Title of Report	2022 Actuarial Valuation - Initial Whole Fund results & Draft Funding Strategy Statement
For Consideration By	Pensions Committee
Meeting Date	29/09/2022
Classification	Open (Exempt Appendices 1&2)
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. Introduction

1.1. This report provides the Pensions Committee with an update on the Fund's 2022 triennial actuarial valuation. It sets out the initial results of the valuation and presents a draft Funding Strategy Statement for review by the Committee prior to consultation with employers. The Fund actuary will be attending the Pensions Committee meeting to provide training and discuss the results in more detail.

2. Recommendations

2.1. The **Pensions Committee is recommended to:**

- Note the whole fund reported funding position and the assumptions on which it is based.
- Agree that the Fund should progress to the next stage of the valuation - identifying key risks and identifying parameters for setting individual employer contribution rates.
- Approve the draft Funding Strategy Statement for consultation with employers.

3. Related Decisions

3.1. Delegated Powers Report March 2020 - Final Valuation Report and Funding

Strategy Statement

3.2. Pensions Committee 16 June 2022 - Actuarial Valuation - Contribution Rate Modelling (Hackney Council)

4. Comments of the Group Director of Finance and Corporate Resources.

4.1. The triennial valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation, and the membership data used; significant variations to either the assumptions or the data used could impact the stated funding position or the outcome of the contribution rate modelling, which helps determine the contribution rates payable by the Fund's employers. Given the Council's position as a Fund employer, the inputs to the triennial valuation can therefore impact the level of resources available for other Council services.

4.2. It is therefore critical that both the Pensions Committee and Pension Board have a sound understanding of the valuation process and the assumptions used in making decisions with regards to the valuation.

5. Comments of the Director of Legal, Democratic and Electoral Services

5.1. Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013 prescribes that each administering authority must obtain:

- an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;
- a report by an actuary in respect of the valuation; and
- a rates and adjustments certificate prepared by an actuary

5.2. Paragraph 7 of the Pensions Committee's Terms of Reference state that it is responsible for 'mak[ing] arrangements for the triennial actuarial valuation, monitor[ing] liabilities and undertak[ing] any asset/liability and other relevant studies as required.

5.3. Taking into account the regulatory requirements around the actuarial valuation and role of the Pensions Committee as set out in the Terms of Reference, the consideration of the 2022 valuation process would appear to properly fall within the Committee's remit.

6. Background to the report

6.1. Under the LGPS Regulations 2013, the Pension Fund is required to undertake a formal actuarial valuation every 3 years to establish its funding position and to set the contribution rate for the following three years. The last formal actuarial valuation of the London Borough of Hackney Pension Fund was carried out as at 31st March 2019; this showed an improvement in the funding level from 77% to 92% and set the contribution rates for the three years commencing 1st April 2020.

6.2. The Fund's actuary, Hymans Robertson, has been reviewing the data supplied to them by the Fund's administrator (Equiniti) and has now been able to provide an initial assessment of the whole fund funding level. This is set out in the Initial Results Report at Appendix 1 and discussed in more detail in Section 7 of this report.

6.3. A draft Funding Strategy Statement is attached at Appendix 2. The Fund is required to produce a Funding Strategy Statement under the LGPS Regulations 2013 and must revise it whenever it changes its policy on funding (i.e. at each valuation). The statement sets out how employer liabilities are measured, the pace at which these liabilities are funded, and how employers pay for their liabilities. This statement also sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

6.4. The valuation is currently running to timetable, with the Council's contribution rate agreed by the Committee in June 2022, and data submitted by Equiniti in July. The Committee has agreed a Council contribution rate of 27% of payroll for each of the 3 years covered by the 2022 valuation cycle (2023/24, 2024/25, 2025/26), noting that the planning assumption for Medium Term Financial Planning (MTFP) purposes will be 28% pending the finalisation of the revaluation process.

6.5. Some data issues were identified by the Fund Actuary on reviewing the data - these have been discussed with Equiniti and additional work has been carried out by the Fund Actuary. This has not impacted on overall timescales but has resulted in a cost increase to the Fund of <£2k.

6.6. Overall we have been pleased to note the improved quality of data provided by Equiniti; this is reflected in Fund's adherence to its valuation timetable, which has not been the case in previous years.

7. **Whole Fund Funding Level**

7.1. The Fund Actuary, Hymans Robertson, has now made an initial assessment of the whole fund funding level for the Hackney Pension Fund. This is set out in the Initial Results Report at Appendix 1. This report:

- presents the current funding position of the Fund using a range of actuarial assumptions;

- explains why the funding position has changed since the previous actuarial valuation was carried out in 2016; and
- shows the sensitivity of the funding position to actuarial assumptions made about the future (e.g. assumptions around investment returns and inflation).

7.2. The initial results show that the funding position has improved from the last valuation. The required investment return to be 100% funded is now 4.1% pa (4.3% pa at 2019). The likelihood of the Fund's investment strategy achieving the required return is now 74% (65% at 2019).

7.3. The most significant contributor to the increase in funding level is stronger than expected investment returns. These have more than offset the increase in short to medium-term inflation expectations.

7.4. Current inflation is significantly above the Bank of England target (2% pa) and recent norms. It is likely this will mean a high 2023 pension increase (based on September 2022 CPI inflation). Current expectations are that inflation pressures will be short-term and move back to normal in the longer-term. The inflation assumption the Fund Actuary has used reflects this pattern and allows for the short-term spike - further information can be found on page 25 of Appendix 1.

7.5. The Fund Actuary has presented the funding position across a range of different investment returns to help illustrate its sensitivity. However, the Actuary is still required to also report a single funding position as at 31 March 2022. To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.3% pa has been used. There is a 72% likelihood of success associated with a future investment return of 4.3% pa.

7.6. The following table sets out the single funding position on the basis of the assumptions above, and compares this to the reported position for the 2019 validation, which also used a 72% likelihood of success. There are limitations to this approach:

- The liabilities are calculated using a single set of assumptions about the future, so are very sensitive to the choice of assumptions.

- The market value of assets changes daily.

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	530	432
Deferred Pensioners	473	503
Pensioners	858	771
Total Liabilities	**1,861**	**1,706**
Assets	**1,965**	**1,575**
Surplus/(Deficit)	**104**	**(131)**
Funding Level	**106%**	**92%**

7.7. The most significant external event since the last valuation was the Covid-19 pandemic. The experience analysis shows that sadly, there were a higher than expected number of deaths. However, the impact on the funding position has been small, likely due to the age profile of the excess deaths and the level of pension.

8. **Funding Strategy Statement**

8.1. The Funding Strategy Statement (FSS) is a legal requirement under Regulation 58 of the LGPS Regulations 2013, which states that 'an administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.' The statement must be updated each time the Fund changes its policy on funding (i.e. after each valuation).

8.2. The statement sets out how employer liabilities are measured, the pace at which these liabilities are funded, and how employers pay for their liabilities. It also sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

8.3. For 2022, the Fund Actuary has proposed that the FSS be streamlined, after successive changes to the LGPS regulations have led to policies being 'bolted on' to the statement to help ensure compliance. A 'core' FSS is therefore proposed, containing the core information required by the regulations, with a number of short 'satellite' policies to pick up certain discretionary areas of funding strategy. These might include policies such as cessations, pre-payments and pass-through. Further information on these changes can be found in the briefing note at Appendix 3.

8.4. A draft of the core FSS is attached at Appendix 2 to this report. The Committee are asked to review and approve this draft statement for consultation; the statement will then be provided to employers for feedback prior to final approval in March 2023.

8.5. It should be noted that a number of sections are highlighted in yellow. These will be completed by fund officers as appropriate before final publishing, with the exception of Table 2 (Section 2.2), which sets out the parameters used to calculate employer contribution rates. The Fund Actuary will review this during the employer results part of the valuation process and revise as necessary

Appendices

Appendix 1 - Actuarial Valuation - initial Results (Exempt)
Appendix 2 - Draft Funding Strategy Statement (Exempt)
Appendix 3 - FSS Briefing Note

Exempt

By Virtue of Paragraph 3 Part 1 of schedule 12A of the Local Government Act 1972 this report and/or appendix is exempt because it contains Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Background documents

None

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