CITY OF WOLVERHAMPTON COUNCIL

Pensions Board

25 January 2022

Report Title	Preparations for 2022 Actuarial Valuation	
Originating service	Pension Services	
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Recommendation for noting:

The Pensions Board is asked to note:

1. The report and the associated preparatory work and planning for the 2022 actuarial valuation of the West Midlands Pension Fund (the Fund).

1.0 Purpose

1.1 To provide the Board with an overview of the 2022 actuarial valuation process, deliverables and context in preparation for the review of funding strategy and employer contribution rates.

2.0 Background

2.1 The Administering Authority of each LGPS pension fund must obtain an actuarial valuation as at 31 March 2022 in accordance with the requirements of Regulation 62 of the Local Government Pension Scheme Regulations 2013.

The primary aims of the actuarial valuation are to;

- Review the financial position of the Fund (assets relative to the expected cost of providing accrued pension benefits) relative to its objective for full funding;
- Assess the cost of benefits expected to accrue in the future;
- Where appropriate, and following consultation, revise the Funding Strategy Statement and Investment Strategy Statement (ISS).
- Taking the above into account, determine the appropriate level of employer contributions for the three-year period commencing April 2023.

2.2 The Funding Strategy Statement (FSS) together with the Rates and Adjustments actuarial certificate and actuary's valuation report summarise the outcome of the valuation (approach, assumptions and contribution requirement) and form the formal documentation the Administering Authority is required to put in place before 31 March 2023. In setting the contribution requirements for participating employers, the Fund actuary details a primary and secondary rate in the Rates and Adjustments certificate, based on the Fund's FSS. The primary rate of contribution, as defined by Regulation 62(5), is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2023. In addition, as required, each employer may be required to pay a secondary contribution under Regulation 62(7), set to address any shortfall (Deficit) in funding. This secondary rate is based on individual employer circumstances and adjustments are made for each employer to target full funding in line with the FSS. Funding strategy cannot be considered in isolation – the review will incorporate an assessment of employer covenant risk and will be carried out in conjunction with the Fund's investment strategy review.

2.3 This report provides an outline of the Fund (employer and member) and regulatory changes since the 2019 valuation which may impact on funding discussions in 2022/23. A high level timetable of proposed activity to deliver the valuation (including analysis and consultation) is included in Appendix A.

3.0 Main Fund 2019 actuarial valuation outcome

3.1 The valuation as at 31 March 2019 showed a funding shortfall of £1,014m based on the assumptions made for calculating the funding position at that time. This represented a funding level of 94%.

3.2 The actuary certified a Primary Rate – the amount required to cover the cost of future benefit accrual and ensure solvency, expressed as a percentage of active member pay (the overall average employer contribution rate) of 20.4% of Pensionable Pay.

3.3 The shortfall was to be recovered through additional employer contributions as specified for each employer over their deficit recovery period. At Fund level, recovery of the shortfall of £1,014m required a total deficit contribution (secondary contribution) of £122.2m per annum (5.7% of pensionable payroll) increasing at 3.6% per annum for 17 years.

3.4 Contributions for each individual employer were set as a combination of a percentage of payroll to cover the expected cost of the employer's active member benefit accrual and a cash lump sum amount to meet the employer's share of deficit contributions due to recover the shortfall. These are recorded in the Rates and Adjustments actuarial certificate which covers employer contributions due to April 2023 and is legally binding.

4.0 WMITA Fund merger

4.1 Following the merger of the West Midlands' LGPS pension funds effective 1 April 2019, the Funding Strategy Statement aligned to the 2019 valuation incorporated funding strategy for employers within the former West Midlands Integrated Transport Pension Fund (WMITA PF).

4.2 Each former WMITA PF employer's funding requirements are now considered in the context of the separate admission body sub-funds (ABSF) established post-merger. Each ABSF has its own funding and investment strategy, set out within schedules within the FSS and ISS.

5.0 Developments since 2019

5.1 Changes to the Main Fund employer base, membership profile and experience over the three years to 31 March 2019 will impact on the outcome of the 2019 valuation, as will changes to the regulatory environment.

Employer base

5.2 As at 31 March 2021, the number and profile of employers within the Main Fund had changed since the 31 March 2019 valuation and the movements are summarised in the following table:

	Number of employers at 2019 valuation	New employers since 2019 valuation	Cessations since 2019 valuation	Number of employers at 31 March 2021
District council	7	0	0	7
Colleges/universities	16	0	0	16
Academies	421	72	2	491
Other scheduled	26	2	0	28
Transferee admission	158	50	51	157
Community admission	47	1	5	43
Total	**675**	**125**	**58**	**742**

The area of predominant growth over the period is that involving local authority schools converting to academy status. In previous years the number of new transferee admission bodies has exceeded those exiting, however during this period there has been a broadly neutral position, with new outsourcing arrangements largely placed on hold during the covid-19 pandemic.

Membership profile and experience

5.3 The membership profile of the Main Fund has also developed since the 2019 valuation with a decrease in the number of active members to 31 March 2021 and an overall increase in the total number of members across all three categories. A summary of the change in membership profile is detailed below:

Membership Category	31 March 2019	31 March 2021	Percentage change
Active	122,069	113,644	-6.9%
Deferred	106,726	114,558	7.3%
Pensioner	99,752	106,899	7.2%
Total	**328,547**	**335,101**	**2.0%**

Although the overall membership profile has continued to grow over the period 31 March 2019 to 31 March 2021, that growth has slowed when compared to the preceding three years and has begun to plateau.

5.4 As part of the actuarial valuation, member movements and experience (salary growth, leavers, retirements, deaths and take-up of options such as cash and 50:50) will be reviewed and the impact on the Fund liabilities assessed to inform the approach in 2022.

Investment returns and changes in financial conditions and outlook

5.5 Investment returns and financial conditions at and around the valuation date can have a material impact on the valuation outcomes and in particular, the required employer contribution rates until the next actuarial valuation.

5.6 At the 2019 actuarial valuation, the invested assets of the Fund were valued at £15.63bn. Returns since 31 March 2019 have been higher than assumed return at the 2019 valuation and as such the asset value for the Fund stood at £18.9bn at 31 March 2021. The outlook for future investment returns and inflation has become more uncertain, and market volatility has increased as global political and economic uncertainty continues. The position will continue to be monitored in the run up to the valuation date and reflected as required in the Funding Strategy Statement.

Influencing factors

5.7 Change to the LGPS Regulations, associated guidance and oversight of LGPS funding valuations are likely to impact on the funding strategy review and the approach adopted for the 2022 valuation.

- As covered in the April 2021 Funding Strategy Statement (FSS) Review paper, on 23 September 2020 new enabling legislation ('Employer Flexibilities') came into effect, which introduced the power for Administering Authorities to review employer contributions in between statutory actuarial valuations in the event of a significant change in the level of liabilities and/or covenant of an employer and allowing an employer to request a review for the same reasons. The same legislation also introduced mechanisms to facilitate the spreading of exit debt payments upon cessation of an employer within the LGPS. The revised FSS dated June 2021 captures the Fund's policy on employer flexibilities, however we anticipate a number of live discussions with employers to run alongside the 2022 valuation process. Ultimately this may lead to implementation of exit debt spreading arrangements and/or evolution of our policy in this area.

- The participation and positioning of certain employer sectors in the context of the LGPS and wider pensions arrangements is potentially subject to review and change in the near future.

- The Government Actuary Department (GAD) has published its second full report on LGPS valuations and the appropriateness of employer contributions (as required by section 13 of the Public Sector Pensions Act 2013). The outcomes of this review will be considered in the context of the 2022 actuarial valuation and the associated funding strategy and employer contribution profiles, to be reviewed over 2022/23.

- The cleanliness of employer data will play a key part in individual employer outcomes as part of the 2022 valuation. Linked to employer data will be the application of the McCloud remedy. At Fund-level, an allowance for McCloud was made in the 2019 valuation results to deal with the potential additional costs of any benefit changes made as a result of the remedy with a view to mitigating possible funding implications and future contribution strain. Therefore, whilst the application of the McCloud remedy is expected to be immaterial at Fund-level, the potential remains for there to be implications at individual employer-level, particularly those employers with smaller membership numbers and where a significant percentage may see increases in member benefits (and liabilities) as a result of McCloud.

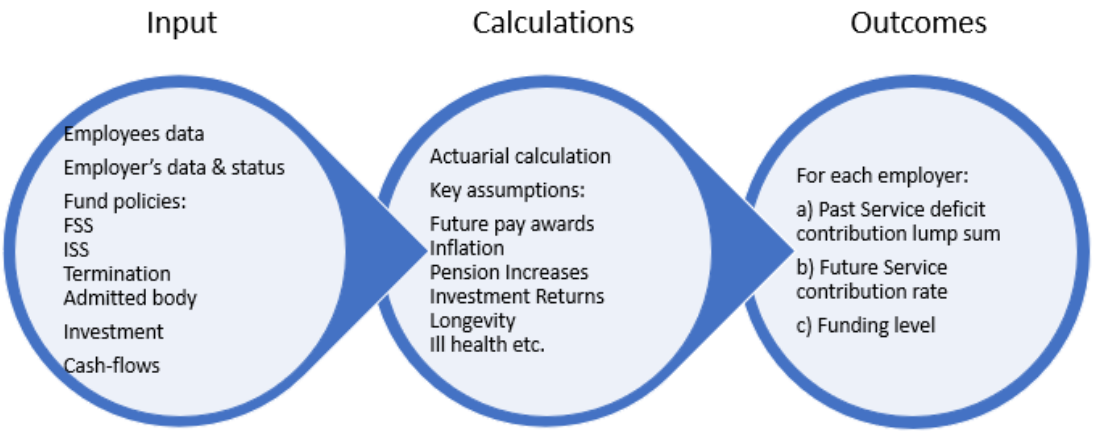
6.0 Preparatory work and planning

6.1 Following a recent procurement exercise undertaken via the National LGPS Framework, the Fund entered into a contract with Hymans Robertson from 1 January 2022 for the provision of actuarial and benefit consultancy services. As such, the Fund is undertaking a transition of the service from the incumbent, Barnett Waddingham, to Hymans Robertson, to include a full re-creation and reconciliation of the 2019 valuation by the incoming provider. This transition is of particular relevance, not only to the evolution of the Fund's funding strategy (which will be informed by a review of valuation methodology and approach), but also to the associated employer engagement.

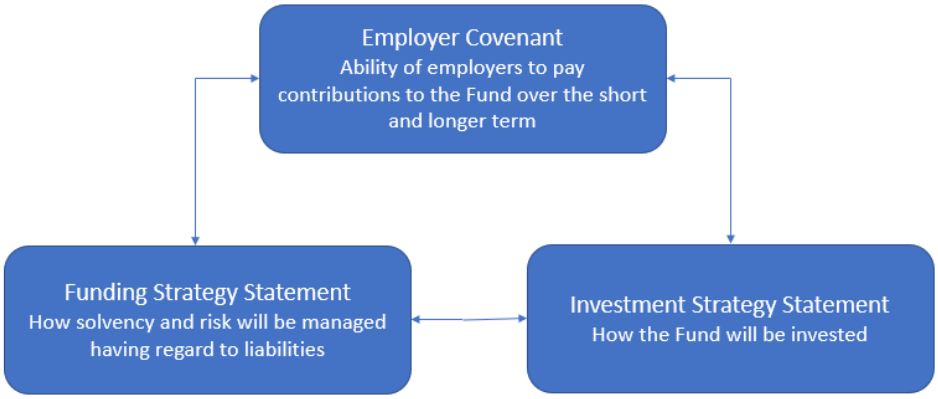
6.2 The process of engaging key employer groups commenced in October 2021 and includes the former WMITA employers and the West Midlands Local Authority Finance Directors.

6.3 A number of preliminary presentations and meetings are being undertaken in early 2022, to include the Association of Colleges West Midlands Finance Directors and further all-employer valuation meetings in Q1 of 2022. These all-employer meetings will focus largely upon process and employer involvement, to include data cleansing, ahead of the valuation date on 31 March 2022. Feedback from the Board with regards to employer engagement in respect of the valuation is welcomed.

6.4 The project plan is being compiled to define the key workstreams involved, emphasising the scope which is Fund-wide. The valuation process requires the collection of data and review of the relevant Fund policies. The Fund actuary uses this data and, based on a number of key assumptions, calculates the future benefit cashflows to inform the future contribution rate for the Fund as a whole and then each employing body. This can be summarised as follows:



6.5 The process also links the valuation to the Fund's Funding Strategy Statement (FSS), employer covenant (solvency and risk) review and Investment Strategy Statement with the balance of risk and mitigation of funding risks reflected in the review of these policy documents. The overview of the relationships is as follows:



6.6 The funding approach and assumptions will be fully reviewed and the FSS updated based on the advice of the Fund Actuary. It is proposed to complete the investment strategy review alongside the funding review, to ensure the funding and investment strategies are joined-up. Further information and training sessions are being incorporated into the Governing Body (Pensions Committee and Local Pensions Board) meeting and training programme for 2022/23, to support review of the FSS and ISS.

7.0 Risk and Employer covenant review

7.1 The Fund has recently procured the services of a funding risk advisor and is in the process of procuring an independent covenant advisor, to support the strategy, investment and contributions rate reviews which encompass the actuarial valuation.

7.2 The covenant review will form a key part of the engagement with employers prior to provisional results being prepared and released.

7.3 It is envisaged that the successful provider will assist the Fund as part of the 2022 valuation process, noting the value and purpose of the covenant assessment in supporting development of strategy for individual employers, with consideration of any measures taken to enhance covenant in setting contribution rates. This will also include review and consideration of broader policy and industry directives.

8.0 Consultation process

8.1 The Fund is required to consult with “such persons as it considers appropriate” on revision to the funding strategy.

8.2 The Fund will hold its annual Mid-Year Review in the summer of 2022 and at this meeting it is envisaged the actuarial valuation and any proposed changes to the Funding Strategy Statement will be covered in more detail.

8.3 During quarter four of 2022 the initial Fund-level valuation results will be reported to the Pensions Committee and individual provisional results will be disseminated to employers.

8.4 Between November 2022 and January 2023 the Fund will offer a series of group consultation meetings to discuss provisional results and will 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.

9.0 Financial implications

9.1 The results of the 31 March 2022 actuarial valuation may have financial implications for participating employers in setting employer contribution rates, commencing April 2023, for the period to the next actuarial review.

10.0 Legal implications

10.1 In accordance with the LGPS Regulations the Administering Authority of each LGPS pension fund must obtain an actuarial valuation as at 31 March 2022 and prepare and consult upon a Funding Strategy Statement (FSS) and Investment Strategy Statement (ISS).

11.0 Equalities implications

11.1 The report contains no direct equalities implications.

12.0 Other potential implications

12.1 There are no other potential implications.

13.0 Schedule of background papers

13.1 Funding Strategy Statement Review – 27 April 2021 Local Pensions Board Report; Funding Strategy Statement Review 2021.pdf (moderngov.co.uk)

14.0 Schedule of appendices

14.1 Appendix A: High level 2022 valuation timetable