

<b>Report Title</b>	2022 Actuarial Valuation Update	
<b>Originating service</b>	Pension Services	
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**Recommendations for noting:**

The Pensions Board is asked to note:

1. The report and the associated update on progress with the 2022 actuarial valuation of the Fund.
2. 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 prior reports relating to the 2022 actuarial valuation on 25 January 2022 and 26 April 2022.
- 2.2 This report is to update members on the progress of the 2022 valuation since the April 2022 report, in particular focussing on the Fund's employer covenant monitoring in the context of our Integrated Risk Management approach and the broader themes which might influence the funding strategy and underlying actuarial assumptions.

## **3.0 2022 Actuarial Valuation Progress**

- 3.1 With the member data and the cashflow information provided by the Fund having been reviewed, 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 derivation of actuarial assumptions.
- 3.2 The review of key financial assumptions is being undertaken against the backdrop of significant economic changes, not least the high inflationary environment combined with heightened volatility in global markets. The derivation of final assumptions will involve wider consideration of the anticipated time horizon for such economic trends in the context of the three-year period for setting employer contributions, whilst ensuring we retain a focus on funding plans based upon long-term expectations.
- 3.3 In addition the Fund, in conjunction with the Fund actuary, will be considering wider demographic 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.
- 3.4 The Fund will also be undertaking a review of our Funding Strategy Statement and associated policies (including Termination Policy and Admissions Policy) for consultation with employers.

## **4.0 Employer Covenant**

- 4.1 The covenant review aligned to the 2022 actuarial valuation 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.

- 4.2 The Fund has carried out a full covenant review across all participating employers, the results of which have been supplied to the Fund actuary to consider in the context of funding strategy, unfunded pension liability risk and contribution outcomes. This review incorporates information received from questionnaires completed by participating employers in July 2022.
- 4.3. In general at sectoral level, covenant strength has been maintained from 2019 to 2022, noting that in many cases the impact of the coronavirus pandemic is considered at this stage to be a shorter-term one, as opposed to a longer-term trend, although this position will continue to be monitored.
- 4.4 In addition, PwC will be providing further detailed analysis on the Admitted Body Separate Funds (ABSFs) in due course and to inform discussions with the participating employer's Company management next month.
- 4.5 The covenant review also includes 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. The information provided through questionnaires serves to derive a separate "climate risk covenant rating" for each employer and PwC have carried out more detailed analysis on the potential impact of climate risk on each sector.
- 4.6 With recent extreme weather events in the UK since 2019 informing updates to the climate science as it relates to the UK, that analysis shows that both heat stress and storm damage have increased in their severity and frequency in short-term predictions, including for the West Midlands.

## **5.0 Financial Implications**

- 5.1 This report has financial implications for employers and guarantors in that the outcomes will drive contribution requirements as part of the 2022 actuarial valuation, effective from 1 April 2023, together with reliance on the underlying strength of guarantor.

## **6.0 Legal Implications**

- 6.1 The report contains no direct legal implications.

## **7.0 Equalities Implications**

- 7.1 The report contains no direct equalities implications.

## **8.0 Other Potential Implications**

- 8.1 There are no other potential implications.

## **9.0 Schedule of Background Papers**

- 9.1 26 April 2022, Pensions Board Report – 2022 Actuarial Valuation Update - [2022 Actuarial Valuation Update.pdf \(moderngov.co.uk\)](#)
- 9.2 25 January 2022, Pensions Board Report – Preparations for 2022 Actuarial Valuation - [Preparation for 2022 Valuation.pdf \(moderngov.co.uk\)](#)

## **10.0 Schedule of Appendices**

- 10.1 None.