

Pensions Board

26 April 2022

Report Title	2022 Actuarial Valuation Update	
Originating service	Pension Services	
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Recommendations for noting:

The Pensions Board is asked to note:

1. Progress on the transition of Fund actuary service provider
2. The report and the associated update on progress with the 2022 actuarial valuation for the Fund
3. The update on the associated employer covenant review in the context of the Fund's Integrated Risk Management Framework, to include exposure aligned to climate risk

1.0 Purpose

- 1.1 To provide the Board with an update on matters relevant to the triennial review of the Funding Strategy Statement over 2022/23 and delivery of the 2022 actuarial valuation.

2.0 Background

- 2.1 The Fund provided the Board with an overview of the 2022 actuarial valuation preparatory work and associated planning on a report dated 25 January 2022.
- 2.2 This report is to update the Board on the progress of the 2022 valuation since the January 2022 report, including replication of 2019 actuarial valuation results and development of the Fund's employer risk management approach through greater consideration of exposures to Climate Change risk.

3.0 Transition of Fund Actuary

- 3.1 As noted in the procurement update provided to Board on 25 January, the Fund used the National Local Government Pension Scheme Framework to procure an actuarial and benefits consultancy services provider, with Hymans Robertson having been awarded the contract with effect from 1 January 2022.
- 3.2 To enable the transition from the incumbent provider, Barnett Waddingham, an extensive programme of activity has been scoped and planned to ensure a seamless transfer including the exchange of data, use of systems, and alignment of methodologies and timelines. This has ensured the ongoing delivery of employer accounting disclosures and preparatory work for the 2022 actuarial valuation.
- 3.3 A key element of the transition of services was for Hymans Robertson to be able to recreate the outcomes of the 2019 valuation to within a reasonable degree of accuracy. The 2019 valuation results will provide the foundation for the upcoming 2022 valuation calculations, data reconciliation and validations and by replicating the outcomes it also acts as a check against the results prepared by the prior Fund actuary, with any significant discrepancies investigated further, as required.
- 3.4 At Fund level the results are encouraging with Hymans Robertson having been able to replicate the liability value to within c2%. This is well within their expected tolerances for this type of exercise. Possible reasons behind this variance include:
 - Changes to, or estimations applied, between the raw data and the final data set
 - Interpretation and application of actuarial assumptions
 - Actuarial calculation methods
- 3.5 The Fund will continue to work closely with Hymans Robertson to ensure that we are satisfied with this 2019 'baseline' position as we progress through the 2022 valuation preparations.

4.0 Project Management and Planning

- 4.1 A detailed project plan has now been compiled to define the key milestones and workstreams involved, emphasising the scope which is Fund-wide. An overview of the key workstreams is provided in appendix A.
- 4.2 Project group meetings have already been held with workstream leads to confirm involvement and expectations on timing for key deliverables. These meetings have also extended to factoring in wider Fund objectives and priorities alongside the valuation timetable.
- 4.3 A Fund-wide internal briefing session took place on 25 March 2022, which provided background to the purpose and outcomes for the valuation, as well as confirming the important roles played by all service areas in ensuring its delivery. Compared to 2019, the Fund expects to be servicing around 150 additional employers during the 2022 review, noting the increase in participating employers over the last 3 years.

5.0 Data Collection

- 5.1 With the formal valuation date being 31 March 2022, employer data will be captured up to that date, with final monthly membership data and contribution files submitted by employers on 19th April 2022. 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.
- 5.2 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.
- 5.3 In addition to the data extracted by the Fund from the employer returns, the Fund will also supply the Fund actuary with accurate cash-flow information in the three years since the last valuation and details of the Fund's invested assets and investment returns.
- 5.4 Another key data source, as elaborated upon later in this report, will be the employer covenant review outcomes, to inform the risk categorisation.

6.0 Employer Covenant

- 6.1 As outlined in the previous paper presented to Board in January, the Fund has reappointed PricewaterhouseCoopers LLP (PwC) as independent covenant advisers to support implementation of the Employer Risk Management Framework and activity conducted in-house and specifically to aid review of employer risk and affordability, both across the employer base and in more detail in a handful of individual cases.
- 6.2 The covenant review will be aligned to the 2022 actuarial valuation in that it will inform the application of the Funding Statement Strategy used by the Actuary as a basis of calculation for employer contribution rates and this will form a key part of the engagement with employers prior to provisional results being released.

- 6.3 PwC will undertake a review of the Fund's overarching Employer Risk Management Framework, the baseline covenant metrics which generate the employer risk categorisation, and the questionnaires sent to employers to obtain key information to inform the review. This review will enable the Fund to finesse its approach where required and increase the efficiency and self-sufficiency of its officers undertaking this work.
- 6.4 PwC will also carry out more detailed analysis on certain employer sectors (including for individual Fund employers participating in the Admitted Body Sub Funds), particularly those where there is no local or central government backing and to consider the appropriateness and consideration of any existing security arrangements.
- 6.5 The covenant review will also include consideration of climate risk related factors. This will extend to consideration of how the transition to a low carbon economy and/or physical risk (such as flooding) could impact employers in terms of their business model and ultimately the underlying long-term covenant to the Fund. Focus to date has been based upon developing employer awareness, understanding and mitigation of such risks, explored through one-to-one dialogue and/or information supplied through questionnaires.

7.0 Funding Strategy and Outlook

- 7.1 The Fund has begun working with the recently appointed Fund actuary on key elements of the funding strategy for review and development since the 2019 valuation. This will confirm mechanisms already in place and identify areas for wider review and drafting of the Funding Strategy Statement (FSS) for consultation with employers as part of the 2022 valuation.
- 7.2 The Fund continues to monitor the development of the funding position and has noted strong investment returns over the inter-valuation period, together with rising outlook for future inflation and more challenging future global economic environment. The position for each employer will be considered in the context of contribution outcomes and subject to review of member experience (including increasing maturity of membership profile), changing employer covenant and risk, changing market outlook and consideration of future investment strategy, and noting there may be potential to reduce risk and volatility in future contribution levels. Over the coming months, Fund officers will be working with advisers to consider the balance of risks and integration in order to review and develop the long-term funding and investment strategies for the Fund, ahead of consultation with employers in the Autumn.
- 7.3 The funding strategy and outcomes for the 2022 valuation will be reviewed in the context of the Government Actuary Department (GAD) Section 13 report published in November 2021. GAD confirmed that they do not expect to see funds reducing contributions and extending recovery periods and focus should not be on a fixed end point, but rather a period over which it is appropriate to fund any appearing deficit. GAD emphasised a more important focus is that of stability of contributions for affordability and cash flow reasons.c

8.0 Engagement

- 8.1 As noted in the January 2022 report, the Fund is required to consult with “such persons as it considers appropriate” on revision to the funding strategy.
- 8.2 Ahead of formal consultation, the Fund has already begun engagement with key stakeholders, to include the West Midlands Local Authority Finance Directors on 18th November 2021 and 17th March 2022, and the Association of Colleges West Midlands Finance Directors on 27 January 2022.
- 8.3 As part of the interactive e-Book, issued to all employers in place of the 2021 Annual General Meeting, a section was dedicated to the employer covenant review, how employers will play their part in the review, and potential outcomes.
- 8.4 Moving forward, participating employers will receive an invitation to group consultation meetings (to be grouped based on type of employer) around June/July 2022, which will serve as an overview of what to expect with the 2022 valuation and outlook.

9.0 Next steps

- 9.1 Going forwards, the Fund is working with the Fund actuary to cover a range of experience analysis, looking at the assumptions cast for the 2019 valuation versus the experience in the years to date, to derive the proposed initial key assumptions, for instance:
- Short-term salary growth experience analysis
 - 50:50 scheme uptake analysis
 - Mortality analysis
- 9.2 The Fund actuary will be undertaking a mortality study to compare the Fund’s actual mortality experience to the basis adopted for the 2019 valuation of the Fund. Against the backdrop of the Covid-19 pandemic, there will be a greater focus on the experience of the Fund over the inter-valuation period and an increased interest in the mortality assumptions to be set going forward. Although an interim assessment commissioned over 2021 confirmed the impact to date had not been material, evidence and outlook scenarios are still developing and the Fund will work with its advisers to test and inform the approach adopted for the 2022 valuation.

10.0 Financial Implications

- 10.1 This report has financial implications for employers and guarantors in that the outcomes will drive contribution outcomes from the 2022 actuarial valuation, effective from 1 April 2023.

11.0 Legal Implications

- 11.1 The report contains no direct legal implications.

12.0 Equalities Implications

12.1 The report contains no direct equalities implications.

13.0 Other Potential Implications

13.1 This report contains no other potential implications.

14.0 Schedule of Background Papers

14.1 Preparations for 2022 Actuarial Valuation – 25 January 2022 Board paper.

14.2 Procurement Update – 25 January 2022 Board Paper.

15.0 Schedule of Appendices

15.1 Appendix A: 2022 valuation key project workstreams.