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Sixty second summary

The 2019 Section 13 report: What does it mean for my Fund?

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The Government Actuary's Department (GAD) has delivered an early Christmas present in the form of its eventual Section 13 report: this relates to Local Government Pension Scheme fund valuations in England & Wales as at 31 March 2019*. To recap, the purpose of Section 13 of the Public Service Pensions Act 2013 was to consider issues of compliance, consistency, solvency and long term cost efficiency across the various LGPS funds.

Whilst this is a long and in places rather technical report, there are two key take-aways for English & Welsh funds to note:

a. Looking back: this report publicly identifies where your Fund sits relative to your peers on a number of metrics;

b. Looking forward: the report also identifies a number of areas which may affect the outputs of the 2022 actuarial valuations.

In summary, we agree with the principles of this Section 13 analysis, however there are some "devil in the detail" elements where we continue to engage with GAD.

(a) Looking back to your 2019 results

The detailed results, covering all English & Welsh funds, are contained in a separate appendices document. You can locate your own Fund results by searching for its name, however some highlights are:

- The charts on pages 12 & 13 of that document will be of most obvious interest: they show how all funds' funding levels compare when measured on a single "SAB standard basis", which allows proper like-for-like comparison;
- Page 12 (Chart B1) shows how the funding levels compare on the "local bases" (i.e. as shown in the funds' own valuation reports) vs on this standard basis. If you want to know how well your Fund is funded relative to your peers then it is the latter (the right hand column) which tells you;
- Page 13 (Chart B2) in effect shows the degree of prudence of your own Fund's basis vs the standard basis (which is GAD's best estimate). Funds towards the top of the chart have their published funding level assessed more prudently, and vice versa;
- Pages 30-34 (Table C2) shows the various solvency metrics – green flags mean GAD have no concerns. However white flags indicate GAD has some concern (but not sufficiently so to make it an amber or red flag), for instance on "SAB funding level" they believe the funding position looks particularly low, and "asset shock" is where they consider that any marked fall in assets would have a relatively big impact on contribution rates;
- Pages 42-46 (Table D2) shows the various long term cost efficiency metrics – again, most funds are green, some have white flags, but now GAD show a few amber flags. The main metrics where flags arise are:

- “Deficit period”: GAD consider the implied deficit recovery period to be rather long (calculated on GAD’s standard best estimate basis);
- “Return scope”: GAD think that the required investment return looks high relative to the fund’s expected future returns based on its actual asset mix;
- “Deficit recovery plan”: in essence GAD believe that contributions should not have been reduced as much (if at all) as they were.

We continue to have some issues with some of these metrics and flags. As a result we persist with our engagement with GAD, as the aim should be for as pragmatic and helpful metrics as possible.

(b) Looking forward to your 2022 valuation

Clearly this report has emerged very much closer to the 2022 valuations, than when the 2019 ones were published. GAD have made a number of recommendations which could flow through into the 2022 valuation process, as per the Executive Summary:

- Scheme Advisory Board to “consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud” – we have commented (as shown in the report) that we remain to be convinced on the need or benefit of this and indeed why Section 13 has focussed on this group of employers in particular;
- SAB to “consider 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” – again, we are unsure whether this is really needed or how it would add value, particularly given the well-funded or surplus positions many funds will report in 2022. We might argue that the language of deficit recovery “plans” and “periods” is perhaps a little outdated: we prefer to encourage focus on long-term stable contributions rather than direct links between contributions and the valuation date balance sheet. A further point is that there is no single “deficit recovery” for the fund, it is in effect the sum/average of all the employers’ funding strategies;
- “Fund actuaries [to] provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard” – we are supportive of enhanced clarity and provision of relevant information, and will engage with GAD around the “devil in the detail” of this;
- SAB to “review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency” – we are basically supportive of this.

Not in the Executive Summary, but emphasised in the main body, there is a clear directional steer on a particular expectation:

“Climate risk will be a focus in future section 13 reports. GAD will facilitate dialogue and engagement with DLUHC, actuarial advisors and the SAB prior to publication of the 2022 valuations to ensure a consistent approach is adopted.” – we look forward to working with GAD on this key topic.

***What does this mean for Scottish funds?**

Whilst this report does not relate directly to funds outside the English & Welsh LGPS, it does provide some pointers as to the process GAD will likely follow for the Scottish funds’ valuations as at 31 March 2020. We are engaging with GAD to help them continue to improve their reporting and assistance to funds.

I still have questions …

If you would like to discuss any aspect of the Section 13 report or process, or your own Fund’s results, please do get in touch with your usual Hymans Robertson actuary.