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CITY OF WOLVERHAMPTON COUNCIL	**Pensions Board** 9 July 2020

Report Title	Completion of the 2019 Actuarial Valuation	
Originating service	Pension Services	
Accountable employee	Simon Taylor Tel Email	Head of Pensions 01902 55 4276 Simon.taylor2@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 55 1715 Rachel.brothwood@wolverhampton.gov.uk

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Recommendations for noting:

The Board is asked to note:

1. The finalisation of the 2019 actuarial valuation and the associated actuarial Rates and Adjustment certificate signed 31 March 2020.

2. The revised Funding Strategy Statement implemented for the Fund following consultation as part of the 2019 actuarial valuation.

3. The ongoing activity to oversee changes in employer funding arrangements and wider review of outcomes of the 2019 actuarial valuation.

1.0 Purpose

1.1 To provide the Board with confirmation of the finalised 2019 actuarial valuation and a summary of the national position and associated reviews.

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 31 March 2019 valuation, the Fund Actuary has certified the employer contribution rates due for the three years 2020/21 to 2023/2024.

3.0 2019 valuation reports

3.1 The finalised Funding Strategy Statement (FSS) was presented to Pensions Committee for approval as an urgent decision notice as part of the March 2020 papers and is included in appendix A. Following conclusion of discussions with employers, the Main Fund 2019 valuation report and Rates and Adjustment Certificate was signed by the Fund actuary on 31 March 2020. A link to the Scheme Actuary's report for the West Midlands Pension Fund (Main Fund) is included in the schedule of background papers at the end of this report.

3.2 Following the merger of the West Midlands' LGPS pension funds effective 1 April 2019, the FSS incorporates funding strategy for employers within the former West Midlands Integrated Transport Pension Fund (WMITA PF), although a separate and final actuarial valuation report is prepared for the 31 March 2019 valuation for WMITA PF. The Fund requested, and was successful in receiving from MHCLG, an extension to the timeframe for finalising the WMITA PF 2019 valuation report and Rates and Adjustments certificate until 30 June 2020, to allow discussions with the employers to conclude in what has been an exceptional year for this Fund.

3.3 Main Fund – key headlines

3.3.1 As per the valuation report, as at 31 March 2019 the Main Fund was 94% funded representing an increase of 13% when compared to the funding level as at 31 March 2016. The market asset valuation as at 31 March 2019 was £15,634m, with liabilities valued at £16,648m and a funding deficit of £1,014m (compared to a deficit of £2,650 million as at 31 March 2016).

3.3.2 The primary contribution rate (average future service contribution rate) for the Main Fund was 20.4% of total pensionable payroll, with a secondary rate (average past service deficit contribution rate) of 5.8% for 2020/2021. Note that past service deficit contributions are paid as monetary amounts and a total of £114.5m is expected to be paid in 2020/2021.

3.3.3 The table below sets out a comparison of the total contributions expected for the Main Fund in line with the 2019 actuarial valuation (April 2020-2023) compared to those received over the three years following the 2016 valuation (April 2017-2020).

Future contribution expectations	2016 valuation (£000)	2019 valuation (£000)
Total future service contributions over 3 years	£906,664	£1,241,200
Total past service deficit contributions over 3 years	£502,105	£354,500
Total	**£1,408,769**	**£1,595,700**

The future service contribution (primary rate) requirement across all employers has increased with the rise in future inflation expectations being the predominant driver in estimating the cost of benefits members accrue in future, year-on-year. Taking into account the position in 2019, the deficit is now expected to be eliminated over a shorter period, with employer payments targeting recovery over a period up to 17 years depending on their covenant assessment.

3.4 WMITA Fund – key headlines

3.4.1 As per the valuation report, as at 31 March 2019 the WMITA Fund was 84% funded representing an increase of 2% when compared to the funding level as at 31 March 2016. The market asset valuation as at 31 March 2019 was c£495m (including the buy-in of c£228m), with liabilities valued at c£586m and a funding deficit of £91m.

3.4.2 The table below sets out a comparison of the total contributions expected for the former WMITA Fund in line with the 2019 actuarial valuation (April 2020-2023) compared to those received over the three years following the 2016 valuation (April 2017-2020).

Future contribution expectations	2016 valuation	2019 valuation
Total future service contributions over 3 years	£9,603,800	£8,400,000
Total past service deficit contributions over 3 years	£23,056,700	£21,902,000
Total	**£32,660,500**	**£30,302,000**

4.0 Implementing change to employer funding arrangements

4.1 The Fund has been monitoring closely the payments received for April 2020 (due by 19 May 2020) to ensure they comply with those set out in the 2019 valuation report. This will check advance payments and changes to payment rates are implemented when due. Any discrepancies or late payments will be raised with the relevant employers.

4.2 Following the extensive consultation process undertaken by the Fund, there remain a handful of arrangements to be agreed with individual employers, which will be finalised over the forthcoming months. These remain subject to continued dialogue with the respective employers and are centred around recent changes to employers which may impact upon their ongoing participation within the Fund and also known covenant issues whereby the employer approached the Fund prior to 31 March 2020.

4.3 The Fund is in the process of updating the “employer watchlist” to reflect the 2019 valuation results and the Fund will maintain ongoing dialogue with these employers around affordability and strengthening of covenant as their financial position continues to evolve. This review and dialogue will naturally include the impact of the recent covid-19 outbreak, both in terms of shorter-term affordability and mid to longer-term covenant.

5.0 Wider review of outcomes

5.1 Under Section 13 of the Public Service Pensions Act 2013, the Government Actuary Department (GAD) will undertake their review of LGPS valuation outcomes and issue a public report (expected early 2021). GAD have committed to engaging with Funds and Administering Authorities over any issues or concerns their review raises in advance of the report publication.

5.2 GAD has written to all LGPS Funds with commentary on data provided to the Fund actuary as part of the 2019 valuation and highlighting key conclusions. GAD will be working with the four actuarial firms from a national perspective, to agree data requirements for the 2020 Scheme review, with the potential for further conversations with individual funds to follow.

5.3 The Scheme Advisory Board (SAB) has confirmed that, as at the 31st March 2019, the LGPS liabilities were estimated at £291bn (an improvement of c6%) indicating an overall funding level of 98%. It is important to note that each fund will have used different assumptions, and whilst not directly comparable across funds, the aggregated total liabilities provides an indication of funding level for the scheme as a whole at the triennial valuation date.

5.4 Purely for comparison purposes, it is anticipated that SAB will publish anonymised comparison data on a GAD “standardised” valuation basis in due course. Using this standardised basis, the Main Fund has a funding level of 107%, which we understand is broadly in line with average across the LGPS. This notional assessment will not reflect local funding and investment strategy and differs from the assessment used to determine employer contribution rates.

5.5 Following the 2019 valuation, the on-going cost of the LGPS as a whole will be reviewed against the cost caps established by HM Treasury and the Scheme Advisory Board, following the introduction of scheme changes in 2014. If the notional costs of the scheme (as measured by GAD) have increased above a threshold this could trigger either a requirement for benefit or member contribution review (HMT process) or requirement to review and make recommendations around future benefit review (SAB process, DCLG review). It should be noted that the cost cap reviews due following the 2016 valuation have not yet completed and these are currently on hold pending clarification of the impact of the McCloud ruling on LGPS benefits.

6.0 Financial implications

6.1 The results of the 31 March 2019 actuarial valuation may have financial implications for participating employers in setting employer contribution rates for the three years from April 2020.

6.2 The outcomes of the SAB/HMT reviews may result in an amendment to benefits and/or member contribution levels.

7.0 Legal implications

7.1 The report has potential legal implications in that the outcomes of the GAD Section 13 could (based on the draft investment regulations) trigger Secretary of State intervention in the funding and investment strategy.

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 This 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 background papers

12.1 Main Fund 2019 actuarial valuation report (https://www.wmpfonline.com/CHttpHandler.ashx?id=17662&p=0)

13.0 Schedule of appendices

13.1 Appendix A: Funding Strategy Statement 2020