

Report of the Managing Director, West Yorkshire Pension Fund to the meeting of Local Pension Board to be held on 21 March 2023.

AI

Subject: 2022 Actuarial Valuation

Summary statement:

The triennial actuarial valuation of the West Yorkshire Pension Fund (WYPF) is being prepared based on the position at 31 March 2022, and will determine the level of employers' contributions for the period 1 April 2023 to 31 March 2026.

If the draft Funding Strategy Statement is approved, the indications are that WYPF will be 108.5% funded, compared to the situation at 31 March 2019 when it was 106% funded.

As a result, each of the five district councils will see a slight reduction in their employer contributions

EQUALITY & DIVERSITY: None

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Portfolio: Leader of Council & Corporate

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Overview & Scrutiny Area: Corporate

1. SUMMARY

- 1.1 The triennial actuarial valuation of the West Yorkshire Pension Fund (WYPF) is being prepared based on the position at 31 March 2022, and will determine the level of employers' contributions for the period 1 April 2023 to 31 March 2026.

If the draft Funding Strategy Statement is approved (see item 10 on today's agenda), the indications are that WYPF will be 108.5% funded, compared to the situation at 31 March 2019 when it was 106% funded.

2. Background

- 2.1 In accordance with the Local Government Pension Scheme Regulations the Fund is subject to an actuarial valuation by its consulting actuary as at 31 March 2022.
- 2.2 Employer contributions and funding levels are determined as part of the actuarial valuation. The primary rate of employers' contributions to the fund should be set so as to secure its solvency. The actuary must have regard to the desirability of maintaining as nearly as constant a primary rate of employers' contributions as possible in addition to the requirement to secure the solvency of the pension fund and the long term cost efficiency of the scheme, so far as relating to the pension fund. The actuary must also have regard to the Funding Strategy Statement.

3 Position at previous valuation (2019)

- 3.1 WYPF was 106% funded as at 31 March 2019, as determined by the consulting actuary, Aon, based on the assumptions agreed by the Fund.
- 3.2 The common contribution rate at 31 March 2019 was set at 18.6% of payroll. This is the contribution rate required together with employee contributions, to cover the cost of service being accrued by active members. In addition to this amount some employers also had accrued a deficit. In order to recover the deficit, additional monetary amounts were certified using a 22-year recovery period.
- 3.3 The contribution rates set for the five District Councils at the last valuation were: -

| | Primary contributions % | | |
|------------|-------------------------|---------|---------|
| | 2020/21 | 2021/22 | 2022/23 |
| Bradford | 17.1% | 17.1% | 17.1% |
| Leeds | 15.9% | 15.9% | 15.9% |
| Calderdale | 17.1% | 17.1% | 17.1% |
| Kirklees | 15.9% | 15.9% | 15.9% |
| Wakefield | 17.5% | 17.5% | 17.5% |

4 2022 Valuation

- 4.1 A Joint Advisory sub-group made up of Chair and Deputy Chair(s) of Joint Advisory Group and Investment Advisory Panel (as noted in the report to JAG in July 2022 – Valuation 2022) met with the Fund's Actuary on the 7 October to agree the provisional assumptions, approaches and principles the actuary would use to calculate the provisional results.
- 4.1 The provisional results of the actuarial valuation as at 31 March 2022 indicate that the Fund is 108.5% funded, compared with 106% as at 31 March 2019.
- 4.2 A market value approach has been adopted, and the provisional figures provided by the consulting actuary, Aon, are as follows: -

| | 2019 valuation £m | 2022 valuation £m |
|--|----------------------|----------------------|
| Value of past service benefits | | |
| Active Members | 5,180.7 | 6,299.3 |
| Deferred Members | 2,050.7 | 2,251.8 |
| Pensioners | 6,264.8 | 8,020.7 |
| Value of Liabilities | 13,496.2 | 16,571.8 |
| Assets | 14,363.0 | 17,979.5 |
| Past Service Surplus/ (Deficit) | 866.8 | 1,407.7 |
| Funding Ratio | 106% | 108.5% |

5 Reasons for changes in the past service position

- 5.1 The initial valuation results using the 2022 basis show that the surplus of £866.8M in the Fund at the previous valuation has increased to £1,407.7M at this valuation.
- 5.2 The principal reasons that have improved the funding position since 2019 are:
- Investment returns above the discount rate adopted at the 2019 valuation
 - Changes to the demographic assumptions
 - Lower than assumed pension increases and CARE revaluation

These have been partially offset by:

- The change in financial assumptions at the 2022 valuation
- Contributions being paid at a lower rate than the primary rate (due to the fund being in surplus at the 2019 valuation)

6 Summary of Key Assumptions

| | 2019 valuation | 2022 valuation |
|--|-------------------|--------------------|
| Probability of Funding Success | 75% | 76% |
| Discount Rate – scheduled bodies | 4.35% | 4.5% |
| Discount Rate – orphan bodies | | |
| In service | 3.3% | 3.95% |
| Left service | 1.6% | 1.6% |
| Discount rate – intermediate employers | 4.1%, 3.95%, 3.8% | 4.25%,4.05%, 3.95% |
| CPI pension increase | 2.1% | 2.3% |
| Pay growth | 3.35% | 3.55% |

7. Primary contribution rate (future service cost)

- 7.1 The cost of future benefits has decreased mainly due to the removal of the allowance for McCloud from the Primary Contribution rate. The McCloud cost is now included wholly within the past service liabilities because the remedy period ended on 31 March 2022.

8. Employer contributions

- 8.1 At the 2022 valuation the Fund’s proposed funding strategy is, broadly, to achieve a position of 100% funding over 22 years. In practice the deficit recovery contributions are set based on each employer’s or group of employers’ underlying position using a recovery period appropriate to the employer.
- 8.2 To help maintain stability of contribution rates the recovery of any surplus is limited to the surplus above 105%.
- 8.2 As the Fund/main employers are now in surplus it is considered prudent to maintain a recovery period of 22 years rather than amortising the surplus over a shorter period.

9. Employers’ Contribution Rates

- 9.1 The proposed employer contribution rates for the five district councils for 2023/24 to 2025/26 are:

| | Primary contributions % | | |
|------------|-------------------------|---------|---------|
| | 2023/24 | 2024/25 | 2025/26 |
| Bradford | 16.8% | 16.5% | 16.2% |
| Leeds | 15.8% | 15.8% | 15.7% |
| Calderdale | 17.0% | 16.8% | 16.7% |
| Kirklees | 15.8% | 15.8% | 15.7% |
| Wakefield | 17.1% | 16.7% | 16.3% |

9.2 A training session was held for members of Joint Advisory Group, Investment Advisory Panel, Pension Board and officers on 10 January 2023 on the 2022 Valuation. Copies of the slides, recording and copies of the transcripts have been circulated to everyone who was invited to the training session.

10. FINANCIAL & RESOURCE APPRAISAL

As above.

11. RISK MANAGEMENT AND GOVERNANCE ISSUES

None

12. LEGAL APPRAISAL

In accordance with the local Government Pension Scheme Regulation 62(1) the Fund is subject to an actuarial valuation by its consulting actuary as at 31 March 2022.

The valuation is a statutory requirement that is held for all of the Funds in the Local Government Pension Scheme

13. OTHER IMPLICATIONS

13.1 SUSTAINABILITY IMPLICATIONS

None

13.2 GREENHOUSE GAS EMISSIONS IMPACTS

None.

13.3 COMMUNITY SAFETY IMPLICATIONS

None.

13.4 HUMAN RIGHTS ACT

None.

13.5 TRADE UNION

None

13.6 WARD IMPLICATIONS

None.

**13.7 AREA COMMITTEE ACTION PLAN IMPLICATIONS
(for reports to Area Committees only)**

None

13.8 IMPLICATIONS FOR CHILDREN AND YOUNG PEOPLE

None.

13.9 ISSUES ARISING FROM PRIVACY IMPACT ASSESMENT

None

14 NOT FOR PUBLICATION DOCUMENTS

None

15 RECOMMENDATIONS

- That the Local Pension Board note this report.