	Pension Fund Committee **11 July 2022**
Title	**2022 Triennial Valuation**
Report of	Executive Director of Strategy and Resources
Wards	N/A
Status	Public
Urgent	No
Key	No
Enclosures	Appendix A – Actuary valuation assumption paper Appendix B – Valuation Timeline
Officer Contact Details	David Spreckley, Head of Pensions and Treasury 020 8359 6264 david.spreckley@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 triennial valuation as at 31 March 2022 is commencing. The Pension Fund Committee will need to agree with the Scheme Actuary the basis of the assumptions to be used in the calculations. An additional meeting in September is proposed so that the Committee can be fully involved in the valuation process and sufficient time be allowed for employer consultations.

Officers Recommendations

That the Committee:

(1) Approve the proposed assumption in Appendix x for the Barnet Pool; and
(2) Agree to an additional meeting to be held in September to consider the Funding Strategy Statement.

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 for the next three years. The next valuation will be as at 31 March 2022 and the new contribution schedule will be effective from 1st April 2023.

1.3 A key part of the process is to determine the long-term assumptions to be used to calculate the actuarial liabilities and the level of confidence associated with that choice of assumption (i.e. the "prudence margin"). It is a legislative requirement that the collective assumptions used are set prudently. The Council's policy around actuarial assumptions is documented in a Funding Strategy Statement ("FSS").

High-level valuation timetable

1.4 A high-level overview of the valuation timetable is summarised below. A more detailed timetable is included as an appendix:

Item	Time frame
Review Funding Strategy Statement and consider changes to assumptions consistent with maintaining the prudence margin at 2019 levels to calculate initial results (Barnet Pool)	June / July 2022
Consider prudence levels across employer base recognising covenant risk	July 2022
Cleanse membership data to use for valuation	By 31 July 2022
Review draft results on initial prudence levels. Consider changes to prudence levels and likely contribution impact	Q3 2022
Consult with employers on any changes to Funding Strategy Statement	Q4 2022
Share draft results and contribution requirements with each employer	Q1 2023
Finalise results and implement Rates and Adjustment certificate	By 31 March 2023
New contributions come into effect	From 1 April 2023

How are contributions structured

1.5 Contributions are structured as:

- **Primary Contributions** – the contribution required to meet the cost of future benefits earned, usually expressed as a percentage of Pensionable Salary; and

- **Secondary Contributions** – any adjustment to the Primary Rate, usually to reflect and past service surplus or deficit within the Fund and usually expressed as lump sum payments.

Hymans' advice for initial 2022 results

1.6 Hymans Robertson have prepared initial advice setting out their recommendations on assumptions for the Barnet Pool assuming prudence levels are kept consistent with those used in 2019 (see Appendix [x]).

1.7 Under this approach Hymans are recommending a slight increase in expected return of assets (4.6% p.a. versus. 4.4% p.a. assumed in 2019) combined with an increase in future expected levels of inflation (2.7% p.a. versus 2.3% assumed in 2019). Note that the long-term inflation assumption suggested by Hymans is significantly lower than current prevailing inflation. We have queried this with Hymans and can confirm that Hymans' model broadly assumes that inflation will revert to the Bank of England's long-term target of 2.0% from around 2028.

1.8 In addition, Hymans are recommending that the long-term rate of improvements for life expectancy is increased to reflect evidence from Hymans 'Club Vita' longevity data set.

1.9 David Spreckley has held a meeting with Hymans to discuss the proposed actuarial assumptions and agrees that the proposals are appropriate to prepare initial results for the Barnet Pool. David Spreckley has scheduled a follow-up meeting to discuss the approach for other employers within the Fund.

What is the likely impact on contribution rates from these changes?

1.10 The impact will not be known until the actuary has completed the valuation with initial results expected in the autumn, but, at a high level we are expecting that:

- The combined impact of these changes is likely to lead to an increase in liability values relative to those assessed in 2019 and an increase to the Primary Rate of contributions.
- This is likely to be offset by very favourable investment returns on the Plan's assets (c8.9% p.a. versus 4.4% p.a. assumed).

1.11 At an aggregated level, the overall contribution requirement, assuming a consistent prudence margin to that adopted in 2019, is unlikely to increase as any increase to the Primary Rate is expected to be offset by a reduction to the Secondary Rate payable. However, the impact at an employer level may be different to this, particularly if the prudence margin is changed significantly relative to what was used in 2019.

Membership Data

1.12 The 2019 valuation was delayed by data quality issues. This impacted significantly on the ability of the Scheme Actuary to deliver the 2019 results in a timely fashion. In addition, data quality was a significant risk factor relating to the integrity of the valuation results.

1.13 Since the 2019 valuation there has been a change in Pension Scheme administrator and a Data Improvement plan to address any shortcomings with the data. The new administrator is making good progress in rectifying the data and we are not expecting data issues to significantly impact the valuation process this time.

1.14 However, there is a still some residual risk and a key milestone for the integrity of data will be when the Scheme Administrator uploads the data file to the Scheme Actuary's data portal. The portal reports back on critical data errors. This is scheduled to happen on the 30 June 2022 and so we will be in a position to feedback on progress at the July Pension Fund Committee meeting.

Funding Strategy Statement consultation

1.15 It is a requirement of legislation that the Administering Authority consults on any changes to the Funding Strategy Statement with interested parties, i.e. the Local Pension Board and employers within the Fund. It is good practice to give employers a meaningful amount of time to consider any changes (say 1-month) and take independent advice if required.

1.16 The Funding Strategy Statement would usually be approved by committee before it is issued for consultation. The next Committee meeting is scheduled for 10th November 2022. This does not give much time to launch a consultation on the Funding Strategy Statement before the results deadline.

1.17 This could be mitigated by either:

- Holding an additional, earlier, Pension Fund Committee meeting in, say September, to focus on the valuation (and any investment strategy changes); or
- Delegating the Pensions Team with the authority to issue a consultation on a draft Funding Strategy Statement ahead of the November Pension Fund Committee meeting with the results of the consultation being considered at the November meeting before formally signing-off any Funding Strategy Statement

2. REASONS FOR RECOMMENDATIONS

2.1 The actuarial valuation is a statutory requirement and the recommendations have been made to allow the valuation process to proceed.

3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED

3.1 Alternative approaches and assumptions are discussed in the actuaries' paper and reasons for the preferred options are explained.

4. POST DECISION IMPLEMENTATION

4.1 The actions set out in the actuarial timetable will be followed.

5. IMPLICATIONS OF DECISION

5.1 **Corporate Priorities and Performance**

5.1.1 Employers paid £48 million of contributions into the pension scheme in 2021/22. 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 2022 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."

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 a funding strategy statement.

5.5 **Risk Management**

5.5.1 The level of prudence margin set with the actuarial basis impacts the level of risk pushed forward to future periods – the lower the prudence margin, the higher the likelihood that future cash contributions will need to increase.

5.5.2 The ability of employers to absorb future increases to cash contributions may be limited. At the same time, setting the prudence margin too high today may impact negatively on current budgets and the long-term viability of employers.

5.5.3 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.

5.6 **Equalities and Diversity**

5.6.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and 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.

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. ENVIRONMENTAL CONSIDERATION

6.1 Not relevant.

7. BACKGROUND PAPERS

7.1 The Council's policy around actuarial assumptions is documented in a Funding Strategy Statement ("FSS"). The FSS for the 2019 valuation can be viewed: lbb_-_funding_stategy_statement.pdf (barnet.gov.uk)