APPENDIX A

MEETING	**PENSIONS COMMITTEE**
DATE	**19 JANUARY 2017**
TITLE	**FUNDING STRATEGY STATEMENT 2017/18 – 2019/20**
RECOMMENDATION	**TO CONFIRM THE ASSUMPTIONS TO BE MADE IN THE FUNDING STRATEGY STATEMENT**
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1. INTRODUCTION

1.1 We are required to review and publish the triennial Funding Strategy Statement (FSS) by 31 March 2017. Gwynedd's current FSS was approved by the Pensions Committee on 17 March 2014.

1.2 As part of the review the administering authority will have to consult with the scheme employers, the fund actuary and adviser, and any other persons we consider appropriate.

2. ACTUARIAL VALUATION

2.1 The triennial actuarial valuation of the Fund is currently being undertaken. The preliminary results were available in November and have been discussed with the individual employers. Final reports are currently being prepared for each employer.

2.2 The actuarial valuation has been prepared using assumptions agreed with the actuary. The deficit recovery periods applied to the different categories of employer are prudent and consistent with the previous valuation.

2.3 For the previous actuarial valuation the 'Compass' system was adopted to develop a longer term plan for employer contributions for secure long term employers. This spreads the increase or decrease in employer contributions over a longer period and restricts the change in each financial year. This system has been used for the 2013 and 2016 valuations for the relevant employers. For these employers it is appropriate to keep their contribution rate at the same level as for 2016/17.

2.4 As part of the 2013 valuation this committee decided to disband the two pools for smaller employers and that ill-health insurance be compulsory for the employers concerned. This will continue following the 2016 valuation.

2.5 The preliminary results which were provided for employers in November 2016 showed that a number of employers are now in surplus and therefore do not have any deficit payments to make over there next three years. Some employers are not in this position and therefore will be required to pay deficit contributions each month.

2.6 As all employers are likely to be required to continue making savings in the next three years, it is prudent to collect employer contributions in respect of any accumulated deficit as a fixed cash amount spread over 12 months of the year. This continues the policy adopted three years ago and protects the cash flow of the pension fund if there are significant changes in payroll due to reductions in the number of staff employed.

2.7 An employers' meeting was held on 10th November 2016 when the preliminary actuarial results were presented and discussed.

3. DRAFT FUNDING STRATEGY STATEMENT (FSS)

3.1 A draft FSS is attached in Appendix A. This is substantially complete with just the results of one employer outstanding. The draft has been sent to the actuary, Hymans Robertson, for comments and their response will be reported at the meeting.

3.2 The Committee now needs to confirm the policies in the draft FSS for consultation with all the Fund's employers. Hence, the Committee is asked to decide on the following issues.

3.3 **EQUITY RISK PREMIUM**

This is the anticipated excess return from equities compared to the return from gilts. This refers to the difference between the expected return achieved by equities and the expected return from gilts. As the assumed difference between the expected returns becomes greater, the risk increases and the funding basis becomes less prudent. The anticipated excess return from equities assumption used in the 2013 valuation was 1.4%. Due to the fact that bond rates, which are used to calculate future liabilities, were at a historically low level at 31 March 2013 but have improved since that date and are expected to increase in the future, the anticipated excess return from equities has been set at 1.7%. This will smooth the employer contributions over an exceptional period and will be reviewed at the next valuation with the aim of reducing to 1.4% when the return from gilts improves.

3.4 **DEFICIT RECOVERY PERIODS**

In the 2010 valuation the administering authority continued with the following deficit recovery periods:

- Statutory bodies – 20 years
- Grwp Llandrillo Menai – 15 years
- All other employers – future working lifetime.

These periods have also been used for the 2013 and 2016 valuations.

3.5 **MAJOR BODIES WITH TAX RAISING POWERS**

Major bodies with tax raising powers will continue to pay the same contribution rate as their 2016/17 rate.

3.5 **PHASING IN OF CONTRIBUTION INCREASES**

Apart from Best Value Admission Bodies, regulations permit all other employers to phase in contribution rises. In the 2010 valuation, the Committee decided that employers facing an increase can phase in the increased rate over a number of years subject to certain criteria. For the 2016 valuation increases may be spread over 6 years. Employers who have a reduction in their contribution rate will move immediately to that rate at 1 April 2017.

3.6 COLLECTION OF DEFECITS

Employers who are in deficit pay additional employer contributions in order to recover the deficit. The policy adopted for the 2013 valuation was that deficit payments would be expressed as an annual lump sum to be paid in 12 monthly instalments as part of their employer contributions. This policy will continue following the 2016 valuation.

4. SUMMARY

Prior to consulting with employers on the Funding Strategy Statement the Committee is asked to confirm the assumptions and policies outlined in section 3 of this report.

Following the consultation process the committee will receive the final version of the Funding Strategy Statement for adoption by 31 March 2017.