

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Report to: Pension Fund Committee

Date: 28 February 2023

Subject: Triennial Valuation

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Responsible Director: Phil Triggs, Director of Treasury and Pensions

SUMMARY

This paper introduces the results of the 2022 triennial actuarial valuation process for the London Borough of Hammersmith and Fulham (LBHF) Pension Fund, which are further discussed in Appendix 1.

The key highlights are:

- The Fund's funding level has risen to 105% from the 97% level in 2019, which is broadly due to the good investment returns over the period.
- The two major changes to the assumptions are a reduction in the discount rate and an increase in the long-term improvement in pensioner longevity.

RECOMMENDATIONS

1. The Committee is requested to approve the final 2022 Triennial Valuation for the Pension Fund set out at Appendix 1.

Wards Affected: None

Our Values	Summary of how this report aligns to the H&F Values
Being ruthlessly financially efficient	Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council taxpayer.

Financial Impact

The Triennial actuarial valuation shows the scheme to currently be 105% funded.

Legal Implications

None.

DETAILED ANALYSIS

Actuarial Results

1. In the period from 31 March 2019 to 31 March 2022, the Pension Fund has increased its overall funding level from 97% to 105%.
2. The funding level for Hammersmith and Fulham (as a single employer) stands at 103%, improving from 96% previously.
3. Due to the much-improved funding level the Council, as a single employer within the fund, will pay reduced secondary contributions to the Fund (previously £3.8m per annum were payable). The secondary contributions will now be 1.1% of payroll, a reduction of circa £2.6m per annum.
4. Higher inflation expectations at the 2022 valuation have led to higher primary contributions, leading to an expected additional cost to the Council of £3.6m per annum. The Council's primary employer contribution rate will rise to 20.6% from 17.1%. On a net basis, total contributions payable in 2023/24 are expected to be circa £1.0m higher than those paid in 2022/23.

Changes to Actuarial Assumptions

5. There are a number of assumptions made during the triennial actuarial valuation process, with the two most significant ones being longevity projections and the real discount rate used to value liabilities.
6. The actuarial analysis suggests a long-term trend of 1.5% annual improvements in longevity. 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%.
7. The discount rate, a proxy for the real investment return, has fallen during the period from 2019 to 2022, falling from 5.0% to 4.4%. The discount rate has reduced for investments as Hymans Robertson has considered that investment returns have improved significantly in recent years and have thus factored in a higher level of prudence going forward.
8. As a result of the financial changes and demographic changes outlined above, the net increase to the Fund's overall average contribution rate is 3.3%, rising from 17.4% to 20.7%.
9. In association with the triennial actuarial valuation, the Committee is also required to approve a funding strategy statement (FSS) and an investment strategy statement (ISS), which are also being presented in the agenda (28 February 2023 meeting).

LIST OF APPENDICES

Exempt Appendix 1: LBHF Pension Fund 2022 Final Valuation Report Draft