Key decision: Not applicable

Unrestricted

Pensions Committee

4 February 2021

Actuarial Valuation 2022

Report by Director of Finance and Support Services

Summary

Under the Regulations, the Administering Authority must obtain an actuarial valuation of the assets and liabilities of the pension fund. The most recent valuation was completed as at 31 March 2019, with the next valuation scheduled for 31 March 2022. Officers have met with the Fund Actuary to consider the milestones for the 2022 Actuarial Valuation exercise. Assumptions will be considered by the Committee in July 2022. Draft employer results should be available for consultation in October 2022. New rates will be effective from 1 April 2023.

The Government Actuary has recently published its report under section 13 of the Public Service Pensions Act 2013 in connection with the 31 March 2019 LGPS actuarial valuations. This shows a comparison of all funds' funding levels when measured on a single "Scheme Advisory Board (SAB) standard basis", and on a like-for-like comparison the West Sussex Pension Fund is the best funded LGPS fund (147.5%). The following points are also highlighted:

- Except for one, all funds have more prudent valuation assumptions than the SAB standard basis, and West Sussex has the greatest degree of prudence in its own Fund's basis.
- When considering solvency metrics (ie whether the Fund is open to new entrants, the proportion of the fund employers which are non-statutory and the potential impacts of an immediate 15% reduction in the value of growth assets) the Government Actuary Department (GAD) has no concerns with the West Sussex positioning.

GAD also consider the 'long term cost efficiency' of funds based on the SAB's actuarial assumptions rather than each fund's local assumptions - they are satisfying themselves that contribution rates are appropriate through a review of the maturity of the Fund, the implied deficit recovery period, the required investment return needed to achieve full funding in 20 years. Based on GAD's review, the Fund did not raise any concerns for long term cost efficiency.

Recommendations

(1) The report is noted.

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1. Background

1.1 Under Regulation 62, the Administering Authority must obtain an actuarial valuation of the assets and liabilities of the pension fund as at 31st March 2016 and on 31st March in every third year afterwards (ie 2019, 2022 etc) and a report by an actuary in respect of the valuation.[1]

1.2 The Government Actuary has been appointed by the Department for Levelling Up, Housing and Communities (DLUHC) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the funds in the Local Government Pension Scheme in England and Wales ("LGPS" or "the Scheme"). Section 13 was applied for the first time to the fund valuations as at 31 March 2016 (report published in September 2018). GAD have recently published its Section 13 report for the fund valuations on 31 March 2019.

2. 2019 Valuation – Section 13

2.1 The Government Actuary's Department (GAD) has recently published its Section 13 Report which is required as a result of the Public Service Pensions Act 2013 to consider issues of compliance, consistency, solvency and long-term cost efficiency across LGPS funds. The report identifies where the West Sussex Pension Fund sits relative to peers and identifies several areas which may affect the outputs of the 2022 actuarial valuation.

2.2 Appendix A shows a comparison of all funds' funding levels when measured on a single "SAB standard basis" which allows for a like-for-like comparison and differs from the local assumptions in respect of the discount rate, inflation and pay assumption. Local fund experience has continued to be applied for retirement, withdrawal and longevity. The table below compares the local valuation assumptions from the Fund's 2019 valuation to the SAB standard basis

	West Sussex Local Assumption (2019 valuation, per annum)	SAB Standard Basis (per annum)
Discount Rate	3.1%	4.45%
Inflation	2.3%	2%
Pay	2.8%	3.5%

2.3 On this basis the West Sussex Pension Fund is the best funded LGPS fund (147.5%). Except for one, all funds have more prudent valuation assumptions than the SAB standard basis. West Sussex has the greatest difference – meaning it has the greatest degree of prudence in its own Fund's basis. This is important to achieve the Fund's overarching objective to keep contributions as stable as possible over time. In the event of funding levels

[1] The Government consulted on "Local government pension scheme: changes to the local valuation cycle and management of employer risk" in May 2019. Whilst a partial response has been provided in relation to flexibility on exit payments and the review of employer contributions, there has not been a response from Government on proposed amendments to the local fund valuations from the current 3-year (triennial) to a 4-year (quadrennial) cycle or measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle.

reducing, the Fund Actuary can certify higher contribution rates, use the Fund's surplus (where one is available), require a higher return expectation from the Fund's assets i.e. increase the allocation to growth assets or review the level of prudence within the Fund's assumptions (i.e. reducing the prudence stored up within the discount rate).

2.4 GAD also consider several other measures when considering solvency including whether the Fund is open to new entrants (yes), the proportion of the fund employers which are non-statutory (4.7%) and the potential impacts of an immediate 15% reduction in the value of growth assets and the potential impact of employer defaults (due to the Fund's high funding level, the Fund would remain in surplus on these measures, so no risk has been raised).

2.5 In the context of the above, when considering solvency metrics, GAD has no concerns with the West Sussex positioning.

2.6 No LGPS funds required intervention from GAD / DLUCH on solvency issues alone.

2.7 GAD also consider the 'long term cost efficiency' of funds. In effect, they are satisfying themselves that contribution rates are appropriate (i.e. this generation of taxpayers are paying for pensions and deficits and not passing undue risk to future generations of taxpayer).

2.8 GAD consider a number of measures including the maturity of the Fund, the implied deficit recovery period, the required investment return needed to achieve full funding in 20 years, the repayment shortfall are the contributions in excess of the cost of benefits accruing required to repay a deficit over 20 years, the return scope is the difference between the aforementioned required return and GAD's best estimate investment return for each fund and the deficit recovery plan (where a deficit is being recovered, GAD / DLUHC expects recovery plans to have a fixed end point). All the above are based on the SAB's actuarial assumptions rather than each fund's local assumptions.

2.9 The Fund's position under each measure is set out below. There were 88 funds in the analysis.

a) **Maturity:** The Fund was 80th (i.e. 79 funds are considered more mature under GAD's measurement of maturity)[2]

b) **Deficit period:** The Fund was in surplus so no deficit to recover

c) **Required return**: The Fund's required return of 1.7% p.a. to achieve full funding in 20 years was ranked second lowest.

d) **Repayment shortfall:** The Fund was in surplus so no shortfall

e) **Return scope:** The Fund's return scope (the difference between required return and GAD's best estimate of the Fund's future returns was 2.2% (ranked sixth highest).

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[2] It is not clear on the methodology to determine this position

f) **Deficit recovery plan:** The Fund was in surplus so no deficit recovery plan was required

2.10 Based on the above, the Fund did not raise any concerns for long term cost efficiency.

2.11 GAD/DLUHC intervention took place for two funds where GAD determined employer contributions were too low.

2.12 GAD have made several recommendations which could flow through into the 2022 valuation process. These are shown below along with an initial comment.

GAD Recommendation	**Comment**
Scheme Advisory Board to "consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.	It is not clear why a particular group of employers has been identified by GAD in this recommendation and all actuarial firms have voiced opposition to this position.
SAB to "consider how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience".	The Fund's focus has been on long-term stable contributions, managing any short-term fluctuations and consideration of employer positions based on their status. It is likely that the Fund will remain in surplus at the 2022 valuation – along with many other LGPS's. The actuarial firms, including Hymans, do not support this belief by GAD. Reducing recovery plan periods can cause significant contribution volatility and are not appropriate for schemes open to new entrants if intergenerational fairness is a key objective for Government.
"Fund actuaries [to] provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard"	
SAB to "review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency"	

GAD Recommendation	Comment
"Climate risk will be a focus in future section 13 reports. GAD will facilitate dialogue and engagement with DLUHC, actuarial advisors and the SAB prior to publication of the 2022 valuations to ensure a consistent approach is adopted."	This is something considered by the Committee as part of the 2019 valuation work and will also feature as a key risk in the 2022 valuation

3. 2022 Valuation – Preparation

3.1 Officers have met with the Fund Actuary to consider the milestones for the 2022 Actuarial Valuation exercise. This must be completed by 31 March 2023. The Fund Actuary will provide an update on the valuation process and his consideration of the key drivers and funding risks facing the Fund.

3.2 To assist with the preparation, the administration team will provide a data extract for the prior year (31 March 2021) which can then be reviewed by the Fund Actuary. This should highlight data quality issues which could be resolved prior to the valuation data extract in July 2022.

3.3 Officers will also engage with Scheme Employers to ensure that the Fund has a full understanding of any contracting arrangements in place with associated admission bodies and that the Scheme Employer is clear on the impact of these on the funding / contribution strategy.

3.4 Assumptions will be considered by the Committee in July 2022.

3.5 Draft employer results should be available for consultation in October 2022.

4. Other options considered (and reasons for not proposing)

4.1 N/A

5. Consultation, engagement and advice

5.1 The Fund Actuary, Hymans Robertson, have been consulted on this paper.

6. Finance

6.1 N/A

7. Risk implications and mitigations

7.1 Risks associated with this report are covered within the Business Plan agenda item.

8. Policy alignment and compliance

8.1 The Fund has published its Funding Strategy Statement.

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Appendices

Appendix A – Section 13 Report Extracts

Background papers

None