

PENSIONS BOARD

7 MARCH 2022

GOVERNMENT ACTUARY DEPARTMENT (GAD) PENSION REVIEW UPDATE

Recommendation

- 1. The Chief Financial Officer recommends that the Board notes and comments on the Government Actuary Department (GAD) Pension Review update.**

Background and detail

2. In addition to the normal actuarial valuation carried out the by the Fund Actuary, the Public Service Pensions Act 2013 means that the Department for Levelling Up, Housing and Communities (DLUHC) are required to commission a “Section 13” valuation which will look at the 2019 valuation results for LGPS Funds and check whether, in their opinion, the various Funds have carried out their valuations in a way that:

- **Compliance:** whether the fund’s valuation is in accordance with the scheme regulations.
- **Consistency:** whether the fund’s valuation has been carried out in a way which is not inconsistent with the other fund valuations within Local Government Pension Scheme England and Wales (LGPS).
- **Solvency:** whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund.
- **Long term cost efficiency:** whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost-efficiency of the scheme, so far as relating to the pension fund.

3. The Section 13 valuation is carried out by the Government Actuary’s Department (GAD). GAD who produce a report which analyses each of the 88 LGPS Fund’s valuation results from 2019. An update was provided to the Committee in June and the Fund was awaiting the final GAD publication which was finally published on the 16 December 2021 see [GAD's report on the 2019 fund valuations](#). GAD have highlighted the progress made against the 2016 recommendations in the table below.

2016 Recommendation	Progress
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	We are pleased to report that good progress has been made on this recommendation. The Scheme Advisory Board agreed standard disclosures which

2016 Recommendation	Progress
to making a recommendation to the DLUHC 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.	were included as an annex in each actuarial valuation report
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 DLUHC minister in advance of the next valuation	Some progress appears to have been made in this area. Fund actuaries have engaged with the Scheme Advisory Board and provided more consistent rationalisation of assumptions in funding strategy statements. However there remains some evidence of inconsistency.
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 DLUHC minister in advance of the next valuation.	The Scheme Advisory Board established a working group in 2018, including stakeholders with a range of perspectives, and discussed a variety of options for achieving a common basis for academy conversion. However, a common basis has not yet been implemented and further discussions are necessary to determine if a common basis is achievable and if so, what that should consist of
4: 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	We are pleased to report there has been progress on this recommendation with most funds now maintaining their deficit recovery end points. However, our analysis shows that further improvements could be made

4. GAD have looked at the 4 key areas as detailed in paragraph 2 being Compliance, Consistency and Solvency and Long term cost efficiency. They have arrived at 4 recommendations as follows:-

1: Consistency - Recommendation 1: 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.
2: Long term cost efficiency Recommendation 2: We recommend the Scheme Advisory Board considers 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.
3: Long term cost efficiency Recommendation 3: We recommend fund actuaries provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard
4: Long term cost efficiency Recommendation 4: We recommend the Scheme Advisory Board review asset transfer arrangements from local authorities to ensure that

appropriate governance is in place around any such transfers to ensure long term cost efficiency.

5. GAD produced more detail in their Appendices showing the results per Fund and some brief highlights of the [Appendices \(publishing.service.gov.uk\)](https://publishing.service.gov.uk) relating to the Fund are as follows:-

Funding

- Page 12 of the appendices indicates that under our own assumptions as at 31st March 2019 we were 90% funded that rises to 113% on the Scheme Advisory Board standard basis:

Solvency Measure by Fund

- Pages 34 reveals the solvency of the fund:

Pension fund	Open fund	SAB funding level	Non-Statutory employees	Asset shock	Employer default
Worcestershire County Council Pension Fund	Yes	102.0%	7.9%	2.5%	Surplus

Note the Asset Shock is a stress test. It considers what may happen if there is a sustained reduction in the value of return seeking assets of tax raising employers (those employers whose income is covered by core spending and financing data). For example, a market correction in which asset values do not immediately recover and losses are not absorbed by changes in assumptions.

Long term cost efficiency of the Fund

- Page 45 reveal the long term cost efficiency of the Fund:

Pension fund	Maturity (rank)	Deficit period (rank)	Required return (rank)	Repayment shortfall	Return scope (rank)	Deficit recovery plan
Worcestershire County Council Pension Fund	7.7 (42)	Surplus	3% (36)	Surplus	1.8% (15)	Green

6. The GAD assessment is a positive outcome for the Fund and all our assessments were green for the three tests around solvency and five tests on long-term cost efficiency (Deficit Recovery period, Required Return, Repayment Shortfall, Return scope and Deficit Recovery Plan).

Contact Points

Specific Contact Points for this report

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Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

GAD report to the Pensions Committee on 29 June 2021.