2022 ACTUARIAL VALUATION AND DRAFT FUNDING STRATEGY STATEMENT

Committee	Pensions Committee
Officer Reporting	James Lake – Finance Directorate
Papers with this report	Draft Funding Strategy Statement

HEADLINES

The draft whole fund triennial valuation has been completed. On 14 November 2022 all employers were invited to a triennial results event where the fund actuary presented the results and discussed the process, assumptions and next steps, which included the distribution of the employer's rate certificates and draft Funding Strategy Statement (FSS) for consultation.

Any consultation responses will be considered with the final FSS being presented for formal Committee approval in March 2023.

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.

RECOMMENDATIONS

That the Pensions Committee note the Draft Funding Strategy Statement.

SUPPORTING INFORMATION

Funding Strategy Statement (FSS)

The draft FSS has been 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 (GMP) 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 (e.g. 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.