

PENSIONS COMMITTEE
28 NOVEMBER 2018**GOVERNMENT ACTUARY DEPARTMENT (GAD) PENSION
REVIEW UPDATE**

Recommendation

1. **The Chief Financial Officer recommends that the Committee notes the Government Actuary Department (GAD) Pension Review update.**

Background and detail

2. It is worth reiterating the information that was provided to the Pensions Committee on the 5 June specifying why the GAD is commissioned to undertake a "Section 13" valuation which analyses the 2016 valuation results for LGPS Funds. GAD are required to check whether, in their opinion, the various Funds have 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. The Pensions Committee were informed that GAD will produce a report which analyses each LGPS Fund's valuation results from 2016. This was published on the 28th September 2018 and the Executive Summary is attached as Appendix 1 to this report, whilst the full report can be found at the following link [GAD S13Full Report](#)

4. The GAD assessment applies six tests around solvency, and seven tests on long-term cost efficiency. Funds can be assessed as green, amber or red on each of them. Although there are seven tests on long-term efficiency, they are more or less measuring the same thing which is simply whether GAD believes the level of employer contributions is sufficient.

5. When GAD carried out their initial review on the 2016 valuation results Worcestershire County Council Pension Fund received one amber flag which was in relation to its funding level being 84.4% using the 2016 data.

6. A formal response was sent to GAD explaining that the funding levels of the fund were now close to 100% funded at the end of 2017/18 and that number of investment strategy changes had been undertaken such as reducing equity investments, increasing Property and Infrastructure investments and the implementation of an Equity Protection Strategy.

7. We are pleased to see that this was taken on board by GAD in their final report under the section 'Scheme Advisory Board Funding level' paragraph 4.25 with the extract detailed below:

"We have engaged with the funds with the lowest SAB funding levels. Most have indicated they have plans to improve funding levels over time, by paying increased deficit contributions.

Brent, in particular, indicated that their long term budgeting process allows for these expected contributions over the full term of the expected deficit recovery period, which we acknowledge. If other funds set similar long term budgets this would help to demonstrate

solvency. In our engagement with Worcestershire Pension Fund, the administering authority highlighted that their funding position has increased significantly and that their strategy for investments now includes equity protection. This was adopted during early 2018 and runs past the next actuarial revaluation. The fund is assessing its investment strategy and risk appetite also before the next valuation."

8. There were 5 key recommendations put forward by GAD and contained in the attached executive summary as follows:-

- **Recommendation 1:** *We recommend that the Scheme Advisory Board should consider how best to implement a standard way of presenting relevant disclosures in all valuation reports to better facilitate comparison, with a view to making a recommendation to the MHCLG minister in advance of the next valuation. We have included a draft dashboard in this report to facilitate the Scheme Advisory Board's consultation with stakeholders.*
- **Recommendation 2:** *We recommend that the Scheme Advisory Board should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to the MHCLG minister in advance of the next valuation.*
- **Recommendation 3:** *We recommend that the Scheme Advisory Board seeks a common basis for future conversions to academy status that treat future academies more consistently, with a view to making a recommendation to the MHCLG minister in advance of the next valuation.*
- **Recommendation 4:** *We recommend that the administering authority put a plan in place to ensure that the benefits of members in the West Midlands Integrated Transport Authority Pension Fund can continue to be paid in the event that employers' contributions, including any exit payments made, are insufficient to meet those liabilities.*
- **Recommendation 5:** *We recommend that all funds review their funding strategy to ensure that the handling of surplus or deficit is consistent with CIPFA guidance and that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.*

9. Recommendations 1 to 4 are specific to the Scheme Advisory Board and West Midland Integrated Transport Authority Pension Fund. Recommendation 5 is being considered as part of the Worcestershire Funds Investment Strategy and an update will be brought to this Committee in 2019.

Supporting Information

- Appendix – GAD Report – Executive Summary

Contact Points

County Council Contact Points

County Council: 01905 763763

Worcestershire Hub: 01905 765765

Specific Contact Points for this report

Rob Wilson

Pensions Investment, Treasury Management & Capital strategy manager

Tel: 01905 846908

Email: RWilson2@worcestershire.gov.uk

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the background papers relating to the subject matter of this report are specified in the link provided above.