

LGPS 2022 valuation

5 May 2022

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Agenda

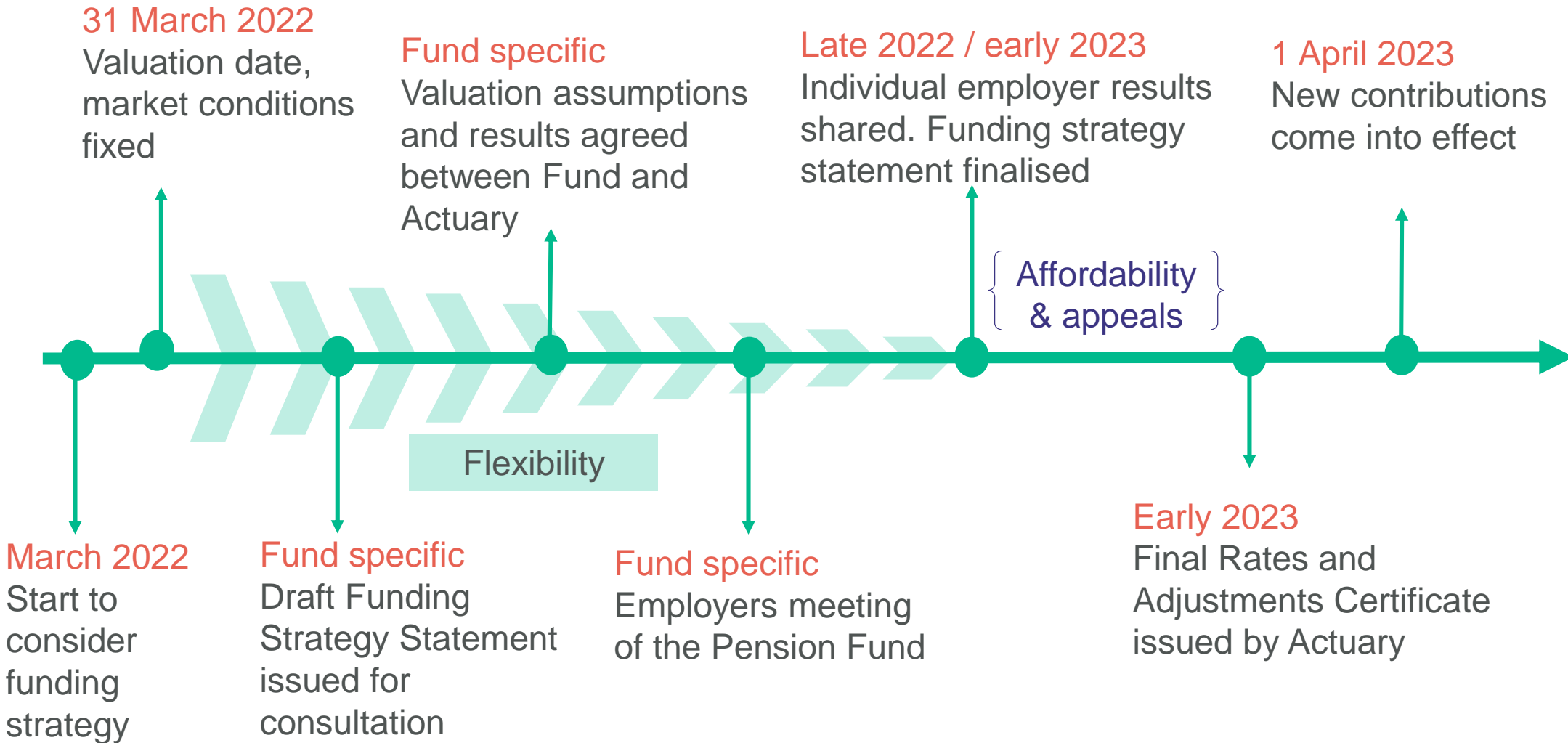
1. Process and key risks
2. Market movements since 2019
3. Why your Actuary's approach matters
4. Integrated risk management
5. Next steps – “Know your Fund”



Katy Taylor FIA

Process and key risks

A typical valuation timeframe



Meaningful consultation



An LGPS fund recently consulted with employers of proposed changes to their Funding Strategy Statement.



The consultation took place 4 months before the valuation date, however, this spanned the festive break and there was no flexibility to extend this



Lots of employers did not have enough time or information to respond

Engaging with your fund early is key to ensuring a meaningful consultation

Risks



Market risk



Prudence risk



Change of Actuary



Event risk



Covenant risk



RPI reform



Use of surplus



McCloud

Changes in population



Our client were initially treated as a closed employer at the 2019 valuation



We discussed with the fund and agreed that they could continue to be valued on an ongoing basis

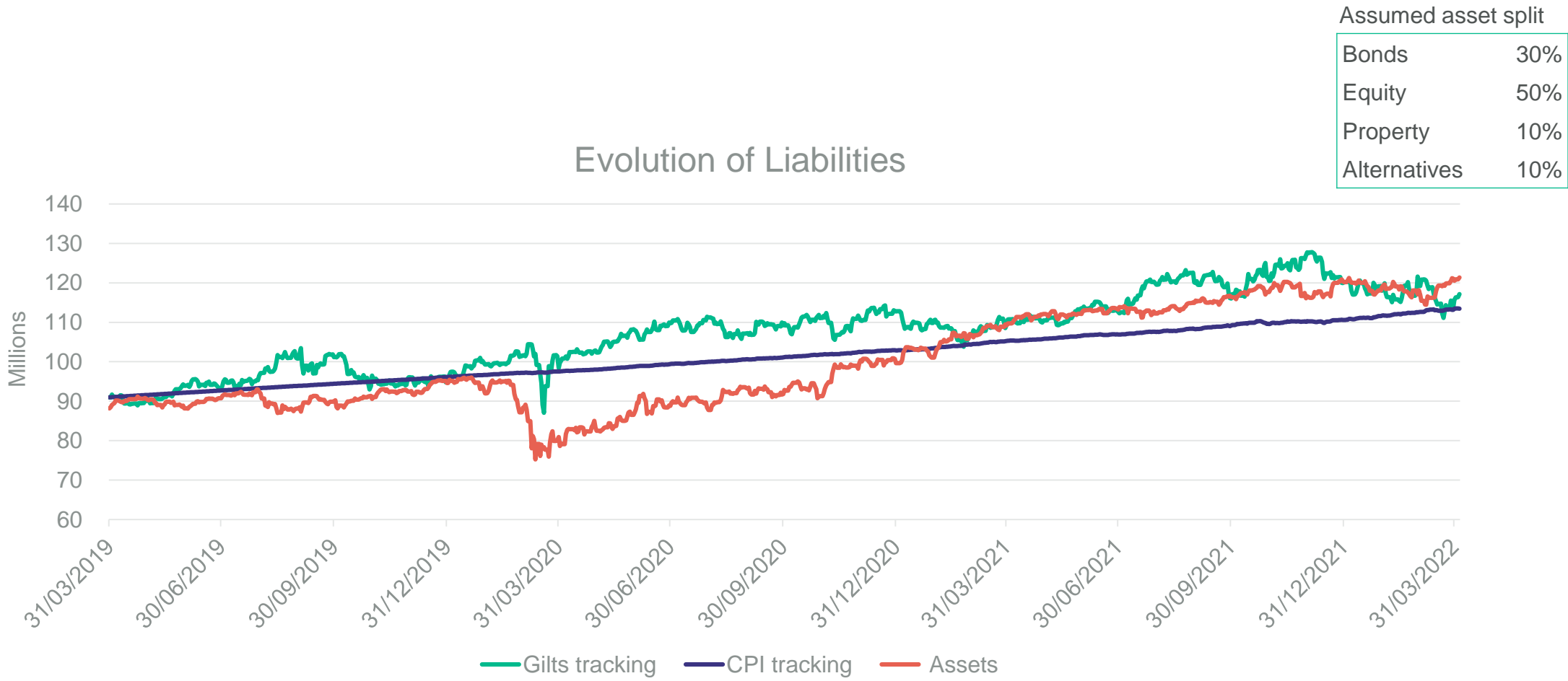


Contributions dropped from 30% to 15%

Engaging in the valuation process and understanding how you are being treated is key

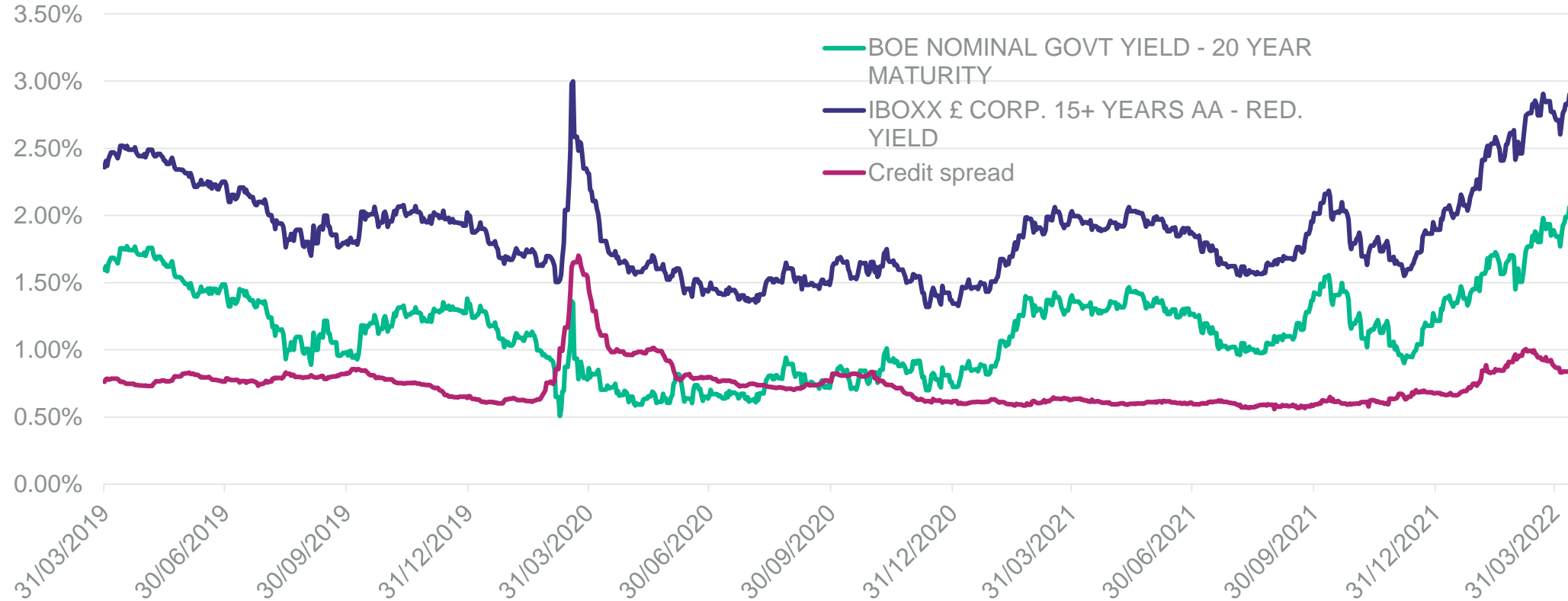
Market movements since 2019

Market movements since 31 March 2019



Funding versus accounting

Credit spreads since the March 2019 Valuation



Why your Actuary's approach matters

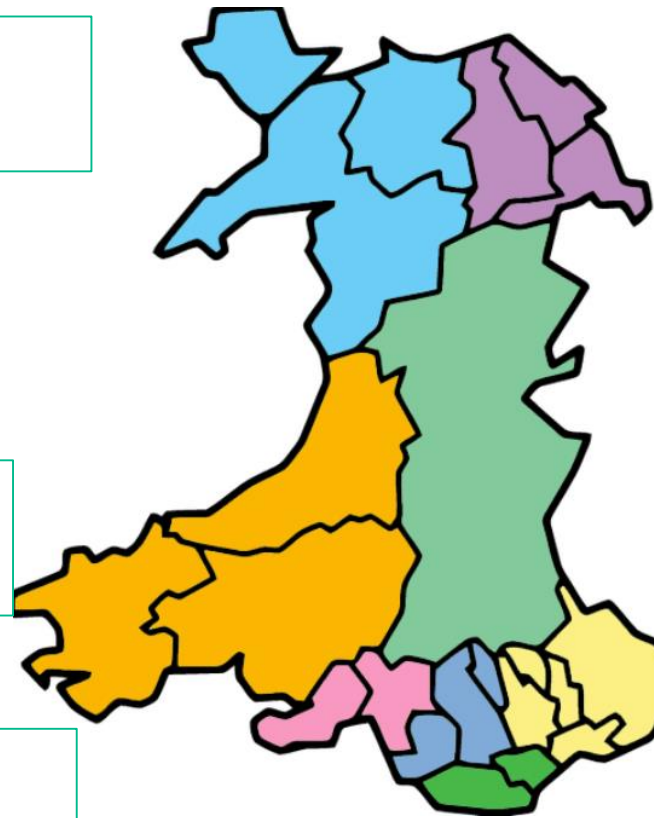
LGPS Funds in Wales

Gwynedd Pension Fund
Hymans
Funding level at 31/3/19: 108%

Dyfed Pension Fund
Mercer
Funding level at 31/3/19: 105%

City and County of Swansea Pension Fund
Aon
Funding level at 31/3/19: 91.5%

Other employers include Councils,
Education, outsourcers and other bodies



Clwyd Pension Fund
Mercer
Funding level at 31/3/19: 91%

Powys Pension Fund
Aon
Funding level at 31/3/19: 93%

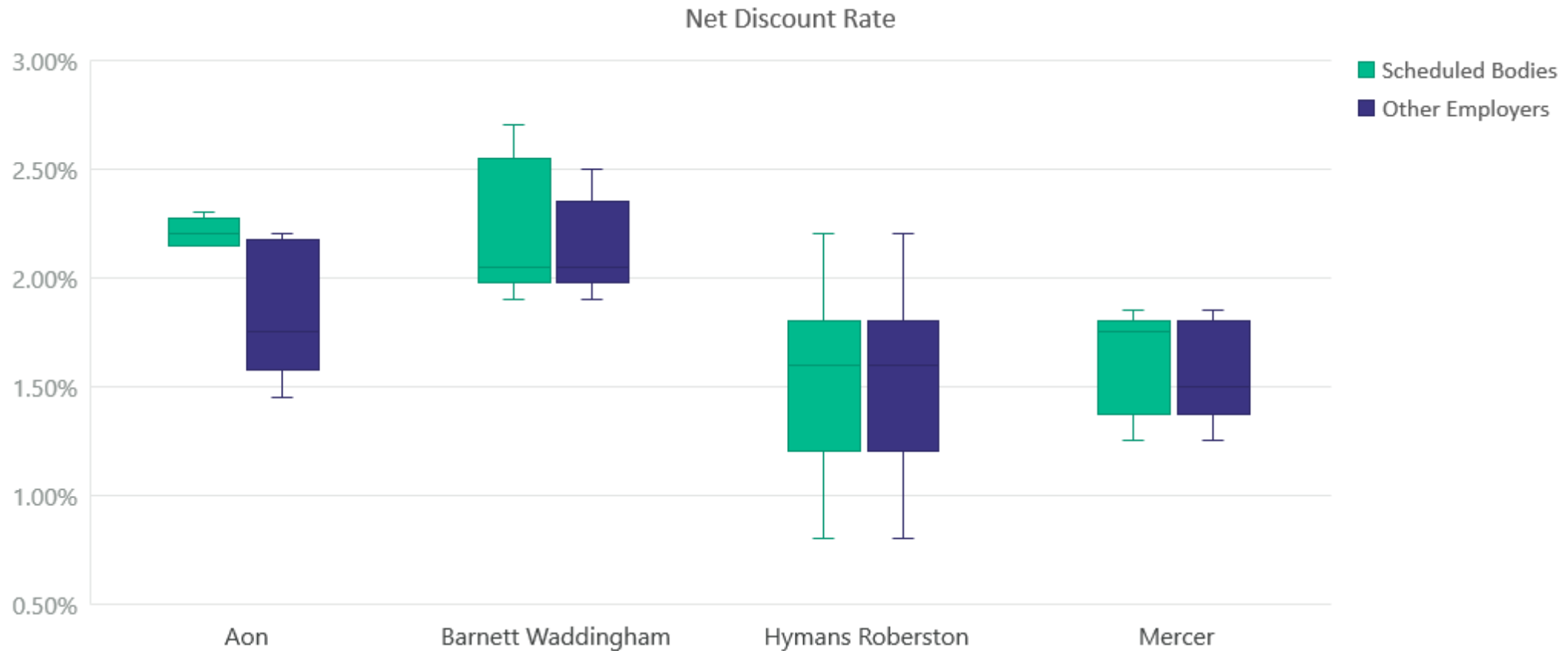
Greater Gwent (Torfaen) Pension Fund
Hymans
Funding level at 31/3/19: 86%

Cardiff & Vale of Glamorgan Pension Fund
Aon
Funding level at 31/3/19: 96%

Rhondda Cynon Taf Pension Fund
Aon
Funding level at 31/3/19: 98.4%

Source – Figures estimated based on publicly available information

Financial assumptions at the 2019 valuation



Source: Isio database covering 27 schemes

Use of Surplus



A Housing Association had a surplus at the last valuation that it didn't get credit for. Contributions jumped from 18% to 30%



We interrogated and ensured that they got credit for the surplus



Contributions went back to 18%
The objective of costs being stable was met

Funds may change the level of prudence at valuations meaning you don't initially get credit for any surplus

Trends in Approach

Compared with 2016, the 2019 valuation process saw:



Greater engagement by employers in the process



An increasing number of employer covenant reviews



Some funds introducing investment options for employers



Divergence of funding approach between the actuarial firms

In 2022 we expect:



Employers will need to engage early to have a meaningful consultation



A greater level of employer engagement



A larger range of possible assumptions

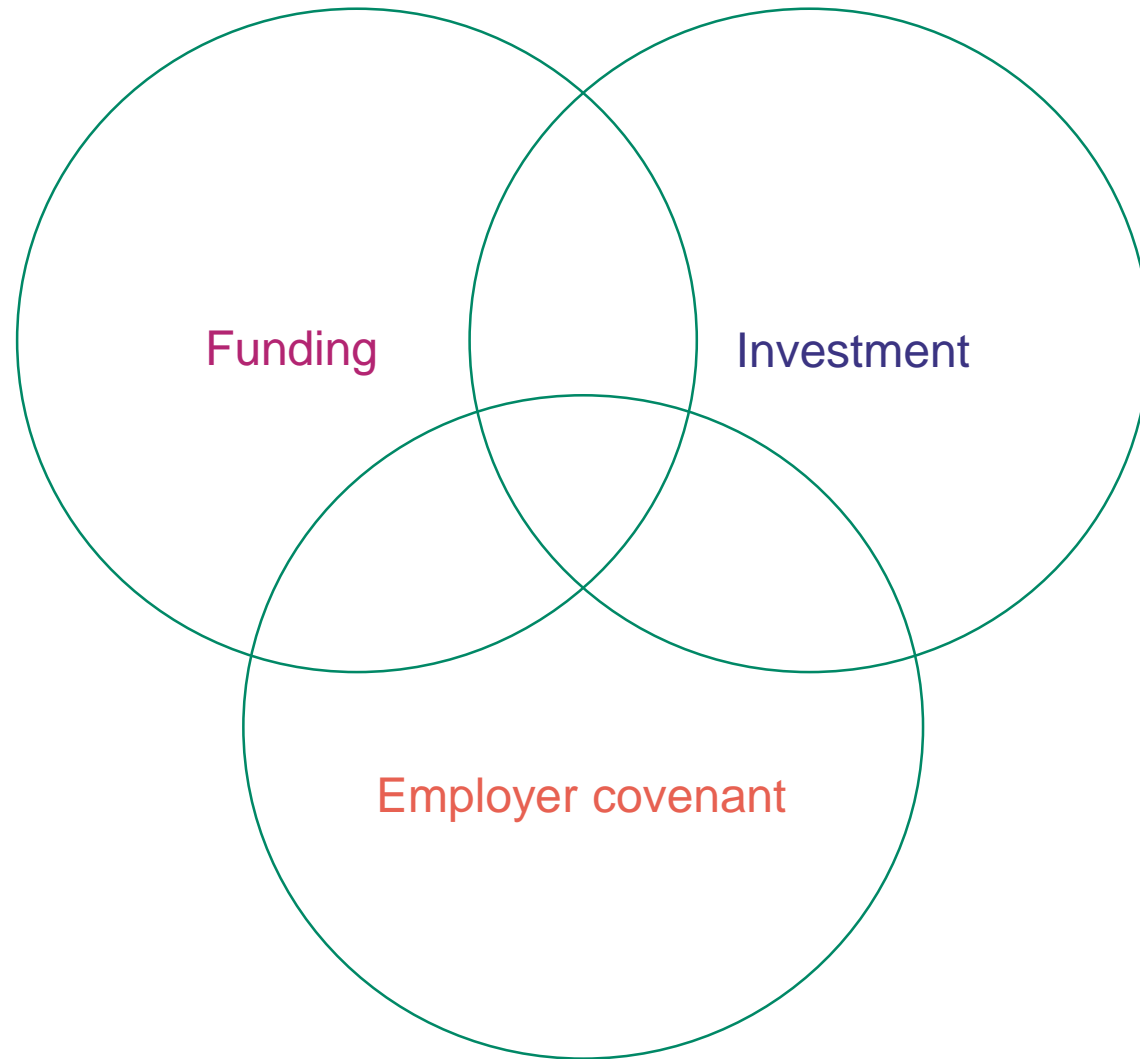


Further opportunity for bespoke funding plans

Integrated risk management

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LGPS integrated risk management



Use of Covenant



The fund asked our client to increase contributions from 19.0% of pay plus c£0.5m deficit recovery, to 45.7% of pay plus c£5.8m p.a. deficit recovery



We discussed with the fund and agreed to reflect the long term covenant of the housing association at the 2019 valuation and engage fully before the 2022 valuation



Contributions remained at their initial level

Bespoke funding plans can be achieved through open dialogue with your fund

Next steps – “Know Your Fund”

What should employers do now?

01

Understand your Fund's timetable

02

Understand your current funding position

03

Assess how risks can change this position

04

Options for negotiation

Any Questions?



Thank you

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