DF/22/09
Devon Pension Board
2nd February 2022

# ACTUARIAL VALUATION 2022

Report of the Director of Finance

Please note that the following recommendations are subject to consideration and determination by the Pension Board before taking effect.

Recommendation: That the Board notes the planned approach to the 2022 triennial valuation of the Pension Fund and the outcome of the "Section 13" review of the 2019 Valuation.

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## 1. Introduction

1.1 The LGPS Regulations require administering authorities to complete an actuarial valuation of their Pension Fund on a three yearly cycle. The next valuation date is at 31 March 2022, and the results must be published by 31 March 2023. The 2022 valuation will set employer contribution levels for the financial years 2023/24, 2024/25 and 2025/26 (the contribution levels for 2022/23 were set at the previous valuation in 2019).

1.2 This report summarises the plan for the valuation which has been discussed with the scheme actuary, Barnett Waddingham.

1.3 The report also summarises the outcome of the "Section 13" review of the last Triennial Valuation which was conducted by the Government Actuary's Department and published in December.

## 2. Actuarial Valuation 2022

2.1 An actuarial valuation aims to set a suitable level of employer contributions to ensure that the Fund achieves its long-term solvency objective. As part of the valuation the actuary estimates the scheme's long-term liabilities, compares the liabilities with the current value of the Fund's assets and calculates the surplus or deficit. The key factors in assessing the Fund's position will be the experience of the three years from April 2019 to March 2022 compared with the assumptions made by the Actuary at the 2019 Valuation and the revised assumptions used by the Actuary for the 2022 Valuation to calculate future liabilities.

2.2 A timetable for the 2022 valuation has been agreed with Barnett Waddingham. The key dates are as follows:
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| Date | Activity |
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| October 2021 | Initial planning meetings |
| January 2022 | Longevity Analysis undertaken |
| February 2022 | Employer covenant review |
| June 2022 | Provision of Data to Barnett Waddingham |
| August 2022 | Officer meeting with Actuary – <br>• Preliminary results understood<br>• Final Valuation assumptions agreed |
| October/ November 2022 | Presentation of preliminary results to employer meeting |
| November 2022 | Presentation of results to Investment and Pension Fund Committee |
| February 2023 | Review of Funding Strategy Statement |
| March 2023 | • Confirmation of employer contribution rates.<br>• Actuary issues Rates and Adjustments certificate. |

2.3 At the 2019 valuation the Devon Fund was assessed to have a funding level of 91%. The latest update from the Actuary, using the approach of rolling forward the data from the 2019 valuation, and updating it for subsequent investment returns, pension and salary increases, and revised assumptions on future investment returns and inflation, has given an indicative updated funding level at around the same level.

2.4 The Triennial Valuation will provide a much more comprehensive review of the funding level, which will include a review of the full range of assumptions looking forward. This will include a detailed assessment of life expectancy to inform any changes in the assumptions on how changes in mortality will impact on future liabilities. The impact of Covid on long term mortality is difficult to judge.

2.5 The key output of the valuation is the schedule of employer contributions for the next 3 financial years. Each employer's individual contribution rate is composed of an element for past service, which will recover any existing deficit, and an amount to cover the future accrual of pension rights in each year. The deficit recovery part of the contribution rate will depend in part on the length of the deficit recovery period, the time allowed for the deficit to be paid off. At the last valuation the Fund deficit recovery period was 19 years, with variations for different employers from 3 years up to 24 years. Ideally the recovery period should reduce at each valuation to indicate progress towards achieving a funding level of 100%. At this valuation it is proposed that an assessment of risk should be used to inform the recovery period set for each employer, i.e. if there is a higher risk that an employer will not be able to meet contribution payments for the longer term, they will be expected to pay off their deficit over a shorter period.

2.6 At the 2019 Valuation, the Committee agreed to allow discounts for employers who chose to pay their deficit payments in advance for either one or three years. This allows the advance contributions to be invested at an earlier stage and therefore benefit from investment returns to the advantage of the employer. It is proposed to continue with this policy for the 2022 Valuation, with the level of the discount to be set with reference to the discount rate used for the valuation.

2.6 There will be an ongoing dialogue with employers over the valuation period to ensure that any concerns they have about the process and the future level of contribution rates are addressed. The timetable for the valuation assumes that preliminary results will be available for a proposed employer meeting in late October or early November 2022. The plan is for the actuary to be available to meet individual employers at that meeting, although queries can also be addressed separately.

2.7 The Investment and Pension Fund Committee approved the approach the valuation exercise at its November 2021 meeting

## 3. Section 13 Report

1.1 In addition to the normal actuarial valuation carried out the by the Fund Actuary, the Public Service Pensions Act 2013 means that the Department of Levelling Up, Housing and Communities was required to commission a “Section 13” valuation which looked at the 2019 valuation results for LGPS Funds to check whether, in their opinion, the various Funds had carried out their valuations in a way that:

- Is compliant with the LGPS Regulations.
- Is not inconsistent with other Funds.
- Will ensure solvency.
- Will ensure long-term cost efficiency.

3.2 The Section 13 valuation was carried out by the Government Actuary’s Department (GAD). The main findings from the report

| Requirements | GAD Findings |
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| Compliance | Fund valuations were compliant with relevant regulations. |
| Consistency | Funds implemented GAD’s 2016 recommendation to provide a standard dashboard to aid readers when comparing results for different funds. However, differences in methodology and assumptions do mean that a like for like comparison is not straightforward. |
| Solvency | The size of pension funds has grown considerably more than local authority budgets since 2016, so there is an increased risk of strain on employers from any future funding changes. |

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| Long-term Cost Efficiency | Where relevant, funds had generally acted on GAD’s 2016 recommendations on operating plans to close any deficit funding gaps. GAD highlighted four funds where they are concerned about the level or trajectory of employer contributions and the implications for taxpayers. |

3.3 The report contained four recommendations as follows:

- The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.
- The Scheme Advisory Board should consider how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.
- Fund actuaries should provide additional information about total contributions, discount rates and a reconciliation of deficit recovery plans in the dashboard.
- The Scheme Advisory Board should review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

3.4 GAD initially had some concerns in relation to the Devon Fund’s valuation, and whether the deficit contributions charged were sufficient given the funding level and the long deficit recovery period. However, following discussion with GAD, it emerged that GAD had not taken account of the post valuation payment of £72 million received from a fund employer in October 2019, and its impact on reducing the overall level of deficit contributions going forward. Following discussion, GAD agreed that it was appropriate to allow for this one-off increase in asset value and this was sufficient to alleviate their concerns.

3.5 The Devon Fund and the Fund Actuary will need to ensure that the contribution rates set by the 2022 Triennial Valuation are sufficient to ensure no concerns are raised by GAD in their Section 13 Report on the 2022 valuation. This will mean that the Actuary will need to adopt a reasonable level of prudence and ensure that the recovery period continues to reduce.

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Electoral Divisions: All

Local Government Act 1972:
List of Background Papers: Nil
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