Key decision: Not applicable

Unrestricted

Report to Pensions Committee

29 April 2022

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. Work has started to obtain an updated position from the Fund Actuary as at 31 March 2022. However, as with 2019 the valuation exercise will be undertaken during a period of significant uncertainty.

Amending Regulations in relation to the December 2018 the Court of Appeal judgement, that found the protections introduced in some public service pension schemes during their reform in 2015 discriminated on grounds of age (McCloud), are expected later this year. Currently the Public Service Pensions and Judicial Offices Bill is at the Public Bill Committee stage and various amendments have been proposed. Prior to any Regulations coming into force, and because of Authorities needing to complete their valuation exercises, the Department for Levelling Up, Housing and Communities (DLUHC) have suggested that all Authorities should (primarily) value members' benefits as required by the various Regulations in force on 31 March 2022.

In addition, a judicial review of whether the impact of the McCloud case should be included in the Cost Control Mechanism is expected to be heard in May or June 2022. The outcome of this is likely to determine whether certain member borne costs have caused employer costs of the schemes to increase/decrease by more than 2% from a predetermined cost envelope – and therefore whether changes are required to member to benefits or employee contributions.

Recommendation: That the Pensions Committee notes the report.

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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]

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[1] The Government consulted on "Local government pension scheme: changes to the local valuation cycle and management of employer risk" in May 2019. 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.

2 Funding Update

2.1 In reaction to Russia's invasion of Ukraine, equity markets fell, with some particularly volatile movements in individual sectors and stocks, and sharp rises in the price of some commodities. This has exposed the fund to some short-term volatility. However, market volatility is expected, and the Fund Actuary has indicated this will not have a significant impact on the expected results of the valuation.

2.2 Assumptions are still to be reviewed (particularly in relation to future inflation) but on a like for like basis with the 2019 valuations the funding level is estimated to have increased from around 112% to 120%. Higher inflation will dampen the increase in the funding level.

2.3 It is best practice to review all the Fund's financial and demographic assumptions at each valuation to take account of how the Fund's membership and investment strategy have changed, and to reflect any changes in the environment within which the Fund operates (economic, demographic, political etc.). Officers are discussing the financial and demographic assumptions with the Fund's Actuary and will provide an update for the Committee's consideration in July 2022.

3 2022 Valuation – McCloud

3.1 In December 2018, the Court of Appeal found that the transitional protections introduced to the judicial and firefighters' schemes during the reform of public service pensions in 2015 discriminated on grounds of age. On 15 July 2019 the UK Government issued a written ministerial statement to confirm that as transitional protection was provided in all public service schemes, the ruling (generally referred to as the McCloud judgment) had implications for all those schemes, including the LGPS in England and Wales. Whilst proposals to address the specific discrimination in the LGPS have been set out in a written ministerial statement on 13 May 2021, changes have not yet been made to regulations. The amending regulations are expected to be made later this year.

3.2 The Public Service Pensions and Judicial Offices Bill began its Public Bill Committee stage on 27 January. Amendments proposed by MPs which are of relevance to the LGPS include those set out on the following page:

Proposed Amendment	Context	Impact
Increasing the scope	To include members who were not active on 31 March 2012 but have LGPS membership before that date. For example, someone who was a deferred LGPS member on 31 March 2012 but who re-joined and aggregated sometime before 1 April 2022 and did not have a disqualifying break, will now be in scope. In addition, broadly comparable schemes will now not count as part of a disqualifying break, meaning staff who were TUPE transferred out to such a scheme are not penalised.	The administration team have collected McCloud data for all members with CARE membership. The Fund Actuary has advised the impact of this increased scope will be de minimus on funding levels and contribution rates.
Final salary benefits	To allow regulations to provide final salary benefits for transferred-in service from different public service schemes where the service benefitted from final salary protection in the other scheme.	Additional data may need to be requested from other public service schemes in these instances.
Requirement to aggregate	To require members to aggregate service in order to qualify for underpin protection.	It is unclear how this will be accomplished (e.g. by member choice or through automatic aggregation).
Pension credits and debits	To allow an adjustment of pension credits and debits (which arise in divorce proceedings or on termination of a civil partnership) to reflect the remedy.	The fund's administrators may need to recalculate credits and debits. It is currently unclear how any over/underpayments would be dealt with.
Interest	To allow interest in connection with amounts owed as a result of the remedy.	The fund will need to pay compensation in some instances (where benefits have already been paid out). Interest will be applied to any payments. Fund officers to be mindful of the potential impact on cashflow.

3.3 In addition, the Department for Levelling Up, Housing and Communities (DLUHC) has written to all LGPS's on the current position on McCloud remedy for administering authorities to consider whilst undertaking the 2022 valuations in an attempt to avoid differences in approach between funds.

3.4 DLUHC have suggested that for the purpose of the 2022 triennial valuation all administering authorities should value members' benefits as required by the

various Regulations in force on 31 March 2022 except for the following assumptions:

- It should be assumed that the current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and apply to all members who were active in the scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap.
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner).
- Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner).
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension.
- The underpin will consider when members take their benefit so they can be assured they are getting the higher benefit.

3.5 The Fund Actuary has reviewed these suggestions and considers that they are reasonable.

3.6 However, this does not preclude final Regulations taking a different approach to McCloud remedy to that outlined above. Therefore, the Funding Strategy Statement will make it clear that employer contributions may need to be revisiting if the actual outcome is materially different.

4 Cost Control Mechanism

4.1 The Government Actuary's Department (GAD) has recently released their 2016 valuations in respect of the Cost Control Mechanism for the civil service, police and fire schemes. The LGPS is also exposed to the Cost Control Mechanism, but GAD have not released their valuation yet but the outcomes for the other public sector schemes provide an indication for the LGPS. Under the Cost Control Mechanism, if certain member borne costs are determined to have caused employer costs of the schemes to increase/decrease by more than the cost envelope tolerance, then the benefits or employee contributions of those schemes must be changed to bring the employer costs back to the predetermined cost envelope. However, it is not yet clear whether the impact of the McCloud remedy should be included within the Cost Control Mechanism valuations and this determination of this is likely to be meaningful in terms of the cost envelope and adjustments to benefits/contributions. Therefore, there is a significant amount of uncertainty as to what the outcome will be. Any changes would likely be backdated to 1 April 2019.

5 Academy Conversions

5.1 As part of its Levelling Up agenda, the Government has issued a white paper on education in England which confirms plans to permit councils to establish their own Multi Academy Trusts (MATs) and for the remaining 12,000 local authority schools to convert to academy status by 2030. West Sussex has approximately 200 local authority schools who have not yet converted, so this will create a significant increase in employers in the Scheme and affect the Council payroll and membership.

5.2 The increase in employers (as a result of Academy conversions and any outsourcing arrangements they put in place) has been reflected on the risk register. This is considered to have an administrative rather than funding impact.

6 2022 Valuation – Progress

6.1 The administration team has provided a data extract for the prior year (31 March 2021) which has been reviewed by the Fund Actuary. This indicated that (at whole fund level) there had been good improvements to the quality of data held by the Fund. Although the improvements by employer has not been reviewed, overall this should reduce the level of assumptions that the Fund Actuary needs to make as part of the main valuation exercise.

6.2 Officers are intending to attend a meeting of Finance Officers from the District and Borough Councils, and the Police Authority over the next quarter. This will provide opportunity to speak with Scheme Employers about the valuation in general but also look 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.

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

6.4 Draft employer results should be available for consultation in October 2022. Employers will be invited to a meeting with the Fund Actuary to discuss their individual results.

7 Other options considered (and reasons for not proposing)

N/A

8 Consultation, engagement and advice

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

9 Finance

N/A

10 Risk implications and mitigations

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

11 Policy alignment and compliance

The Fund has published its Funding Strategy Statement.

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Appendices

None

Background papers

None

Recommended Training

N/A