Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 22 March 2022

AB

Subject: 2022 Actuarial Valuation

Summary statement:

The next triennial actuarial valuation of the Fund will be prepared based on the situation at 31 March 2022, and will determine the level of employers' contributions from April 2023 onwards.

Recommendation

That this report is noted.

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Director WYPF

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Portfolio:

[Insert where appropriate]

Overview & Scrutiny Area:

[Insert where appropriate]

1. SUMMARY

1.1 This report provides the Local Pension Board with a summary of the proposed approach to the actuarial valuation at 31 March 2022 by the Fund's actuary.

2. BACKGROUND

2.1 In accordance with the Local Government Pension Scheme Regulations the Fund is subject to an actuarial valuation by its appointed consulting actuary at 31 March 2022.

2.2 The main aims of carrying out an actuarial valuation of the Fund are to:

- Review the financial position of the fund,
- Determine the employer's contribution rates; and
- Ensure that the legal requirements in relation to the actuarial valuation are met.

2.3 The Fund will work with the Fund's Actuary to try and ensure, wherever possible, any changes to employer's contributions are minimal, to enable accurate budgeting by employers. This is consistent with the Regulations, which specify that the actuary must have regard to the desirability of maintaining as nearly constant a common rate as possible.

2.4 Meetings will be held once the valuation process has started to discuss the assumptions to be used by the Actuary in calculating the valuation of the Fund.

2.5 The last actuarial valuation at 31 March 2019 resulted in a funding level of 106%, with employers paying the aggregate employer future service contribution rate of 18% of pensionable pay. In addition, some employers were required to pay additional monetary contributions to recover any deficits to restore their individual funding ratio to 100% using a recovery period of 22 years.

2.6 The contributions payable by each employer or group of employers may differ because they allow for each employer's particular membership profile, funding ratio, assumptions and recovery periods appropriate to their circumstances.

3. **Approach to the Valuation at 31 March 2022**

3.1 The aim is for a valuation result with a minimal contribution change while keeping the funding risk at an acceptable level. The preferred primary tool for adjustment to achieve the acceptable level of contributions is the assumed rate of investment return.

3.2 Data needs to be submitted to the actuary by the Fund in summer 2022. Employers have been reminded that meeting the deadline for the year end returns is essential, as this will ensure that the data submitted to the actuary is as accurate as possible.

3.3 Under the Aon's risk based approach there are three key decisions to be made in relation to each employer in the Fund (in practice many employers can be grouped together for these decisions). These are:

- The solvency target for each employer.
- The trajectory period for each employer (i.e. when you want to reach the solvency target).
- The required probability of funding success i.e. how likely do you wish it to be that you achieve the solvency target by the end of the trajectory period.

3.4 The aim will be to continue to be 100% funded.

3.5 The objective will be to maintain as steady a contribution rate for the main employers as is possible, as stated in 3.1. For the other employers there will be slightly differing approaches.

3.6 The amount assessed by the Actuary as required to meet cost of paying benefits ("the liabilities") is likely to have increased. This is due to the low interest rate environment which has persisted much longer than most people expected.

3.9 As part of the valuation exercise the Funding Strategy Statement will be reviewed and employers will be formally consulted on changes prior to the actuary issuing the results.

3.10 The Rates and Adjustments certificate, which forms part of the 2022 Actuarial Valuation, will set employers' contributions to be paid from 1st April 2023.

4. Training

4.1 The Fund's actuary provided a training session on 8 February 2022 for all Joint Advisory Group, Investment Advisory Panel and Pension Board members as part of the preparation for the 2022 valuation. A recording of this training session is available should any member wish to watch it again or if they were unable to attend on the 8 February 2022.

5. Section 13 Report

5.1 The Government Actuary (GAD) has been appointed by the Department of Levelling up, Housing and Communities (DLUHC) (formally Ministry of Housing Communities and Local Government - MHCLG) to report under section 13 of the Public Service Pensions Act 2013 in connection with the Local Government Pension Scheme (LGPS).

5.2 Section 13 of the Public Service Pensions Act 2013 requires the Government Actuary to report on whether four main aims are achieved, every three years:

- compliance: whether the fund's valuation is in accordance with the scheme regulations
- consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS
- solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund

- long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund

5.3 GAD's report under Section 13 of the Public Service Pensions Act 2013, concerning the 2019 LGPS (England and Wales) actuarial valuations, was published late December 2021.

The four recommendations that GAD make are also largely achievable for the imminent 2022 valuations:

Recommendation 1. The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.

Recommendation 2. We recommend the Scheme Advisory Board 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.

Recommendation 3. We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard.

Recommendation 4. We recommend the Scheme Advisory Board 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.

5.4 In general there are positive messages in the report, indicating improvements both in the strength of funding of LGPS benefits and the extent to which the objectives which GAD are commenting on have been achieved.

5.5 WYPF has attracted a "white" flag in relation to GAD's asset shock metric. GAD have stated that this is an advisory flag that highlights a general issue which does not require an action in isolation; there could have been an amber flag if GAD had broader concerns.

5.6 Details at the following link include an executive summary, the full report, Appendices and a summary funding analysis:
Local Government Pension Scheme: review of the actuarial valuations of funds as at 31 March 2019 - GOV.UK (www.gov.uk)

6. Recommendation

6.1 That this report is noted.