Housing briefing, September 2022
2022 LGPS valuation results: Already from a different era?

In this briefing, we examine the 31 March 2022 LGPS valuation results in light of subsequent market volatility. We discuss the impact of market changes on housing employers and recommend actions.

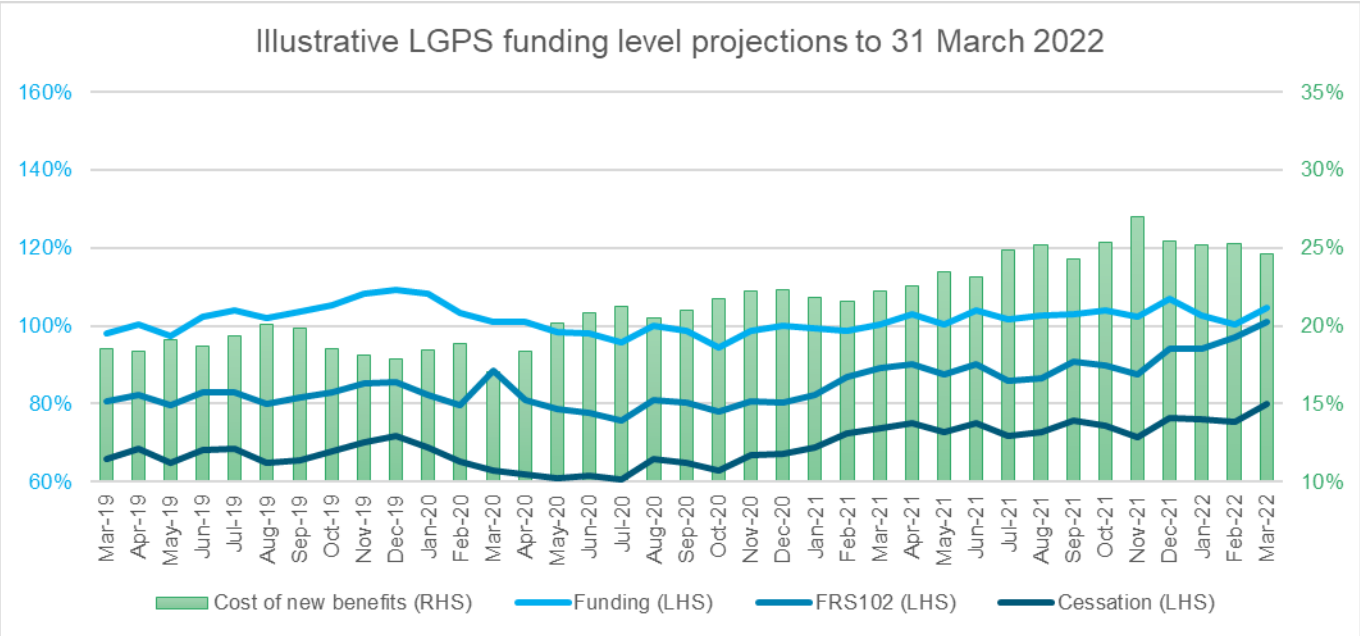
What happened between the 2019 and 2022 valuations?

The three years to 31 March 2022 turned out to be a volatile inter-valuation period. We saw market falls and subsequent recoveries in response to coronavirus, the war in Ukraine and rampant levels of inflation.

Asset and liability values have moved around significantly since the 2019 valuation. The chart below shows how funding levels of an example LGPS fund may have changed over the period on a range of funding measures:

- Funding – which determines ongoing employer contributions
- Cessation – which determines any exit debt
- FRS102 – which determines what's shown in your accounts.

The right-hand axis shows how the cost of building up new benefits may have changed over the same period.



While each fund has its own investment and funding strategy, we expect the majority to have seen an improvement in their funding position since 2019 (with an increase in liability values offset by a larger increase in asset values). This will mean that, on average, deficit (or secondary) contributions should fall in absolute terms.

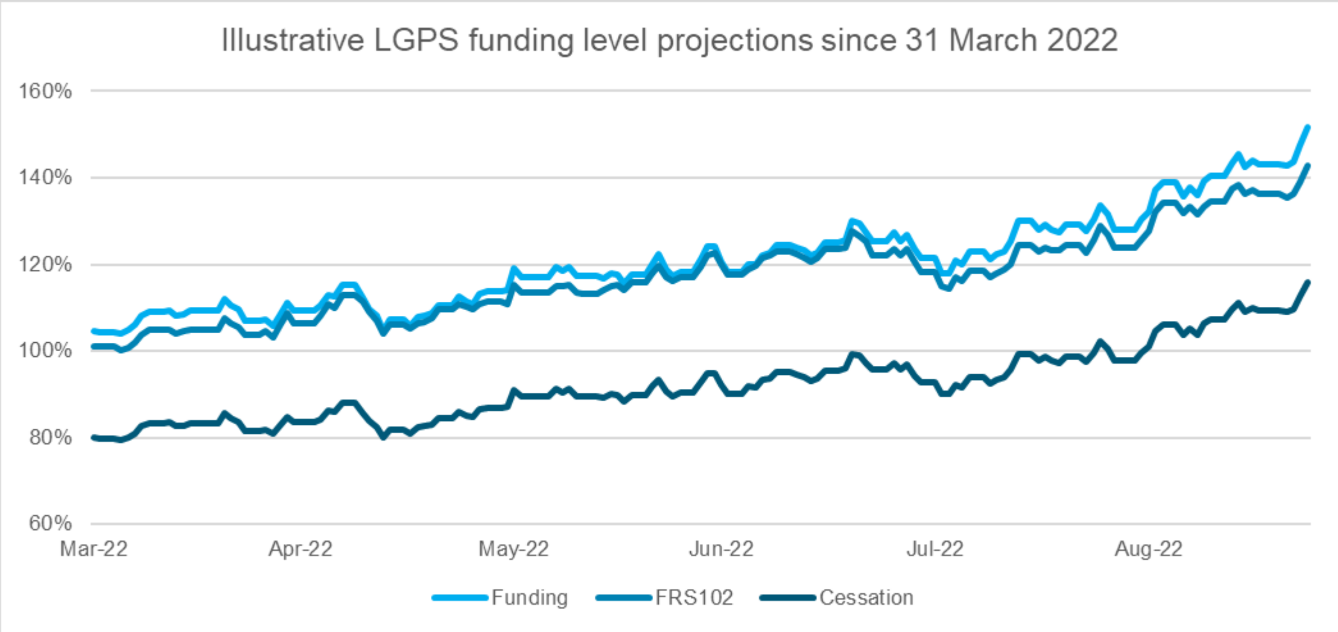
At the same time, we expect to see an increase in future service (or primary) contribution rates. The exact impact will vary for each employer – depending which fund you're in, your membership profile, previous funding position and the extent of any guarantees. We expect results to start arriving over the next few weeks.

What's happened since 31 March 2022?

Coming back to the title of this briefing, what has happened since the valuation date?

We're living through an extraordinary period of high inflation, which has led to interest rates reaching levels not seen since the 2008 financial crisis. Long-dated gilt yields have increased significantly since the valuation date, as markets have built in expectations of further interest rate rises. Long-dated gilt yields are a common reference point for liability values in Defined Benefit schemes such as LGPS funds, with higher gilt yields meaning lower liability values.

These falls in liability values are likely to have been offset by drops in asset values since 31 March 2022. However, we still expect there to have been a significant improvement in the funding position on key liability measures, as shown in the chart below:



What does this mean for you?

It will be interesting to see whether the impact of the changes since 31 March 2022 are considered (implicitly or explicitly) in the new employer contribution rates set by the funds.

Changes since the valuation date should be of particular interest to any employers who considered leaving the LGPS in the past, but shied away from doing so due to an unaffordable cessation debt.

The position for individual employers will vary significantly, but it would not be surprising to see a 30–40% improvement in the funding level on a cessation basis. In many cases, this could mean a sizeable exit debt has turned into a more affordable figure (or even a cessation surplus and a potential exit credit).

Employers can also consider whether now is a good time to 'lock in' gains made in recent months. Some LGPS funds allow employers to opt for lower risk investment strategies, which will reduce funding level volatility. It's certainly worth opening a dialogue with your fund to see if this is possible.

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