

Report Title	2019 Actuarial Valuation Update	
Originating service	Pension Services	
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Recommendations for decision:

The Committee is asked to approve:

1. The Funding Strategy Statement (incorporating the former West Midlands Integrated Transport Pension Fund).
2. The Fund Termination Policy.
3. The Employer Risk Management Framework.

Recommendations for noting:

The Committee is asked to note:

1. The consultation undertaken in relation to the 2019 actuarial valuation and the associated Funding Strategy Statement.
2. Progress made towards finalising the valuation and planned delivery of the Fund actuary's valuation report and rate and adjustments certificate by the statutory deadline of 31 March 2020.
3. The steps taken in relation to risk management in the context of the Fund's integrated risk management framework.

1.0 Purpose

- 1.1 To provide Committee with an update on the 2019 actuarial valuation, the associated consultation with employers and to present the revised funding strategy statement (FSS).

2.0 Background

- 2.1 The Fund is currently required to carry out an actuarial valuation every three years and review and set the funding strategy and employer contribution rates for the following three years. As part of the valuation, effective 31 March 2019, the Fund Actuary will certify the employer contribution rates due for the three years 2020-2021 – 2022-2023. The Actuary's report and certificate must be obtained by the Fund by the statutory deadline of 31 March 2020.
- 2.2 The Fund actuary prepares the valuation based on the Fund's own Funding Strategy Statement (FSS), which has been updated since it was last reviewed in 2019, to reflect the changing regulations and updated actuarial advice received as part of the 2019 actuarial valuation. The FSS forms an integral part of the valuation, as it sets out the Administering Authorities strategy and policy on funding scheme benefits.
- 2.3 Following the merger of the West Midlands' LGPS pension funds, the FSS now incorporates funding strategy for employers within the former West Midlands Integrated Transport Pension Fund (WMITA PF).
- 2.4 The draft FSS was issued to employers for consultation in January, following a series of employer presentations during November 2019.
- 2.5 Consultation on the FSS formally closed on 14 February 2020, although discussions with a number of employers have continued into February and early March 2020.

3.0 Consultation

- 3.1 The Fund issued preliminary valuation results to employers during the course of November and December 2019 and has subsequently engaged in dialogue with employers to discuss their contribution outcomes, employer risk categorisation and funding strategy (including actuarial assumptions) as a whole. Over the period to 28 February 2020:
- 266 employer representatives attended group consultation meetings (a 49% increase on attendance at similar events for the 2016 valuation).
 - 22 direct enquiries were raised at the consultation meetings.
 - 159 emails have been received to the dedicated valuation mailbox covering 256 individual employers).
 - 32 online enquiry forms submitted as part of the post-valuation consultation survey (covering 85 individual employers).

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- Fund officers have met with 35 different employers.

3.2 Feedback from the consultation process has focussed on four main areas:

- Individual employer data (to include contact information) and liability queries
- Advance payment options
- Treatment of surplus and associated funding strategy
- Covenant rating and classification of employers into risk groups

3.3 For many employers, outcomes align to the outcomes at Fund-level, specifically the increase in funding level, and increased primary (future service) rate contributions, with a decrease in secondary (past service deficit) contributions. The consultation process has benefitted from improved employer understanding and awareness of the valuation process and outcomes, largely as a result of the extensive engagement undertaken as part of the 2016 actuarial valuation.

3.4 In a handful of cases affordability concerns have been raised by employers, primarily as a result of budgetary and/or cashflow pressures. In such cases, the Fund has requested evidence, to include updated financial information and short-term forecasts, to take into account in review of individual employer contribution plans.

3.5 In response to feedback from employers, the Fund (following advice of the Fund actuary) has provided some easement to employers through phasing increases in contributions and offering alternative payment profiles with a reduction in contributions for advance payment.

3.6 Where initiated by the participating employer, the Fund has also engaged with a number of scheme employers (guarantors) who provide a guarantee to that participating employer. This engagement has, in some cases, resulted in the guarantor extending comfort to afford the individual employer a more relaxed pace of funding, therefore minimising the cashflow pressure over the next three years, but with a further review at the next actuarial valuation.

3.7 Looking further ahead, and in particular at employers with increasingly mature membership profiles (those on a path to exit from the scheme), the Fund has engaged with certain employers around funding strategy to mitigate the effects of a significant exit debt on cessation. In some cases, the employer has agreed to step up contributions. This is an initial step in a wider review of employers on a path to exit, which may include a subsequent review of funding and investment strategy.

3.8 Final contribution requirements are being confirmed with the Fund actuary for inclusion in the 2019 actuarial valuation report and rates and adjustments certificate. These contribution requirements will also be confirmed to employers individually during the early part of March 2020. A number of employers have confirmed they will be making advance payment of contributions to the Fund, with significant contributions expected to be received during April 2020.

4.0 Employer Risk Management Framework

- 4.1 The Fund provided Committee with an update on the covenant monitoring and associated outcomes aligned to the 2019 actuarial valuation in January 2020.
- 4.2 Alongside the funding and covenant review the Fund has reviewed and updated the Employer Risk Management Framework. This review has incorporated employer feedback and developments in the process undertaken as part of the 2019 valuation. The main changes to the document include:
- Incorporation of the potential impact of climate risk within the covenant assessment framework.
 - Coverage of the ill health insurance arrangements as part of the management of risk.
- 4.3 The updated Employer Risk Management Framework is attached in appendix A for review and approval by Committee.

5.0 Funding Strategy Statement

- 5.1 The Funding Strategy Statement (FSS) has been prepared based on prevailing CIPFA guidance and reviewed by the Fund actuary.
- 5.2 The review and updating of the FSS follows an earlier review and employer consultation during 2019 to amend the FSS in respect of Exit Credit legislation and to facilitate pass-through arrangements for new contracts/admission agreements. The proposed key changes to the FSS considered as part of the 2019 actuarial valuation were outlined to Committee in January 2020.
- 5.3 The Fund consulted with all participating employers on the proposed amendments to the FSS and the associated Termination Policy. This consultation period closed on 14 February and the Fund received responses from 3 employers. Having considered the responses, the Fund does not intend to make any material changes to the FSS, however minor wording amendments or points of clarification have been made.
- 5.4 Committee is asked to review and approve the FSS and Termination Policy, as attached in appendices B and C.

6.0 Financial implications

- 6.1 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.

7.0 Legal implications

- 7.1 The report contains no direct legal implications.

8.0 Equalities implications

8.1 The report contains no direct equalities implications.

9.0 Environmental implications

9.1 The report contains no direct environmental implications.

10.0 Human resources implications

10.1 The report contains no direct human resources implications.

11.0 Corporate landlord implications

11.1 The report contains no direct corporate landlord implications.

12.0 Schedule of appendices

12.1 Appendix A: Employer Risk Management Framework

12.2 Appendix B: Funding Strategy Statement

12.3 Appendix C: Termination Policy