	Local Pension Board **24 June 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
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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 indicating satisfaction with the Barnet Funding plan.

Officers Recommendations

That the Local Pension Board note the Government Actuary's Department report on the 2019 triennial valuation.

1. WHY THIS REPORT IS NEEDED

1.1 The highest rated risk for the Pension Fund is that insufficient assets are held to meet the benefits due. This translates to a risk to employers that their contribution rate increases to meet a funding shortfall. The Actuary and Investment Advisor, both Hymans Robertson, advise the Committee on investment and funding strategies that provide a satisfactory likelihood of achieving full funding and stability of contributions for employers.

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.

1.3 The purpose of this paper is to demonstrate to the Board that the funding plan is tenable.

<u>Government Actuary's Review of 2019 Triennial Valuation</u>

1.4 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 us, 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.

1.5 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.

1.6 Although some of the individual scores on page two of the GAD report 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.

Actuarial Valuation Update

1.7 The next triennial valuation will be as at 31 March 2022. The Actuary reviewed the funding position and costs of providing future benefits and concluded that overall, the current expectation was that contributions are currently projected to remain stable at the 2022 triennial valuation. Comments on funding level (deficit) and future service rate were:

Funding Level

"At the 31 March 2019 valuation, the Fund's assets were not sufficient to pay all future benefit payments based on an assumed investment return of 4.4% p.a. To have sufficient monies, it was estimated that the Fund would need either:

• an additional £187m of assets as at 31 March 2019; or

• future investment returns of at least 5.4% p.a. (which were estimated to be achievable in c.60% of future outcomes).

Comparing both of these figures to the equivalent as at 31 March 2021, we note that:

• the past service funding shortfall has decreased from £187m to £32m; and

the required investment return has fallen from 5.4% p.a. to 4.4% p.a. as well as the likelihood of the Fund's assets achieving the required level of return increasing from 60% to 74%.

Future Service Rate

"Currently, the Fund level Primary Rate in payment is 20.6% of pay (including expenses of 1.0% of pay). At the 2019 valuation, there was a 70% likelihood that this rate would be sufficient to fund the long-term cost of accrual.

As at 31 March 2021, we estimate that there is 66% likelihood that 20.6% of pay will be sufficient to fund the long-term cost of accrual i.e. the cost of future benefit accrual has increased."

1.8 In summary, although good investment returns have reduced the deficit, the cost of providing benefits has become more expensive. We will invite the Actuary to meet the Board and discuss planning for the 2022 triennial early next year.

2. REASONS FOR RECOMMENDATIONS

2.1 One of the Board's responsibilities is to monitor the management of risks and funding is one of the most significant risk faced by the Fund.

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 Employers paid £54 million of contributions into the pension scheme in 2020-21. 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.

5.3 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 Board's Terms of Reference include "ensuring the effective and efficient governance and administration of the LGPS for the LBB Pension Fund". The actuarial process is central to ensuring that the pension fund has sufficient assets to pay pensioners

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 None