Subject	**Valuation 2022 - Outcome**	**Status**	For Publication
Report to	Local Pension Board	**Date**	27th April 2023
Report of	Director		
Equality Impact Assessment	Required	Attached	No
Contact Officer	George Graham Director	**Phone**	01226 666439
E Mail	ggraham@sypa.org.uk		

1 Purpose of the Report

1.1 To update members on the outcome of the triennial valuation process and seek acceptance of the Actuary's rates and adjustments certificate.

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2 Recommendations

2.1 Members are recommended to:

a. **Note the outcome of the 2022 Triennial Valuation of the Fund.**

b. **Accept the Actuary's Rates and Adjustments Certificate subject to the agreement by the Director and the Actuary of any outstanding adjustments as a result of phasing and prepayments.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Scheme Funding

To maintain a position of full funding (for the fund as a whole) combined with stable and affordable employer contributions on an ongoing basis.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

4 Implications for the Corporate Risk Register

4.1 This report addresses the various funding risks identified in the Corporate Risk Register.

5 Background and Options

5.1 The 2022 Valuation process is now virtually complete and the Actuary's final report and the formal Rates and Adjustments Certificate which set out the contributions due from each employer over the next three years is at Appendix A. While this is intended to be the final version of the Actuary's report a small number of further amendments as a result of requests for phasing and pre-payments may be necessary and the recommendations at the head of this report cater for this eventuality. The Fund's actuary will be present to present the report.

The Valuation Process

5.2 This valuation process fell immediately after the transition to a new actuary which while not ideal did, at least, mean that significant work on the preparation of valuation data had already been undertaken as part of the transition process. The initial provision of data worked relatively smoothly although there was some delay in data provision from the Authority due to the need to cleanse data. However, the actuary has commented that South Yorkshire was the first of their final reports to be issued which is a credit both to our team and to the efficiency of the actuary's systems.

5.3 There were some issues at a later stage in the process when it became clear from the initial results that for some academies the way in which the previous actuary had calculated starting positions for new academies was causing some distortion to results. This had to be addressed through back tracking membership data to the point of conversion. While not having an impact at whole fund level this has resulted in some improvement in the position for some academies, although with negligible impact elsewhere.

5.4 The final element of the process is the distribution of results and discussions with individual employers, including around options for phasing and prepayment. This element of the process did not go as smoothly as would have been hoped partly due to the fact that the work mentioned above delayed the point at which results could be distributed and partly because unexpected absence at SYPA meant that internal resources were not available to support this element of the process in the way originally planned. While this was a one off combination of factors which it is to be hoped will not reoccur it is important to say that the internal team stepped up in relation to this and the actuary was able to provide additional support to discussions with employers at short notice which means that issues have been dealt with, although probably not as slickly as we would have wanted and without the level of broader communication and engagement with employers that we would like to see.

5.5 We will be conducting a post valuation review with the actuary to see what lessons can be learnt and what we can do better next time.

Valuation Results

5.6 The tables below set out the whole fund position in relation to contribution rates and the funding position as expanded on in the report at Appendix A.

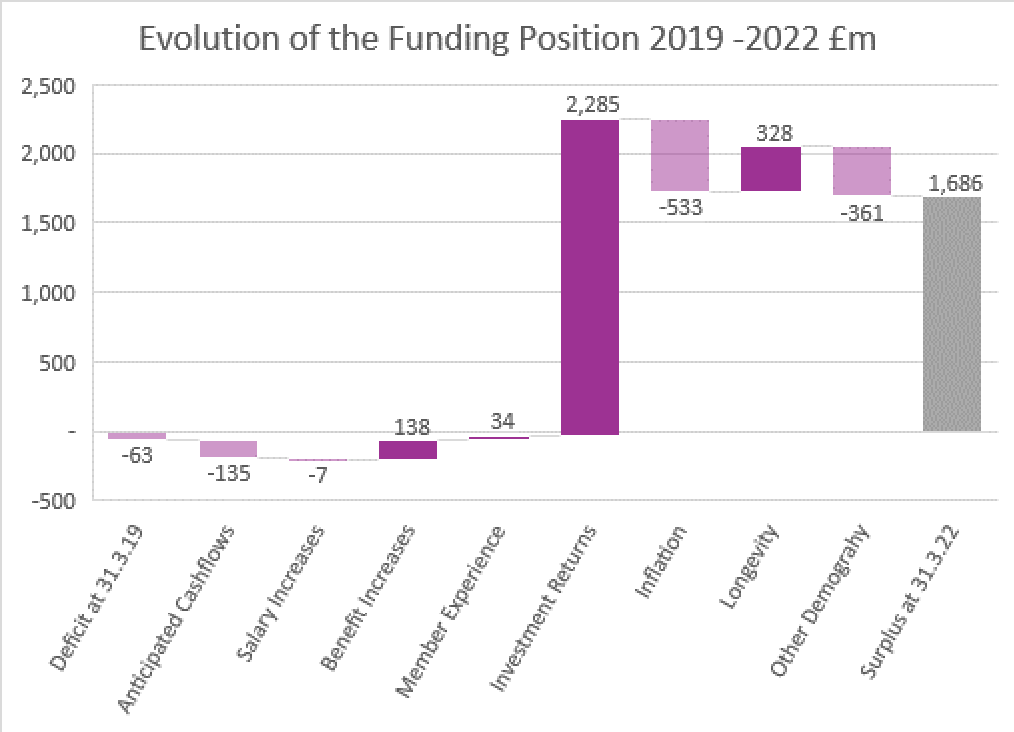
	This Valuation 31st March 2022		Last Valuation 31st March 2019	
Primary Rate	20.3% of pay		16.1% of pay	
Secondary Rate	2023/24	-£18.987m	2021/22	£26.675m
	2024/25	-£17.577m	2021/22	£13.475m
	2025/26	-£15.516m	2022/23	£13.881m

5.7 The primary (future service rate) has increased as a result largely of the cost of future benefits being higher than was assessed in the previous valuation. However, this is offset at whole fund level by the distribution of surplus through the secondary contribution rate (commonly although now inaccurately called deficit contributions). It is important to recognise that the experience of each employer will be different, and some will still have deficits to recover.

5.8 The table below summarises the funding position which looks at the past service liabilities (the focus of the secondary contributions) at the two valuations.

	31st March 2022	31st March 2019
Past Service Liabilities	£bn	£bn
Active Members	3.060	3.005
Deferred Members	1.712	1.657
Pensioners	4.216	3.841
Total Liabilities	**8.988**	**8.503**
Assets	**10.674**	**8.440**
Surplus / (Deficit)	**1.685**	**(0.063)**
Funding Level	**119%**	**99%**

5.9 This is clearly a significant improvement on the position at the last valuation and the graph below shows how the funding level has evolved over the inter-valuation period and a more detailed analysis is at Appendix A. What is clear is that investment returns have driven the improvement in the position more than offsetting a number of other more negative movements.



Employer Experience

5.10 The results at whole fund level translate into the experience of individual employers and their funding positions and contribution rates. The table below sets out the funding levels and deficit recovery periods across employer groups comparing the last valuation and this one.

	2019 Valuation		2022 Valuation	
	Funding Level	Recovery Period	Funding Level	Recovery Period
SYPA	103%	16 years	125%	n/a[1]
LA's	100%	16 years	120%	n/a[1]
F/HE	98%	16 years	119%	n/a[1]
Academies	70%	16 years	93%	10 years[2]
Other	98%	16 years	130%	n/a[1]
Whole Fund	99%	16 years	119%	n/a[1]

1. *The majority of employers are in surplus at the 2022 valuation and so there is no deficit (and so no 'deficit recovery period'). In the small number of cases where employers are still in deficit at the 2022 valuation, the implied deficit recovery period is 10 years. For employers in surplus, recognition of this may have been made when setting the total contribution rate (i.e. by applying a negative secondary rate). In all cases, the period of which any surplus is distributed over future years is greater than the deficit recovery period set at the 2022 valuation (16 years). This is an appropriately prudent approach i.e. deficits are recovered quickly, and surpluses are distributed back to employers slowly. This helps maintain full funding over time and protect the funding position against adverse market events. It is also consistent with the objective of setting stable contributions.*
2. *A time horizon on 16 year applies the determination of Academy rates at the 2022 valuation, i.e. rates are set to ensure each employer is at least 100% funded by 31 March 2038, with a probability of 70%. The equivalent average deficit recovery period is c. 10 years, i.e. the resulting contributions are expected to lead to full funding, on a best estimate basis, by 31 March 2032.*

5.11 This illustrates that each employer group has benefitted from the investment returns achieved, although the higher starting funding levels of longer term employers have benefitted more because of the compounding effect of these returns on previous good returns. Importantly overall, where deficits remain, the implied deficit recovery period has reduced by more than the 3 years that have passed which represents an appropriate level of additional prudence for the Fund.

5.12 In setting contributions for higher risk employers (those in the other category without some form of guarantee) a contribution level floor of the calculated primary rate has generally been used. This provides downside protection for both the employer and the fund in the event of future investment returns not being as good as previously therefore serving to stabilise contributions for these employers. In addition, as many of these employers are in surplus this approach may make the finances of an exit from the Fund easier where this is appropriate and a number of smaller charities have begun discussions of this sort. A more nuanced approach has been taken with some contractors who have significant surpluses and a relatively short remaining contract life. In these cases to avoid the payment of exit credits (i.e. paying over the surplus on termination) contribution reductions or holidays have been allowed in agreement with the Actuary.

Section 13 and the Comparative Position

5.13 In general the funding position across LGPS in England and Wales has improved significantly at this valuation and while SYPA may not be at the top of the funding league table a more mid table approach means that we have not built up an excessive surplus which would arguably mean previous contribution levels had been set too high. Once all the reports have been published the actuarial firms will all be publishing analyses of the results and these will be shared with members when available.

5.14 A more reliable test of the valuation outcome is provided by the Government Actuary's section 13 process which looks at all the valuations and examines each set of results against a range of tests to identify any red flags. While the details of this process are not currently available based on the tests used last time it is not anticipated that SYPA would trigger any red or amber flags.

Conclusion

5.15 While as with any process of this sort there are lessons that can be learnt for next time the results of the 2022 valuation leave the Fund in a fairly strong position to weather the uncertainties in the wider environment going forward.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	The costs of undertaking the valuation are contained within the Authority's operating budget.
Human Resources	None
ICT	None
Legal	It is a requirement of the LGPS Regulations to carry out a valuation of the Fund for the purpose of setting employer contribution rates every three years.
Procurement	None

George Graham

Director

Background Papers	
Document	**Place of Inspection**