# 253 (70284) Deal Town Council

# 31 March 2022 valuation employer results schedule

## Kent Pension Fund

Barnett Waddingham LLP

**23 December 2022**

# Introduction

This schedule is provided to Kent County Council as administering authority to Kent Pension Fund (the Fund). It has been generated from our online employer results modelling tool **Illuminate Me**. It may be shared with (70284) Deal Town Council (the Employer) but it does not constitute advice to them. The Fund is part of the Local Government Pension Scheme (LGPS).

The purpose of this document is to provide a summary of the preliminary results of the actuarial valuation as at 31 March 2022 in relation to the Employer's individual funding position. A full valuation report will follow by 31 March 2023, which will provide details of the valuation method, assumptions and results of the valuation.

The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2023 to 31 March 2026 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended. These contributions rates will be based on each employer's own membership/funding unless the employer participates in a pool, in which case the funding position of the pool will be considered.

## McCloud judgment

At the time of writing, the amending regulations to address the remedy to LGPS benefits under the McCloud judgment have not been made. However, guidance for the 2022 valuations has been provided by the Department for Levelling Up, Housing & Communities (DLUHC). Using this guidance, the liabilities calculated for each employer include an allowance for the McCloud remedy. Please note that this allowance will change from year to year as the impact on members will change from year to year. For more information, please contact the administering authority.

## Compliance statement

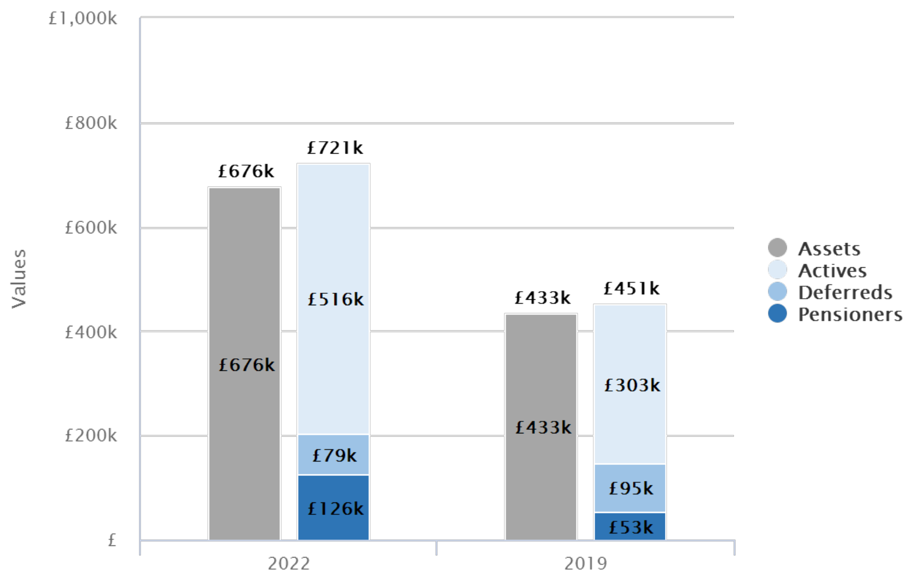
This schedule is subject to and complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) as a component communication of the 2022 valuation. This schedule does not constitute advice to the Employer.

# Employer results

## Funding position

Each participating employer, or group of similar employers, will likely have differing results to the Fund as a whole depending upon their own profile of membership within the Fund, and how this has changed in the inter-valuation period.

Using the proposed assumptions, the preliminary results as at 31 March 2022 for (70284) Deal Town Council are set out in the chart below. We have included the funding position at 31 March 2019 for comparison.




The Employer has a funding deficit of £44.7k at 31 March 2022, relating to a funding level of 93.8%, compared to a funding deficit of £17.3k at 31 March 2019, relating to a funding level of 96.2%.

We have estimated that the increase in liabilities as a result of the McCloud remedy is £10.2k. Please note that this figure will differ from year to year as member's benefits change.

## Contribution rates

The total contribution rates payable by employers consists of two elements, the primary rate and the secondary rate. The primary rate covers the cost of benefit accrual and the secondary rate is the adjustment required to reach the total rate payable (for example, to recover a funding deficit identified).

The proposed minimum contribution rates for the three year period from 1 April 2023 to 31 March 2026 are detailed below. These contribution rates have been provided to the administering authority and reviewed via **Illuminate Me**. The Employer may pay further amounts at any time.

| **Contribution rate results** | Previously certified | **Provisionally certified** | | |
|---|---|---|---|---|
| Year ending | 31 March 2023 | 31 March 2024 | 31 March 2025 | 31 March 2026 |
| **Total contributions** | 21.9% | **26.4%** | **26.4%** | **26.4%** |
| *Consisting of:* | | | | |
| Primary rate (of pay p.a.) | 21.9% | 24.0% | 24.0% | 24.0% |
| Secondary rate (% of pay plus £ p.a.) | - | 2.4% | 2.4% | 2.4% |
| Contribution rate analysis | | | | |
| Estimated annual pay | £199k | £207k | £215k | £223k |
| Estimated Total contributions | £43.6k | £54.6k | £56.7k | £58.9k |
| Increase (in absolute terms) | - | 25.2% | 3.9% | 3.9% |

### Assumptions

These rates have been calculated using the following assumptions:

- The employer is open to new members.
- The deficit is assumed to be repaid over a period of 11 years.
- Monetary contributions are assumed to be paid monthly.
- Secondary contributions are assumed to increase in line with salaries.

## Minimum-risk cessation information

If the Employer was to exit the Fund, with no further support for their remaining Fund liabilities on exit, we would establish the funding position on a "minimum-risk" basis. This is similar to adopting a basis that would be used to secure the liabilities from an insurance company. In practice there is no scope for the liabilities to be bought out via such an arrangement but it represents one measure of the cost of funding the liabilities while minimising the risk of further costs having to be met by other employers in the future. In particular, an appropriate approach to determine the liabilities on a minimum-risk basis would be to use gilt yields as the discount rate. At 31 March 2022, the minimum-risk discount rate is 1.72% p.a. and the CPI inflation assumption is 3.02% p.a.

On this basis, the Employer has a deficit of £578k at 31 March 2022. Note if the employer was to exit the Fund, a full cessation valuation at the exit date would be required which would set out any payment to be made on exit.

Please note that the administering authority should have a separate policy on deferred debt agreements and debt spreading agreements for exiting employers. Please get in touch with the administering authority for more information.

## Next steps

The administering authority is happy to discuss the proposed rates with the Employer. The agreed contributions payable by the Employer will be set out in the Rates and Adjustments Certificate issued alongside the actuarial valuation report by 31 March 2023.

# Appendix 1 Information and methods

## Membership data

The membership data provided for the Employer is summarised below and this is what the results are based on. The Employer should let the Fund know if this does not look in line with their expectations of the existing membership profile.

| | 31 March 2022 | | | 31 March 2019 | | |
|---|---|---|---|---|---|---|
| | **Current Number** | **Salary/Pension** | **Average Age*** | **Current Number** | **Salary/Pension** | **Average Age*** |
| **Active** | 9 | £199k | 55.0 | 11 | £172k | 49.3 |
| **Deferred (inc. Undecided)** | 5 | £5k | 48.6 | 3 | £6k | 53.3 |
| **Pensioner and Dependant** | 4 | £7k | 68.4 | 3 | £3k | 68.5 |

*Average ages at 31 March 2022 have been weighted by salary for active members and pension amount for deferred and pensioner members. Average ages at 31 March 2019 are unweighted.

## Valuation of liabilities

Using the valuation assumptions shown below, we estimate the future cashflows which will be made to and from the Fund throughout the future lifetime of existing active members, deferred pensioner members, pensioners and their dependants. We use these to calculate the amount of money which if invested now, would be sufficient together with the assumed growth in the assets to make those payments in future. This amount is called the present value of members' benefits and separate calculations are made in respect of service up to the valuation date (past service), and for service after (future service).

We compare the value of existing assets with the value of past service benefits (allowing for future salary and pension increases). If there is an excess of assets over accrued liabilities then there is a surplus, otherwise, there is a deficit.

To calculate contribution rates we first calculate the value of future benefits. If an employer is open to new members, we will usually consider the value of benefits accruing in the first year. If an employer is closed to new members, then we will usually consider a longer term, for example, the value of benefits accruing in the remaining working lifetime of the members. The value of these benefits is then expressed as a percentage of payroll over the same period, having first deducted the projected contributions to be paid by the members.

If there is a deficit, additional contributions are required to be paid by employers over an agreed period, either as a percentage of payroll, or as monetary amounts.

## Assets

Assets are calculated as a six-month smoothed market value straddling the valuation date. The purpose of smoothing the asset value is to help stabilise employer contributions and it means that contribution rates are not singularly dependent on the market value of assets and market conditions on one particular day.

Assets are not separately held for each employer. The Fund holds assets in respect of all of the employers in the Fund and each employer has a notional share of these assets. Each employer's own notional share is fully re-apportioned at the actuarial valuation by accumulating the assets from the previous valuation with respect to the Fund's investment return achieved over the period, and with allowance for cashflows paid in respect of the Employer and any other experience.

# Appendix 2 Summary of the Fund results

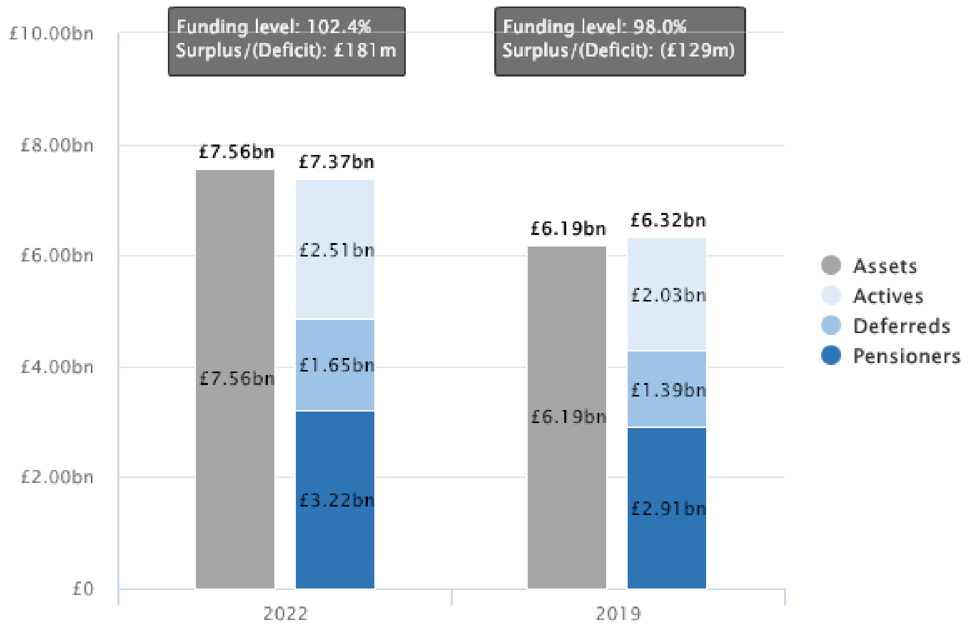
## Assumptions

In summary, we have adopted the following key assumptions at 31 March 2022 (with comparison to those adopted at the previous funding valuation).

| Key assumptions | | 31 March 2022 | 31 March 2019 |
|---|---|---|---|
| Discount rate | | 4.5%p.a | 4.7%p.a |
| CPI inflation | | 2.9%p.a | 2.6%p.a |
| Salary increases | | 3.9%p.a | 3.6%p.a |
| Post-retirement mortality | | Male / Female | Male / Female |
| | Member base table | S3 tables | S3 tables |
| | Mortality multiplier | 110% / 110% | 110% / 115% |
| | Projection model | CMI_2021 | CMI_2018 |
| | Long-term rate of improvement | 1.25% | 1.25% |
| | Smoothing parameter | 7.0 | 7.5 |
| | Initial addition to improvements | 0.0% | 0.5% |
| | 2020 and 2021 weight parameter | 5% | n/a |

# Past service funding position (whole Fund)

Using these assumptions, the chart below sets out the preliminary valuation results for the Fund as a whole as at 31 March 2022 (with comparison to the whole fund results at 31 March 2019):



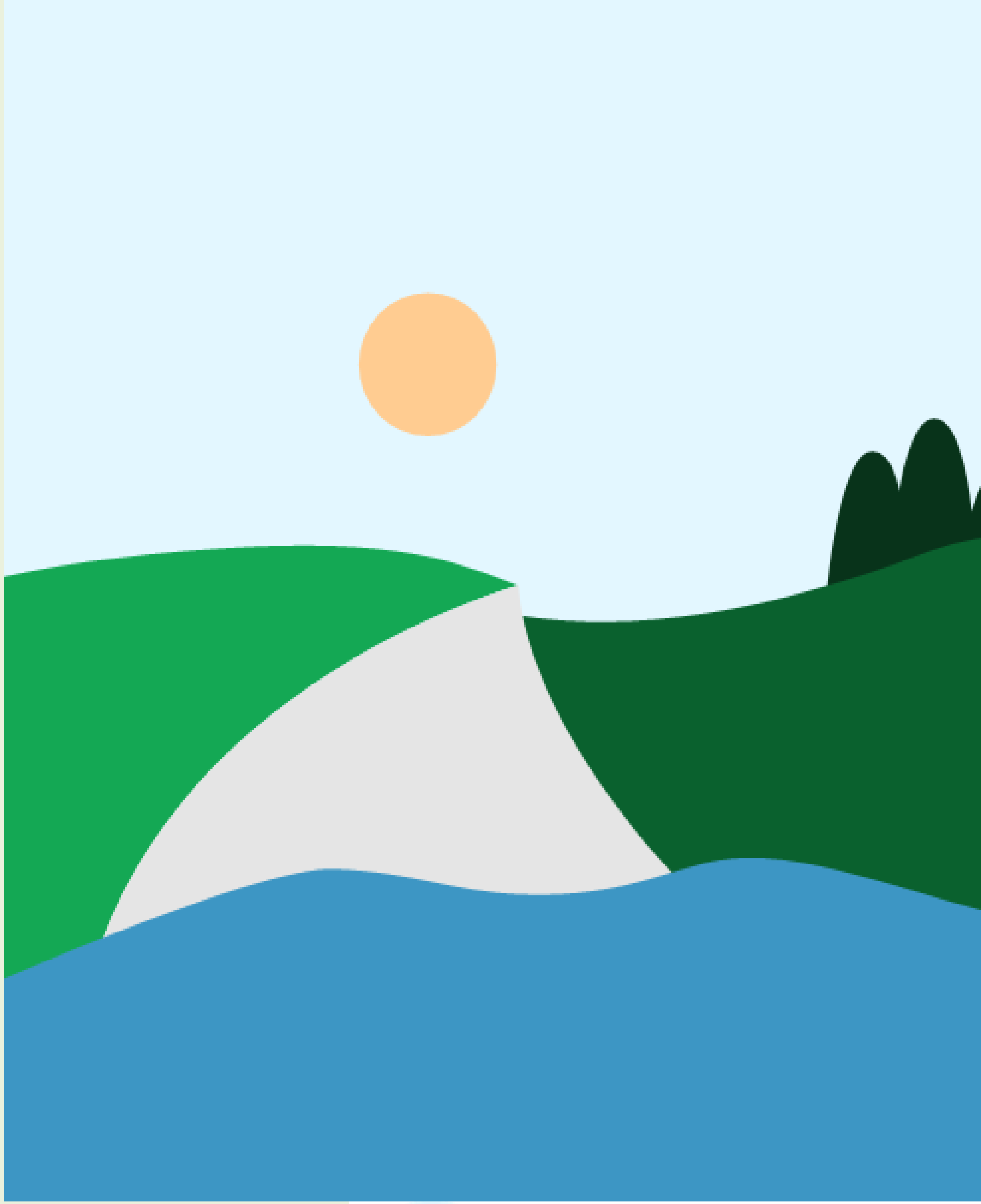

## Comments on Fund results

We have the following comments on the Fund results:

- Changes in market conditions has increased the Fund deficit by approximately £100m
- Payment of secondary contributions has decreased the Fund deficit by approximately £30m
- Higher inflation than assumed has increased the deficit by approximately £40m
- Lower salary increases than assumed has decreased the deficit by approximately £10m
- The increase in Fund liability on the ongoing basis due to allowing for the McCloud ruling is £49m

# Kent Pension Fund Consultation

# Town and Parish Council Pooling



4th June 2025 to 4th August 2025

4th June 2025

Kent Pension Fund

# Proposal

The Kent Pension Fund (the Fund) propose that all town and parish councils are fully pooled at the 2025 valuation, with a pooled employer contribution rate in place from 1 April 2026.

This short paper explains what pooling is, what it could mean for affected employers and why the Fund considers it appropriate.

The Fund is consulting with affected employers from 4 June 2025 to 4 August 2025 on this proposal and would welcome any comments as part of the consultation process.

Please email Kentpensionfundconsultation@kent.gov.uk if you have any questions.

## What is pooling?

Pooling is the grouping together of employers for the purposes of sharing risks and setting employer contribution rates at each funding valuation.

The key reason for pooling employers is to minimise employer contribution rate volatility which is a stated aim in the LGPS Regulations. Stable employer contributions are also noted as the main purpose of pooling in the Fund's Funding Strategy Statement (FSS).

As many town and parish councils are small employers, without pooling, they are currently subject to significant risk of volatility in funding positions and employer contribution rates.

4th June 2025

## What are the advantages and disadvantages of pooling

***The main advantage of pooling*** is that it controls volatility of employer contributions and funding positions for employers which is impacted by individual employer membership. E.g., Age and gender of members, members joining, leaving or retiring, Fund asset returns and pension increases. Employer contributions are expected to stay more stable than for an individual employer and pooling helps with affordability of pensions costs and budgeting. Under a pooled approach, funding positions are expected to be more stable, which helps to keep employer contribution rates stable. Whilst there could be winners and losers in the initial stages, in the long term the benefits would be expected to even out amongst all employers

***The main disadvantage of pooling*** is that employers will share experience and costs with other employers in the pool. The contributions that an employer pays will be driven by the experience of all employers in the pool. This means that some employers will benefit from being in the pool by paying less than if they were funded for individually, whilst others may pay more than if they were funded for individually.

## Approach adopted at the 2022 valuation

At the 2022 valuation all town and parish councils were provided with an individual funding level and employer contribution rate based on their individual experience.

The Fund adopted funding pools for Kent County Council, some colleges and all academies, so examples of successful pools already exist within the Fund. In all cases, the pooling consists of both a pooled employer contribution rate and funding level.

More information on the Fund's approach to pooling, including the formation of a new pool can be found in the FSS. In particular, it notes that a new pool could be formed if '*the Fund identifies a group of employers with similar characteristics*'.

Kent Pension Fund

# Considerations for setting up a new pool

## Different pooling options

Employers can be pooled in a variety ways. Some examples include:

- ***Full pooling*** where all employers in the pool pay the pooled total employer contribution rate and are assigned assets such that they share the pool's funding level
- ***Pooling past experience only*** where all employers share the funding level of the pool, and therefore share a secondary employer contribution rate, but pay their own primary employer contribution rate, reflecting their active members' profile
- ***Pooling future service only*** where all employers in the pool pay the pooled primary employer contribution rate but retain their individual funding level, and so their individual secondary employer contribution rate

The Fund believe fully pooling the town and parish councils would provide the greatest benefit in terms of reducing funding level and employer contribution rate volatility.

## How employers join and leave the pool

If the Pool was established town and parish councils would not choose whether they joined the Pool hence, when a new town or parish council joins the Fund they automatically join the Pool. This would mean the new employer would be certified with the Pool's total employer contribution rate and be notionally allocated with assets such that the employer had the same funding level as the Pool. If the member(s) of the new town or parish council had any past service, assets equal to the past service liabilities (as calculated on an ongoing funding basis) would be transferred to the Pool.

Similarly, employers would not choose whether to leave the Pool. The next section describes a scenario where an employer might be required to leave the Pool and what would be involved in this.

## What happens on cessation?

It is common with town or parish councils that the last active employee will leave service and a period of no active members follows until a replacement is found. To avoid employers leaving and re-joining the Pool unnecessarily, when the last active member leaves an employer in the Pool the employer could enter what is known as a 'suspension period' where they essentially become a deferred employer in the Fund. The maximum duration for a suspension period is three years. After those three years, if no new members join the employer, the actuary would carry out a formal cessation valuation. During this suspension period the employer would continue to pay deficit employer contributions, which would be calculated as a monetary lump sum using recent pay information.

On cessation the employer would remain in the Pool as a ceased employer, the cessation could be carried out on an ongoing funding basis and the ceasing employer would pay any deficit into the Pool and become a ceased employer in the Pool. They wouldn't be required to pay anything else into the Pool unless they re-join.

## Impact on self-insurance

If the town and parish councils are pooled they would no longer be included in the self-insurance reserve. The proposed Pool would provide protection for the employers in terms of ill-heath and death-in-service risk.

Town and parish councils will continue to contribute to the self-insurance reserve until the Pool is formed, if the Fund decide to do so, so that the employers continue to be protected.

## Next steps

The Fund will consult with affected employers on this proposal from 4 June 2025 to 4 August 2025 and welcome your views.

If you have any questions on the information set out in this paper, please email kentpensionfundconsultation@kent.gov.uk

4th June 2025

Kent Pension Fund

## Kent Pension Fund


Website: www.kentpensionfund.co.uk

Phone: 03000 41 34 88
Monday to Friday 9am to 3pm
To call from abroad dial +44 3000 41 34 88

Email: KentPensionfundconsultation@kent.gov.uk


Kent Pension Fund
Delivering an outstanding service to our customers

4th June 2025

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