Section 13 - Analysis of LGPS 2019 Actuarial Valuations

Purpose and Scope

This paper has been commissioned by and is addressed to Croydon Council in its capacity as Administering Authority to the London Borough of Croydon Pension Fund ("the Fund"). Its purpose is to summarise and update the Fund's Pensions Committee on the initial results provided by the Government Actuary's Department (GAD) under section 13 of the Public Service Pensions Act 2013 ("Section 13").

Background

As required under Section 13, GAD has been commissioned by MHCLG to carry out a review of all LGPS 2019 local funding valuations. This analysis is primarily to help provide comparison of actuarial valuation results across the 88 funds in the LGPS in England and Wales.

This GAD analysis is very analytical and presents various metrics in a "like-for-like" fashion (i.e. with local funding assumptions removed), so that reasonable comparisons can be made between LGPS funds. Section 13 requires GAD to ascertain whether each local fund valuation has achieved the following aims:

- The valuation **complies** with the LGPS regulations
- The valuation has been carried out in a way which is not in**consistent** with other local fund valuations
- The valuation has set employer rates that ensure the **solvency** and the **long-term cost efficiency** of the fund

We previously submitted data and information regarding the 2019 valuation on the Fund's behalf to GAD and they have used this data to carry out their analysis. GAD's draft two-page initial results summary for the Fund can be found in the Appendix.

Croydon 2019 initial results

Initial results

The Fund has received a clean bill of health for every metric, with no 'red flags' being raised. In fact, based on the final figures (which are not publicly available yet), the Fund received a green flag in every test.

In summary:

- Using the LGPS Scheme Advisory Board standard 'best estimate' assumptions adopted by GAD for the analysis, the Fund is better funded at 31 March 2019 (98%) than it was at 31 March 2016 (81%).
- The funding position (on the same actuarial assumptions) relative to its peers has increased from 81st to 72th (of the 88 English and Welsh Funds).
- The investment return the Fund requires on its assets to achieve full funding in 20 years' time has reduced from 4.0% to 3.5% p.a. (i.e. all else being equal, the Fund is better placed to meet the benefits promised to members and is relying less on the return expected to be generated from its assets).
- You may notice that the initial draft results had an amber flag under "Deficit Recovery Plan". This flag is a result of GAD's analysis indicating that the overall average employer contribution rate to the Fund reduced at the 2019 valuation, whilst the "deficit recovery end point" has increased (i.e. while the longest time horizon or deficit recovery period used in the Fund reduced from 22 to 20 years, this end point still increased from 2038 to 2039). However, we voiced our concerns on this metric and are pleased to say that GAD have subsequently removed this flag in the draft of the final report.

This positive picture provides an independent check that validates the Fund's strong funding strategy and the progress which has been made by the Fund in recent years.

Property Transfer Arrangement

GAD have raised questions about the Fund's proposed property transfer arrangement with Croydon Council. In particular, it points out the need for appropriate governance arrangements for any asset transfers in lieu of future contributions. While this arrangement is not currently in place between the Fund and Council, GAD may add general comment in their final report about their view of such arrangements in the LGPS.

Next steps

- There is currently no action for the Fund, and we would not expect any required actions when the final LGPS Section 13 report is published.
- At the time of writing, GAD had recently circulated a draft final version of their report to the Fund Actuaries for comment and have asked that this is not shared with other LGPS stakeholders (including the funds themselves).
- GAD have indicated that the final report will be published in "Autumn".

Reliances and limitations

This paper has been prepared for the Fund for the purpose of updating the Fund's Pensions Committee on the initial results provided by the Government Actuary's Department (GAD) under section 13 of the Public Service Pensions Act 2013. It has not been prepared for use for any other purpose and should not be so used. We accept no liability where the paper is used for any other purpose.

The paper is not addressed to any third party. We accept no liability where the paper is used by a third party unless we have expressly accepted such liability in writing.

This paper complies with Technical Actuarial Standard TAS 100 (Principles for Technical Actuarial Work) to a proportionate and relevant degree.

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For and on behalf of Hymans Robertson LLP

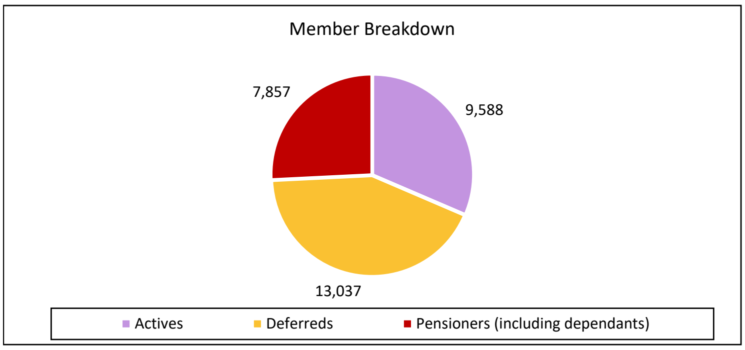
August 2021

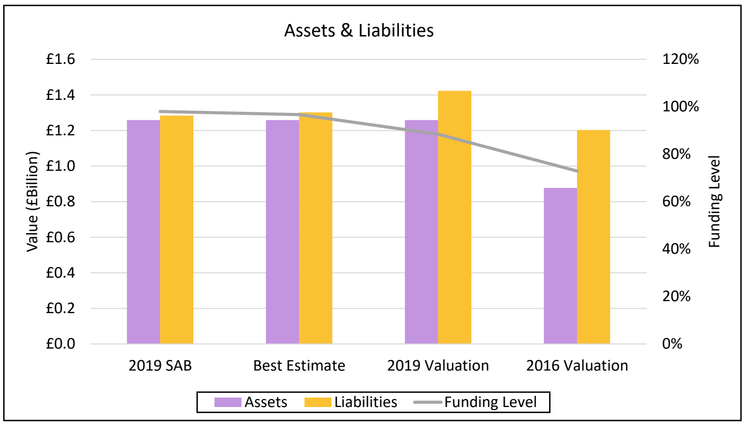
Appendix – Schedule of 2019 draft Section 13 results

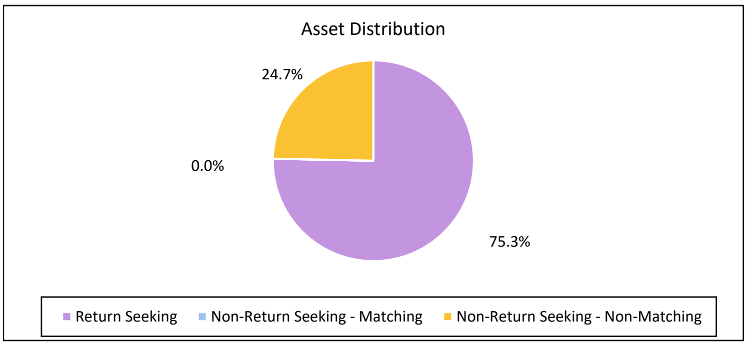
Government Actuary's Department

This document is intended only for discussions between GAD, the relevant Local Authority and their actuary

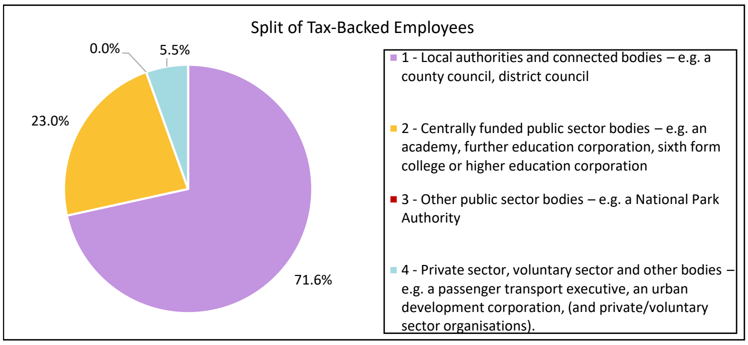
London Borough of Croydon Pension Fund

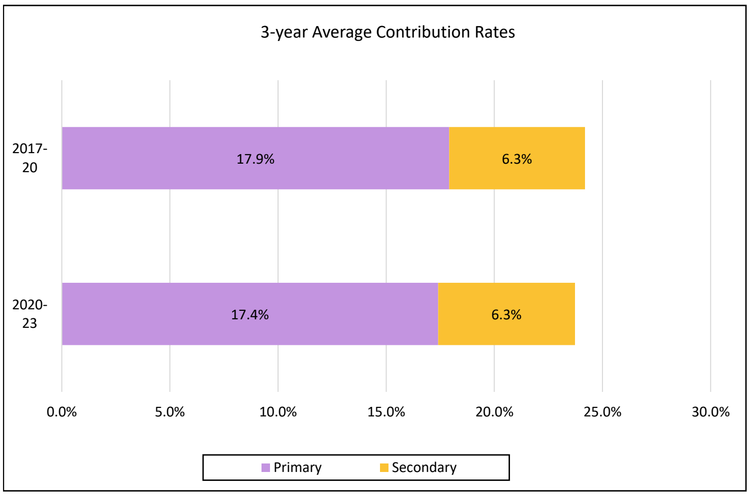


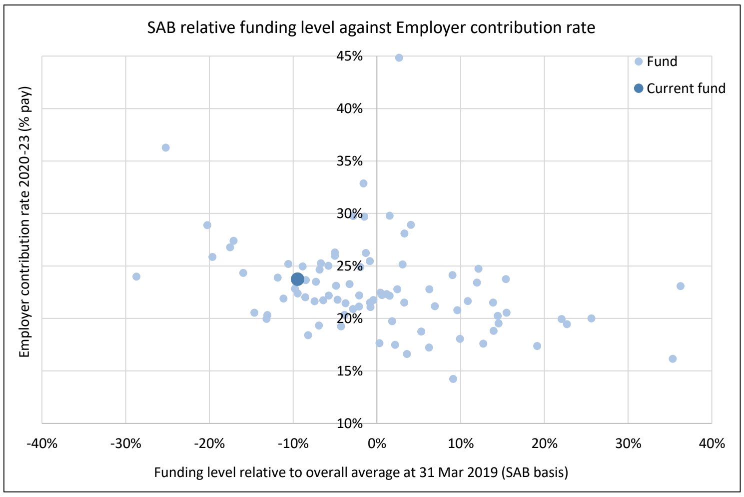




Local Authority	Core Spending (£m)	Core Spending (%)
Total	**£367.5**	**100.0%**
Croydon	£274.0	74.6%
Croydon GLA	£93.5	25.4%







At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes the standards we apply.

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London Borough of Croydon Pension Fund

Solvency Breakdown

Asset Shock

Assets are divided into the following classes:

Return seeking - Equity, Property, Infrastructure debt & other return seeking assets

Non-return seeking - All other assets

Return seeking assets are stressed by reducing them by 15%

New deficit allocated to tax−raising authorities

= (Pre−stress asset value − Post−stress asset value) × % Tax backed employees

This deficit is then spread over 20 years of annual payments, and compared to the fund's core spending

	£m
Pre-stress asset value	£1,258.2
Return seeking assets	£947.7
Non-return seeking assets	£310.5
Post-stress asset value	£1,116.0
Return seeking	£805.5
Non-return seeking	£310.5
Percentage of tax-backed employees (Group 1 + Group 3)	71.6%
New deficit allocated to tax raising authorities	£101.7
Annual deficit payment (spread over 20 years)	£5.5
Total core spending (pensionable payroll used where core spending unavailable)	£367.5
Deficit percentage of core spending	1.5%
Deficit percentage of core spending (allowing for post-asset shock surplus)	1.5%

Liability Shock

Non-matched liabilities are stressed by increasing them by 10%

New deficit allocated to tax−raising authorities

= (Post−stress liability value − Pre−stress liability value) × % Tax backed employees

Deficit is spread over 20 years and compared to the fund's core spending

	£m
Liability value pre-stress (GAD's best estimate calculation)	£1,301.1
Liability value post-stress	£1,431.3
New deficit allocated to tax raising authorities	£93.1
Annual deficit Payment (spread over 20 years)	£5.0
Deficit percentage of core spending	1.4%
Deficit percentage of core spending (allowing for post-liability shock surplus)	1.4%

Employer Default Shock

Determine funding level on GAD's best estimate basis

If the fund is in deficit, non-tax backed deficits are allocated to tax-backed

The non-tax backed deficit is spread over 20 years and compared to the fund's core spending

	£m
Deficit on best estimate basis	£43.0
Proportion of deficit allocated to non-tax raising authorities	£2.4
Annual deficit payment (spread over 20 years)	£0.1
Deficit percentage of core spending	0.0%
Fund Open/Closed	Open
SAB Funding Level	98.0%
Percentage of Non-Statutory Employees (Group 3 + Group 4)	5.5%

Long Term Cost Efficiency

Deficit Recovery Period

Implied deficit recovery period calculated on a standardised market consistent basis

Recovery period (years)	4
Ranking of fund (out of 87 funds)	70

Required Return

Required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis

Required return under best estimate basis	3.5%
Ranking of fund (out of 87 funds)	60

Repayment Shortfall

Difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised market consistent basis

Annual deficit recovery payment as % of implied 31 March 2019 payroll	1.2%
Actual contribution rate paid less SCR on best estimate basis	6.0%
Difference	4.8%

Return Scope

Required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

Expected return	4.4%
Required return	3.5%
Difference	0.9%
Ranking of fund (out of 87 funds)	56

Deficit Recovery Plan

Consideration of how the deficit recovery plan has changed compared to 2016 valuation

Valuation	*2016*	*2019*
Deficit Recovery End Point	2038	2039
2017-20 Average Contribution Rate		24.2%
2020-23 Average Contribution Rate		23.7%
Increase in contributions		
Difference in Average Contribution Rate between 2017-20 and 2020-23		-0.5%
Increase in deficit recovery end point (years)		1

Minor inconsistencies in totals may occur due to rounding.