As the Fund is a member of Club Vita to benefit from a greater understanding of longevity risk, we recommend that the baseline longevity assumptions to adopt at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on data the Fund provides us for the purposes of the valuation. This method is more accurate than trying to fit standard mortality tables to reflect the Fund's membership.

Further details regarding how these longevity assumptions are derived can be found in the report entitled "Tailoring Vita Curves to the Gwynedd Pension Fund", which was issued to the Administering Authority.

This is the same approach that was adopted at the 2016 valuation.

Future improvements

As mentioned above, recent evidence suggests that death rates were higher than expected based on the trend over the previous decade. This may strengthen the view that we are seeing the beginnings of a new trend. However it is not totally conclusive.

The headlines about the slow down in life expectancy improvements have been based on national population data. Therefore we need to understand the extent to which this apparent change in trend in general population data is relevant to LGPS funds' membership. Recent analysis from Club Vita has shown that in fact not all pensioners have seen a similar downturn in life expectancy improvements over recent years. In particular, the more affluent members (those with high pensions or living in affluent areas) appear to have seen less of a downturn in the rate of increase of life expectancy. Given such members will typically represent a reasonable proportion of the Fund's liabilities, we would be cautious about assuming future improvements will follow the same trajectory as the general population.

[1] LGPS Longevity Index has been developed as a joint venture between Hymans Robertson, Club Vita and the Local Government Association

The 2016 assumption for future longevity improvements was based on a ‘wait and see’ approach. This was on the basis that:

- The longevity risk faced by funds is mitigated in part by the link between Normal Retirement Age and State Pension Age for future service benefits (which in turn, is expected to increase in the future in line with increases in life expectancy);
- The LGPS ‘employer cost cap’ includes longevity as a cost control mechanism, thus mitigating the impact of future longevity improvements; and
- Local authority funds have a long term time horizon over which to fund improvements in longevity if they emerge.

As such we based our 2016 assumption on the 2013 version of the Continuous Mortality Investigation (CMI) longevity improvements model, which is published by the Actuarial Profession, and allowed only for data up to 2014, rather than the heavier experience of more recent years, when setting initial rates of improvement. We assumed that these improvements would immediately start to tail off to a long term rate of 1.25% p.a.

Our recommended assumption for the 2019 valuation will be based on the latest available version of the CMI longevity improvements model. This version includes a number of structural changes compared to previous versions of the model – in part due to concerns around sensitivity to recent experience. This model is built using England & Wales population data to estimate current rates of improvement. As such, simply moving to this version of the CMI model would reflect recent heavy experience in the short term.

Given that there remains some uncertainty around whether there is sufficient evidence to conclude that recent heavier than expected mortality experience is the start of a new trend, and the extent to which any such change in trend at the general population level would be relevant for the specific membership of the Fund, we recommend adjusting the model to reduce the impact of the last few years of observed heavy mortality experience. This is in line with the ‘wait and see’ approach adopted at the 2016 valuation and reflects the very long term nature of the Fund.

Our view of the longer term is unchanged, therefore we recommend retaining the assumption for the long term rate of improvements of 1.25% p.a. (equivalent to around an extra 1 month of life expectancy per year). In addition we recommend that this long term rate will tail off above age 90, down to 0% at age 120, in line with the assumption at the previous valuation.

Overall we would describe the recommended assumptions as reflecting recent longevity experience whilst retaining a ‘wait and see’ approach on the future (as we continue to monitor how longevity experience for LGPS members evolves over time) in order to avoid understating the likely rates of improvement.

Recommended assumption

<u>Baseline: bespoke VitaCurves set at individual member level</u>

<u>Future improvements: latest version of the CMI model, adjusted to dampen the impact of recent heavier than expected mortality, long term improvement rate of 1.25% p.a..</u>

Retirement demographics

Assumptions such as the rate at which members are assumed to leave local government employment with a deferred pension and the assumed incidence of ill-health early retirements affect the assessed cost of benefits accrued to date ("past service liabilities") and the cost of benefits accrued in future ("future service rate").

The starting point for our proposed 2019 valuation assumptions was to analyse past experience over the period 1 April 2013 to 31 March 2016 for all the LGPS funds that Hymans Robertson advises (40 funds in England & Wales). We use such a large data set to give us a big enough sample size for our analysis to be statistically credible. Some of the experience we analyse is rare, therefore we need a sufficiently large number of events to enable credible analysis.

After this stage, we also carried out an analysis of the Fund's individual membership experience to compare it against the national average to allow us to set assumptions specific to the Gwynedd Pension Fund.

Withdrawals (excluding ill health)

The rate of withdrawal only affects final salary liabilities, as CARE benefits are revalued in the same way for active and deferred members (both in line with CPI). Based on our analysis of withdrawal experience from 2013 to 2016 at a national level we have made small increases to the likelihood of withdrawals at each age so our assumption better reflects recent experience.

Based on analysis of the Fund's own experience, we propose to decrease the likelihood of withdrawal by 15% and 10% for part-time males and all females respectively, compared with our national assumptions. For other member groups the national assumptions will apply.

Ill health early retirements

The national analysis carried out for the 2019 valuation suggests that the incidence of ill-health retirements is lower than expected at 2016. Therefore we have lowered the national assumption for the 2019 valuation which will result in slightly lower contribution rates.

Based on analysis of the Fund's own experience, we propose to further reduce the likelihood of ill health Tier 1 retirement by 30% of the national assumption for full-time females respectively. For other member groups our national assumptions will apply.

Promotional salary scale

As mentioned earlier, our assumption for pay growth has historically been split into general inflationary pay increases and promotional pay growth. At the 2016 valuation we used the same promotional pay scale for all members i.e. there is no split between men/women, full-time/part-time employees and officers/manual workers. The national analysis carried out for the 2019 valuation does not suggest that any change is required to the salary scale used for the 2016 valuation.

In addition, analysis of the Fund's own membership does not suggest any changes are required to the national assumption to reflect local experience.

Death in service

The incidence of death in service is very low. Our analysis at national level for the period 2013 to 2016 was very similar to the 2016 valuation assumption. Therefore we have not made any change from the assumption used for the previous valuation.

The incidence of death in service at individual Fund level was extremely low. Given this, we do not propose to make any fund specific adjustments for this assumption.

50:50 take-up option

From 1 April 2014, members have been able to elect to pay half the standard level of contributions for half the accrued benefit (i.e. an accrual rate of 1/98). This option affects future service only (past service is protected) and the employer's cost will fall as a result of members choosing this option. This benefit is known as the *50:50 benefit*.

At the 2016 valuation we assumed that 2% of members (uniformly distributed across the age, service and salary range) would choose to take up the 50:50 option. This was agreed by considering the actual Fund take-up at 2016.

As far as we are aware, and based on our analysis, there has not been any noticeable uptake in the 50:50 option nationwide. It is not still not clear whether take-up will remain low or increase in future due to the impact of more awareness campaigns and lower tax allowances. Therefore, after discussions with the Fund's officers, an assumption of **0.5% take-up** has been proposed. This recognises the very low current take-up but also the future potential for increases due to the factors already mentioned.

Other demographic assumptions

In light of our analysis, at the 2019 valuation we propose no change to assumptions (compared to 2016) regarding:

- Allowance for dependant's benefits
- Recommended cash commutation assumption of 50% of HMRC limits for service to 1 April 2008 and 75% of HMRC limits for service from 1 April 2008 (if the Fund wishes, we can carry out analyse to examine commutation take-up and amend if appropriate).

At the 2016 valuation, our retirement age assumption was set to mirror the assumption used by the Government Actuary's Department for the purpose of costing the LGPS 2014 scheme. GAD have recently updated this assumption in light of emerging experience based on analysis of data at national level. We will update our assumption in line with these changes (this will have minimal impact on the past service liabilities or future cost of benefits).

Reliances and limitations

This information is addressed to Gwynedd Council as Administering Authority to the Gwynedd Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of discussing the proposed assumptions for the 2019 formal valuation. It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree:

TAS100; and

TAS300.

Richard Warden FFA

Fund Actuary

16 May 2019

For and on behalf of Hymans Robertson LLP

Agenda Item 11

MEETING:	**PENSION BOARD**
DATE:	**24 SEPTEMBER 2019**
TITLE:	**LOW CARBON EQUITY INVESTMENT**
PURPOSE:	**TO EXPLAIN AND SCRUTINIZE THE INVESTMENT**
AUTHOR:	**DAFYDD L EDWARDS, HEAD OF FINANCE**

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1. A meeting of the Pension Fund's Investment Panel was held in Caernarfon on 16 May 2019, when a presentation was received by Hymans Robertson on the options for a low carbon investment within BlackRock's mandate to invest passive equity on behalf of the Gwynedd Fund.

2. The Panel's opinion was that 12% of the total pension fund should be invested with BlackRock in their Low Carbon fund (global equity). As the BlackRock funds are in the 2016 passive equity procurement undertaken by the Wales Pension Funds it is not necessary to go through a procurement process.

3. In the meeting on 29 July, the Committee confirmed this investment. The attached press release provides some relevant details.

4. The Gwynedd Pension Fund and Gwynedd's scheme managers have **a fiduciary duty to all scheme employers, their staff and pensioners. This duty primarily guides the Pension Committee's decisions.** The Fund does not disinvest for purely non-financial reasons, not least because this could lead to a legal challenge.

5. The Pension Fund's assets are invested to provide a financial return to ensure the financial security of its members and to reduce the costs to the employers, which then reduces the cost to the tax payers of Gwynedd, Conwy and Môn. This is an important social responsibility of which the Pensions Committee and the Pension Board are acutely aware.

6. We have discussed environmental, social, and governance ('ESG') issues regularly and the Fund's responsible investment principles (as revised in November 2018) are formally noted in Section 6 of the Fund's Investment Strategy Statement. See the link below:

https://www.gwyneddpensionfund.wales/en/Investments/Investment-Strategy-Statement.pdf

7. This Environmental, Social and Governance Policy outlines the need to consider the specific risks that arise from climate change when considering investments.

8. Gwynedd Pension Fund have invested in a fund managed by BlackRock to track the MSCI Low Carbon Index. This fund will reduce exposure to carbon emitting companies whilst tracking the MSCI World Index, **reducing carbon exposure up to 80%, rather than disinvesting arbitrarily.**

9. The MSCI Low Carbon Index is a benchmark for investors who wish to manage potential risks associated with the transition to a low carbon economy. The index aims for a tracking error target of 0.3% (30 basis points) while minimizing the carbon exposure. By overweighting companies with low carbon emissions (relative to sales) and companies with low potential carbon emissions (per dollar of market capitalization), the index reflects a lower carbon exposure than that of the broad market.

Key Metric	**MSCI World Index**	**MSCI World Low Carbon Target Index**
Net Returns (in GBP)		
Q2 2018 – Q2 2019 (%)	10.3	10.7
Q2 2017 – Q2 2018 (%)	9.3	8.4
Q2 2016 – Q2 2017 (%)	21.6	22.0
Q2 2015 – Q2 2016 (%)	14.4	14.1
Since 28 Nov 2014 (annualised, %)	12.1	12.1

10. No such index currently exists for responsible investment with regard to other environmental, social, or governance ('ESG') factors, such as armaments investments. Of course, Gwynedd Pension Fund's management will be mindful of those issues, and would consider other appropriate investment vehicles, if and when these are available, which might allow the Pensions Committee to consider further responsible investment in the future.

Appendix
Press Release - Gwynedd confirms low carbon investment

Gwynedd confirms low carbon investment

Gwynedd Council's Pensions Committee has voted to move a significant part of the Gwynedd Pensions Fund into low-carbon investments.

Following the unanimous decision of the Pensions Committee, 12% of the Gwynedd Fund will now be moved into low carbon investments. This follows the adoption of an Environmental, Social and Governance Policy earlier this year, which outlines the need to consider the specific risks that arise from climate change when considering investments.

Councillor John Pughe Roberts, Chairman of Gwynedd Council's Pensions Committee said:

"We have been working for some time to ensure that the Gwynedd Pension Fund, our advisers and asset managers look to invest in sustainable assets. Over recent years, we have instructed our asset managers to engage with companies regarding their planning for a low carbon future. This has allowed the Pension Fund to apply pressure on companies to increase their efforts in this important area.

"Of course, it is important that we can ensure that our investments will provide suitable pensions for the fund's members for the future. I am confident that the decision to invest 12% (currently £260m) of the Pension Fund in a low carbon equity fund sets a responsible balance and underline our commitment to a greener future."

Gwynedd Council Cabinet Member for Finance, Councillor Ioan Thomas, who is also a member of the Pensions Committee added:

"Environmental matters and the green agenda are rightly at the forefront of people's minds these days. It is important that public bodies lead from the front in doing whatever we can to ensure that we act responsibly now, and consider the effect our actions will have on future generations.

"The Council's Pensions Committee agreed last year that Environmental, Social and Governance factors should be embedded into our investment processes and this latest development shows how we are looking to move towards greener assets.

"The low carbon investment forms part of wider efforts by Gwynedd Council to play our part in reducing carbon emissions. Indeed, since introducing our Carbon Management Plan, Gwynedd Council has reduced 39.3% of our carbon footprint since 2010.

"As a responsible Council, I am proud that we are leading the way in terms of responsible investment and that this decision signals a clear movement to prioritising low-carbon investment principles."

In March 2019, members of Gwynedd's full Council supported a notice of motion declaring a climate change emergency. During the discussion, councillors committed to taking decisive action to reduce carbon emissions and to strive for a zero-carbon future.

The Gwynedd Pension Fund manages £2.1bn of funds for Gwynedd, Ynys Môn and Conwy councils, North Wales Police, Cartrefi Conwy, Cartrefi Cymunedol Gwynedd, Snowdonia National Park Authority, and 36 other employers in the north west of Wales.