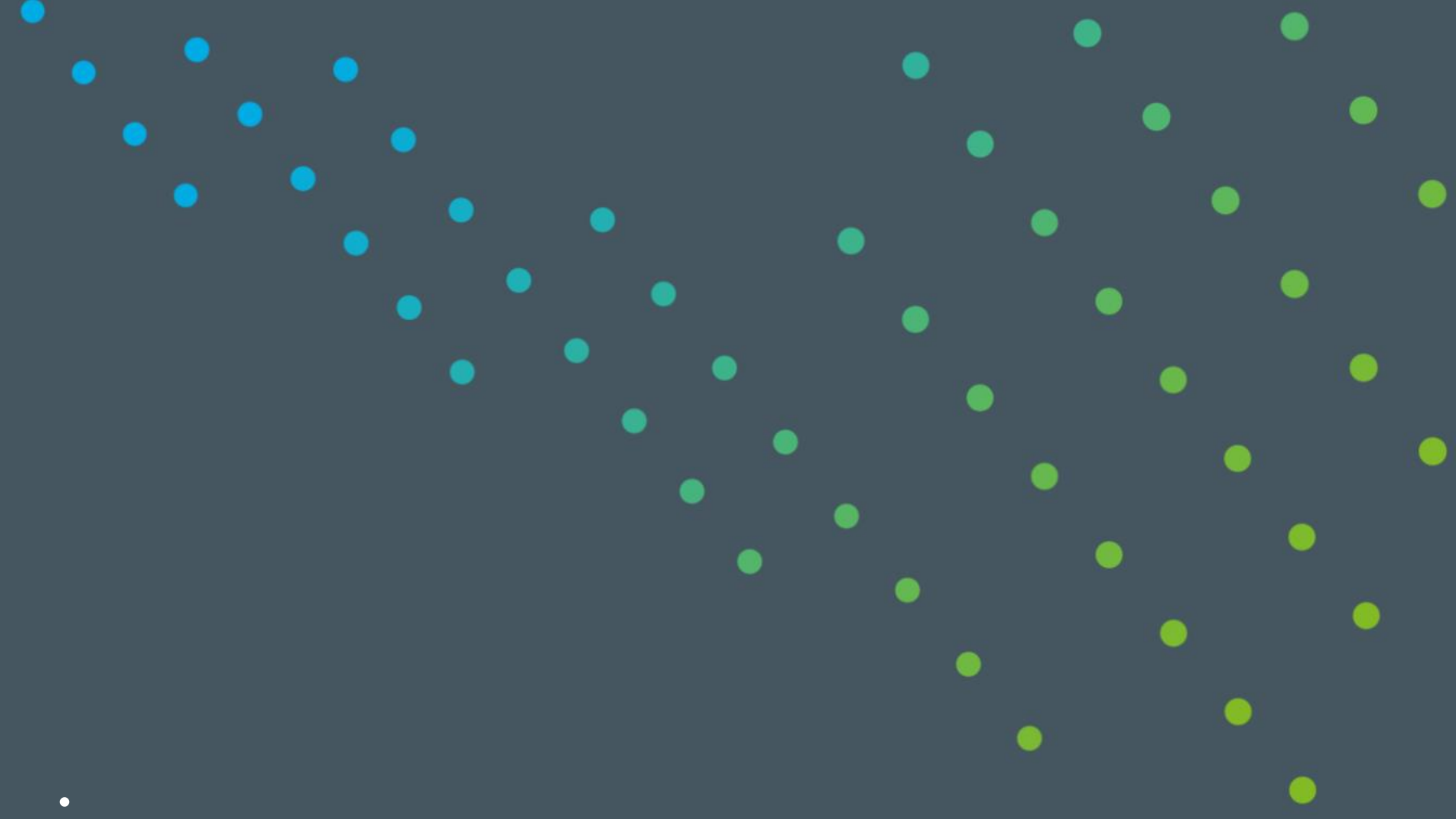


SAB Training Workshop

LGPS funding valuations

Robert Bilton FFA, Partner

Funding overview



How the LGPS is funded



Collect money
(contributions)



Invest money
(its assets)



Pay money out
(benefits)

Why is a valuation needed?



Compliance with legislation



Calculate employer contribution rates



Part of continual 'health check' on fund solvency



Analyse actual experience vs assumptions



Review Funding Strategy Statement

The valuation is a key risk management exercise for LGPS funds

How a valuation is carried out

Inputs

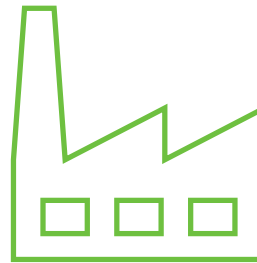
Data for each member

Financial and demographic assumptions

Funding and investment strategy

LGPS benefit structure

Actuary's models



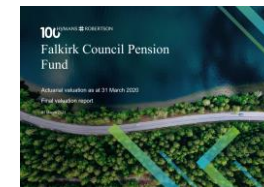
Primary outputs



Individual employer results schedule



Updated Funding Strategy Statement



Final valuation report

Typical valuation process

Q4 2022 – Q1 2023

Pre-valuation work:

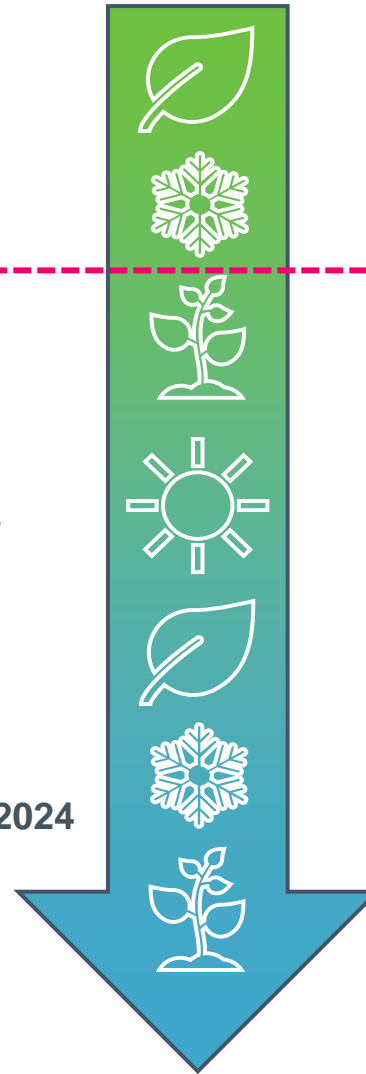
- Planning
- Data cleansing

Q3 2023

Preliminary results & discussions with Officers
Funding strategy reviewed in-depth

Q1 2024

Funding strategy statement finalised
Final valuation report signed off by **31 March 2024**



31 March 2023

Q2 2023

Review of actuarial assumptions
Data cleansed and submitted to actuary

Q4 2023

Employer results issued to employers
Employer Forum & consultation period
Funding Strategy Statement consultation

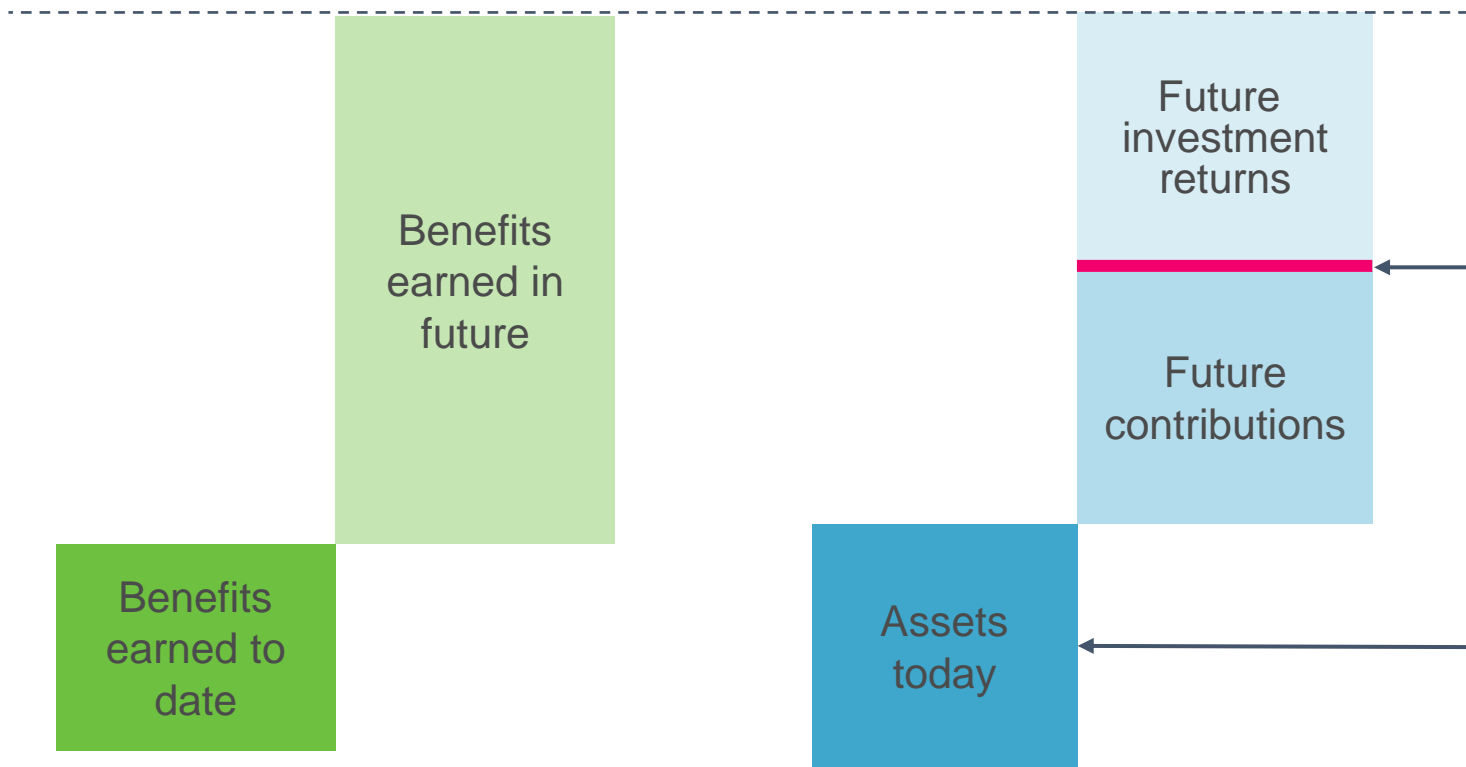
1 April 2024

New employer contributions start to be paid

How funding works in the LGPS

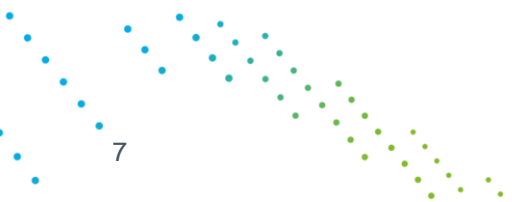
Liabilities

Assets



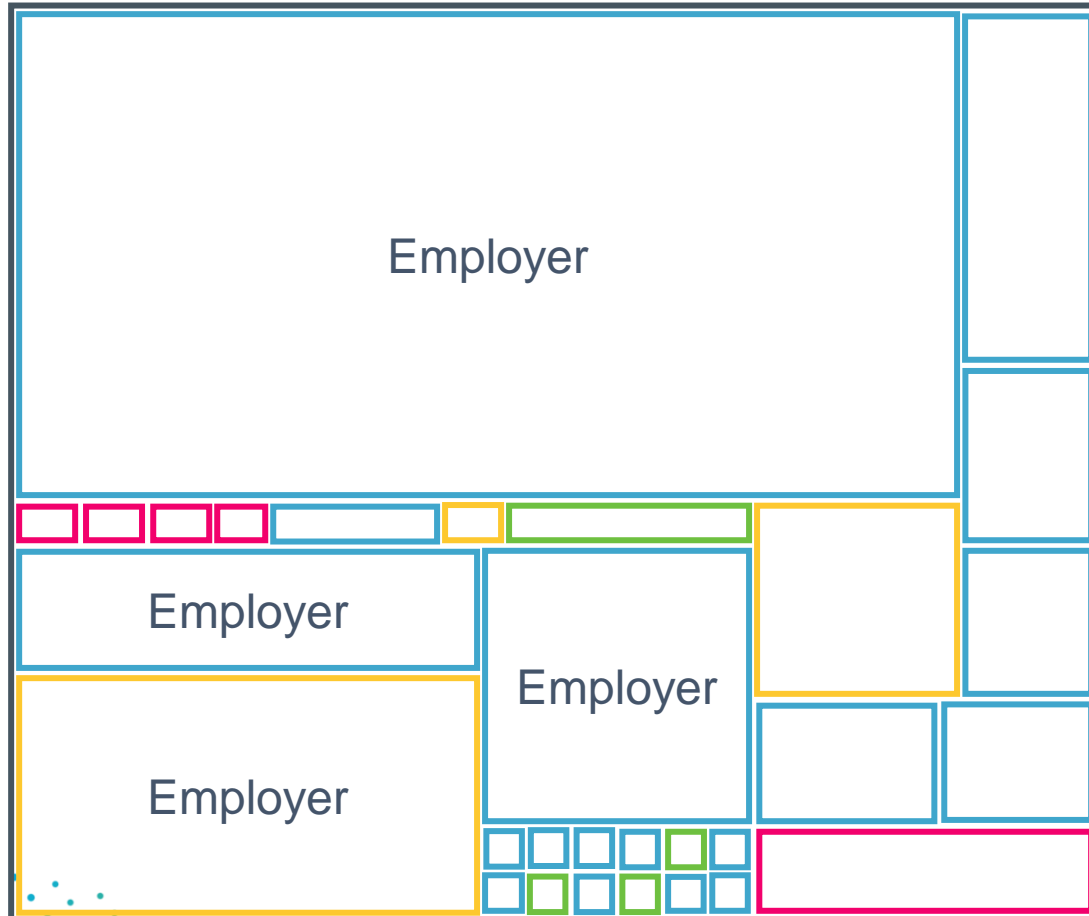
Contribution rates
To pay for both future benefits and any shortfall in relation to accrued benefits
Strike a balance between investment returns and contribution rates
Split between members (fixed in legislation) and employers (variable)

Funding level
Comparison of 'assets today' vs. 'benefits earned to date'
Balance sheet snapshot of Fund at valuation date



Employer level, not fund level

LGPS fund



- Funding occurs at employer level in the LGPS
- Reflect each employer's funding profile – membership, contributions, investment returns, experience etc.
- Aim is to avoid cross-subsidy between employers
- Fund level results are an aggregate of employer results

Funding themes for 2023 valuations



Managing surpluses

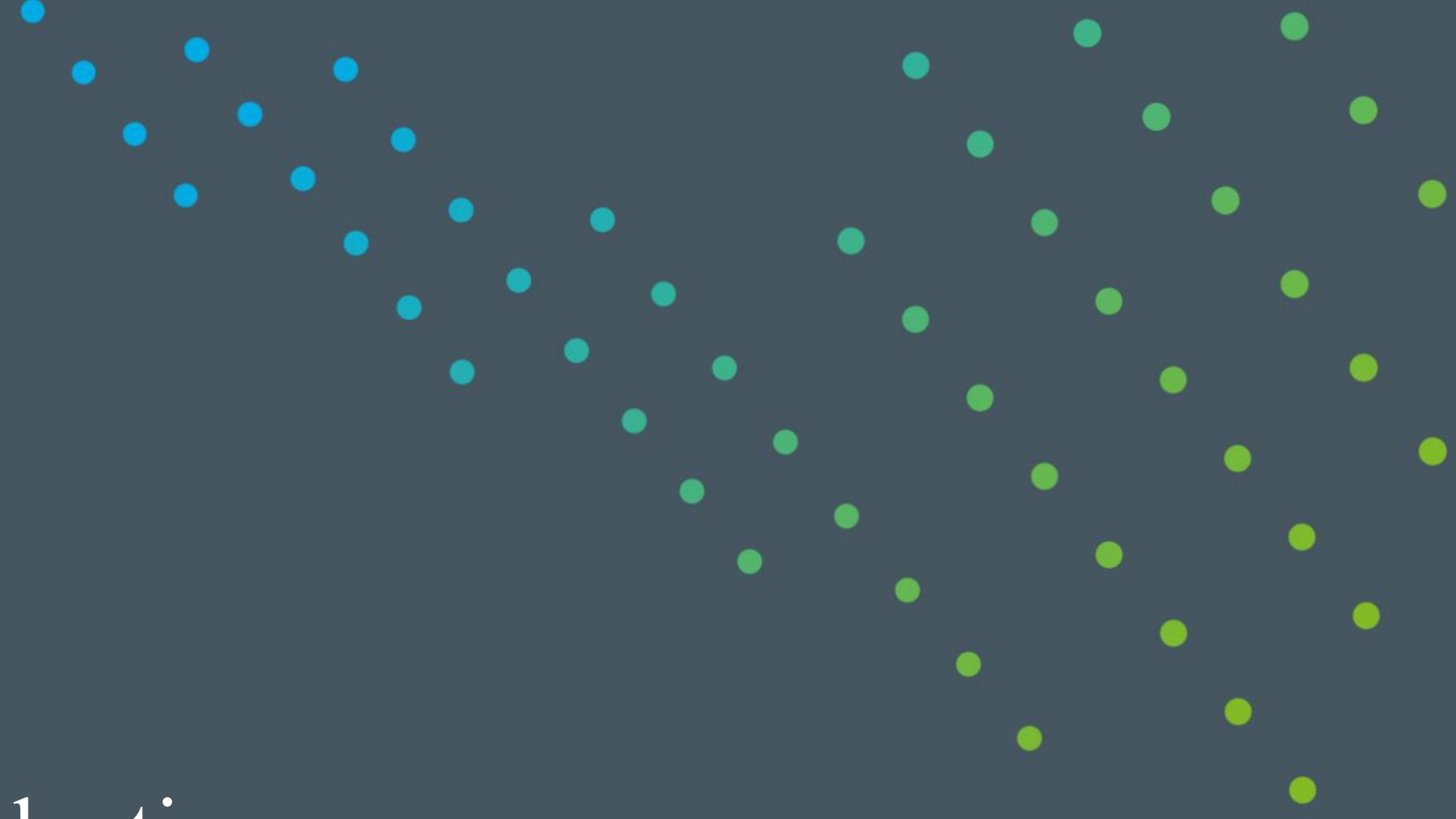


Uncertainty and volatility – inflation, longevity, LGPS benefits



Employer affordability

Section 13 valuation



A valuation of a valuation

“Section 13 to provide for an independent review (by the Government Actuary’s Department) of the valuation and employer contribution rates to check that they are appropriate and requires remedial action to be taken where that review identifies a problem.”

Compliance

- Have valuations been completed in accordance with the Regulations?

Consistency

- Has a fund’s valuation been completed on a basis “not inconsistent” with other funds?

Solvency

- Will certified contributions accumulate enough assets to meet liabilities over an “appropriate” period?

Long-term cost efficiency

- Is the fund kicking the contribution can down the road?

Outcome of 2020 Section 13 valuation

Compliance

- *“We concluded the aims of section 13 were achieved under the heading of Compliance in terms of valuation reporting.”*

Consistency

- *“We think it would be helpful for stakeholders to have access to this information [dashboard of consistent information] as part of the fund valuations...”*
- *We recommend that SPPA engage with funds and other stakeholders to consider the impact of inconsistency.*

Solvency

- *“All open funds had green or white flags on all solvency measures.”*

Long-term cost efficiency

- *“All open funds had green flags on all long-term cost efficiency measures.”*
- *“We have no concerns around the approaches funds are adopting to spread surpluses.”*

Excerpts above from GAD’s final 2020 Section 13 valuation report. Available online at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1146576/LGPS_Scotland_Section13_Report_as_at_31_March_2020.pdf

Thank you

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