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Section 13 Report 2019 Valuation

Summary of Outcomes

Clwyd Pension Fund

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Summary of Outcomes

Section 13 requires the GAD to report on whether the following aims are achieved:

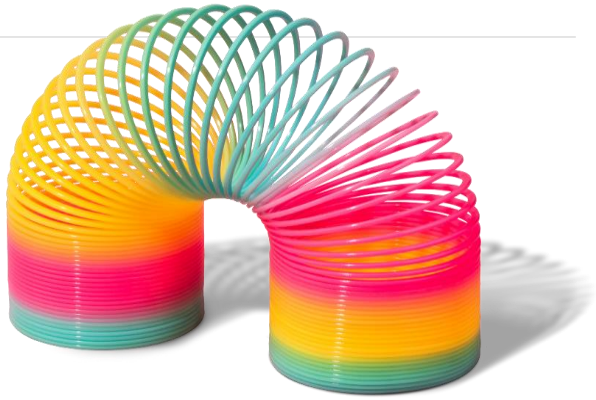
Compliance	the report noted that this objective has been met
Consistency	the report noted that in general whilst there appears to have been an improvement in consistency in the key assumptions there is still progress needed and there has been little progress in relation to academy conversions
Solvency	the report makes the comment that liabilities are growing much faster than size of employers backing them which therefore presents greater risk going forward, despite an improvement in funding levels more generally. However the ALM modelling that has been included in this section, which allows for the downturn due to the onset of the national lockdown at the start of the pandemic but not the rebound (due to lack of availability of data), presents a more downbeat picture than is expected to be the case currently although admittedly the ongoing outlook is very uncertain.
Long term cost efficiency	GAD reiterates the message of the need to consider the balance of cost between current and future generations of tax payers and that deficit recovery plans can be demonstrated to be a continuation of the existing plan with appropriate adjustment for experience since previous valuations. In addition there is additional commentary in their report regarding the use of contingent assets/asset transfers and the additional cost and risk associated with such arrangements with a recommendation for the Scheme Advisory Board to consider the governance of such arrangements further

Section 13 Report:
https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2019

Summary of Outcomes
2022 Valuation Implications

The report also notes a number of key areas for consideration for the 2022 valuations:

McCloud costs	Given that there is now greater certainty around the McCloud remedy, GAD notes it would expect a consistent and explicit calculation approach to be adopted at the next valuation. For the Fund, an explicit calculation approach was undertaken for the 2019 valuations, which for active members is consistent with the expected final remedy (subject to receipt of draft regulations, which are expected in 2022).
Covid 19 impact	In relation to Covid 19, the report simply comments that a dialogue between the actuarial firms and GAD to ensure consistency of approach, is encouraged.
Climate change	The report notes that DLUHC will be consulting on proposals for new requirements for assessing and reporting on climate risks in 2021 in line with the recommendations of the Taskforce on Climate-related Financial Risks (TCFD), and new regulations and guidance are expected to follow. It further notes that climate risk will be a focus in future section 13 reports. GAD will facilitate dialogue and engagement with DLUHC, actuarial advisors and the SAB prior to publication of the 2022 valuations to ensure a consistent approach is adopted. This is something that Mercer as Actuary will be considering for the Fund in conjunction with officers.



Summary of Outcomes
Other Considerations

Standardised Assumptions	The remit of the Section 13 valuation is to test the premise of achieving solvency and long term cost efficiency to ensure that appropriate funding plans are put in place. In the Actuary’s view this doesn’t mean that assumptions used across Funds and advisors need to be standardised or wholly consistent and any further alignment of approach should be principles based as it is currently. This is particularly true of funded pension arrangements which have different risk appetites, breadth of employers, affordability constraints and also differential investment strategies. The Actuary welcomed the acknowledgement in the finalised report that variation of discount rate and demographic assumptions between Funds is to be expected. GAD also notes the need for more transparency in the discount rate used to set the primary contribution rate (the Mercer approach is, however fully transparent for the Fund so this comment does not apply) and the detail in the reporting of the local considerations that have been taken into account for assumption setting, so as to help to justify the variance in assumptions between Funds going forwards.
Academies	The report comments in some detail about consistency of funding treatment for academies, although as previously stated by the Actuary in response to the 2016 report, their view is that this does not fall within the remit of Section 13. In particular there is commentary regarding a lack of progress in achieving consistency in funding approach for conversion to academy status. In the absence of a mandated approach, Funds will continue to apply their own policies for academy conversion which in the Actuary’s view are very sensible policies to adopt as they are fair to all parties.
Planning for 2022	The report relates to the 2019 valuations and so the messages around funding position and associated analysis are now somewhat dated, however it nonetheless provides context as Funds progress the planning for the 2022 valuations. In particular the messaging around climate change reporting will be welcomed and the Actuary will work with GAD and the other actuarial firms as to how this will be delivered in practice.

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