



Pension Fund Committee

4 May 2021

Title Actuarial Valuation Update

Report of Director of Finance

Wards N/A

Status Public

Urgent No

Key No

Enclosures Appendix A: GAD Review of 2019 Triennial Valuation
Appendix B: Actuary's note on Funding Level **(to follow)**

Officer Contact Details George Bruce, Head of Pensions
0208 359 7126 george.bruce@barnet.gov.uk

Summary

The funding position of the pension scheme and rate of contributions paid by employers is assessed every three years by the Scheme Actuary. The last such review was conducted as at 31 March 2019. The Government Actuary has reviewed the approach taken to the 2019 triennial valuation and issued a report raising no issues. As we are two years into the current valuation cycle, Hymans have been asked to comment on the direction of the funding level and the primary contribution rate.

Officers Recommendations

That the Pension Fund Committee note the GAD report on the 2019 triennial valuation.

1. WHY THIS REPORT IS NEEDED

- 1.1 The Committee are responsible for appointing a scheme actuary and commissioning a triennial actuarial valuation in addition to formulating long term funding and investment strategies that ensure that the scheme has sufficient assets to pay benefits as they fall due.
- 1.2 Every three years the Actuary assesses the funding position of the Pension Fund and determines the contributions payable by each employer. The triennial valuation as at 31 March 2019 was completed early last year and generated an aggregate funding level of 86% and an average primary contribution rate of 20.6%. Each employer has individually determined primary & secondary (deficit) contribution rates.

Government Actuary's Review of 2019 Triennial Valuation

- 1.3 Each triennial valuation is reviewed by the Government Actuary's Department (GAD) under Section 13 of the Public Service Pensions Act 2013 to ensure they comply with four key criteria: compliance with the LGPS regulations, consistency between funds, solvency and long-term cost efficiency. GAD's analysis of the LB Barnet 2019 triennial valuation is summarised in the attached two-pager. The attachment (appendix A) sets out each of GAD's checks used to measure our funding plan against their key criteria. The report is in draft awaiting comments from Hymans or ourselves, but in view of the absence of any adverse findings, is not expected to change. Hymans are reviewing the results to make sure GAD have not misinterpreted our data.
- 1.4 The key points from the GAD analysis are:
 - a) The Funding level on a Scheme Advisory Board and best estimate basis is a little over 90%.
 - b) Our funding level is around 15% lower than the average LGPS with employer contributions consequentially higher than average (page one lower RHS).
 - c) The GAD calculated deficit recovery period is 10 years. A maximum of seventeen years was used in the calculation of deficit contributions.
 - d) GAD estimate that the investment return we require to achieve full funding in 20 years' time is 3.6%, a little lower than their best estimate of our future returns of 3.8% assuming current asset mix maintained. The 'best estimate' return looks on the low side and we have asked Hymans to comment, although it's probably a function of the returns allocated to each asset class by GAD.

- e) Our required returns are closer to best estimate than most funds i.e. there is less margin for returns being lower than best estimate.
 - f) The impact of shocks on asset values or liabilities, if wholly passed on to the Council, is not seen as significant for ability to pay.
- 1.5 Although some of the individual scores are difficult to comprehend, the overall 'green flags' on each test is reassuring and indicates GAD conclusion that the Barnet funding plan is appropriate and achievable.

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- 1.6 The next triennial valuation will be as at 31 March 2022. As we are two years into the three-year cycle, it was appropriate to ask the Actuary to comment on whether we continue to be on track to regain full funding and the likely direction of primary contribution rates. The funding level directly impacts secondary (deficit) contributions but changes in primary (future service) contributions are linked to the assumptions used by the Actuary e.g. future investment returns, inflation, salary, longevity etc.
- 1.7 The Actuary is aiming to prepare an update in advance of the Committee meeting, which will be circulated when available.

2. REASONS FOR RECOMMENDATIONS

- 2.1 One of the Committee's responsibilities is to ensure that the fund has a realistic plan to ensure that sufficient assets are held to meet benefit obligations when due.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

- 3.1 None at this stage.

4. POST DECISION IMPLEMENTATION

- 4.1 Planning for the 2022 triennial valuation will commence later in the year.

5. IMPLICATIONS OF DECISION

5.1 Corporate Priorities and Performance

- 5.1.1 Good management of the Pension Fund will minimise the cost of providing benefits thus enabling funds to be directed to Council priorities as set out in the Council's Corporate Plan for 2019-2024. Changes in contribution rates can have a significant cashflow implication for employers and will impact on the Council's ability to spend in other areas.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

5.2.1 There are no immediate financial implications from the report. However, higher deficits (particularly if sustained) may translate into higher contributions from the Council and other employers. Engaging with the Scheme Actuary during the 2021 triennial valuation will enable the Committee to identify ways to stabilise future contribution rates.

5.3 **Social Value**

5.3.1 Contributing to the Pension Fund ensures that contributing members have a secured income on retirement.

5.4 **Legal and Constitutional References**

5.4.1 The Council's Constitution (Article 7) – includes within the responsibilities of the Pension Fund Committee,

- To consider actuarial valuations and their impact on the Pension Fund.
- To review the Funding Strategy Statement at least triennially

5.4.2 The Local Government Pension Scheme Regulations 2013 (regulation 62) requires the Council to obtain an actuarial valuation of the assets and liabilities of each of its pension funds as at 31 March 2016 and as at 31 March in every third year afterwards. Regulation 58 requires the administering authority to prepare, maintain and publish a funding strategy statement. It must carry out consultation with such persons as it considers appropriate.

5.5 **Risk Management**

5.5.1 The accuracy of the valuation relies on the accuracy of the data provided to the actuaries. Any errors in the provision of the data could have a significant impact on the required contribution rates, particularly for the smaller scheduled and admitted bodies.

5.5.2 The value of the Pension Fund assets at any point in time is determined by the market and a large movement in the markets could have a significant impact on the surplus or deficit of the fund.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.7 **Corporate Parenting**

5.7.1 Not applicable in the context of this report.

5.8 **Consultation and Engagement**

5.8.1 Not required.

5.8 **Insight**

5.8.1 The report provides insight into the future direction of employers' contribution rates.

6. **BACKGROUND PAPERS**

6.1 The Triennial Valuation report as at 31 March 2019.

<https://www.barnet.gov.uk/your-council/finance-funding-and-pensions/local-government-pension-scheme>