

CITY OF WOLVERHAMPTON COUNCIL	Pensions Board 2 July 2019
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Report Title	Funding Management Update	
Originating service	Pension Services	
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Recommendations for noting:

The Board is asked to note:

1. Progress on the revised Funding Strategy Statement effective 1 April 2019.
2. The report and the associated update on progress with the 2019 actuarial valuation of both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Fund).

1.0 Purpose

- 1.1 To provide the Local Pensions Board with an update on funding management, to include the proposed changes to the Funding Strategy Statement following the introduction of Exit Credit legislation, and the 2019 actuarial valuation.

2.0 Background

- 2.1 In the April 2019 Funding Management Update report provided to the Board, the Fund outlined the proposed changes, consultation process and arrangements for finalising the revised FSS and associated Termination Policy, noting that it was to be effective from 1 April 2019. This report provides a further update on this matter.
- 2.2 This report is also to update the Board on the progress of the 2019 valuation, the consultation process and the potential outcomes/issues.

3.0 Revised Funding Strategy Statement (FSS)

- 3.1 Following consultation with all participating employers, the Fund received five separate responses from individual employers.
- 3.2 The Fund was encouraged by the comprehensive nature of the responses received and the level of commentary supplied around what is essentially a highly complex and technical matter.
- 3.3 Having considered the responses received, the Fund has issued follow-up correspondence to each of the employers concerned, addressing the points raised and confirming where changes will be made.
- 3.4 As a result of the consultation process, subject to any further feedback from the original respondents, no changes are proposed which alter the key principles or themes of the proposed revisions to the FSS, other than to introduce the option of an admitted body route alongside the proposed amendment to make pass-through arrangements the default. This change has been made to align to the proposals outlined in the recent New Fair Deal consultation, with a view to providing employers (awarding bodies and contractors) the flexibility to maintain the admission body route, if required. The Fund envisages the admission body route is likely to be most applicable when considering large scale and/or long contracts.
- 3.5 In addition, some changes will be made to wording and structure of the document to provide further clarification and enhance the flow.
- 3.6 Following the consultation, and in consideration of the feedback received, the FSS and Termination Policy will be finalised by the Director of Pensions in consultation with the Chair of Pensions Committee, this process having been approved by Pensions Committee at the 27 March 2019 meeting.

4.0 2019 actuarial valuation data collation

- 4.1 In preparation for the 2019 actuarial valuation, the Fund has provided 2016/17 and 2017/18 member data and cashflows to the Fund actuary for initial testing and feedback. The initial data interrogation work undertaken by the Fund actuary and the corresponding feedback received by the Fund, will help to streamline the process ahead of sending 2018/19 data.
- 4.2 As at the date of compiling this report, the Fund has received 97% of the expected monthly data files from participating employers. This data will be validated for the appropriate level of accuracy before forwarding to the Fund actuary for use in the calculation of the individual results. The Fund is pursuing those employers for whom there is currently outstanding data.
- 4.3 Any data issues/queries encountered, will be resolved by the Fund in conjunction with the Fund actuary or returned to the employer in question to be corrected prior to re-submission.
- 4.4 In addition to the 2016/17 and 2017/18 cashflow information, the Fund will also supply the Fund actuary with accurate cash-flow information for 2018/19 and details of the investment returns along with the associated medium to long term investment strategy.

5.0 Main Fund 2016 actuarial valuation initial analysis

- 5.1 The Fund actuary has taken the results of the 2016 actuarial valuation and begun to consider the position on a like for like basis for the 2019 actuarial valuation, to include potential outcomes.
- 5.2 It is likely that there will be an increase in the primary rate (future service) contributions required from most employers as a result of higher inflation outlook and lower expectations of investment returns going forward.
- 5.3 In contrast, the Fund's funding level will have improved since the 2016 valuation following a period of strong investment performance which is expected to put downward pressure on secondary rate (deficit) contributions. Individual employer results may vary significantly, according to make-up of liability profile and review of member experience, changing employer covenant and risk. Contributions requirements will also be reviewed in the context of the investment strategy review which will run alongside a review of the funding strategy.

6.0 WMITA Fund 2019 actuarial valuation initial analysis

- 6.1 As with the Main Fund, the Fund actuary has taken the results of the 2016 actuarial valuation and begun to consider the current funding position on a like for like basis for the 2019 actuarial valuation, with the employers in this Fund.

- 6.2 The change in funding position for the two employers is expected to vary, noting the variance between the two employers West Midlands Travel Limited and Preston Bus Limited in terms of liability profile and investment strategy.

7.0 Potential regulatory change

- 7.1 At this stage, there are a number of potential regulatory changes which could have an impact upon the outcomes of the 2019 valuation and the Fund's wider funding strategy.

7.2 McCloud and Sargeant cases/Cost cap

- 7.2.1 As noted in the 27 March 2019 Regulatory Update Committee report, on 30 January 2019 the Government announced a pause in the HM Treasury cost cap process due to uncertainty high court appeals surrounding the McCloud vs Judges Pension Scheme and Sargeant vs Firefighters Pension Scheme cases.

- 7.2.2 At the time of pausing, as a result of the cost cap floor being breached, a package of benefit improvements had been recommended which would result in an additional employer contribution of broadly 1% of payroll at Scheme level. Depending on the profile of the membership of individual LGPS employers the impact on contributions could have varied widely and guidance was sought from the Scheme Advisory Board on how Funds should account for this change as part of the 2019 valuation. The potential impact on all public service pension schemes would be significant should the 2018 Court of Appeal's be upheld. If, however, the finding is not upheld then the cost cap process will restart.

- 7.2.3 Guidance from the LGPS Scheme Advisory Board has stated that if no outcome from McCloud is known by 31 August 2019, funds and their actuaries should consider liabilities under the current regulations and scheme benefits, noting the expectation that the Scheme cost may rise in future. The Fund is therefore working closely with the Fund actuary to consider potential outcomes as it moves forward with the 2019 Actuarial Valuation.

7.3 Timing of future actuarial valuations

- 7.3.1 LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by HM Treasury that the national Scheme valuation would take place on a quadrennial basis along with the other public sector pension schemes.

- 7.3.2 Although this has no immediate effect on the local fund triennial valuation process, as the 2019 valuation is going ahead as planned, there is an ongoing MHCLG consultation regarding the proposal to move local valuations to a 4-year cycle and the steps required to transition to this. Until the outcome of this is known, it is unclear how many years of contributions will need to be certified as part of the 2019 valuation with the potential for the next valuation could be delayed until 2024. As part of the consultation, there is a proposal enabling interim valuations which would allow funds to reassess funding positions and contribution rates prior to 2024. The Fund will be responding to this consultation.

7.4 Allowance for GMP equalisation

- 7.4.1 On 26 October 2018 a judgement was published for the Lloyd's Banking Group Pensions Trustees Ltd vs Lloyds Bank Plc on how their Guaranteed Minimum Pensions (GMPs) should be equalised between men and women. This ruling has ramifications for the wider Pensions Industry, potentially costing in the region of £8-10bn nationally.
- 7.4.2 However, HM Treasury have confirmed that the GMP judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes"
- 7.4.3 On 22 January 2018, the Government confirmed the requirement for payment of full indexation on GMPs within public service pension schemes would effectively be extended indefinitely. As a result, the Fund actuary is not anticipating any change in approach to valuing GMP in the 2019 valuation unless there is further guidance released for public service schemes.

8.0 Next steps

- 8.1 The Fund will work with the Fund actuary to cover a range of experience analysis, looking at the assumptions cast for the 2016 valuation versus the experience in the years to date, for instance:
- Short-term salary growth experience analysis
 - 50:50 scheme uptake analysis
 - Mortality analysis
- 8.2 In line with the approach taken in 2016, the Fund will continue to develop its integrated risk approach to funding, with contributions outcomes cognisant and consistent with outcome of the Employer Risk Management Framework and Investment Strategy.

9.0 Employer covenant review

- 9.1 The Fund has appointed PricewaterhouseCoopers LLP (PwC) as independent covenant advisers to supplement the activity conducted in-house.
- 9.2 The Fund is in the process of collating and finalising the data upon which to base the 2019 covenant review, which will be supported by the trend analysis developed from previous years' analysis. This baseline analysis across the employer base involves accessing publicly available information and obtaining specific data from selected employers via a tailored questionnaire.
- 9.3 The information obtained will be analysed in accordance with the Fund's Employer Risk Management Framework, utilising automated in-house tools to derive a 'risk rating' for each employer.

- 9.4 The Fund is also in the process of obtaining an independent credit rating from Dun and Bradstreet for each employer, which will support the internal assessment.
- 9.5 The covenant review will be aligned to the 2019 actuarial valuation and this will form a key part of the engagement with employers prior to provisional results being released.
- 9.6 PwC is supporting the Fund's overall covenant assessment by providing sectoral analysis on selected employer groups within the Main Fund and for both employers within the WMITA Pension Fund.

9.7 Climate risk

- 9.7.1 As part of the covenant advisory contract, the Fund has requested PwC undertake a high-level review of the impact of climate-related risks on employer covenant for participating employers of the Main Fund and the WMITA Pension Fund. This is with a view to developing the Fund's longer-term strategy on climate risk exposure from an employer covenant perspective and enhancing the awareness and understanding of our employer base initially.

10.0 Consultation process

- 10.1 The Fund has already begun consultation with employers across the region, with the first group consultation meeting held on 17 June in Wolverhampton.
- 10.3 Further briefing sessions are scheduled for July across the West Midlands region, as follows:

4 July 2019 - Walsall (the Hub, Walsall College)
8 July 2019 - Birmingham (Eversheds Offices, Colmore Row)
11 July 2019 - Coventry (Coventry University)

These sessions were also advertised in the most recent Employer Briefing note (Spring 2019 edition) and via the Fund's website. The primary purpose of these briefing sessions is to provide employers with a "what to expect" perspective on the 2019 actuarial valuation and afford employers the opportunity to raise any queries or issues they might have.

- 10.4 In addition to these sessions, the Fund is engaging with groups of employers on a sector-basis, on request, where it is helpful for similar employers to consider funding issues on a collaborative basis.
- 10.5 Between May and July 2019, the Fund, supported by its covenant and actuarial advisers, will engage with certain employers over carrying out a covenant review and affordability assessment to inform the valuation process.
- 10.6 During quarter four of 2019, the initial Fund-level valuation results will be reported to the Pensions Committee.
- 10.7 Again during quarter four of 2019, individual provisional results will be disseminated to employers.

- 10.8 Between November 2019 and January 2020 the Fund will offer a series of group consultation meetings to discuss provisional results and also formally consult on the revised Funding Strategy Statement (FSS). During the same period, individual employer meetings will be facilitated by the Fund on a request basis.

11.0 Financial implications

- 11.1 This report has financial implications for employers and guarantors in that the outcomes will drive contribution requirements as part of the 2019 actuarial valuation, effective from 1 April 2020.

12.0 Legal implications

- 12.1 The report contains no direct legal implications

13.0 Equalities implications

- 13.1 The report contains no direct equalities implications.

14.0 Environmental implications

- 14.1 The report contains no direct environmental implications.

15.0 Human resources implications

- 15.1 The report contains no direct human resources implications.

16.0 Corporate landlord implications

- 16.1 The report contains no direct corporate landlord implications.

17.0 Schedule of Background Papers

- 17.1 None

18.0 Schedule of Appendices

- 18.1 None