

PENSIONS BOARD

5 OCTOBER 2022

ACTUARIAL VALUATION UPDATE

Recommendation

- 1. The Chief Financial Officer recommends that the Board note and comment on the preliminary results of the provisional 2022 Actuarial Valuation.**

Background

- Every three years, in line with legislation, the Fund Actuary, Mercer, carries out a full Actuarial Valuation of the Fund to calculate how much the employers in the Scheme need to contribute going forward to ensure that its liabilities, the pensions due to current and future pensioners, will be paid as they fall due.
- Alongside the Valuation the Fund provides a Funding Strategy Statement (“FSS”) which looks to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward. This is currently being progressed by the actuary and will be available at the next Board. This also is subject to consultation with employers.

Provisional Actuarial Valuation

- The preliminary results at a total Fund level are shown in table 1 below. The Fund's funding level has increased from 91% funded at 31 March 2019 to 100% at 31 March 2022. This has been updated for employers actual member data, demographic & mortality sensitivities and inflation and discount rate (Funds rate of investment return) sensitivities.
- The Board is asked to note that these are only preliminary results and the Funding level and forecast contributions will vary per employee. The reduced discount rate option is main proposal for the scheme and we are exploring the other options particularly the moderate stagflation option as a potential alternative dependant on employers circumstances.
- The Fund is really mindful of the inflation issue and the potential cashflow increases this will make on the Fund. This is where the Investment Strategy will look to take on board the implications of the Funding strategy when it is reviewed over the next 3 to 6 months.

Table 1 Whole Fund Preliminary Results

	31 March 2019	31 March 2022 (including McCloud costs)			
	2019 Valuation	Reduced discount rate	Reduced discount rate plus extended short term pay (4% p.a. for 3 years)	Rapid interest rate increase/higher equity allocation	Moderate Stagflation
Past Service Discount Rate	CPI+1.65%	CPI+1.50%	CPI+1.50%	CPI+1.75%	CPI+1.25%
Future Service Discount Rate	CPI+2.25%	CPI+2.00%	CPI+2.00%	CPI+2.25%	CPI+1.75%
Prob of attaining past service discount rate	64%	72%	72%	69%	74%
Prob of attaining future service discount rate	58%	66%	66%	63%	69%
Surplus / Deficit	-£324m	-£12m	£13m	£135m	-£169m
Funding Level	90%	100%	100%	104%	95%
Future Service Rate (% of pay)	17.5%	18.8%	18.8%	17.4%	20.3%
Short Term Pay	Varies by employer	None	4% for 3 years	None	None
Life Expectancy Assumption	2019 val baseline CMI 2018 1.75%	2022 val baseline CMI 2021 1.75%	2022 val baseline CMI 2021 1.75%	2022 val baseline CMI 2021 1.75%	2022 val baseline CMI 2021 1.75%

7. The Board is asked to note that these are only preliminary results and the Funding level and forecast contributions will vary per employee. The results also include the McCloud costs.

Employer Consultation

8. The provisional individual employer funding results and proposed employer contribution rates for 2023/2024 to 2025/2026 are to be discussed with the major employers on the 13 September 2022. The 8 and 10 November 2022 have been set aside to present the other individual employers results. A presentation from Mercers will be provided covering the assumptions used in and the results of the actuarial valuation as at 31 March 2022.

9. All employers will be offered the opportunity to meet up with Mercers, the Fund's actuarial advisors to discuss further their results.

10. Employers will also be consulted on the continuing specific risk management / contribution rate stabilisation proposals which was introduced as part of the 2019 valuation with different investment approaches for employers with similar characteristics instead of continuing with one investment approach for all our employers. The Fund now has three investment strategies (Growth, Medium and Cautious) where employers are placed dependent on the perceived Fund risk and resultant investment strategy required. Most employers are in the Growth strategy.

11. The consultation on the draft FSS will be sent to Employers in October 2022 and will be asked to respond by November 2022. These will then be considered and the final

proposed actuarial valuation and FSS will be presented to the Pension Committee on the 13 December 2022.

Contact Points

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) there are no background papers relating to the subject matter of this report.