

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 17 JUNE 2022****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR OF CORPORATE FINANCE****SUBJECT: 2022 VALUATION****SUMMARY OF ISSUE:**

This report provides an update to the 2022 triennial valuation including a report from the Fund actuary, Hymans Robertson.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee note the report from Hymans Robertson, shown as Annexe 1 and approve the recommended assumptions required.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee needs to be aware of the activities and outputs of the triennial valuation as this informs employer contribution rates and the investment strategy of the Fund. This is consistent with the Fund's strategic funding objectives.

DETAILS:**Background**

1. The Fund actuary, Hymans Robertson, carries out a triennial valuation of the Fund's assets and liabilities. The primary and secondary contribution rates for all employers in the Fund and the accompanying investment strategy are derived from this valuation.
2. Work is underway for the triennial valuation on 31 March 2022 (effective 1 April 2023).
3. Hymans has produced an update report, included as Annexe 1.
4. Officers will work with Hymans to progress the work on the valuation and report regularly on progress.

Assumptions

5. The key assumptions for the 2022 actuarial valuation are set out in the table below.

| | Area | 2022 Proposed | 2019 Assumption | Notes |
|---|----------------------------|--|--|--|
| 1 | Future discount rate | Risk Free Rate+2.2% (70% Prudence) | Risk Free Rate+1.8% (70% Prudence) | Maintain the same prudence level |
| 2 | Investment returns | 4.4% (70% Prudence) | 4.2% (70% Prudence) | For measuring the funding level at the 2022 valuation only – maintains the same prudence level |
| 3 | Long-term salary increases | CPI+1.0% | CPI+1.0% | No change |
| 4 | Pension increases | CPI | CPI | No change |
| 5 | Longevity | Club Vita analysis | Club Vita analysis | No change to approach |
| | | CMI model (latest version), long term rate of improvements of 1.50% p.a. | CMI model (latest version), long term rate of improvements of 1.25% p.a. | <i>Latest information on improvements to be used</i> |

Future discount rate / investment returns

6. Assumed future investment returns are generated for each asset class and combined into an overall portfolio return. The discount rate is needed to place a prudent value on the benefit payments *after* the funding time horizon. For 2019, there was a 70% prudence level associated with a future discount rate based on the risk free rate plus 1.8% p.a.
7. As at 31 March 2022, the same future discount rate assumption (risk free rate plus 1.8% p.a.) is now associated with a higher prudence level of 75%.
8. As the prudence level has increased, it would be acceptable to retain this future discount rate assumption, however maintaining the same level of prudence (70%) would lead to a higher future discount rate assumption (risk free rate plus 2.2% p.a.).
9. The single investment return assumption at the 2022 valuation, which is used for determining the funding level, is 4.4% p.a. (was 4.2% at the 2019 valuation). This is set based on the same level of prudence (70%) as the future discount rate assumption and the corresponding assumptions at the 2019 valuation.

Long-term salary increase

10. The change to the accumulation of member pension benefits from a final salary to a career average revaluated earnings (CARE) basis will gradually reduce the importance of the salary increase assumption as member benefits will be tied to consumer prices index (CPI) inflation rather than to final salary.
11. In 2019, allowance was made for short term pay restraint with a reversion to CPI+1.0% over the longer term.
12. In 2022 it is proposed to retain the same assumption for longer term salary increases and not repeat the short-term adjustments for restraint.

Pension increases

13. Annual pension increases and CARE increases are determined by consumer price index (CPI) inflation. No change in approach is proposed – modelling will reflect market expectations including the current outlook in the short to medium term.

Longevity

14. The assumption regarding improvements in longevity are based upon latest industry standards and information derived from the Fund's membership of Club Vita (provided by the Fund actuary), such as observed mortality rates.
15. The proposal for 2022 is to adopt the latest member specific Club Vita base tables with an appropriate adjustment to recent data to avoid the assumption being skewed by excess deaths due to Covid 19 in 2020 and 2021. A further adjustment will be made to the starting point to reflect the difference between the data used and the Fund's own membership.
16. The most recent Club Vita analysis suggests a reasonable long-term trend of 1.50% annual improvements in longevity, which is a slight improvement on the 1.25% parameter used in 2019. Given the strength of the underlying data, using this revised parameter is the recommendation of the actuary.

CONSULTATION:

17. The Chairman of the Pension Fund Committee has been consulted on the current position and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

18. Default by scheme employers can represent a material risk to the Pension Fund. This report seeks to identify and mitigate this risk.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

19. There are no financial and value for money implications.

DIRECTOR OF CORPORATE FINANCE COMMENTARY

20. The Director of Corporate Finance is satisfied that work for the 2022 valuation is necessary and appropriate.

LEGAL IMPLICATIONS – MONITORING OFFICER

21. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

22. The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

23. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

24. The following next steps are planned:

- a) Officers to work with the fund actuary to progress the valuation; and
- b) Further updates to be brought to the Committee.

Contact Officer:

Paul Titcomb Head of Accounting and Governance

Consulted:

Pension Fund Committee Chairman

Annexes:

Annexe 1: Hymans update paper

Sources/background papers:

None
