worcestershire
countycouncil

PENSIONS BOARD
22 NOVEMBER 2022

ACTUARIAL VALUATION UPDATE

Recommendation

1. **The Chief Financial Officer recommends that the Board note and comment on the update on the provisional 2022 Actuarial Valuation.**

Background

2. 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.

3. 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

4. An update was provided to the September Board meeting detailing 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.

5. 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.

6. 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)	Moderate Stagflation
Past Service Discount Rate	CPI+1.65%	CPI+1.50%	CPI+1.50%	CPI+1.25%
Future Service Discount Rate	CPI+2.25%	CPI+2.00%	CPI+2.00%	CPI+1.75%
Prob of attaining past service discount rate	64%	72%	72%	74%
Prob of attaining future service discount rate	58%	66%	66%	69%
Surplus / Deficit	-£324m	-£12m	£14m	-£168m
Funding Level	90%	100%	100%	96%
Future Service Rate (% of pay)	17.5%	18.8%	18.8%	20.3%
Short Term Pay	Varies by employer	None	4% for 3 years	None

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 were discussed with the major employers on the 13 September 2022. Employer meetings took place on the 8 and 10 November 2022 and were split into 4 sessions where Mercers provided a presentation covering the assumptions used in the results of the actuarial valuation as at 31 March 2022. The meetings were recorded and sent out to all employers.

9. Feedback from the sessions were that the presentations were really helpful in understanding the outcome of the actuarial valuation and the impact on individual employers. The actuarial schedules provided were also user friendly and informative.

10. All employers were offered the opportunity to meet up with Mercers in one-to-one sessions to discuss further their results and there were 19 individual sessions over the 2 days.

11. Employers were 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.

12. The consultation on the draft FSS will be sent to Employers in November 2022[t] and will be asked to respond by December / Early January 2023. These will then be considered and the final proposed actuarial valuation and FSS will be presented to the Pension Committee on the 13 March 2023. The FSS is anticipated to cover:-

a) Actuarial Method and assumptions
b) Employer deficit recovery & surplus offset plans
c) Admission Policy
d) Termination Policy, Flexibilities for Exit payments and deferred debt agreements
e) Covenant assessment and monitory policy
f) Investment Pot Risk management policy
g) Review of employer contributions between valuations

Contact Points

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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.