

Kent County Council Pension Fund

Summary of updates to Funding Strategy Statement

We have been asked by the Kent County Council, the administering authority for the Kent County Council Pension Fund (the Fund), to provide a summary of the updates made to the Funding Strategy Statement for consideration on 23 June 2021. These are set out as follows;

RPI/CPI inflation

On 25 November 2020, the Chancellor responded to the consultation on the reform of RPI confirming that he will not provide consent for reform prior to 2030, meaning that the proposed alignment of RPI to CPIH will take effect from 2030 at the earliest. It is expected that RPI will be around 1% p.a. lower from 2030 as a result. Although the majority of LGPS benefits are linked to CPI inflation rather than RPI inflation, we derive our assumption for future CPI inflation from market implied RPI inflation and therefore the Fund needed to consider how the impact of this announcement and the planned reform of RPI.

Barnett Waddingham provided a short note to the administering authority setting out the issues for a typical LGPS Fund. This note explained that if they were carrying out an actuarial valuation today, they believe a CPI assumption of 0.8% below the 20 year point on the RPI implied inflation curve would be a reasonable best estimate. Barnett Waddingham anticipate changes to the funding basis at the next triennial actuarial valuation and so to pre-empt this recommended that it would be sensible to make changes to the in-force funding basis. As a result an update has been made to the Funding Strategy Statement to reflect the change in the derivation of future pension increases.

McCloud/Sargeant judgements

Since the last update to the Funding Strategy Statement, there have been some developments in relation to the McCloud/Sargeant judgements.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits. On 13 May 2021 the Government issued a ministerial statement which confirms that changes will be made to the LGPS Regulations to compensate members directly affected by the change to career average benefits from 1 April 2014. The Government's intention is that revised regulations will come into force on 1 April 2023, and draft regulations are expected later in 2021.

These developments have been noted in the Funding Strategy Statement.

Guaranteed Minimum Pension (GMP) indexation and equalisation

On 23 March 2021, the government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching SPA beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found at: <https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation>.

Our 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we assume that the Fund will be required to pay the entire inflationary increase. Therefore, the assumption is consistent with the consultation outcome

and Barnett Waddingham do not believe any adjustments need to be made to the value placed on the liabilities as a result of the above outcome, however, the development is noted in the Funding Strategy Statement.

Employer flexibilities

On 26 August 2020 the Government issued a partial response to the “Changes to the Local Valuation Cycle and the Management of Employer Risk” consultation issued in May 2019. This is the second partial response, this time focussing on flexibilities for employers in the LGPS and contributions payable. As a result the administering authority have prepared draft policy documents covering the following;

- Contribution reviews;
- Deferred debt arrangements; and
- Debt spreading arrangements.

Please see the additional summary note for more detail regarding these

Consolidation of Multi Academy Trusts (MATs)

There have been an increasing number of instances where an academy has transferred into or out of the Fund as part of a MAT consolidation exercise. As a result, an update has been made to the Funding Strategy Statement to reflect the expectations of the Fund in these cases.

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