

Gwynedd Pension Fund

Update for Committee

Section 13 report

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For and on behalf of Hymans Robertson LLP



What is Section 13?

Under Section 13 of the Public Service Pensions Act the Department of Levelling Up Housing and Communities (“DLUHC”) appointed the Government Actuary’s Department (GAD) to carry out a review of the LGPS local funding valuations. We previously submitted data and information regarding the 2019 valuation on the Fund’s behalf to GAD and they used this data, along with data from the other LGPS Funds to carry out their analysis.

GAD published their report on the **2019 valuations** on **16 December 2021**.

The full report can be found at

<https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2019>

What does the Section 13 report cover?

This GAD analysis is very analytical and presents various metrics in a “like-for-like” fashion 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.

In assessing compliance, GAD has focussed on Regulation 62 covering mainly the valuation report and employer contribution rate setting and has not considered other elements of the valuation process, including the compliance of the Funding Strategy.

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

For solvency GAD focuses on whether the assets held, together with employers’ contributions are sufficient to target 100% funding over an appropriate period.

For long-term cost efficiency GAD also considers issues of inter-generational fairness in employer contribution rates, ensuring that employers pay a fair amount to cover benefits earned during the current period of participation.

Section 13 General Results

What did GAD report for all LGPS Funds to consider?

Compliance

The valuations were considered compliant with the relevant Regulations.

Consistency

GAD **welcomed the inclusion of a dashboard** in 2019 valuation reports which aided stakeholders' ability to compare valuations results with other Funds and would like to see this developed further.

GAD noted concern that there is **inconsistency in the way that Academy conversions are carried out in different funds** and have made a formal recommendation that the Scheme Advisory Board in England and Wales should consider whether a consistent approach needs to be adopted for conversions to academies. **This only affects English funds.**

GAD raised several issues which they believe should be considered consistently in funding strategy discussions in 2022 including **McCloud and Climate risk.**

Hymans Robertson comments

“We are surprised that Section 13 has focused on academies as an employer group in particular, and on the conversion process, which is not a valuation issue. More consistency in the conversion process for academies could have been achieved by issuing guidance when academy schools first came into being. Any attempt to create a standard approach now would necessitate either substantial reworking of existing academy positions or significant inconsistencies between the approach taken to different academies within individual LGPS Funds.

To the extent that consistency on the other issues raised is desirable, funds will rely on central guidance to achieve this. Such guidance has now been issued on McCloud liabilities for the 2022 valuations.”

What did GAD report for all LGPS Funds to consider?

Flags

To assess solvency and long term cost efficiency GAD designed a number of metrics and raised flags against these metrics against specific funds to highlight areas where risk may be present, or further investigation is required, using a red/amber/green/white rating approach.



Red = Material issue



Amber = Potential material issue



White = Advisory highlighting a general issue



Green = No material issues

Gwynedd Pension Fund received all **green** flags for both Solvency and Long-Term Cost Efficiency

Solvency

On solvency GAD reported:

- In aggregate the funding position of the LGPS has improved since 31 March 2016; and the scheme appears to be in a strong financial position.
- Total **assets** have **grown** in market value from **£217bn to £291bn**
- Total **liabilities** disclosed in the 2019 local valuation reports amounted to **£296bn**.
- The aggregate funding level of the LGPS on prudent local bases has improved from **85%** (in 2016) to **98%** (at 2019) due in large part to strong asset returns over the 3 year period to 31 March 2019.
- Funding also improved due to the continuation of substantial financial contributions from most LGPS employers
- The size of funds has grown significantly over the three years to 31 March 2019 relative to the size of employers. This could be a risk if, for example, there was to be a severe shock to return seeking asset classes.

Given the strong position, **no flags** were raised in the LGPS for solvency concerns.

What did GAD report for all LGPS Funds to consider?

Long-term Cost Efficiency

In assessing long-term cost efficiency, GAD focussed mainly on Funds' contribution levels, deficit recovery plans and on ensuring that Funds maintained a deficit recovery plan from one valuation to the next.

GAD raised amber flags against 4 funds. For 2 funds, GAD were concerned that the overall contribution rate was too low and, for a further 2 funds, GAD were concerned that employer contribution rates were decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery is being extended further into the future (increasing the burden on future taxpayers).

GAD made 2 formal recommendations in this area requesting more focus on reconciling deficit recovery plans with previous valuations in the valuation reports.

Hymans Robertson comments

“We are very supportive of the goal of inter-generational fairness but are not convinced that GAD’s recommendations are really needed or would add value, particularly given well-funded or surplus positions many funds will report in 2022.

We believe that focus on long-term stable contributions over time rather than direct links between contributions and the valuation date balance sheet better addresses inter-generational fairness issues.

Also, we would remind GAD that there is no single “deficit recovery” for the fund, it is in effect the sum of all the employers’ funding strategies.”


Section 13 Your Fund Results

Solvency


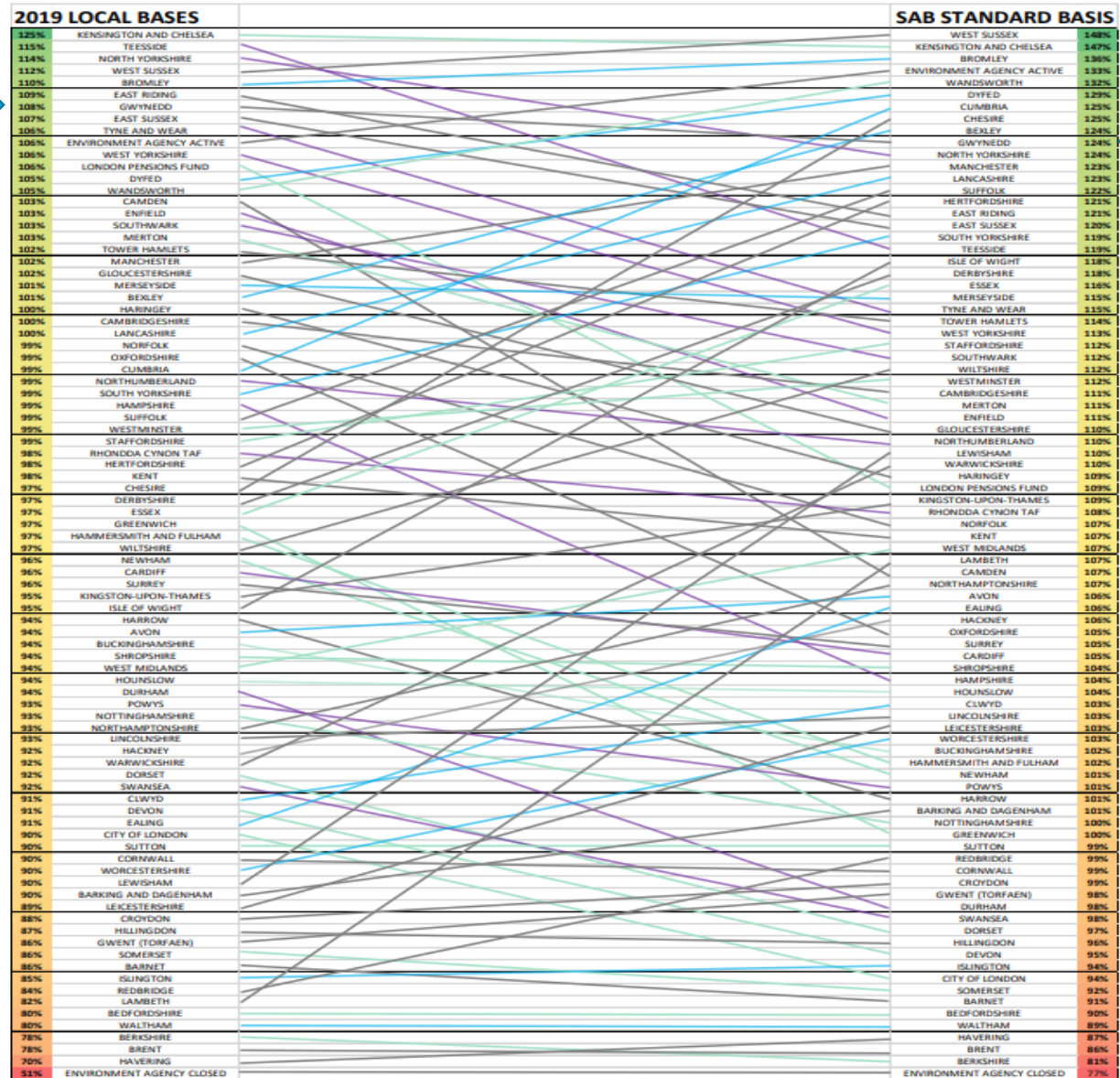
Funding Level on SAB Standardised Basis

The Funds are shown here ranked by funding level at the last valuation, firstly on the Fund's own basis and then using the SAB standard basis. The SAB standard basis facilitates like-for-like comparison but is not suitable for funding purposes.

7th
108%

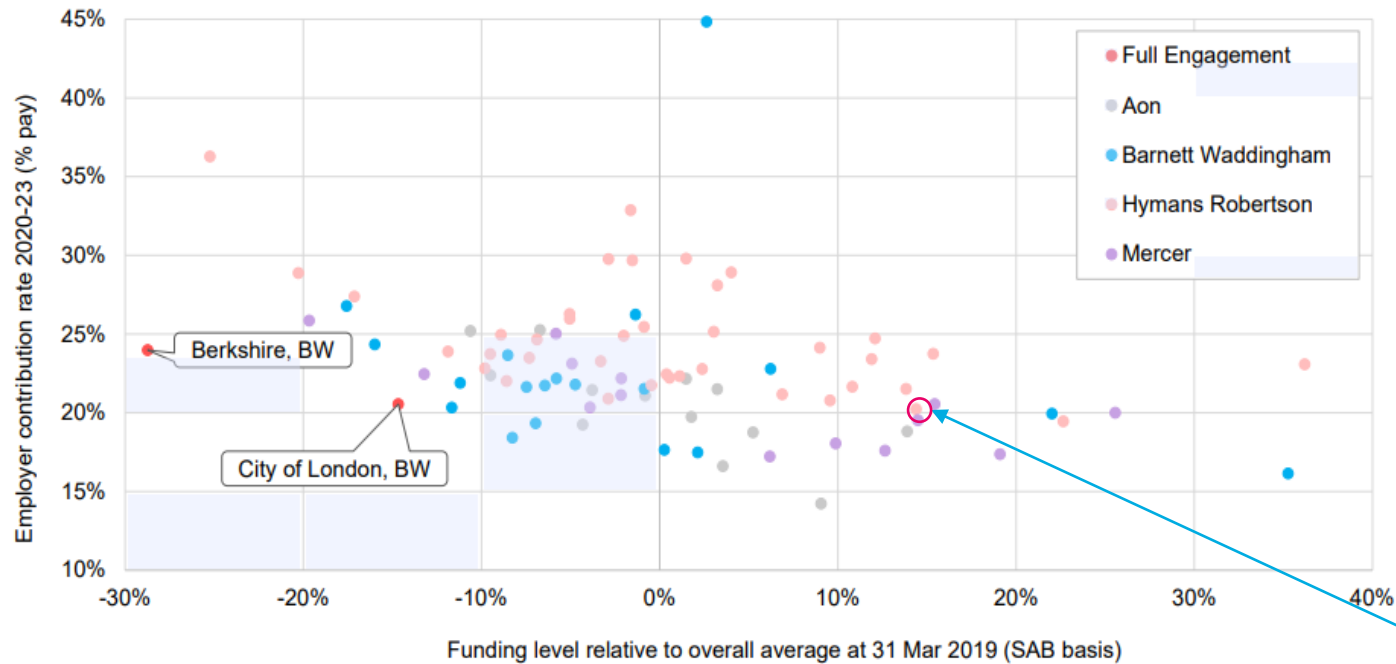


10th
124%

Long-term cost efficiency

SAB relative funding level against Employer contribution rate



Comparing Contributions and Funding Level

This chart shows the contributions paid by each Fund against their relative funding level. Each dot represents a fund.

- Everything else being equal you would expect lower funding levels (left hand side) to correspond to higher contribution rates.
- GAD has raised amber flags against the two funds indicated as it considers that the contribution rate is not sufficient given the funding level. It engaged with several others in that area.
- This analysis is limited as it doesn't allow for different investment strategies or lump sum payments made outside of the regular contributions certified.
- Gwynedd Pension Fund is indicated.

Summary metrics for Gwynedd Pension Fund

Funding Level

The funding level calculated using the SAB “best estimate” basis. This facilitates like for like comparison but is not suitable for funding purposes

Maturity Rank

This compares liabilities to payroll. The more mature the fund, the higher this number and the more susceptible the contribution rate may be to falls in funding level.

Metric	Gwynedd	Rank out of 87 Funds
Funding Level	124%	10th
Maturity	6.8	81st
Required return	2.9%	24th
Return scope	1.7%	17th

Required Return

The required investment return rate to achieve full funding in 20 years’ time on the standardised best estimate basis

Return Scope

The required investment return rate as calculated in required return, compared with the fund’s expected best estimate future returns assuming current asset mix is maintained. The more positive the return scope is, the more prudent the funding plan is.

Section 13 Welsh Results

Summary metrics for all Welsh funds

	Metric (with rank out of 87 funds)			
Fund Name	Funding Level	Maturity	Required Return	Return Scope
Gwynedd	124% (10 th)	6.8 (81 st)	2.9% (24 th)	1.7% (17 th)
Cardiff and Vale of Glamorgan	104% (53 rd)	7.2 (65 th)	3.6% (67 th)	0.7% (67 th)
Swansea	97% (75 th)	7.3 (59 th)	3.7% (72 nd)	0.9% (53 rd)
Clwyd	103% (57 th)	7.3 (61 st)	3.0% (35 th)	0.9% (55 th)
Dyfed	129% (6 th)	6.8 (76 th)	2.9% (26 th)	1.6% (19 th)
Greater Gwent (Torfaen)	98% (73 rd)	7.4 (56 th)	3.8% (75 th)	0.8% (63 rd)
Powys	101% (64 th)	8.1 (23 rd)	3.2% (42 nd)	0.8% (64 th)
Rhondda Cynon Taf	107% (41 st)	7.9 (32 nd)	3.5% (62 nd)	0.8% (62 nd)
Averages	108%	7.4	3.3%	1.0%

Reliances and Limitations

This paper is addressed to Cyngor Gwynedd as Administering Authority to the Gwynedd Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of providing a summary of the Section 13 review of the 2019 valuations as published by the Government Actuary's Department (GAD). It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

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The following Technical Actuarial Standards are applicable in relation to this paper, and have been complied with where material and to a proportionate degree: TAS100.