

Report to Pensions Committee

30 January 2023

Actuarial Valuation 2022

Report by Director of Finance and Support Services

Summary

The Pension Fund is required to undertake an actuarial valuation as of 31 March 2022. Based on the approach and assumptions within the Funding Strategy Statement the Fund Actuary has estimated an improvement in the reported funding level since 31 March 2019 from 112% to 125%. This means the Pensions Committee can meet their objectives of ensuring sufficient assets are available to meet the cost of benefits accrued by members whilst keeping contribution rates stable. Most employers have had improvements in their funding position – and there is downward pressure on contributions for most employers.

An updated Funding Strategy Statement was issued to employers on 4 January 2023 following the Committee's feedback on employer covenant, ill health early retirement strain costs and exit valuations (i.e. how the discount rate is determined for the ongoing funding and cessation bases). The version issued to employers refined the approach to ill health early retirement strain costs further to outline the Fund's preference in respect of payment of strain costs upfront but acknowledging that alternatives will be considered dependent on employer covenant.

It is proposed that the Funding Strategy Statement is updated prior to publication to reflect any updates that may be required by Scheme Advisory Board or GAD (such as any clarifications on the requirements of TCFD).

Recommendations

- (1) The Committee note the valuation outcome.
- (2) Feedback is provided by the Committee on the Funding Strategy Statement prior to its publication on 31 March 2023.
- (3) The Committee approve that the Director of Finance and Support Services can agree further changes required to the Funding Strategy Statement between the meeting date and 31 March 2023.

1 Background

- 1.1 Of the six main public service schemes, only the Local Government Pension Scheme (LGPS) is funded. Each LGPS fund is subject to a valuation at local level every three years to each fund has sufficient assets to meet its liabilities and to set employer contribution rates.

- 1.2 The Pensions Committee's Terms of Reference include the consideration of and response to key scheme funding issues and monitoring the Fund's performance.

2 2022 Actuarial Valuation

- 2.1 The Pension Fund is required to undertake an actuarial valuation as of 31 March 2022.

Funding Strategy Statement

- 2.2 The Pension Committee considered the draft Funding Strategy Statement at its meeting in July 2022 and in November it provided feedback on proposed updates relating to employer covenant, ill health early retirement strain costs and exit valuations.
- 2.3 Following further discussion with the Fund Actuary the approach to ill health early retirement strain costs was further refined to acknowledge that, whilst it was a preference for payment of costs to be as a lump sum, employers may have a stronger covenant (whether as a result of a good funding position, or another guarantee) which would also allow for a conversation with the Fund about any payment terms around strain costs and the management of liabilities. Where employers choose, ill health insurance is available.
- 2.4 A further version of the Funding Strategy Statement was circulated to employers for comments on 3 January 2023. The latest version is attached (Appendix A).
- 3.1 On 29 November 2022, the [Office for National Statistics \('ONS'\) reclassified](#) further education corporations, sixth form college corporations and designated institutions in England as public sector bodies, forming part of Central Government. The Department for Education has advised that no action is required by colleges in respect of the local government pension scheme, and it is now not clear whether the Government will provide any guarantee to fund any exit liabilities for a college (if funds are not secured elsewhere) in the same way it has to Academies. Therefore, the rates for colleges will be held as though they do not have a Government guarantee (in line with the Funding Strategy Statement for Scheduled Bodies).

Climate related Risks

- 3.2 The Fund Actuary has taken consideration of climate-related risks and opportunities in his advice as part of any actuarial valuation. Until further guidance is provided by the Scheme Advisory Board or GAD about LGPS requirements it is proposed that this is reflected in the Fund's risk register which will set out the steps being taken on climate change including the work being done on reporting by managers, the consideration ESG is given when determining manager/mandates and the scenario testing that is undertaken when making funding and investment strategy decisions. The full risk register will be considered by the Committee in April 2023.

Actuarial Report and Rates and Adjustment Certificate

- 3.3 Based on the approach and assumptions within the Funding Strategy Statement the Fund Actuary has estimated and improvement in the reported funding level since 31 March 2019 from 112% to 125%. This remains unchanged. The Fund Actuary is preparing his Actuarial Report (which includes the Rates & Adjustment Certificate) for publication by 31 March 2023.

3 Consultation, engagement and advice

- 3.4 N/A

4 Finance

- 3.5 Actuarial costs are included in the Fund's governance.

5 Risk implications and mitigations

- 3.6 Risks associated with this report are covered within the Business Plan agenda item and will be reflected within the full risk register will be considered by the Committee in April 2023.

6 Policy alignment and compliance

- 3.7 N/A

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Background papers

None

Appendices

Appendix A – Funding Strategy Statement

Recommended Training

N/A