

60-second summary

The 2022 Section 13 report: What does it mean for my Fund?



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The Government Actuary's Department (GAD) has just published its [Section 13 report](#): this relates to Local Government Pension Scheme fund valuations in England & Wales as at 31 March 2022. The purpose of [Section 13](#) of the Public Service Pensions Act 2013 was to consider issues of compliance, consistency, solvency and long term cost efficiency across the various LGPS funds.

There are two key take-aways for English & Welsh funds to note:

- (a) Looking back: the report publicly identifies where your Fund sits relative to your peers on a number of metrics;
- (b) Looking forward: the report also identifies a number of areas which may affect the outputs of the 2025 actuarial valuations.

In summary, we agree with the principles of this Section 13 analysis, however there are some elements of the report where we will continue to engage with GAD to represent the best interests of LGPS stakeholders.

Looking back to your 2022 results

The detailed results, covering all English & Welsh funds, are contained in a separate [appendices document](#).

You can locate your own Fund results by searching for its name, however some highlights are:

- The charts on pages 12 & 13 of that document will be of most obvious interest: they show how all funds' funding levels compare when measured on a single "SAB standard basis", which allows a like-for-like comparison;
- Page 12 (Chart B1) shows how the funding levels compare on the "local bases" (ie as shown in the funds' own valuation reports) vs on this standard basis. Whilst individual funds aren't labelled, with some zooming-in and knowing your local funding level and actuarial advisor, you should be able to identify your position relative to peers;
- Page 13 (Chart B2) shows the degree of change observed when converting funding levels on funds' local bases onto the standard basis. This chart could be perceived as indicating the level of prudence within each fund's local funding basis (relative to other funds), however this comparison is imperfect as the chart doesn't account for differences in investment strategies
- Pages 33-38 (Table C2) shows the various solvency metrics – green flags mean GAD have no concerns whilst white flags indicate GAD has some general concern (but not sufficiently so to

- make it an amber or red flag). A small number of white flags are raised in the report under “SAB funding level”, “asset shock” and “non-statutory employees”.
- Pages 45-49 (Table D2) shows the various long term cost efficiency metrics – again, most funds are green, however a handful of white and amber flags are raised. The metrics where flags arise are:
 - “Deficit period”: GAD consider the implied deficit recovery period to be rather long (calculated on GAD’s standard best estimate basis);
 - “Return scope”: GAD think that the required investment return looks high relative to the fund’s expected future returns based on its actual asset mix;
 - “Deficit recovery plan”: in essence GAD believe that contributions should not have been reduced as much (if at all) as they were.

We continue to have issues with some of these metrics and flags. As a result, we’ll persist with our engagement with GAD, as the aim should be for as pragmatic and helpful metrics as possible.

Looking forward to your 2025 valuation

Clearly this report has emerged much closer to the 2025 valuations than to when the 2022 ones were published. GAD have made a number of recommendations which could flow through into the 2025 valuation process, as summarised in the Executive Summary:

1. Scheme Advisory Board to “consider whether greater consistency could and should be achieved to allow easier comparison between funds and better understanding of risks” – we have commented to GAD that it would be helpful to understand which elements of a valuation they believe there could be greater consistency. There are legitimate reasons why LGPS funds may have differing views and circumstances regarding elements such as methodology, prudence, assumptions and a one size fits all consistent approach would not be appropriate.
2. SAB to “consider emerging issues and, where appropriate, whether guidance would be helpful to support greater consistency” and also that “work continues to refine the climate change principles document in advance of the 2025 fund valuations” – we are supportive of anything that helps awareness around emerging risks and offers ideas about how these risks can be assessed, understood and reported on. However, given such risks are emerging and typically uncertain, we believe that it is beneficial for the LGPS if funds are free to proportionately explore a variety of managing, measuring and mitigation options to avoid ‘group think’ and systemic risk. We are currently working with GAD and MHCLG to help update the climate change principles document with this belief in mind.
3. SAB to consider:
 - “where funds are in surplus, whether additional guidance can be provided to support funds in balancing different considerations” – we are supportive of this recommendation so long as it does not constrain individual fund strategy decisions;
 - “Where deficits exist, how can all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan” – this recommendation featured in GAD’s 2019 report and we continue to engage on it. We remain unconvinced that continuing the same plan (which GAD interpret to mean recovering a deficit by a fixed end point) is appropriate for LGPS employers that are expected to participate for the long term. It also ignores that there is no single ‘deficit recovery’ for the fund, it is in effect the sum/average of all the employers’ own funding strategies;

- “whether additional guidance is required in relation to the treatment of asset transfers from local authorities” – we remain basically supportive of this.

I still have questions ...

If you would like to discuss any aspect of the Section 13 report or process, or your own Fund’s results, please do get in touch with your usual Hymans Robertson actuary.

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