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CITY OF WOLVERHAMPTON COUNCIL	**Pensions Board** 24 January 2023

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

The Pensions Board is asked to note:

1. The report and the associated update on progress with the 2022 actuarial valuation, including the two Admitted Body Sub Funds (ABSFs).

2. Headline results of the 2022 actuarial valuation.

3. Consultation undertaken and planned activity over the forthcoming quarter.

1.0 Purpose

1.1 To provide Board with an update on the 2022 actuarial valuation and outline the process for consultation with Fund employers with regards to proposed changes to the Funding Strategy Statement (FSS).

2.0 Background

2.1 The purpose of the 2022 actuarial valuation is to review and set appropriate contribution rates for each employer in the Fund for the period from 1 April 2023 to 31 March 2026, as required under regulation 62 of the Local Government Pension Scheme (LGPS) Regulations.

2.2 Board received an update on the 2022 actuarial valuation at the meeting in October 2022. At that stage, preliminary results were being prepared based on the outcome of the covenant review and analysis of membership changes and experience, used to inform the actuarial assumptions used to estimate future pensions payable (liabilities) from the Fund. Preliminary total Fund and individual employer results have now been prepared and are in the process of being issued to employers for consultation.

3.0 2022 Actuarial Valuation Progress

3.1 With reference to the October 2022 report, the review of key financial assumptions (Consumer Price Index (CPI) inflation, salary increases and the discount rate) has now been undertaken against the backdrop of significant economic changes, not least the high inflationary environment combined with heightened volatility in global markets and affordability pressures for employers. The derivation of these final assumptions has involved 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 the Fund retains a focus on the requirement for funding plans to deliver over the long-term. The financial assumptions, together with the allowance for life expectancy, have the most material impact on the assessment of Fund liabilities – the estimate of how much the Fund needs to hold today to meet the expected cost of pensions built up to March 2022 and payable to pension members in the future.

3.2 Risk profiling and categorisation of employers has been in place for a number of valuation cycles, reflecting the different nature and covenant of employers within the Fund. Aligned to a change of model for the 2022 valuation (and move to a stochastic, risk-based funding approach discussed in more detail in paragraph 4), the methodology has changed but the same principle applies in that employers with a weaker covenant and/or shorter-term relationship with the Fund are typically afforded a lower level of funding risk and more prudent funding plan, to protect all employers in the Fund.

3.3 The Fund has worked with the Fund actuary to develop and review individual employer provisional results and with our appointed covenant adviser to review employer covenant assessments. In addition, as part of our own internal governance arrangements, there have been regular meetings of the Funding and Investment Strategy Sub-committee to oversee the process and development of advice to inform the Fund’s FSS.

4.0 Contribution Rate Approach

4.1 The Fund has refined its approach to setting contribution rates at this valuation to adopt a risk-based approach with a three-step process to setting employer contribution rates as follows:

4.1.1 Calculate the funding target for each employer (i.e., the estimated amount of assets it should hold in order to be able to pay all its members' benefits). The funding target is specific to each employer's own membership details and circumstances.

4.1.2 Determine the time horizon over which the employer should aim to achieve that funding target. This is broadly equivalent to the recovery period adopted in 2019. The time horizon calculations are more focussed on ensuring the funding target is achieved at the end of the time horizon and less focussed on the snapshot funding level on the valuation date. The time horizon reflects both employer covenant and the likely length of participation in the Fund (subject to a maximum of 17 years, except where in surplus, in which case a 30-year run-off period will be applied as a default and consistent with the 2019 valuation approach).

4.1.3 Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. This step provides additional information relative to the previous valuation by quantifying the level of prudence associated with the contribution rate. Higher likelihoods of success will require higher contribution rates and more prudent funding plans than those with lower likelihoods of success.

4.2 By using this approach, the Fund can reflect individual employer characteristics in an objective way, focussed upon long-term funding goals and expected outcomes. Further detail of how this three-step approach has been applied for each employer type will be detailed in the FSS.

5.0 Funding Strategy Statement (FSS)

5.1 The majority of Fund employers received their preliminary valuation results with details of proposed assumptions, individual risk categorisation (probability of success) and future contribution requirements during November and December 2022.

5.2 The Fund is now consulting with all participating employers on changes to the FSS, with the updated draft documenting the Fund-wide approach. Responses will be reviewed during February 2023 and following review a final version will be prepared for approval by the Pensions Committee in March 2023 and publication by the statutory deadline of 31 March 2023. During January 2023 and following group consultation meetings in early December 2022, officers will be and have been responding to employer requests for one-to-one consultation meetings (further details below).

6.0 Valuation Consultation and Engagement

6.1 Further to the update provided to Board as part of the October 2022 report, the Fund has completed a group engagement meeting with the West Midlands Finance Directors representing the seven local authorities, as well as meeting with both ABSFs.

6.2 The Employer Peer Group have been engaged on the new style provisional results schedules, with helpful feedback and commentary provided which has been relayed onto the Fund Actuary to incorporate any appropriate changes. A complete suite of supporting documents has been drafted to assist employers' understanding of the results and process.

6.3 During December 2022 (and with a final session planned for 17 January 2023), the Fund ran a series of multi-employer briefing sessions. The briefing sessions were designed to help employers understand the changes in Fund position and how those changes may impact their own contribution rates and the overall position of the Fund. The sessions covered the following areas:

- An overview of the provisional results of the 2022 valuation and changes since the 2019 valuation.
- An explanation of the new provisional results schedules.
- Details of the change in approach adopted by the Fund for the 2022 valuation.
- Discussion surrounding how any changes may impact on the Fund and employers.

6.4 There was also an opportunity for employers to ask any questions regarding the 2022 Actuarial Valuation process, raise any queries relating to the provisional results and request a follow up one to one discussion with a Fund officer on a subsequent date to discuss results in depth.

6.5 Beyond these group engagement sessions, the Fund intends to issue a survey to all employers. Contained within the survey will be an opportunity for employers to raise a query or request an individual meeting or teleconference call.

7.0 Financial Implications

7.1 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.

8.0 Legal Implications

8.1 The report contains no direct legal implications.

9.0 Equalities Implications

9.1 The report contains no direct equalities implications.

10.0 Other Potential Implications

10.1 This report contains no other implications

11.0 Schedule of Background Papers

11.1 31 October 2022, Pensions Board Report – 2022 Actuarial Valuation Update - 2022 Actuarial Valuation Update.pdf (moderngov.co.uk)

11.2 26 April 2022, Pensions Board Report – 2022 Actuarial Valuation Update - 2022 Actuarial Valuation Update.pdf (moderngov.co.uk)

11.3 25 January 2022, Pensions Board Report – Preparations for 2022 Actuarial Valuation - Preparation for 2022 Actuarial Valuation.pdf (moderngov.co.uk)

12.0 Schedule of Appendices

12.1 There are no appendices within this report.