



City of Westminster

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>27 October 2022</b>
<b>Classification:</b>	<b>General Release</b>
<b>Title:</b>	<b>Actuarial Valuation: Initial Outcome</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.</b>
<b>Report of:</b>	<b>Phil Triggs Tri-Borough Director of Treasury and Pensions</b>  <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1. EXECUTIVE SUMMARY

- 1.1 This paper introduces the initial results of the 2022 triennial actuarial valuation process for the Westminster City Council Pension Fund, which are further discussed in Appendix 1, as set out by the pension fund actuary, Hymans Robertson (Hymans).
- 1.2 The key highlights are:
  - The whole funding level has risen to 128% from the 99% level in 2019, which is broadly due to the excellent investment returns over the period, as well as the Council's additional deficit recovery payments.
  - The major changes to the 2022 actuarial financial assumptions are an increase CPI inflation which is linked to pension payments and salary increases. The discount rate is expected to remain the same.

## **2. RECOMMENDATIONS**

- 2.1 That the Pension Fund Committee note and comment on the initial outcome result, with the expectation of receiving a final actuarial report and draft funding strategy statement in the March 2023 cycle.

## **3. INITIAL ACTUARIAL RESULTS**

- 3.1 In the period from 2019 to 2022, the Pension Fund has increased its overall funding level from 99% to 128%. The main drivers for this improvement are the significant investment returns and significant, additional deficit recovery payments received from the Council.
- 3.2 The funding level for Westminster City Council (as a single employer) stands at 111%, improving from 86% previously. Specifically, the effect of strong asset returns and the significant secondary contributions have helped to improve the funding position.

## **4. CHANGES TO ACTUARIAL ASSUMPTIONS**

- 4.1 A number of assumptions are made during the triennial actuarial valuation process, with the two most significant being longevity projections and the discount rate used to value liabilities.
- 4.2 The actuarial analysis suggests a long-term trend of 1.5% annual improvements in longevity, when adjusted for the LGPS this leads to a reduction in liability values. Alongside this, the COVID-19 pandemic has resulted in reduced longevity since 2020, although the reduction in liabilities attributable to the pandemic is estimated to be only circa 0.1% to 0.2%.
- 4.3 The real discount rate, a proxy for the real investment return, has remained stable at 4.8%. The discount rate is set with reference to the likelihood of the Fund's investment return achieving a certain level of return over the next 20 years. Based on the Hymans analysis as at 31 March 2022, the Fund's assets have a 67% likelihood of returning 4.8% per annum over the next 20 years.
- 4.4 As a result of the financial changes and demographic changes above, the net decrease to the Fund's overall contribution rate is expected to be circa 1.1%, falling from 17.9% to 16.8%.

## **5 NEXT STEPS**

- 5.1 The next steps for the Pension Fund Committee will be to agree a Funding Strategy Statement at the next Pension Fund Committee meeting in 2023, in tandem with receipt of the final actuarial valuation report and new investment strategy statement in March 2023.

**If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:**

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**BACKGROUND PAPERS:** None

**APPENDICES:**

**Appendix 1:** Initial Actuarial Valuation Outcome 2022