



LOCAL PENSION BOARD - 23 AUGUST 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

FUNDING POSITION 31 MARCH 2021

Purpose of the Report

1. To inform the Board about the Fund's estimated Funding Position as at the 31 March 2021.

Background

2. Leicestershire Local Government Pension Scheme is required to complete a Pension Fund Valuation every three years. The most recent valuation took place on the 31 March 2019.
3. At the 31 March 2019 valuation the Fund was 89% funded which broadly meant there was sufficient funding to pay 89 pence of every £1.00 of members benefits at the time of the valuation. The valuation exercise is to ensure that investment and employer contribution plans can be adjusted so that a shortfall does not actually take place. The 31 March 2019 valuation set the employer contribution rates for the three years, 1 April 2020 to the 31 March 2023.
4. The next Fund valuation is on the 31 March 2022, however Fund Officers requested the Fund's Actuary Hymans Robertson, provide a mid-valuation funding position to assess progress since the last valuation, and to provide a guide on the likely outcome at the 2022 valuation.
5. The mid-valuation funding position as at the 31 March 2021 shows an improvement to the overall funding level to 100% funded, but also provides a warning on the overall impact on future employer rates. Funding levels are calculated separately for each employer and several will still have deficits to resolve.
6. The mid-valuation exercise is not as thorough as the full valuation exercise (e.g. no detailed pension data provided by the Fund or full calculations completed by the Actuary) hence there is potential for changes to the actual valuation result at 31 March 2022. There is also potential change to investment return to the 31 March 2022.

Key Funding Measures

7. The Fund Actuary, Hymans Robertson has provided a Member Briefing document. This is attached as Appendix A.
8. Rather than duplicate much of the detail from this document, this report concentrates on the key changes since the 2019 valuation.
9. Since the 2019 valuation, the key funding measures are estimates to have changed after allowing for market conditions to the 31 March 2021. These measures are;
10. **Past Service Funding Position.** The past service funding shortfall has decreased from £537m to £15m, based on the Fund targeting annual future investment returns which have an 80% likelihood of being achieved. A prudent approach was taken to deal with the uncertainty of McCloud at the 31 March 2019 valuation and this has been followed through in the mid-valuation exercise.
11. **Expected future investment return.** The COVID pandemic disrupted the investment markets and in 2020 the expected investment return on the Fund had worsened relative to the 2019 valuation. However, the position has subsequently improved and the expected future investment returns over 20 years is broadly the same as the 2019 valuation, with Hymans estimating the Fund's asset allocation remaining at 80% likelihood of achieving an annual return of at least 3.8% per annum.
12. **Investment Return.** At the 2019 valuation investment returns of 4.5% were required to provide 100% funded. The 2021 mid-valuation shows investment returns of 3.8% are required to be 100% funded.

Indicative impact on future employer contribution rates

13. Employer rates are split into two, primary and secondary rates.
 - The primary rate covers the cost of future benefit accrual.
 - The secondary rate covers the cost of benefits already accrued.

Hymans indicate the cost of future benefit accrual has increased which is likely to increase the cost of the primary rate.

Hymans indicate the improved past service funding position will have a positive impact, which may slightly reduce the cost of the secondary rate.

14. It is difficult to predict with any certainty the overall impact on the employer rates at the current time. Employers are grouped into separate categories and those presenting a greater risk to the Fund, are assessed further. The indicative mid-valuation 2021 position seems to suggest no major changes to funding plans, which could equate to a possible levelling of employer rates,

although this may not be the case for all employers, with some seeing an increase in their rate.

15. The mid-valuation exercise is designed as a check for Officers to assess progress made in reducing the deficit. It also indicates if there is any need to adjust investment and employer contribution plans. The results at the 31 March 2021 indicate there is no corrective action required by the Fund or the employers.

Government Actuary Department Section 13

16. The Government Actuary's Department (GAD) carried out benchmarking analysis at the 2019 valuation across all LGPS Funds. This exercise analysed all Funds data using a consistent funding approach to highlight any funding risks. However, it is important to note the GAD funding basis has no direct correlation to the Fund's valuation or mid-valuation result. Officers are pleased to confirm there were no risks highlighted in the Leicestershire Fund. GAD have not yet published the final report, and it is expected later this year.

Timeline for the 31 March 2022 Valuation

17. The following table provides a guide to the estimated timeline for the 31 March 2022 valuation. For the 2022 valuation, Officers intend to split the employers into two working groups. This is simply designed to assist administration. It allows the Pension Section to deal with one group of employers first (the stabilised employers), then moving onto all the other employers. The stabilised employers tend to be the larger tax raising employers, e.g. Leicestershire County Council, Leicester City, the Borough and District Councils, Police and Fire.

Date	Topic	Action or Awareness
August/September 2021	Mid-valuation funding update	Board/Committee
September 2021	Provide Hymans with stabilised employer data	Pension Section
September/October 2021	Calculate indicative stabilised employer rates	Hymans
November 2021	Agree principles for the 2022 assumptions	Committee
March 2022	Results of the stabilised employer modelling	Committee
April 2022	Provide the stabilised employers with their indicative rates. 1 April 2023 to 31 March 2026	Pension Section/Stabilised employers
June 2022	Agree final valuation assumptions	Committee

August 2022	Provide Hymans with all Fund data	Pension Section
August/September 2022	Review selected employer's financial health	Pension Section
August/September 2022	Calculate Fund results	Hymans
September/October 2022	Whole Fund valuation results	Committee/Board
October/November 2022	Provide the other employers with their indicative rates. 1 April 2023 to 31 March 2026	Pension Section/Fund employers
December 2022	Changes to Fund Funding Strategy Statement and Investment Strategy Statement	Pension Section/Fund employers
February 2023	Funding Strategy Statement and Investment Strategy Statement	Committee/Board
March 2023	Final valuation report produced with final employer rates	Hymans
April 2023 to March 2026	Employer rates implemented	Pension Section/Fund employers

Recommendation

18. Members of the Board note the report.

Equal Opportunities Implications

None specific

Appendix

Appendix A – Member Briefing Funding Update as at 31 March 2021

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