HYMANS ROBERTSON

Preparing for your 2025 LGPS valuation

What can you do now to get ahead?

The triennial valuation is one of your fund's most important risk management exercises, requiring a lot of your time and resource. Each valuation has its own unique set of considerations, and 2025 will be no different.

In our recent blog Navigating the new funding era for the LGPS, we considered the funding dynamics facing LGPS funds today, and the associated challenges and opportunities. To help you make the most of these opportunities, reduce the strain on your resources and deliver the best funding outcomes, some aspects of the valuation can be done ahead of 2025. Here, we set out all the major valuation-related tasks you can carry out now to help make 2025 your best valuation yet.

Funding strategy

Funding strategy review

There has been a large shift in the economic environment since the previous valuation in 2022, with many LGPS funds now reporting large funding surpluses. With this comes a need to take a step back and consider your funding beliefs; what does this change in environment mean for your fund? For the first time in decades, many LGPS funds must now consider how to 'use' a funding surplus to provide the most benefit to stakeholders. Will you: Reduce employer contribution rates? Reduce investment risk? Increase prudence? Or explicitly retain some surplus, perhaps to serve as a buffer against potential future adverse climate-related experience? In practice, a combination of these avenues is likely to apply but the challenge for administering authorities is in deciding to what extent. An Asset Liability Modelling exercise can help you navigate these big decisions by letting you understand the options and trade-offs. Some funds have also previously used this opportunity to provide greater certainty for the funds' biggest employers by agreeing contribution rates ahead of the valuation.

Investment strategy

As part of an Asset Liability Modelling exercise you can explore whether an additional alternative investment strategy might improve outcomes for any of your employers. When considering employer investment strategies, it isn't just the funding outcomes that need to be considered, you also need to understand the administrative and governance implications. Exploring this in the pre-valuation year will give you enough time to fully consider if there is a genuine need for such investment strategies in your fund and, if so, if it's practicable to implement.

Employer funding policies

Now is a good time to consider the long-term funding objectives for each of your employer groups to ensure funding policies continue to best meet your employers' needs. Revisiting and reviewing existing funding policies ahead of the valuation will mean you start the valuation year with a clear idea of the funding strategies you want to test. The pre-valuation year is also a good time to review existing pooling and guarantor arrangements and solutions for mitigating sources of employer-related funding risk, such as ill-health retirements and salary strain.

Risk management

Risks exploration

We live in an uncertain world – there has been much debate about the potential impact of climate change, about future longevity trends in a post-COVID-19 world, and on the level of future inflation given recent adverse experience. Exploring these risks now will help you adequately capture them within funding plans and ensure you have suitable risk monitoring, mitigation and management solutions in place.

Setting actuarial assumptions

It is important to select assumptions that reflect your fund and your views. Investigating your assumptions in the pre-valuation year will give you enough time to consider all the relative factors and how you will recognise future uncertainties in your valuation.

Data

Data cleansing

The most successful valuations are built on a foundation of complete and accurate data. A data cleansing exercise in 2024 will help you understand the quality of your membership data and identify any problem employers where further investigation or communication is needed. Comparing your membership data against your accounts data will add a further layer of comfort ahead of submitting the 2025 valuation data. We can complete an Advanced Data Review to assess the "valuation readiness" of your data, providing you with whole fund and employer level data quality scoring and a data improvement plan to ensure all is well come 2025.

Employer assets

You can update employer assets now to reduce the processing time of your 2025 valuation. Having one side of the funding balance sheet available shortly after 31 March 2025 will result in quicker valuation results and more time to engage with employers about their results.

This is possible through our HEAT system, which also increases the accuracy and transparency of employer asset values; something we have seen employers and auditors focusing more on in recent years.

Stakeholder engagement

Employers

In a surplus environment, effective communication with employers is more important than ever. You can start preparing for the 2025 valuation with your employers by scene setting at an Employer Forum/AGM. This will allow you to engage with them to understand their circumstances and objectives and, where necessary, carrying out detailed employer covenant reviews. For employers with a shorter-term funding horizon, discussing and agreeing exit plans now can help save a significant amount of liaison during the valuation year. You can get that engagement going by sharing a current employer-specific funding update and outlook with your employers.

Pensions Committee

Employers aren't the only stakeholder at a valuation. Strategy decisions are likely going to need Pensions Committee approval. Planning your pensions committee engagement will make sure their input is sought at the appropriate times and that they get the training they need to perform their role effectively and make informed decisions.

Get in touch

If you'd like to discuss anything further, or have any questions, please get in touch with your usual Hymans Robertson consultant or contact:

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