

Appendix 1: Review of 2019 Actuarial Valuations – Section 13 Report by the Government Actuary’s Department as it relates to the Barking and Dagenham Pension Fund

Introduction

This note is concerned with the findings of the Government Actuary’s Department (GAD) report on the 2019 LGPS Actuarial Valuations across England and Wales as it specifically relates to the Barking and Dagenham Pension Fund. An overview of the GAD report and its attachments is contained in Section 5 of the Independent Advisor’s LGPS Update report elsewhere on this Agenda. Members are encouraged to read the overview of the GAD report before reading this Note.

Analysis relating to individual LGPS Funds

Under Section 13 of the Public Service Pensions Act 2013 GAD is required to report on whether the following aims were achieved:

- **Compliance**
- **Consistency**
- **Solvency**
- **Long term cost efficiency**

The first two issues are concerned primarily with the methods of the four Actuarial firms (Aon, Barnett Waddingham, Hymans Robertson, and Mercer) who undertake Actuarial Valuations for LGPS Funds.

The issues of **Solvency** and **Long term cost efficiency** are Fund specific. In respect of these **GAD** looked at a range of metrics. GAD rated individual Funds against 10 metrics – 5 in relation to Solvency and 5 in relation to Long term cost efficiency. GAD then assigned a “*colour coded flag*” to each LGPS Fund in England and Wales for each metric as follows:

- **Red:** *indicates a material issue that may result in the aims of section 13 not being met. In such circumstances remedial action to ensure solvency and/or long term cost efficiency may be considered.*
- **Amber:** *indicates a potential material issue that we would expect funds’ to be aware of. In isolation this would not usually contribute to a recommendation for remedial action in order to ensure solvency and/or long term cost efficiency.*

- **White:** *is an advisory flag that highlights a general issue but one which does not require an action in isolation. It may have been an amber flag if we had broader concerns.*
- **Green:** *indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency.*

Solvency Analysis in the context of Barking and Dagenham

The Barking and Dagenham Fund received a Green Flag in respect of all five Solvency metrics (as detailed in the Appendices to the main GAD report). This is clearly positive.

The most well known/prominent of these metrics is the “**SAB funding level**” On this measure the Barking and Dagenham Fund was 100% funded at 31 March 2019 compared to 91% at 31 March 2016. This is very pleasing. However it must be stated that the SAB funding level is merely a methodology applied by GAD which uses a single set of assumptions to calculate and compare funding levels across the 88 (as at 2019) LGPS Funds in England and Wales.

It should be further noted that the SAB funding level is merely a comparative measure and is not a Valuation as required and undertaken under the LGPS Regulations 2013 (As amended). The SAB funding level Valuation has no effect on either Employer contribution rates for the Barking and Dagenham Fund or the Investment Strategy of the Fund which are determined/influenced by the Triennial Valuation carried out by the Fund Actuary (Hymans Robertson at 2019 and Barnett Waddingham for 2022) in accordance with Regulation 62 of the LGPS Regulations 2013 (As amended). The assumptions used in the Triennial Valuation as undertaken by the Fund Actuary take some account of the specific circumstances/requirements of the Barking and Dagenham Fund, unlike the SAB funding level methodology.

Although the improvement relating to the Barking and Dagenham Fund as indicated by the SAB funding level is clearly positive and encouraging the primary and indeed official, from a LGPS regulatory viewpoint, funding measure is that which the Fund Actuary declares at the end of each Triennial Valuation of the Barking and Dagenham Pension Fund. On the basis of the last three statutory Actuarial Valuations carried out in accordance with the requirements of the LGPS Regulations (by Hymans Robertson) the Barking and Dagenham Fund has, at each Valuation, clearly and significantly improved its Funding Level. At the 2013 Valuation Hymans Robertson determined that the Fund was 71% funded. At 2016 this had improved to 77% funded and at 2019 to 90% funded.

Long term cost efficiency Analysis in the context of Barking and Dagenham

The Barking and Dagenham Fund received a Green flag in respect of four of the five Long term cost efficiency metrics (as detailed in the Appendices to the main GAD report). In respect of one metric “**Deficit recovery plan**” Barking and

Dagenham along with three other Funds were Amber flagged. In considering the meaning of this attention must be paid to the definition of an Amber Flag (page 12 of the GAD report) which *“indicates a potential material issue that we would expect funds to be aware of. In isolation this would not usually contribute to a recommendation for remedial action in order to ensure solvency and/or long term cost efficiency.”*

On page 57 of their report GAD explain their approach to the level of Employer contribution rates when coupled with the period over which it is planned, by a Fund, to recover any deficit in the Fund. GAD state *“We would not normally expect to see employer contribution rates decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point is being extended further into the future (increasing the burden on future taxpayers). This expectation considers the desire for intergenerational fairness which is required for LTCE”* (Long Term Cost Efficiency).

The primary reason that the Barking and Dagenham Fund received an Amber flag for **“Deficit recovery plan”** was because Employer contribution rates had decreased from the 2016 to 2019 Valuation (by an average of -1.5% from 25.0% to 23.5%) and at the same time the deficit recovery period had increased by three years. To quote from page 51 of the GAD report in respect of the Barking and Dagenham Pension Fund *“we are concerned that employer contribution rates are decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point is being extended further into the future (increasing the burden on future taxpayers). This led to...raising a flag in relation to their deficit recovery period.”* However it should also be noted that the GAD report did acknowledge (at page 58 of their report) that the Barking and Dagenham Fund utilises a shorter deficit recovery period than some other LGPS Funds stating that Barking and Dagenham applied *“a 17 rather than 20 year projection period, which itself is shorter (hence more prudent) than that used for a number of other funds.”*

In conclusion, it should be noted that the Barking and Dagenham Fund was not subject to a specific recommendation from GAD in respect of Long term cost efficiency and that the Fund achieved, in the view of GAD, both the aims of

Solvency and Long term cost efficiency at the 2019 Actuarial Valuation. However the Fund was Amber flagged by GAD in relation to its Deficit Recovery plan thereby indicating *“a potential material issue.”* Therefore the Fund should, in the view of the Independent Advisor, engage specifically with the new Fund Actuary, Barnett Waddingham, with a view to seeking to mitigate the possibility of Amber flagging in respect of Long term cost efficiency at the 2022 Actuarial Valuation.