DFP/24/127
Investment and Pension Fund Committee
2 December 2024

Section 13 Report on the 2022 Actuarial Valuation and Planning for the 2025 Actuarial Valuation

Report of the Director of Finance and Public Value

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

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1) Recommendation

That the Committee be asked:

(a) To note the outcome of the Section 13 Review.
(b) To approve the process and timetable for undertaking the 2025 Triennial Actuarial Valuation.

2) Introduction

2.1 The LGPS Regulations require administering authorities to complete an actuarial valuation of their Pension Fund on a three yearly cycle. At the valuation the actuary estimates the Fund's long-term liabilities, compares the liabilities with the current value of the Fund's assets and calculates the surplus or deficit. The Actuary then sets employer contribution rates based on the funding position. The last triennial valuation was conducted by Barnett Waddingham, the Fund's appointed actuaries, as at the 31st March 2022.

2.2 Following each triennial valuation, the Public Service Pensions Act 2013 requires the Ministry of Housing, Communities and Local Government (MHCLG, formerly DLUHC) to commission a "Section 13" valuation to review the results of each LGPS Fund's valuation, to check whether, in their opinion, the various Fund valuations had been carried out 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.

2.3 This report summarises the outcome of the "Section 13" review of the 2022 Triennial Valuation which was conducted by the Government Actuary's Department and published in August 2024.

2.4 The report also looks ahead to the next Valuation which will assess the funding position as at 31 March 2025 and set employer contribution rates for the 2026/27, 2027/28 and 2028/29 financial years.

3) Section 13 Report

3.1 The Section 13 valuation was carried out by the Government Actuary's Department (GAD). A copy of the full report and appendices can be found at: https://www.gov.uk/government/publications/lgps-ew-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2022

3.2 The report contained a general analysis of how valuations had been carried out by the four actuarial firms that operate across the LGPS. Three recommendations were made, as follows:

- The Scheme Advisory Board should consider whether greater consistency could and should be achieved to allow easier comparison between funds and better understanding of risks.

- The Scheme Advisory Board should continue to consider emerging issues and, where appropriate, whether guidance would be helpful to support greater consistency. As part of greater consistency on climate risk, that work continue to refine the climate change principles document in advance of the 2025 fund valuations.

- The Scheme Advisory Board should consider:
    - Where funds are in surplus, whether additional guidance can be provided to support funds in balancing different considerations.
    - Where deficits exist, how can all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan.
    - Whether additional guidance is required in relation to the treatment of asset transfers from local authorities.

3.3 The report also assesses each LGPS Fund and whether they are meeting the key requirements to ensure solvency and long term efficiency. The report assesses a range of metrics for each fund and allocates flags to each metric as follows:

RED	indicates a material issue that may result in the aims of section 13 not being met. In such circumstances remedial action to ensure solvency may be considered.
AMBER	indicates a potential material issue that they would expect funds' to be aware of. In isolation this would not usually contribute to a recommendation for remedial action in order to ensure solvency.
WHITE	is an advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if they had broader concerns.
GREEN	indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency.

3.4 While no red flags were issued, three funds were given amber flags due to low funding levels and/or because contribution rates were reduced at the same time as the deficit recovery period was being extended. A further ten funds received at least one white flag.

3.5 The Devon Pension Fund achieved green flags on every metric. However, there are some areas where we will need to focus our future funding strategy to ensure we maintain green flags at future valuations. These include:

- Investment return – GAD calculate the investment return we would need to achieve to meet our liabilities implied by the level of employer contribution rates set and then compare that with the best estimate expected investment return based on our investment strategy. The best estimate needs to be more than 0.5% higher than the implied return to achieve a green flag. The Devon best estimate was 0.9% higher. We will need to ensure that the discount rate used by the Actuary at the 2025 Valuation is appropriate to maintain the green flag.
- SAB Funding Level – GAD recalculates each fund's funding level (Assets divided by Liabilities) on a consistent basis and allocates an amber or white flag to the bottom 5 funds. Whilst not in the bottom 5, the Devon Fund is in the bottom quarter. Contribution rates will need to be maintained at a level that supports improvements in our funding level, while the investment strategy will need to retain a level of risk to support a sufficiently high level of return.

4) 2025 Valuation

4.1 Work has begun on planning for the 2025 Valuation. An initial meeting with Barnett Waddingham took place during early October, and the following timetable has been agreed:

Date	Activity
January 2025	Longevity Analysis undertaken
February 2025	Employer covenant review
June 2025	Provision of Data to Barnett Waddingham
August 2025	Officer meeting with Actuary – • Preliminary results understood • Final Valuation assumptions agreed
October/ November 2025	Presentation of preliminary results to employer meeting
November 2025	Presentation of results to Investment and Pension Fund Committee
February 2026	Review of Funding Strategy Statement
March 2026	• Confirmation of employer contribution rates. • Actuary issues Rates and Adjustments certificate.

4.2 At the 2022 valuation the Devon Fund was assessed to have a funding level of 98.4%. The latest update from the Actuary, using the approach of rolling forward the data from the 2022 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.

4.3 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.

4.4 Many LGPS funds are currently showing significantly improved funding levels of well above 100%. This is largely the result of their actuaries applying higher discount rates to their liabilities, based on the current higher level of gilt yields. Barnett Waddingham does not base the discount rate on gilt yields but on a more objective assessment of the potential return of the Fund’s investment strategy. The current elevated level of gilt yields does not necessarily translate into a higher investment return, particularly given that higher interest rates will increase the borrowing costs of companies and impact on the profits of the companies, property and private markets funds in which we are invested. Therefore, any improvement in our funding level may be more moderate than for other funds with different actuaries.

4.5 Even if the overall funding level goes above 100%, there will still be varied funding positions for the individual employers in the Fund, depending on factors such as the profile of their fund membership, or whether they have in the past paid additional contributions into the fund. Some employers will have healthy surpluses, while others will still have deficits.

4.6 The key output of the valuation is the schedule of employer contributions for the following 3 financial years. Each employer will pay a primary rate, as a percentage of their pensionable pay, to cover the future accrual of pension rights in each year. Those still in deficit will also pay a secondary rate to cover the past deficit. 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. The intention is that at each valuation an employer’s recovery period should be reduced by at least 3 years, which demonstrates to the Government Actuary’s Department that all employers are progressing towards 100% funding to meet their long term efficiency criteria.

4.7 The Fund Actuary will also carry out an employer covenant review to assess the strength of each employer. Where there is a higher risk that an employer with a deficit position 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.

4.8 As with the 2022 Valuation, academy schools will be pooled with each other, and the same contribution rate will be set for each academy. The same approach is applied to town and parish councils. In those cases, should there be a deficit position, then the secondary rate will be set as a percentage, whereas for other employers it will be set as a fixed amount per year.

4.9 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 2025. The plan is for the actuary to be available to meet individual employers at that meeting, although queries can also be addressed separately.

5) Conclusion

5.1 The Committee is asked to approve the planned approach to the 2025 Valuation. As set out in the timetable, the results of the Valuation will be reported to the Committee in November 2025, and final decisions can be made at that time about any issues that arise from the Valuation.

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Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

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