

## London Borough of Hammersmith & Fulham

**Report to:** Pensions Sub-Committee

**Date:** 11/02/2020

**Subject:** Draft Triennial Valuation

**Report of:** Matt Hopson – Strategic Investment Manager

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### Summary

- 1.1 This paper introduces the final results of the 2019 triennial actuarial valuation process for the London Borough of Hammersmith and Fulham (LBHF) 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 97% from the 88% level in 2016, which is broadly due to the excellent investment returns over the period, increasing by £88m 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 have led to an increase in liabilities by approximately £40m in total as a result.

### Recommendations

1. The Sub-Committee is requested to approve the final 2019 Triennial Valuation for the Pension Fund set out at Appendix 1.
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**Wards Affected:** None

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### LBHF Priorities

Please state how the outcome will contribute to our priorities – delete those priorities which are not appropriate

Our Priorities	Summary of how this report aligns to the LBHF priorities
<ul style="list-style-type: none"><li>• Being ruthlessly financially efficient</li></ul>	The Triennial actuarial valuation shows a greatly improved funding level and is now almost fully funded.

## **Financial Impact**

The initial results of the triennial actuarial valuation show an annual saving to the Council in total contributions of £2.8m per annum with effect from 1 April 2020. Contributions are set for a three-year period from that date.

## **Legal Implications**

*None*

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## **Background Papers Used in Preparing This Report**

None

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## **DETAILED ANALYSIS**

### **1. Proposals and Analysis of Options**

- 1.1 The Sub-Committee is requested to approve the final 2019 triennial actuarial valuation for the Pension Fund set out at Appendix 1.

#### **Actuarial Results**

- 1.2 In the period from 31 March 2016 to 31 March 2019, the Pension Fund has increased its overall funding level from 88% to 97%. The main drivers for this improvement were the significant investment returns of £88m above what was assumed by the actuary in 2016.
- 1.3 The funding level for Hammersmith and Fulham (as a single employer) stands at 95%, improving from 84% previously.
- 1.4 The much improved funding level has allowed the Council to reduce its deficit recovery contributions from £8.6m to £3.8m going forward, although the ongoing primary contributions are expected to cost the Council an additional £2m per annum (net £2.8m reduction per annum). The Council's primary employer contribution rate will rise to 17.1% from 15.3%.

#### **Changes to Actuarial Assumptions**

- 1.5 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.
- 1.6 Longevity rates have shown a slight 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 £54m.
- 1.7 The real discount rate, a proxy for the real investment return, has fallen during the period 2016 to 2019, falling from 3.0% (5.4% investment return less 2.4% CPI) to 2.4% (5.0% investment return less 2.6% CPI). The discount rate has reduced for investments as the actuary considers that investment returns have improved significantly in recent years and has thus factored in a higher level of prudence going forward.
- 1.8 As a result of the financial changes and demographic changes outlined above, the net increase to the Fund's overall average contribution rate is 1.9%, rising from 15.5% to 17.4%.
- 1.9 In association with the triennial actuarial valuation, the Fund is also required to approve a funding strategy statement (FSS) and an investment strategy statement (ISS), which are being presented later in the agenda (11 February 2020 meeting).

**2. Reasons for Decision**

2.1. Reasons are set out in the main body of the report.

**3. Equality Implications**

3.1. None

**4. Risk Management Implications**

4.1. *None*

**5. Other Implications**

5.1. *None*

**6. Consultation**

6.1. Consultation has been undertaken with all employers of the fund to discuss the impact of the valuation on overall contribution rates and to take into account any feedback reference the draft Funding Strategy Statement.

**List of Appendices:**

**Appendix 1:** LBHF March 2019 final Actuarial Valuation