



ISLINGTON

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Finance Department
7 Newington Barrow Way
London N7 7EP

Report of: Corporate Director of Resources

Meeting of: Pensions sub-Committee

Date: 19th September 2022

Ward(s): n/a

SUBJECT: WHOLE FUND VALUATION INITIAL RESULTS

1. Synopsis

- 1.1 This is an initial report on the funding level of the Fund since the last interim actuarial review in September 2021. It sets out some commentary on related funding matters, which the Actuary is considering in finalising the 31 March 2022 actuarial valuation and a snapshot of the whole fund position before the live data is processed and validated for its impact on valuation results.

2. Recommendations

- 2.1 To note the initial funding level of the whole fund as at 31st March 2022 at 96%.
- 2.2 To note that these results are yet to account for the updated employee data as at 31st March 2022.
- 2.3 To note the Fund Actuary will be presenting updates at this meeting as part of the training section for members.

3. Background

- 3.1 The last triennial valuation was completed in March 2020 and is undertaken every 3 years to determine the funding position and investment strategy that can support sustainable contributions from employers.

- 3.2 The 2022 actuarial review to be completed in March 2023 is now underway after providing the membership data in mid-August and the calculation will cover three main elements; processing and validation of data, funding strategy review and covenant assessment.
- 3.3 The last three years has seen market volatility, Brexit, the COVID-19 pandemic, recovery after vaccine roll out, Russian invasion of Ukraine, and inflation rises. These factors will have an effect on the medium-term funding level and it is prudent for Members to review any risk mitigation factors they may consider.
- 3.4 Preliminary discussions took place between officers and the Actuary in June 2022 in relation to the potential outcomes to emerge from the valuation and what the key areas for consideration would be in relation to the Funding Strategy. In the absence of full membership data, these discussions were based on an approximate roll-forward of the funding review that took place in 2021. The main areas considered are summarised below. A training session will be given to members on valuation and funding process at this meeting, that will incorporate updates on the validation of fund data.
- 3.5 The initial summary findings to note include the following:
- Inflation – unlike previous valuation assessments, given the current high inflation environment, the Actuary will make allowance in their 31 March 2022 calculations for the impact of known inflation to 31 March 2022 (which will impact the 2023 pension increase that will be awarded). This advance allowance will help the Fund “smooth out” the impact of the 2023 increase when this emerges given the % increase will be significantly higher than in previous years. The Actuary has also assessed the level of long-term inflation for the 2022 valuation, taking into account current market expectations and supply/demand distortions. The approach taken represents a 0.2% p.a. reduction in the long-term inflation assumption relative to the approach under the previous methodology, and takes account of increased distortions in investment markets in relation to future inflation expectations. Notwithstanding this, the long-term inflation assumption is still 0.7% p.a. higher than that adopted for the 2019 valuation.
 - Life Expectancy – the Actuary has been undertaking an assessment of the demographic assumptions that will apply for the 2022 valuation, in particular life expectancy. Such analysis will reference the characteristics of the Islington Fund’s own membership directly. Early indications emerging from the exercise would indicate a potential reduction in liability / future service cost relative to the 2019 valuation.
 - Discount Rates – alongside the above, the other key assumption being considered is the discount rate i.e. the expected rate of future investment return, above CPI. Based on the Fund’s current strategic asset allocation, the Actuary has confirmed that the discount rates underlying the 2019 valuation could still be achieved based on the outlook at 31 March 2022. However, since 31 March, financial conditions have deteriorated, and the UK has entered a stagflationary environment (high inflation/low growth) with the future outlook considerably uncertain. Therefore, it has been agreed to reduce the discount rates relative to the 2019 position in order to better manager contribution

outcomes from the 2022 valuation and provide better stability for employers at subsequent valuations.

- Ill-Health – aside from the above, it has also been agreed to modify the approach for managing ill-health retirement costs for employers at the 2022 valuation, thus minimising the risks to contribution outcomes that can emerge.

- 3.6 The Actuary is undertaking a more detailed analysis on the current funding position and subsequent contribution outcomes based on the membership data over the coming weeks, to finalise discussions with officers and members
- 3.7 Members are asked to note initial the summary findings for the whole fund and receive the training and updates from the Fund Actuary.

4. Implications

4.1 Financial implications

- 4.1.1 The cost of providing actuarial advice is part of fund management and administration fees charged to the pension fund.
- 4.1.2 The funding level of the pension fund directly affects employer contributions. A reduced Pension Fund deficit would provide employers with a lower required deficit recovery contribution. Full financial implications to employers will be available once the final valuation is completed.

4.2 Legal Implications

No legal implications

4.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030:

None applicable to this report. Environmental implications will be included in each report to the Pension Board Committee as necessary. The current agreed investment strategy statement for pensions outlines the policies and targets set to April 2022 to reduce the current and future carbon exposure by 50% and 75% respectively compared to when it was measured in 2016 and also invest 15% of the fund in green opportunities. The link to the full document is <https://www.islington.gov.uk/~media/sharepoint-lists/public-records/finance/financialmanagement/adviceandinformation/20192020/20190910londonboroughofislingtonpensionfundinvestmentstrategystatement.pdf>

4.4 Equalities Impact Assessment

None applicable to this report. The council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove

or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding

- 4.4.1 An equalities impact assessment has not been conducted because this report is seeking opinions on updating an existing document and therefore no specific equality implications arising from this report

5. Conclusion and reasons for recommendations

- 5.1 Members are asked to note the initial whole Fund results and assumptions and receive the training session and updates from the Fund Actuary at this meeting.

Appendices: none

Background papers:

None

Final report clearance:

Signed by:

Corporate Director of Resources

Date: report received final clearance

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Legal implications – n/a