

Non-Executive Report of the:  <b>Pensions Committee</b>  Monday, 27 June 2022	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Interim Corporate Director, Resources	<b>Classification:</b> Open (Unrestricted)
<b>Funding Update March 2022</b>	

<b>Originating Officer(s)</b>	Miriam Adams
<b>Wards affected</b>	(All Wards)

#### REASONS FOR URGENCY

The report was not published five clear days in advance of the meeting. Therefore, before this item can be considered at this meeting, the Chair of the Committee would need to be satisfied that it is necessary to consider the update on the London Collective Investment Vehicle (CIV) at this meeting, the Committee may also take the view that it is important that there should not be an extended period without any member oversight on the London CIV.

#### Executive Summary

The funding update is provided to illustrate the estimated funding position from 31 March 2019 to 31 March 2022.

The projected benefit payments used in this calculation are based on the membership data and the financial and demographic assumptions used for the 2019 formal valuation and in line with the Funding Strategy Statement (FSS) dated March 2020. However, they have been updated to reflect actual pension increases since the valuation and changes in future long-term inflation expectations derived consistently with the approach in the current FSS.

The funding level is derived as a ratio of the value of the Fund's assets to the value of its accrued liabilities. Actual benefit payments in the future will be in respect of both service accrued up to today ("past service") and service that will be accrued in the future ("future service"). However, the funding level presented is only in respect of past service benefits.

The funding level is only a snapshot in time based on a single set of assumptions about the future and is therefore sensitive to the choice of assumptions, in particular the expected future investment return assumption.

Based on the Fund targeting an annual future investment return which has a 70% likelihood of being achieved, the past service funding position has improved from being 102% funded (surplus of £27m) to being 120% funded (surplus of £336m). The

improvement has been largely driven by strong investment performance since 31 March 2019.

The Fund actuary Hymans will present to Members their outlook on funding position and risk principles.

### **Recommendations:**

The Pensions Committee is recommended to:

1. Note the content of this report.
2. Note that any investment decisions taken which fail to provide the desired returns will impact estimated funding levels.

## **1. REASONS FOR THE DECISIONS**

- 1.1 Tower Hamlets Council as the Fund's administering authority recognises that effective risk management is an essential part of good governance.
- 1.2 The purpose of the valuation is to review the current funding strategy and ensure the Fund has a contribution plan and investment strategy in place that will enable it to pay members' benefits as they fall due. This report is for noting.

## **2. ALTERNATIVE OPTIONS**

- 2.1 This report serves as a monitoring tool for funding level as well as acting as a risk management tool.

## **3. DETAILS OF THE REPORT**

- 3.1 Since the 2019 valuation, as at 31 March 2022:
  - The past service funding position has improved from a surplus of £27m (102% funded) to a surplus of £336m (120% funded). This funding position is based on the Fund targeting an annual future investment return which has a 70% likelihood of being achieved. The improvement has been largely driven by strong investment performance since 31 March 2019.
  - The outlook for future investment returns has worsened since the last formal valuation. As at 31 March 2022, the actuary estimated that the Fund's asset allocation had a 70% likelihood of achieving an annual return of at least 4.2% p.a. (at 31 March 2019, the equivalent return was 4.0% p.a.).

- The future investment return required to be notionally fully funded has fallen from 3.9% p.a. to 3.1% p.a. The likelihood of the Fund's assets achieving this required level of return has increased from 71% to 81%. Therefore, the Fund is now more likely than not to achieve the future returns needed to be fully funded.

### Indicative impact of future contributions

#### 3.2 Indicative impact on future contributions:

- **Secondary rate contributions:** the improved past service funding position will have a positive impact on Secondary rate contributions, all else being equal.
- **Future service cost (Primary rate contributions):** The cost of future benefit accrual has increased. Longer term future market conditions for valuing benefit costs are expected to be more challenging and are applying upward pressure to the future service cost (compared to March 2019).

#### 3.3 Summary of results

Reported funding position	31 March 2019	30 June 2021	31 March 2022
Assets (£m)	1,552	2,034	2,024
Past service liabilities (£m)	1,525	1,656	1,688
<b>Surplus/(Deficit) (£m)</b>	<b>27</b>	<b>378</b>	<b>336</b>
<b>Funding level</b>	<b>102%</b>	<b>123%</b>	<b>120%</b>
Assumed future investment return	4.00%	3.70%	4.2%
Likelihood of achieving this return*	70%	70%	70%
Fully funded target	31 March 2019	30 June 2021	31 March 2022
Funding target	100%	100%	100%
Future investment return required to be 100% funded	3.90%	2.40%	3.1%
<b>Likelihood of achieving this return*</b>	<b>71%</b>	<b>84%</b>	<b>81%</b>

- 3.4 The results in this report and appendix are dependent on factors including future market conditions, the membership details and demographic trends such as longevity. The results are extremely sensitive to market conditions, in particular the future investment returns assumption and future inflation.

- 3.5 The projected benefit payments used by the actuary to perform these calculations are the March 2019 valuation data however they have been updated to reflect actual pension increases since the valuation and changes in future long-term inflation expectations derived consistently since the approach in the current Funding Strategy Statement (FSS).

Actual pension increases in April 2020 and April 2021 were less than expected (1.7% vs 2.3% and 0.5% vs 2.3% respectively. While actual pension increases at April 2022 were higher than expected (3.1% vs 2.3%) and market derived long-term inflation expectations have risen since 31 March 2019.

#### **4. EQUALITIES IMPLICATIONS**

- 4.1 There are no direct equalities implications on the content of this report.

#### **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

Risk Management

- 5.2 All material, financial, and business risks have been considered and addressed within the report and its appendices. The actuarial report and funding strategy statement will provide the Pension Fund with a solid framework in which to achieve a full funding status over the long term.

#### **6. COMMENTS OF THE CHIEF FINANCE OFFICER**

- 6.1 The performance of the Pension Fund's investments affects the required level of contributions due from employers.
- 6.2 The employers' contribution rate for the whole Fund remains at a rate of 19.9% as a result of the 2019 triennial valuation reported.

#### **7. COMMENTS OF LEGAL SERVICES**

- 7.1 The Constitution delegates to the Pensions Committee the function of setting the overall strategic objectives for the Pension Fund.
- 7.2 Regulation 58 of the Local Government Pension Scheme Regulations 2013 requires the Council as an administering authority to publish and maintain a funding strategy statement. This report provides the Committee with an update on the whole Fund's actuarial position at 27 June 2022.
- 7.3 When preparing, maintaining or publishing the funding strategy statement, the Council is required to make such revisions as it considers appropriate following a material change to the policy set out in the statement; any revisions must be made following consultation with such persons as the Authority considers appropriate.
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## **Linked Reports, Appendices and Background Documents**

### **Linked Report**

- NONE

### **Appendices**

- Funding Position at 31 March 2022 (Appendix 1)

### **Local Government Act, 1972 Section 100D (As amended)**

#### **List of "Background Papers" used in the preparation of this report**

- NONE

### **Officer contact details for documents:**

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