SURREY COUNTY COUNCIL

LOCAL PENSION BOARD

DATE: **29 JULY 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 Board note the timetable for the actuarial work during 2022/23 and note that the principal assumptions for use within the valuation have been agreed.

REASON FOR RECOMMENDATIONS:

The Board 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. Officers will continue to work with Hymans to progress the work on the valuation and report regularly on progress.

Timetable

4. The key areas of activity for the 2022 actuarial valuation are set out in the table below.

	Timing	Area
1	Q4 2021 and Q1 2022	Pre-valuation work: • Planning • Data cleansing • Valuation training (10 December 21)
2	Q2 2022	Actuarial assumptions review Data cleansed and submitted to actuary Funding Strategy Statement review
3	Q3 2022	Whole fund funding level report Set contribution rates for major employers
4	Q4 2022	Employer results issued to employers Funding Strategy Statement consultation Employer Forum
5	Q1 2023	Final valuation report signed off by 31 March 2023
6	1 April 2023	New employer contributions start to be paid

Assumptions

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

	Area	2022 Agreed	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 CMI model (latest version), long term rate of improvements of 1.50% p.a.	Club Vita analysis CMI model (latest version), long term rate of improvements of 1.25% p.a.	No change to approach *Latest information on improvements to be used*

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, maintaining the same level of prudence (70%) leads to a higher future discount rate assumption (risk free rate plus 2.2% p.a.).

8. 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

9. 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.

10. In 2019, allowance was made for short term pay restraint with a reversion to CPI+1.0% over the longer term. In 2022 the same assumption for longer term salary increases has been retained and there will be no repeat of the short-term adjustments for restraint.

Pension increases

11. Annual pension increases and CARE increases are determined by consumer price index (CPI) inflation. It has been agreed that there will be no change in approach – modelling will reflect market expectations including the current outlook in the short to medium term.

Longevity

12. 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.

13. 2022 will 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.

14. 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, it has been agreed to use this revised parameter following the recommendation of the actuary.

CONSULTATION:

15. The Chair of the Local Pension Board has been consulted on the current position.

RISK MANAGEMENT AND IMPLICATIONS:

16. Default by scheme employers can represent a material risk to the Pension Fund.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

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

DIRECTOR OF CORPORATE FINANCE COMMENTARY

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

LEGAL IMPLICATIONS – MONITORING OFFICER

19. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

20. There is no requirement for an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

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

WHAT HAPPENS NEXT

22. 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 Board.

Contact Officer:
Paul Titcomb Head of Accounting and Governance

Consulted:
Local Pension Board Chair

Annexes:
None

Sources/background papers:
None
