

Pensions Board

22 October 2019

Report Title	2019 Actuarial Valuation Update – process and emerging considerations	
Originating service	Pension Services	
Accountable employee(s)	Simon Taylor	Head of Pensions
	Tel	01902 554276
	Email	Simon.taylor2@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	Rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Board is asked to note:

1. 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 Pension Fund (the WMITA Fund).
2. The wider influences which may have potential implications for the 2019 actuarial valuation.

1.0 Purpose

- 1.1 To provide the Board with an update on progress of the 2019 actuarial valuation.

2.0 Background

- 2.1 The Board received an overview of the 2019 actuarial valuation process at the meeting in July 2019.
- 2.2 This report is to update the Board on the progress of the 2019 valuation since July, noting in particular consultation to date and potential issues which will need to be addressed as a result of Scheme-wide change and consultation.
- 2.3 The purpose of the 2019 actuarial valuation is to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023, as required under regulation 62 of the LGPS Regulations. This three-year period is currently being considered by Ministry for Housing, Communities and Local Government (MHCLG) following consultation to move to a quadrennial valuation cycle in line with other public service schemes. This could impact the number of years employer contributions are certified as part of the 2019 valuation and there is more detail on this in section 6 below.

3.0 2019 actuarial valuation progress

- 3.1 Having reviewed and agreed both the member data and the cashflow information provided by the Fund, the Fund actuary is in the process of carrying out calculations with a view to providing provisional total Fund results. Progress over the summer has focused on development of employer covenant reviews and collation of information to inform review of the Funding Strategy Statement, including review of actuarial assumptions.
- 3.2 In addition the Fund, in conjunction with the Fund actuary, will be considering wider demographics assumptions (e.g. allowance for life expectancy, retirement ages, membership of the 50:50 section) to update these to reflect the most up-to-date Fund and national membership experience analysis available.

4.0 Employer covenant review

- 4.1 As undertaken at the 2016 actuarial valuation and monitored in accordance with the Fund's Employer Risk Management Framework, the Fund is in the process of carrying out the 2019 covenant review.
- 4.2 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.

5.0 Wider influences

- 5.1 As noted in the report provided to the Board on 2 July 2019, there are wider influences which might have potential implications on the 2019 actuarial valuation. The matters covered in this report have progressed since the July report as outlined below.

McCloud and Sargeant cases/Cost cap

- 5.2. Since the last report, on 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. This ruling has implications for the LGPS, as well as other public sector schemes, as transitional protections were introduced to the LGPS with effect from 1 April 2014 which were age dependent. As a result, the likelihood is that the LGPS will have to honour the transition measures for all members.
- 5.3 Whilst the ruling therefore provides greater certainty in terms of the McCloud/Sargeant ruling standing, it is unclear at this stage what remedial action will be taken, to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes.
- 5.4 In January the Government announced that it would be pausing the cost cap mechanism in the absence of any certainty as to pension costs and funding. The Government has suggested that it is impossible to assess the value of the current pension arrangements until there is more certainty and the results of the schemes' actuarial valuations are received.
- 5.5 Whilst there is still uncertainty around any potential remedial action, there are a number of possible implications for employer accounting standards, the actuarial valuation and Fund administration.
- 5.6 In light of the Supreme Court's decision many auditors are requiring employers to provide for the potential impact of the McCloud judgement within their annual reports and accounts. As such the Fund, in conjunction with the Fund actuary, has decided to incorporate this information into this year's FRS102/IAS19 statements for those employers who obtain accounting standards via Barnett Waddingham unless they elect not to do so. The basis for this impact assessment is to use the Government Actuary's Department (GAD) analysis as a starting point, but to adjust for individual employer membership profiles.
- 5.7 On 28 August 2019, MHCLG wrote to the Local Government Association (LGA) to suggest that funds should carefully consider LGPS Scheme Advisory Board guidance, issued in May 2019. Scheme regulations require that, in undertaking a valuation of the fund, an actuary must have regard to the requirement to secure the solvency of the pension fund and the long-term cost efficiency of the Scheme. In meeting these requirements, MHCLG expect administering authorities to discuss the treatment of McCloud with their actuary and disclose clearly in their funding strategy statement (FSS) the approach taken to the risks and potential extra costs arising.
- 5.8 In the context of the 2019 actuarial valuation, the Fund is considering the approach to be taken for McCloud in conjunction with the Fund actuary, to include reference in the FSS.
- 5.9 By way of context, a prudent estimate is that LGPS liabilities could increase by 1% as a result of McCloud, which is likely to translate to fund-level, but noting there will be variances at individual employer level.

5.10 With any potential remedy likely to apply from the date transitional protections applied in the LGPS i.e. 1 April 2014, there could also be a significant administrative impact and cost where there is a requirement to review benefits on a retrospective basis. Developments on these issues will continue to be monitored and reviewed as the valuation progresses.

6.0 Timing of future actuarial valuations

6.1 The report provided to the Board in July 2019 covered a MHCLG consultation, which closed 31 July 2019, regarding the proposal to move local valuations to a 4-year cycle and the steps required to transition to this. The Fund's provided a full response to this consultation, noting in summary:

- a move to a quadrennial cycle for local funding valuations may create additional funding risk and contribution volatility for the Fund and participating employers and is therefore not, in isolation, supported
- the ability for administering authorities to undertake interim valuations (at Fund or individual employer level) would need to be accommodated to mitigate risk, with a preference to avoid terms for undertaking being overly prescriptive.
- supporting guidance would help support Fund's with implementation, ensuring consistency and appropriate use
- proposed changes to Exit Credit provisions require further consideration including clarity of Fund legal position and distinction between terms of Fund admission agreements and contractual terms between employers

7.0 Valuation consultation process

7.1 The Fund is consulting with the West Midlands Finance Directors, who represent the district councils, at meetings in June 2019 and July 2019 with a follow-up conference call held on 30 September 2019.

7.2 As confirmed in the July 2019 report, the Fund held four separate 2019 actuarial valuation briefing sessions in June and July across the West Midlands region. These briefing sessions were attended by 99 employers and stimulated a good level of engagement. The primary purpose of these briefing sessions was to provide employers with a "what to expect" perspective on the 2019 actuarial valuation, with the McCloud judgement and potential Scheme change proving to be areas of significant interest across all groups.

7.3 The Fund is engaging with other sector-groups of employers on request and has also engaged with both WMITA Pension Fund employers, to progress the covenant review and ongoing investment strategy review.

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

8.0 Financial implications

8.1 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.

9.0 Legal implications

9.1 The report contains no direct legal implications

10.0 Equalities implications

10.1 The report contains no direct equalities implications.

11.0 Environmental implications

11.1 The report contains no direct environmental implications.

12.0 Human resources implications

12.1 The report contains no direct human resources implications.

13.0 Corporate landlord implications

13.1 The report contains no direct corporate landlord implications.

14.0 Schedule of background papers

14.1 None.

15.0 Schedule of appendices

15.1 None.