LOGO

LONDON BOROUGH OF BROMLEY PENSION FUND

2022 ACTUARIAL VALUATION RESULTS AND FUNDING STRATEGY STATEMENT CONSULTATION

Background

You will be no doubt aware that in accordance with the underlying LGPS Regulations, the London Borough of Bromley Pension Fund ("the Fund") has been undergoing its triennial actuarial valuation as at 31 March 2022 in order to assess its solvency position and set contribution requirements for employers for the 3 years from **1 April 2023 to 31 March 2026**.

The purpose of this letter and the accompanying documents is to advise you of the results for your employer and also to consult with you on changes made to the Fund's Funding Strategy Statement (FSS) that we are required to maintain and publish as part of the valuation process. Alongside this letter, you will therefore be provided with the following:

- Draft 2022 Funding Strategy Statement
- Preliminary Results Schedule (and explanatory guide / FAQ)

Section 1 below discusses the main changes proposed to the FSS since the previous consultation. **Section 2** provides brief commentary on what will be included in the preliminary results schedule provided. **Section 3** provides some key areas where we would like feedback from you as part of the consultation process.

The closing date for comments from you on the FSS consultation and valuation results is 24 February 2023.

Section 1 - Funding Strategy Statement

The FSS is a statutory document which has to be consulted upon with interested parties and approved by the Administering Authority before the actuarial valuation can be completed. The FSS is the document which contains the parameters the Fund and its Actuary will use to determine your contribution requirements. It has been updated from the current FSS, by London Borough of Bromley, as administering authority of the Fund, in conjunction with the Fund's Actuary.

It is strongly recommended that you consider the FSS to understand the key areas and policies as it will have a financial and operational impact on your organisation.

We would be grateful for your comments to consider as part of the consultation. It should be noted that whilst we will take into account all consultation responses from employers in the Fund, it is ultimately the Administering Authority's responsibility to formulate and implement the FSS as part of the valuation process.

A key objective of the Fund is to set contributions which are as sustainable and as low as possible and the funding strategy along with the investment strategy (which is consulted upon separately to the FSS) are designed to try to achieve this. These objectives can act in opposing directions (for example if contributions are set too low then this is not sustainable and they will need to increase in the future) and therefore the funding strategy needs to deliver a balance. Employers also have a responsibility to manage the sustainability of contributions in the long-term. As a consequence, employers will need to consider the level of contributions payable to balance contribution short-term affordability versus long-term sustainability in the context of their own budgets. This could lead employers to choose to pay higher contributions than the minimum required under the FSS parameters.

The proposed FSS for the 2022 valuation incorporates these main key changes from the current version:

Financial Assumptions - At the valuation date we have modelled the range of expected investment returns (in excess of CPI inflation) that the Fund may achieve in the future based on our investment strategy objectives. This has helped the Fund determine the discount rate used to derive your liabilities (incorporating prudential margins as required by the Regulations).

Recognising the current high level of CPI inflation the Fund has opted to build in an additional allowance for this as part of the 2022 valuation, thereby providing additional protection against the cost of the 2023 pension increase once implemented.

In setting the discount rate / approach to inflation at the 2022 valuation, the Fund has taken into account current uncertain economic outlook alongside the overall objective, as outlined above, of contribution sustainability.

Additional Reserve for Economic Uncertainty – Given the current uncertain economic outlook, as referred to above, the Fund is allowing employers to build in an explicit liability reserve at the 31 March 2022 valuation to provide additional protection against adverse market experience over 2022-25 in order to increase the likelihood of contribution rate stability being achieved at the 31 March 2025 valuation. Whether or not an employer opts for this protection will depend on their overall balance sheet position, contribution outcomes and affordability. The reserve is not mandatory.

Demographic Assumptions - We have updated the demographic assumptions used (e.g. future life expectancy, levels of ill-health retirement etc.) based on the analysis completed by the Fund Actuary.

Treatment of Surplus - For those employers in surplus at the 2022 valuation, surplus offsets will only be permitted (based on a 12 year default period) to the extent that they are used to minimise any increase in contributions relative to those currently being paid (such offsets will also only be permitted if the employer is in surplus on the termination basis).

Recovery Plans - Subject to covenant and affordability considerations of employers, it is proposed to reduce deficit recovery periods by 3 years relative to the period adopted at the 2019 valuation although in some cases the recovery period maybe adjusted to achieve contribution rate stability where necessary.

Administrative Expenses: - It is proposed to increase the allowance for administrative expenses payable by employers in the Fund from 0.7% of pay to 1.0% of pay, recognising both recent experience and the expected administrative work to be undertaken in the future e.g. implementing the McCloud remedy / Pension Dashboards etc.

Termination Policy / Employer Flexibilities: - Amendments have been made to the Fund's termination policy and assumptions to reflect recent market events, to protect those employers exiting the Fund (and those remaining).

Pooled Contributions: - For certain employers, a request can be submitted to the Fund for a pooled contribution rate to be certified by the Fund Actuary (e.g. Multi-Academy Trusts with a number of constituent academies in the Fund).

Policy Documents: - The FSS also includes a number of other Fund policies that you should be aware of, including the following:

- The assumptions proposed for the 2022 actuarial valuation and the derivation of contribution plans.
- The approach taken when new employers join the Fund.
- The approach adopted when the last active member leaves an employer or the contract ends (e.g. the termination of the employer and the requirement for upfront payment of the debt, or alternatively the implementation of payment plans in certain circumstances at the Fund's discretion).
- The treatment of academies and Multi-Academy Trusts.
- How the Fund may monitor the covenant of employers.
- A glossary of terms in the FSS to help you understand the technical and regulatory terms that must be included in the document.

Layout - we have worked on streamlining the content of the FSS as part of the 2022 valuation and therefore the format of the document has changed considerably and we hope this will help to make the document more user friendly for you.

Section 2 - Your employer preliminary results

Please find attached an individual employer results schedule produced by the Actuary that sets out the preliminary results of the 2022 actuarial valuation for your organisation. This has been completed using the parameters set down in the FSS as described above. The schedule includes a notes section at the end that provides some additional background information. **For this valuation, we have also provided a separate explanatory note / FAQ document that should be read in conjunction with the results schedule and sets out the key parameters on which the figures have been based**

The contributions to emerge from the valuation will be certified by the Actuary for the period 1 April 2023 to 31 March 2026 and will be subject to review as part of the 2025 actuarial valuation, with revised contributions coming into effect from 1 April 2026.

Note that these results should still be viewed as preliminary given the FSS consultation is ongoing. Any changes to the figures in the attached schedule

will be communicated to you (and the reasons for the change) should they arise.

Section 3 - Some key areas where we would like feedback on:

As mentioned above, we will require comments from you on the FSS and the valuation outcomes by **24 February 2023.** Some of the key areas where we'd like feedback on would be as follows:

1. Comments in relation to the affordability of contributions and in particular whether there is any particular year over 2023/2026 which will be more challenging. This will help us form a view on any further flexibility required.

2. The schedule sets out the minimum contributions required. If the minimum contributions result in a reduction in total contributions over 2023/26 (e.g. if the "Total 2023/26 Projected Contributions" on page 3 has fallen from the 2019 plan), do you need to take the full reduction now or could you pay more (e.g. could you pay higher deficit contributions or take a smaller surplus offset back each year or do you wish for the additional liability reserve to be incorporated into your balance sheet)?

   The material financial and economic risks we are all currently facing could result in contribution pressures emerging at future valuations. Retaining all or more assets in the Fund will aid the sustainability of your future contributions at the next valuation and beyond, so is a key consideration for employers also.

   Alternatively, you can request an explicit liability reserve is incorporated into your valuation results (and subsequent contribution outcomes) given the current economic uncertainty (thus reducing the likelihood of contribution increases in the future).

3. Whether there are any other significant post-valuation date events (e.g. major profile changes that the Fund) that the Actuary should be aware of when setting the final contributions for your employer.

As mentioned above, the results and contribution outcomes provided with this letter should be viewed as preliminary at this stage given that the consultation on the FSS is not yet completed. We will notify you in due course should any changes emerge.

If you wish to discuss any aspects of the proposed strategy or your individual employer results feel free to contact me using the details below. If you wish to have an individual meeting/call with the Fund Actuary then please let us know in order that this can be arranged if necessary.

Dan Parsons
Senior Accountant
Dan.Parsons@bromley.gov.uk

Benjamin Short

Team Leader, Employers (PSS)
Benjamin.Short@richmondandwandsworth.gov.uk
On behalf of London Borough of Bromley, as administering authority of the London Borough of Bromley Pension Fund
January 2023