2022 ACTUARIAL VALUATION

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with this report	Included in Part II reports

HEADLINES

The draft whole fund triennial valuation has been completed. This item will be presented and discussed at a separate meeting prior to this Committee meeting. This will allow sufficient time for the fund actuary, Hymans Robertson, to explain the assumptions, results, and funding position.

In addition, the Fund is required under the Local Government Pension Scheme regulations to maintain and publish a Funding Strategy Statement (FSS). The purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- to take a prudent longer-term view of funding those liabilities.

The FSS will be sent out for employer consolation prior to being presented at Committee.

RECOMMENDATIONS

It is recommended that the Pensions Committee agree that the following recommendations will be discussed in Part 2 of the agenda

- Agree a Funding Strategy Statement is to be sent out for consultation with scheme employers along with valuation results
- Note the whole fund initial triennial valuation results
- Approve the assumptions used in the triennial valuation

SUPPORTING INFORMATION

Triennial Valuation

The triennial revaluation of the pension fund to value the fund as at 31 March 2022 is almost complete. Membership, cash flow and investment data has been submitted to the fund actuary to enable completion of the valuation. In addition, the fund commissioned an exercise to enhance the assumption setting specific to the Hillingdon Fund.

The Fund Actuary has produced initial whole fund results. The initial fund results were presented by Hymans Robertson prior to this Committee meeting. Hymans Robertson will also participate in an employer forum during November, to enable scheme employers to ask questions on their individual results and FSS.

The initial results show that the funding level has improved from 87% at 31 March 2019 to 88% at 31 March 2022, subject to agreement of the underlying assumptions. The funding level only provides a high-level snapshot at a point in time and has limitations as set out in the Hymans Robertson paper. The initial results enable the fund to set its funding strategy and in turn set contribution rates for all employers. It is important to note the reported funding level does not directly drive contribution rates for employers, a funding plan is set which considers that the assets and liabilities will evolve over time in different economic situations.

Funding Strategy Statement (FSS)

The draft FSS will be prepared by the Administering Authority of the London Borough of Hillingdon Pension Fund in collaboration with the Fund's actuary, Hymans Robertson LLP.

The Fund needs a FSS as employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns help pay for some of the benefits, although there is volatility in investment returns. Employees' contributions are fixed within the regulations, at a level which covers only part of the cost of the benefits. Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- prudence in the funding basis
- affordability and stability of employers contributions, and
- transparency of processes.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement.

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an

investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Taxpayers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.

McCloud

Benefits accrued by certain members between 2014 and 2022 may increase following the McCloud case, which ruled that transitional protections introduced in 2014 for older members were discriminatory. An allowance for the cost of these potential improvements has been made, based on the guidance issued by Department of Levelling Up, Housing and Communities on 22 March 2022. The actuary expects minimal impact for most employers.

Cost sharing mechanism

Benefits could change because of the 2020 cost cap valuation; the outcome is currently unknown. There is also an ongoing legal challenge to the 2016 cost cap valuation. The actuary has assumed that there will be no changes required to the benefit structure due to cost cap.

Guaranteed Minimum Pension equalisation and revaluation

The actuary has assumed the Fund will pay all increases on GMP for members with a State Pension retirement date after 5 April 2016, as we did in the 2019 valuation.

Other legal cases

Benefits could change as a result of other legal challenges (eg the Goodwin case affecting partner pensions). Given the lack of information about possible benefit changes and their relatively small impact, there is no allowance for these changes.

FINANCIAL IMPLICATIONS

Legal implications are included in the report and attachments.

LEGAL IMPLICATIONS

Legal implications are included in the report.