Suffolk Pension Fund

Annual Employers Meeting

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10 December 2024

What we will cover today

- LGPS funding
- The actuarial valuation
- Change in funding environment
- Outlook for the 2025 valuation

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LGPS funding

How the Fund works

Collect money
(contributions)

Invest money
(its assets)

Pay money out
(benefits)

Overriding goal of the valuation is to make sure there is enough money to pay the benefits

How do we get the sides to balance?

Employer contributions are the main tool we can control to meet the balance of cost

Role of the Fund Actuary

- Cessation valuations
- Accounting valuations
- Bulk transfer/ outsourcing calculations
- New employer calculations
- Triennial valuation
- Individual member calculations
- Funding strategy statement
- Risk management
- Other ad hoc advice

Suffolk County Council
Administering Authority

The actuarial valuation

Why do we do a valuation?

- Compliance with legislation
- Analyse actual experience vs assumptions
- Part of continual ‘health check’ on fund solvency
- Review funding strategy
- Calculate employer contribution rates

The valuation is a key risk management exercise for the Fund

How a valuation is carried out

Inputs

Data

Financial and demographic assumptions

Funding and investment strategy

LGPS benefit structure

Actuary’s calculations

Primary outputs

Individual employer results schedules: funding position & contribution rates

Updated Funding Strategy Statement

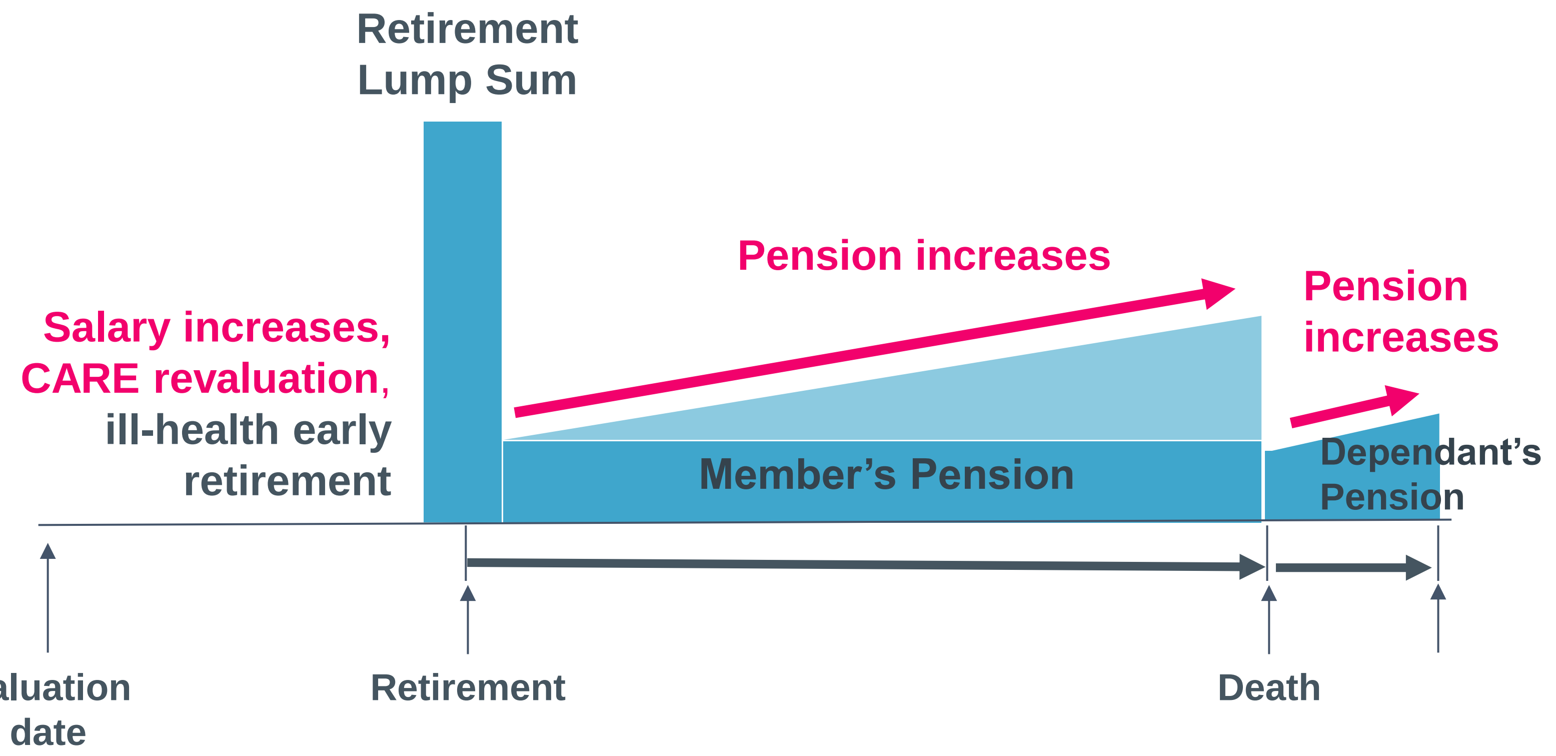
Final valuation report

Moving from inputs to outputs is a small part of the valuation exercise

Assumptions and why they are needed

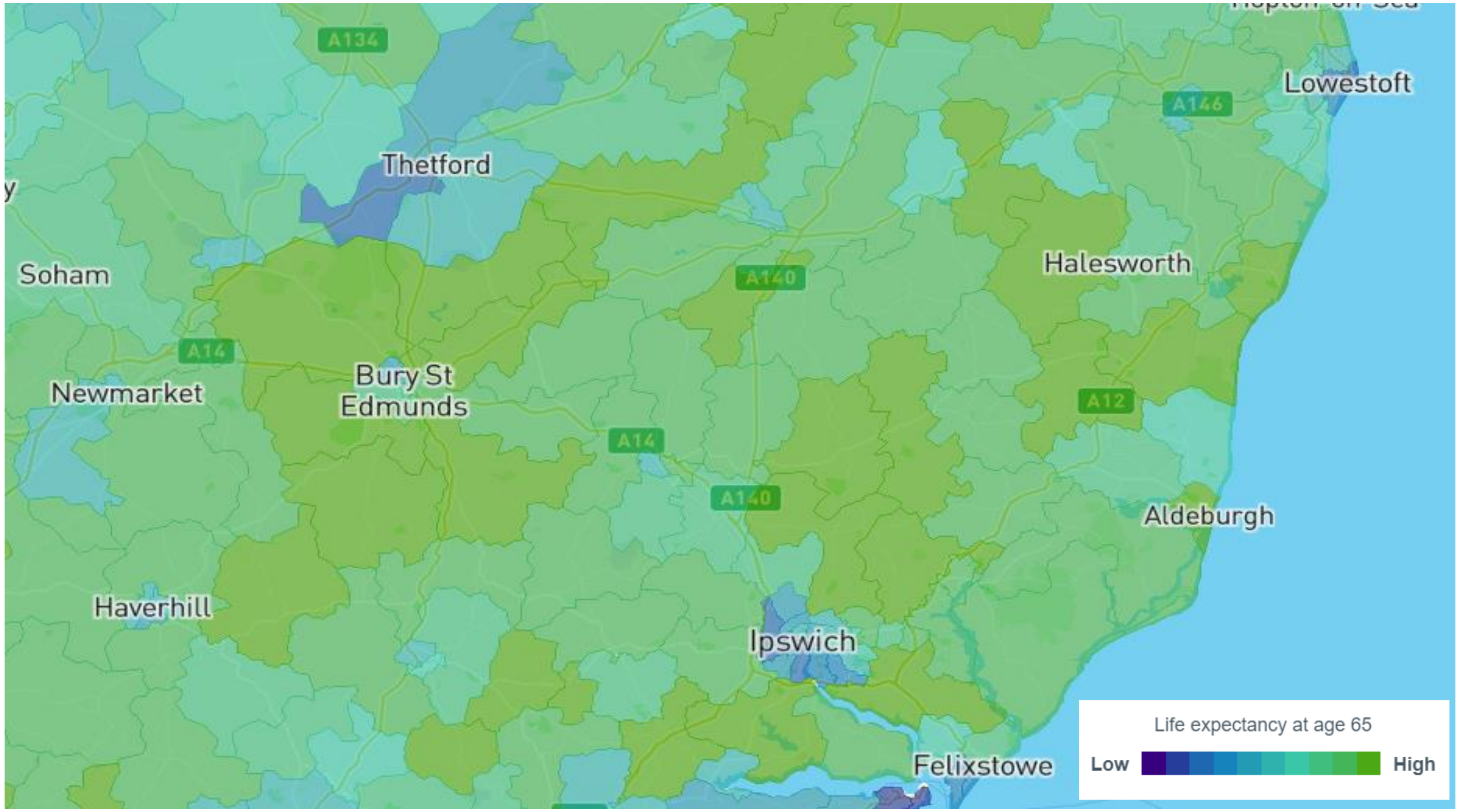
2023 benefit increase was **10.1%**

2024 benefit increase was **6.7%**



High inflation leads to higher liabilities and upwards pressure on employer contributions

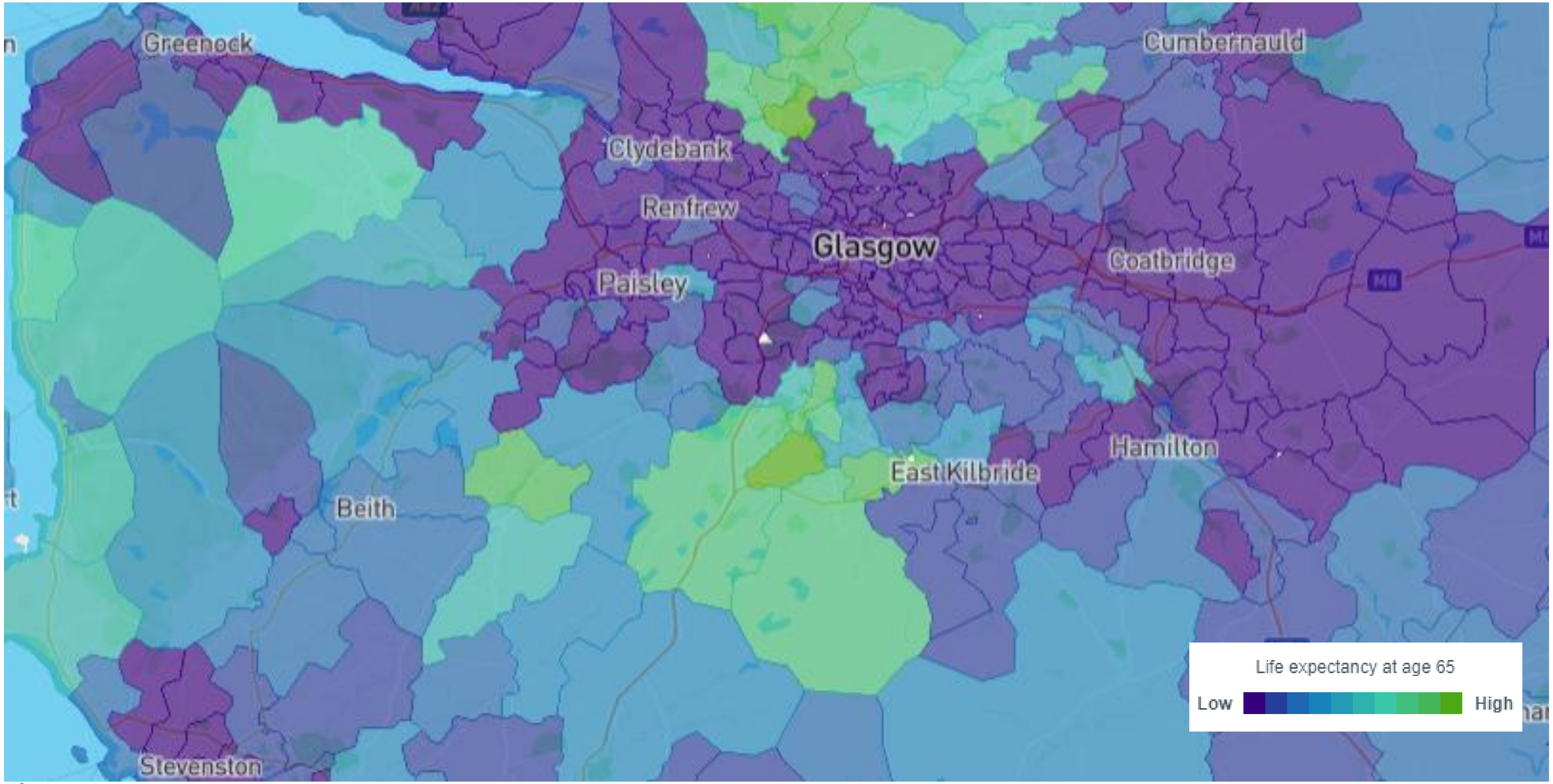
Key uncertainty: Life expectancy



Socio-economic factors can make a big difference in longevity

Source: Club Vita, map available at https://maps.clubvita.co.uk

The Glasgow effect…



Source: Club Vita, map available at https://maps.clubvita.co.uk

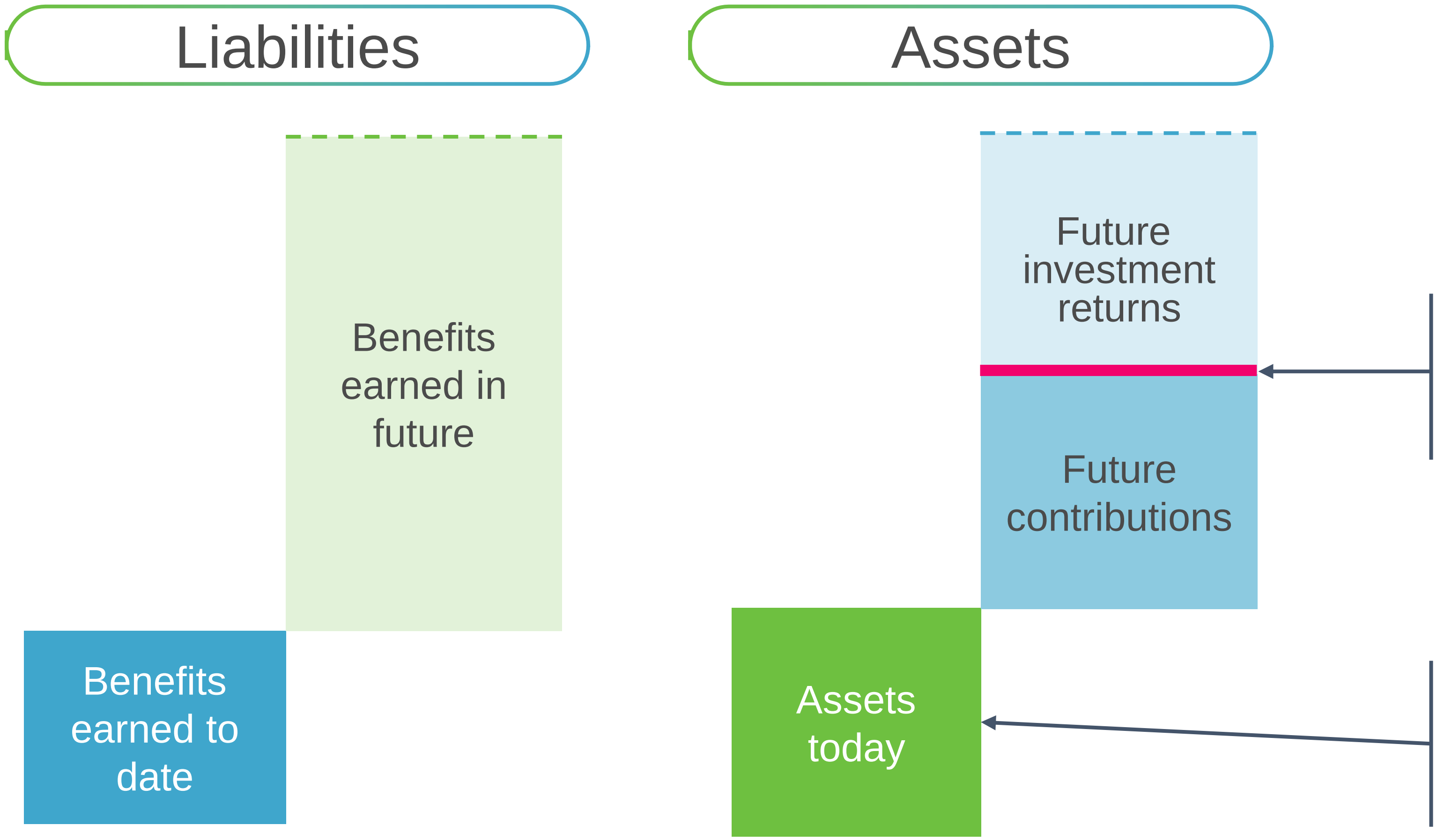
Which assumptions matter the most

Assumption	Source
Future investment returns	Based on Suffolk Pension Fund's own asset portfolio and future expected returns on each asset class (incl. margin of prudence)
Benefit Increases (CPI)	Consumer Prices Index (CPI) inflation
Longevity / Mortality	Tailored to Fund's individual members – Club Vita analysis
Salary Increases	Typically (CPI) inflation plus a margin
Other demographics*	Fund specific, based on actual member experience

*including commutation, ill-health retirement and withdrawal from active service

Assumptions are evidence-based for the Fund's specific characteristics

Key decision of the valuation



Key funding strategy decision

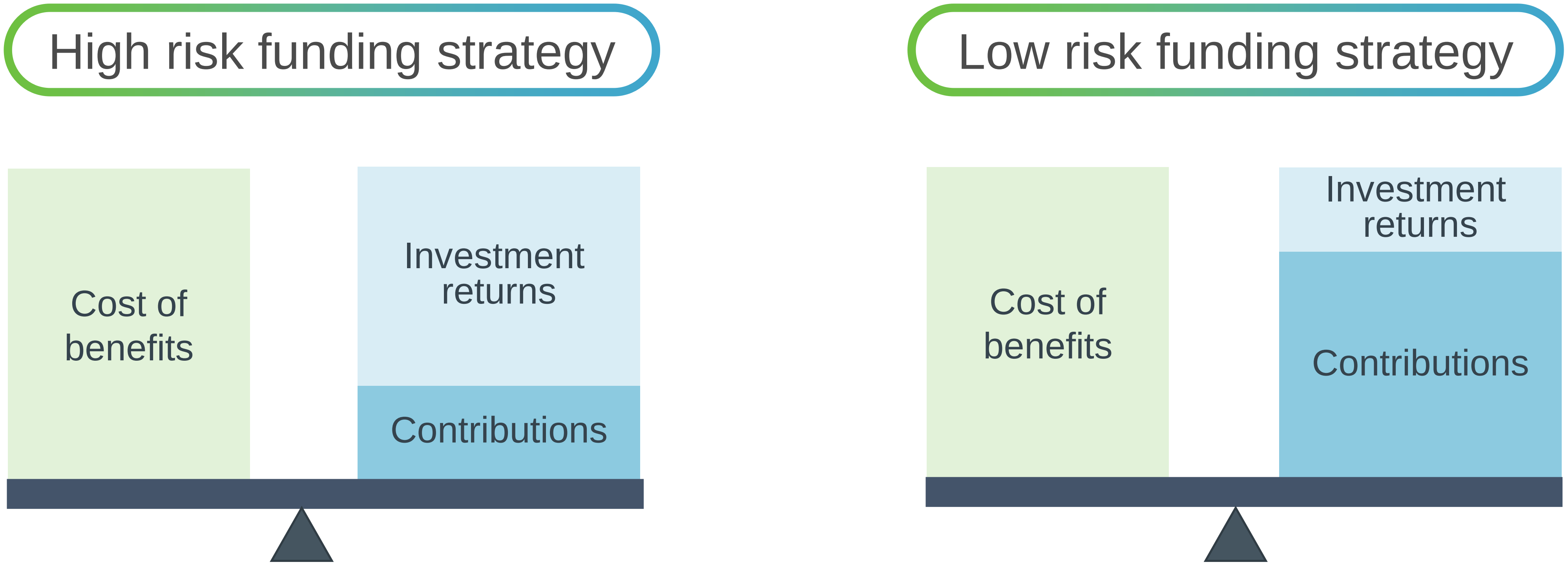
How much to rely on contributions vs investment returns?

Funding level

Comparison of ‘assets today’ vs. ‘benefits earned to date’

Balance sheet snapshot of Fund at valuation date

Setting strategy is a balancing act



We must set employer contributions with an appropriate level of prudence (i.e. risk)

The 2022 valuation

Solvency

Funding level: **107%**

Average employer rates

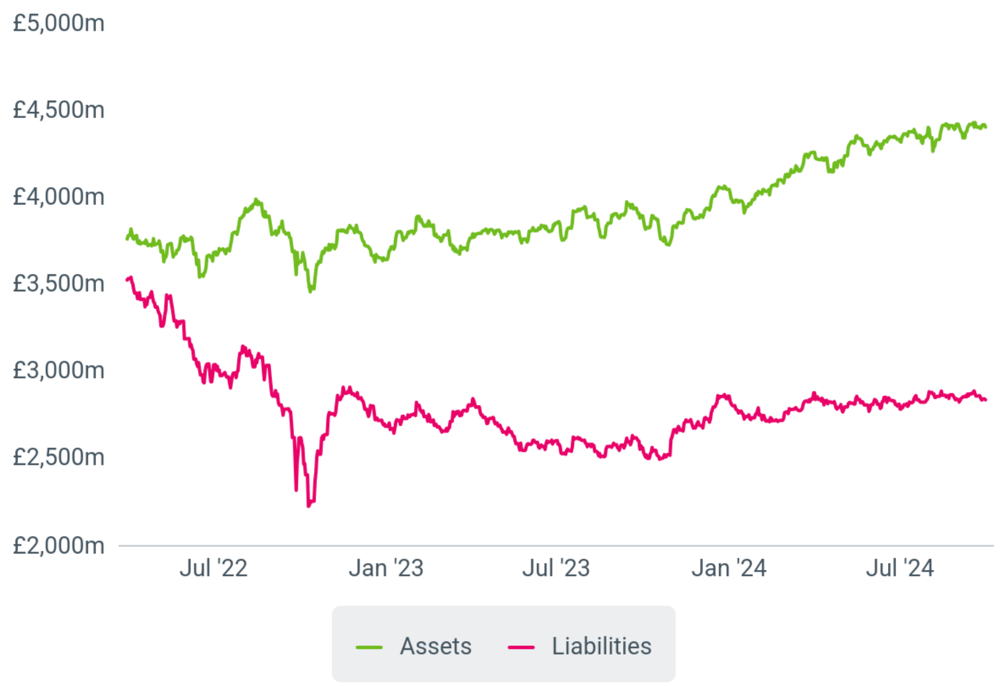
20.0% Primary rate

1.2% Secondary rate

21.2% Total rate

Change in funding environment

What's happened since 2022?

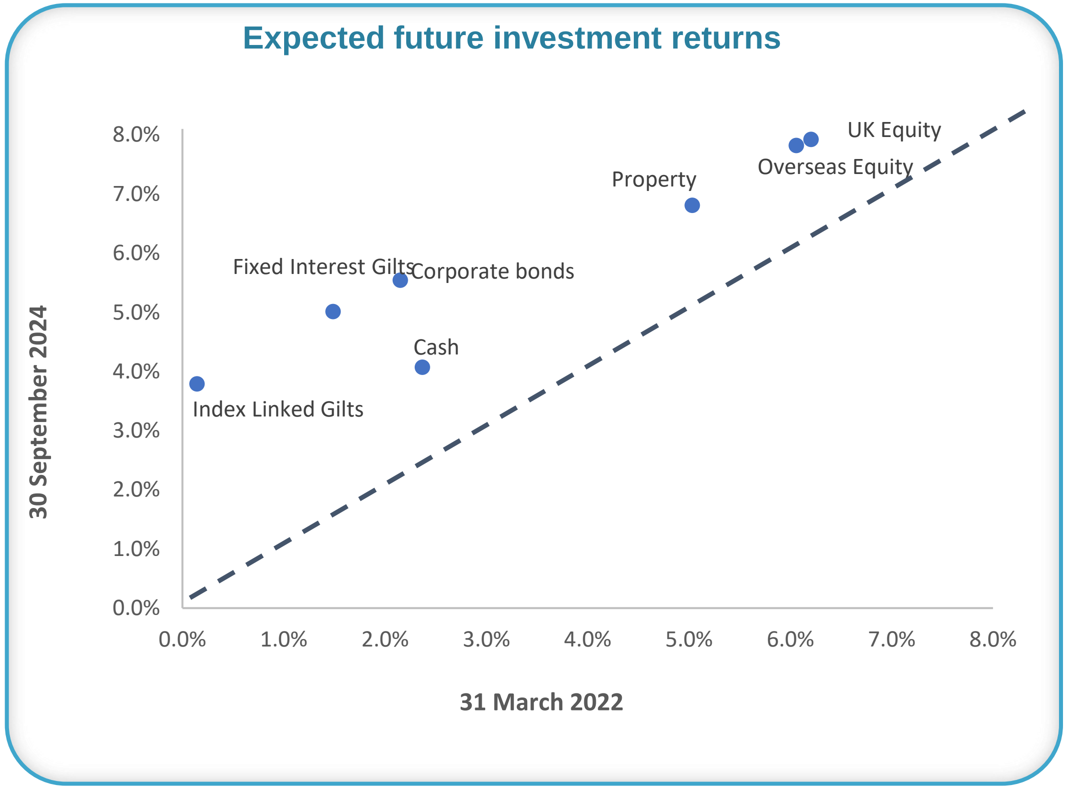


General insights

- Funding has improved since 2022 (was 107%)
- Assets returns were lower than expected up to September 2023 but have since improved
- Rising interest rates & high inflation
- Higher expected future returns on the Fund's assets

The funding level is estimated to have risen to around 155% on 30 September 2024

Investment outlook



General insights

Expected returns are higher for all asset classes

Higher returns driven by increased interest rates

Leads to a lower value placed on Fund's liabilities

Caution required at 2025 valuation

The improvement in funding level is being driven by higher expected *future* investment returns

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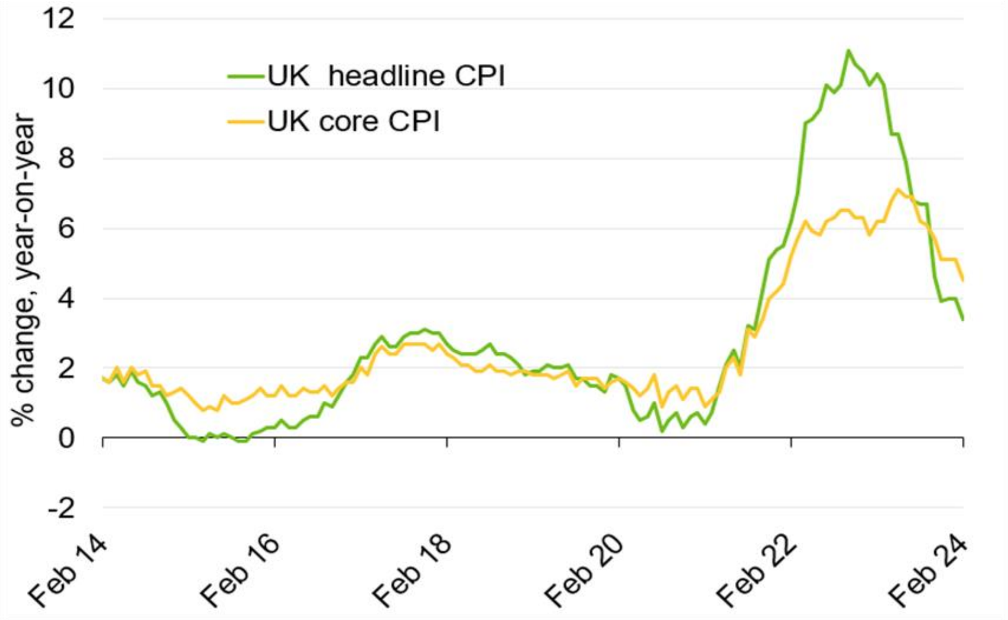
High inflation

UK inflation over past 10 years



General insights

High inflation increases the cost of benefits

Pensions increased by 10.1% (2023) and 6.7% (2024), causing an immediate impact on the Fund's net cashflow position.

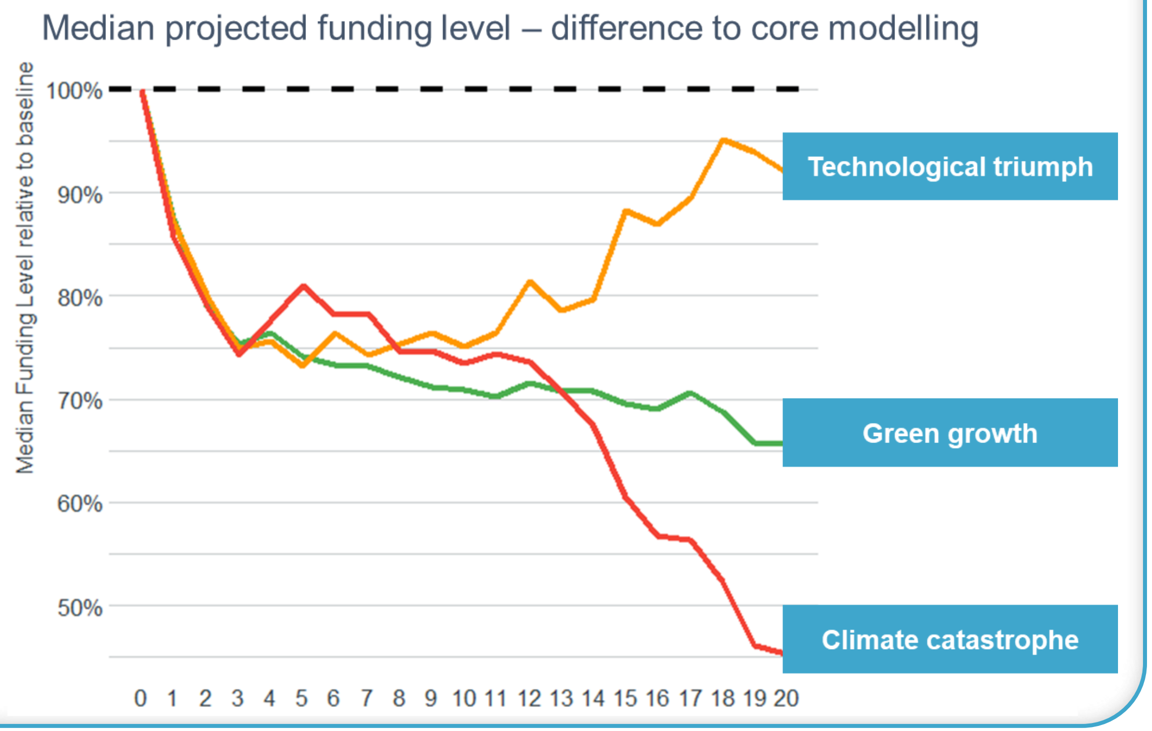
Inflation has now slowed meaningfully and just dipped under the Bank of England's 2% pa target.

Future inflation remains uncertain

Monitoring inflation is important to manage long-term benefit cost and short-term cashflow risks

Climate risk

Global food supply shock (example)



General insights

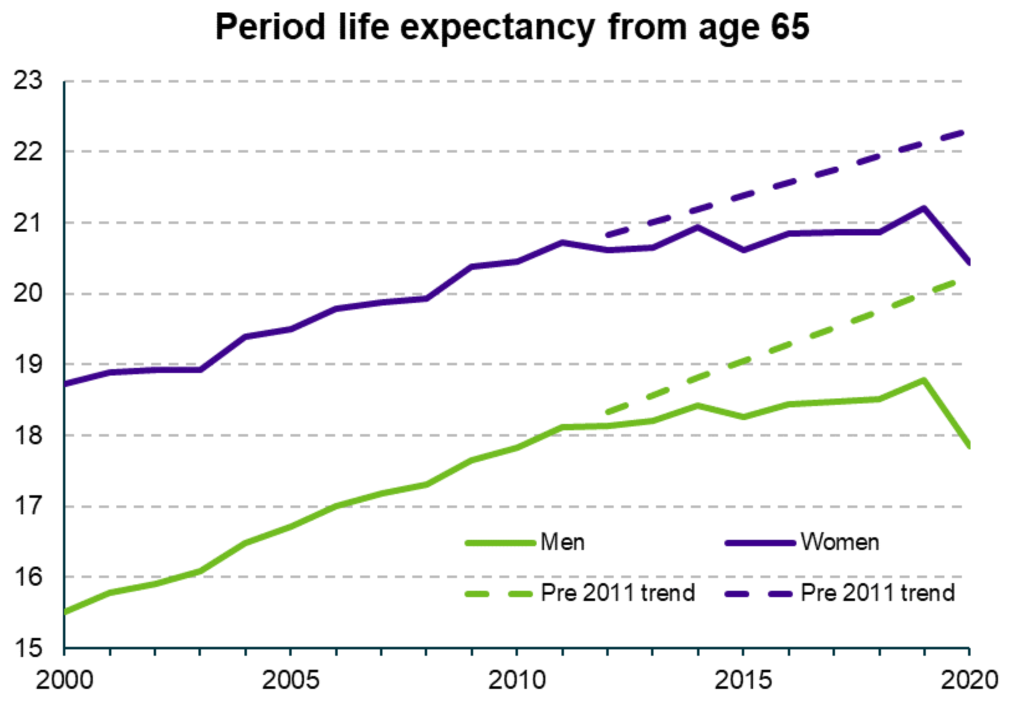
Climate damages could be extreme

Narrative-based modelling of downside risks

Consider impact of ‘shocks’ in funding strategy

The Fund is factoring in extreme risks when exploring strategy at 2025 valuation

Longevity trends



General insights

Improvements slowing down

Long term impact of the pandemic uncertain

LGPS ‘bucking the trend’ on excess deaths

Monitoring longevity trends is key to setting life expectancy assumptions

Source: CMI_2022 model. Life expectancies calculated using projected qx rates, using calibration data, with W_{2020} through W_{2022} set to 100% and S_{κ} set to 0%.

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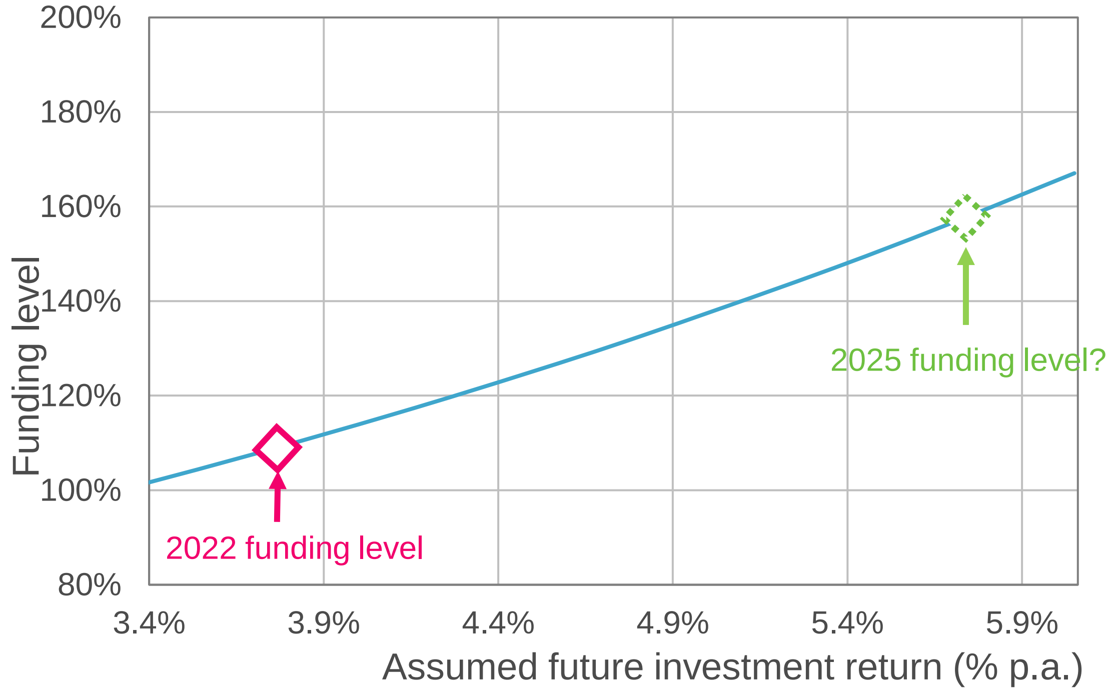
Outlook for the 2025 valuation

2025 valuation outlook

A new environment



Potential outcomes

- Reduced employer contribution rates
- Change in investment strategy
- Increased prudence levels
- Retain a buffer

A new environment may require new funding strategy considerations

Questions

Thank you

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