Sarah Groom

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Sent:	21 November 2024 16:58
To:	Sarah Groom; Malcolm Llewellyn (Cllr)
Subject:	West Sussex Pension Fund | Valuation and Funding Update
Attachments:	Hurstpierpoint & Sayers Parish Council (397) - Employer funding & risk update.pdf; Hurstpierpoint & Sayers Parish Council (397) - Funding update at 30 Sep 2024.pdf

Hello,

Ahead of the 31 March 2025 valuation, we have prepared a fund update and illustrative funding position which we hope is of interest and assistance as part of earlier engagement with employers ahead of the triennial valuation starting.

The funding level is a snap shot based on a date and a single set of assumptions by the Fund Actuary - it will never play out as assumed particularly given the long term nature of the pension scheme. The report has been prepared on an ongoing funding basis which assumes continued participation in the Scheme. If an employer is considered to be nearing the end of their participation in the Scheme, or exiting, more prudent assumptions will be applied. Further detail can be found in the Funding Strategy Statement.

Please note: the information has been provided on an individual basis however all city, town and parish councils participate in the 'Small Scheduled Bodies' pool to stabilise contribution rates. If you require information at a pool level, please let me know.

We are hosting an employer forum later this year / early 2025. This will give you the chance to hear more about these topics and ask any questions you have. Please register your interest here.

A further employer communication will be sent to you in early 2025 to update you on your position and give you more information about what to expect from the 2025 valuation process. In the interim please find a link to the high level plan.

Thanks,

Vickie

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West Sussex Pension Fund | Employer funding and risk update

The Pension Fund carries out a formal valuation every three years to check solvency, review funding policies and set employer contributions rates. This report provides you with important information on the performance since the 2022 valuation and the current funding environment as we prepare for the next valuation in 2025.

Pension funding objective

The Pension Fund has the objectives to keep contribution rates as stable as possible over time, to minimise the long-term cash contributions which employers need to pay the Fund and to take prudent long-term views.

At the 31 March 2022 valuation, the Fund reported an overall funding level of 125% i.e. if the Actuary's assumptions about the future all happen, the Fund had £1.25 for every £1.00 of pension benefits promised to members of the Scheme on that day.

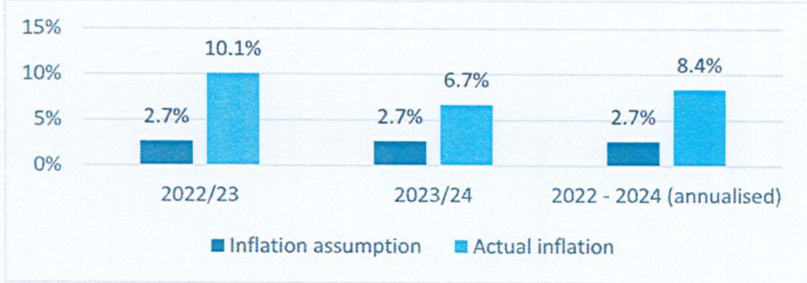
The funding level is a snapshot based on a date and single set of assumptions by the Actuary about the future – it will never play out as assumed. It is therefore important for the Fund (and employers) to monitor and understand the funding position over time. This note discusses the impact of two key areas on the current funding environment (inflation and investment returns) and what this may mean for employers as we prepare for the 2025 valuation.

Inflation: Pensions in payment, in deferment and CARE pots increase annually in line with the cost of living based on the September-to-September adjustments in the Consumer Price Index (CPI).

Investment returns: The Fund manages a diversified investment portfolio to support the Pension Fund's objectives. The expected/promise of future investment returns are important to calculate how much the Fund needs to hold now to provide members' pensions in the future.

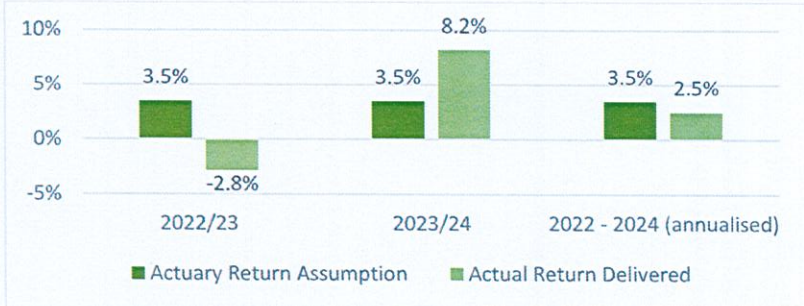
What has happened | Inflation

The chart below illustrates actual short-term inflationary increases against the Actuary assumed long-term inflationary increases of 2.7% per annum.



What has happened | Investment return

The chart below illustrates actual returns delivered by the Fund's investment portfolio against the return assumed by the Actuary at the 2022 valuation.



The outlook | Inflation

Whilst inflation has now fallen to around 2% (the Bank of England target), the higher than assumed inflation increases over the past two years has placed a higher value on the pension liabilities (by around 12%), and there remains uncertainity around future inflation.

Persistently higher inflation over the longer-term is a risk to the Fund (and employers) – as context, long-term pension increases of 1% pa higher than the Actuary assumes would reduce an employer's funding level by around 20%.

The outlook | Future investment return

Since the 2022 valuation, central banks have increased interest rates on "risk free" cash investments (from 0.75% to 5.00% at Sept '24). This has led to an expectation that the Fund's investment portfolio will achieve a higher rate of return in the future than the Actuary was assuming in the 2022 valuation – which in turn reduces the value placed on future pension benefits (liabilities), ie you need to hold less money now to be able to pay a future benefit if you assume a higher return on your money.

However, all assumptions (especially those on future investment performance) remain uncertain, especially during periods of increased market volatility.

Other risks and challenges

Other key risks that could impact the 2025 valuation outcome include climate change, which could significantly affect investments and funding in the future, but it is difficult to make a direct allowance for climate risks in funding plans and regulatory changes. Membership changes can also have a significant impact on your funding. Some highlights are shown on the following page:

Longevity

Life expectancy improvements are showing signs of slowing down. However, there is still uncertainty about longevity trends in the post pandemic era.

Pay awards

Salary changes can inflate your final salary linked benefits. This can have a big impact on employers with a significant amount of service earned prior to 2014.

Early retirements

Members retiring early with unreduced benefits will increase your liabilities. External insurance can be purchased by employers to mitigate this risk.

Membership changes and Data

Changes in membership will be captured at the 2025 valuation.

Deaths, retirements, withdrawals, transfers etc. will all impact.

The table below shows a high-level summary of information we hold for your membership at 31 March 2024 compared to 31 March 2022. This should reflect information held on your own records for the year.

LGPS membership	31 March 2022	31 March 2024
Active	5	5
Deferred	3	4
Pensioner	3	3

Incomplete or inaccurate data can have a negative impact on your funding. It is therefore essential to ensure the team receive timely data.

What this means | Funding level update

Taking the **changes** since 2022 into account, the **funding position** of the pension fund at 30 September 2024 has significantly improved. Importantly,

- the improved funding is a result of changes in the financial markets, notably an increase in the assumed level of future returns linked to central banks have increased interest rates on "risk free" cash investment, which reduces the value placed on future pension benefits (**liabilities**).
- **Assets** have remained broadly unchanged. Importantly the improved funding level is driven by the promise of greater future returns rather than actual investment returns earned.

The chart below illustrates the changes at whole fund level. Each employer within the Fund is different, and you will have your own funding position and objectives and you have a responsibility to ensure there is enough money in your section of the Fund to pay for all past and future employees' pensions. A separate employer funding update report provides details on your current estimated position.

What this means | How important it is to be 100% funded

This will vary, as described below:

Fully funded: If you are fully funded (>100%), that means that we believe we are currently holding enough money today to pay for all benefits that have been earned by your past and present employees (based on the Actuary's calculations) provided that the assets deliver the expected return. This position is very sensitive to future assumptions and does not allow for new benefits that your employees continue to accrue, so **this funding level will change over time.**

Future contributions: Your funding level is only in respect of benefits earned to date ('past service') and is not the endgame for employers who continue to participate and build up benefits ('future service'). The estimated cost of new benefits being earned by members still needs to be paid year to year.

For most employers, the Fund has an objective to smooth contribution rate changes. This means that short term volatility is managed – whether positive or negative – with the long-term goal of keeping contribution rates stable and affordable over the longer term.

Contribution rates will be reassessed at the 2025 valuation and any improvements in funding may result in contribution relief for some employers, however **any reductions will likely be gradual to support the longer term aims of stability and affordability.**

Future exit costs: The funding level is more meaningful for employers approaching exit (eg when the last employee leaves or retires). On exit, the Actuary calculates your funding level and you will be asked to pay any exit debt (if one exists) at that point. **This calculation is carried out on a 'cessation' basis.**

Further reading | Different funding position (cessation & accounting)

Each employer is responsible for funding their own pension benefits. However, the value placed on obligations (liabilities) will differ depending on the purpose of the valuation and the set of assumptions being adopted (the "basis").

"**Ongoing**" This is the basis used to calculate contribution rates for secure, longer-term employers, where the Fund can use a more optimistic funding basis because over time the Fund has more certainty that investment returns can make up any funding gap. A strong funding position on the 'ongoing' basis will help to maintain lower contribution rates. However, if you were to exit the Fund, your exit debt would normally be calculated on the cessation basis.

"**Cessation**" This is the basis used for setting contribution rates for higher risk, shorter term employers where market volatility could impact short term funding levels, so the Fund uses more prudent financial assumptions.

This is also **the basis normally used for exiting employers**. If you are more than 100% funded on the cessation basis on exiting the Fund, then you will have nothing to pay.

"**Accounting**" In line with IAS19 or FRS102 accounting standards, a different set of assumptions is adopted to use in yearend disclosures. Accounting valuations have no impact on your pension funding or contributions. If you have a net asset (surplus) on your yearend balance sheet, you may need to show a restricted position (asset ceiling).

Further reading | Employer support

In addition, to support employers, Hampshire Pension Services offer several different employer training, workshops and focus groups. Sessions are currently being delivered remotely through Microsoft Teams - and details can be found here.

HYMANS ROBERTSON

Hurstpierpoint & Sayers Parish Council (397)

West Sussex County Council Pension Fund

Funding update report at 30 September 2024

This report is addressed to the Administering Authority of the West Sussex County Council Pension Fund (the Fund). Hymans Robertson LLP consent to it being shared with Hurstpierpoint & Sayers Parish Council (397) (the Employer) on a non-reliance basis, in a manner that fully discloses how it has been produced, and in accordance with the online services agreement between Hymans Robertson LLP and the Administering Authority of the West Sussex County Council Pension Fund. This document should be read in conjunction with the Fund's current Funding Strategy Statement (the FSS).

The purpose of this report is to provide the funding position of Hurstpierpoint & Sayers Parish Council (397) as at 30 September 2024 and show how it has changed since the previous valuation at 31 March 2022. This report has not been prepared for use for any other purpose. The figures presented in this report are prepared only for the purposes of providing an illustrative funding position and funding plan risk update and have no validity in other circumstances. This report also contains the data and assumptions underlying the results and the reliances and limitations which apply to them.

Surplus/(deficit)
£87k
+£116k vs last valuation

Funding level
140%
+51% vs last valuation

Current contributions
18.2% of pay

Success likelihood
85%
+19% vs last valuation

Results

Funding plan update

To understand how the level of risk in the funding plan has changed since 31 March 2022, the table below shows an estimate of the change in likelihood of success associated with the current level of contributions. This estimate is updated at the end of each month. Please see Appendix C for further information on limitations.

An increase in the likelihood of success means that the funding plan is ahead of expectations and a decrease means it is behind. The main reasons for changes in the likelihood of success are changes in the outlook for returns and inflation, and past inflation and investment performance experience since the last valuation.

Funding plan update	
Certified annual contributions	18.2% of pay
Investment strategy	West Sussex 2022
Funding basis	Ongoing
Time horizon (years)	20
Likelihood of success at 31 March 2022	66%
Estimated likelihood of success at 30 September 2024	85%

Please note that the certified contributions shown above are before any adjustments for phasing or advanced contributions and may therefore not match the current rate in payment.

The likelihood of success at 31 March 2022 is based on the contributions shown above. This likelihood may be higher or lower than the Employer's target likelihood of success if the contributions were subject to any considerations such as stabilisation, caps/floors, phasing, etc. Please see the Funding Strategy Statement for an explanation of any such considerations. For this reason, the relative change in likelihood of success is a more useful indicator of how contributions may change at the next valuation than the absolute value at either date.

Results

Funding position update

The table below shows the Employer's estimated funding position at 30 September 2024 on the Fund's Ongoing basis (as defined in the Fund's FSS). The funding position at 31 March 2022 on the Ongoing basis is shown for comparison.

Monetary amounts in £k		Ongoing basis	
		31 March 2022	30 September 2024
	Assets	219	308
Liabilities	Active members	123	138
	Deferred pensioners	55	28
	Pensioners	70	55
	Total liabilities	248	221
	Surplus/(deficit)	(29)	87
	Funding level	88%	140%

The funding position relates only to assets and liabilities accrued up to the calculation date (past service). It does not consider the cost of benefits that will be earned in the future (future service).

Funding level progression

The chart below shows how the estimated funding level (ratio of assets to liabilities) has progressed between 31 March 2022 and 30 September 2024. It allows for changes in market conditions and other factors described in Appendix B.

If the Employer has moved to a different funding basis since 31 March 2022 this may give rise to step changes in the funding level on the date of the change.

Next steps

Understanding the results

The results at 30 September 2024 in this report are estimates based on rolling forward the Employer's funding position from 31 March 2022. You should understand the methodology and limitations of this approach described in Appendices B and C.

Decisions should not be based solely on these results. The information in this report is estimated and other factors not included here may also need to be considered (eg employer covenant). Note that other factors will be particularly relevant before any decision is made on changes in contribution rates.

Please get in touch with the Fund or your usual Hymans Robertson contact if you wish to discuss the results in this report further.

Change in funding plan (page 2)

The results show how the likelihood of success associated with the funding plan has changed since 31 March 2022. The results in this report will not immediately lead to any change in certified contributions, however:

- If the likelihood is now materially higher it suggests that (all else being equal) the Employer's contributions may be reduced at the next review.
- If the likelihood is now materially lower it suggests that (all else being equal) the Employer's contributions may need to increase at the next review.
- Early engagement between the Fund and the Employer is essential so that all relevant factors can be taken into account and any changes to the funding strategy communicated well in advance.

Change in funding position (page 3)

The results shows how the funding position has changed since 31 March 2022. The importance of this depends on several factors:

- If the Employer is open to new entrants and not planning to cease, the funding level is important only as it affects the outlook for future contributions. A better indication is given by the change in likelihood of success.
- If the Employer is planning to exit but not for many years, the current funding position is not likely to be a good indicator of the funding position at the point of exit.
- If exit is expected soon then the results in this report could help the Fund and the Employer take appropriate steps in preparation. For example, contributions could be reviewed more frequently, or specific funding arrangements put in place.

Even where exit is expected to happen very soon the results in this report should be treated as indicative given the limitations explained in Appendix C. The results of a final cessation calculation could be materially different, for example if there have been significant changes to the Employer's membership.

For Scottish funds, these results do not constitute an 'indicative actuarial valuation' under Local Government Pension Scheme (Scotland) Regulation 61 (2A).

Appendix A - Data and Assumptions

A.1 Membership data

The membership data underlying the figures in this report was supplied by the Fund for the purpose of the valuation at 31 March 2022 and is summarised below:

31 March 2022	Number	Average age	Accrued benefit (£k pa)	Payroll (£k pa)
Active members	5	50.5	7	115
Deferred pensioners	3	44.7	3	
Pensioners and dependants	3	69.2	4	

Average ages are weighted by liability.

The membership is assumed to change over time in line with the demographic assumptions described in the Fund's FSS. Please see Appendix B for details of the roll-forward methodology which includes the estimated changes in membership data which have (and haven't) been allowed for.

A.2 Cashflows since the valuation at 31 March 2022

We have allowed for the following cashflows in estimating the assets and liabilities at 30 September 2024.

Estimated cashflows (£k)	31 March 2022 to 30 September 2024
Employer contributions	60
Employee contributions	20
Benefits paid	13

Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certificate employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2022. Benefits paid are projections based on the membership at 31 March 2022.

A.3 Investment returns since the valuation at 31 March 2022

Investment strategy	Actual/ index	From	To	Return
Whole fund	Actual	1 April 2022	30 June 2024	5.63%
Whole fund	Index	1 July 2024	30 September 2024	1.76%

The total investment return for the whole period is 7.49%.

A.4 Financial assumptions

Assumption	31 March 2022	30 September 2024
Funding basis	Ongoing	Ongoing
Discount rate (% pa)	3.5%	5.8%
Pension increases (% pa)	2.7%	2.3%

Salary increases are assumed to be 1.5% pa above pension increases, plus an additional promotional salary scale.

For further details on the methodology used to derive the assumptions, please see the Fund's FSS.

A.5 Demographic assumptions

Life expectancy (years)	Ongoing basis	
	Male	Female
Pensioners	22.7	25.6
Non-pensioners	23.1	26.9

Life expectancies are from age 65 and are based on the Employer's membership data at 31 March 2022. Non-pensioners are assumed to be aged 45 at that date. All other demographic assumptions are the same as at the most recent valuation at 31 March 2022.

Appendix B - Technical information

B.1 Funding update methodology

The results in this report are based on rolling forward the results from the last formal valuation (or Employer's date of joining, if later) to 30 September 2024 using approximate methods. The roll-forward allows for:

- estimated cashflows over the period as described in Appendix A.2
- investment returns over the period (estimated where necessary) as described in Appendix A.3
- changes in financial assumptions as described in Appendix A.4
- estimated additional benefit accrual.

The CARE, deferred and pensioner liabilities at 30 September 2024 include a total adjustment of 11.4% to reflect the difference between actual September CPI inflation values (up to 30 September 2023) and the assumption made at 31 March 2022. The adjustment for each year's actual inflation is applied from 31 October 2023 that year, cumulative with prior years' adjustments, which may lead to step changes in the funding level progression chart.

In preparing the updated funding position at 30 September 2024, the membership is assumed to have changed since 31 March 2022 in line with the demographic assumptions described in the Fund's FSS. No allowance has been made for any other changes. The principal reason for this is that insufficient information is available to make any such adjustment. Significant membership movements, or any material difference between estimated inputs and actual experience, may affect the reliability of the results. The Fund should consider whether any such factors mean that the roll forward approach may not be appropriate.

No allowance has been made for any early retirements or bulk transfers since 31 March 2022. There is also no allowance for any changes to Local Government Pension Scheme benefits except where noted in the formal valuation report or Funding Strategy Statement.

B.2 Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate assumption (the discount rate net of pension increases) and the assumptions made for future longevity.

If the real discount rate used to value the accrued liabilities was lower then the value placed on those liabilities would increase. For example, if the real discount rate at 30 September 2024 was 1.0% pa lower then the liabilities on the Ongoing basis at that date would increase by 26.7%.

In addition, the results are sensitive to unexpected changes in the rate of future longevity improvements. If life expectancies improve at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the liabilities. An increase in life expectancy of 1 year would increase the accrued liabilities by around 3-5%.

Appendix C - Reliances and Limitations

The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Hymans Robertson LLP accept no liability where the report is used by or disclosed to a third party unless such liability has been expressly accepted in writing. Where permitted, the report may only be released or otherwise disclosed in its complete form which fully discloses the advice and the basis on which it is given.

The last formal valuation of the Fund was carried out at 31 March 2022 and this report relies upon the results of that valuation (and on the Employer's opening position results, if they joined after 31 March 2022). The reliances and limitations that applied to that valuation apply equally to these results. The results of the valuation have been projected forward using approximate methods. The margin of error in these approximate methods increases as time goes by and may not be appropriate if there have been significant data changes since the previous formal valuation. The method assumes that actual experience since the valuation at 31 March 2022 has been in line with our expectations.

The data used in this exercise is summarised in Appendix A. The data is the responsibility of the Administering Authority, and the results rely on the data. The results in this schedule are based on this data and on calculations run on 30 September 2024. If any data has materially changed since 30 September 2024 the results could be materially different if they were recalculated.

Some financial assumptions may be based on projections from our Economic Scenario Service (ESS) model which is only calibrated at each month end. Results between month ends use the latest available calibration, adjusted in line with the movement in market conditions. This adjustment is approximate and there may be step changes at month end dates when a new ESS calibration is factored in.

The updated likelihood of success associated with the current level of contributions has been estimated assuming the same parameters (funding target, time horizon, open/closed status) as when the contributions were set. If any of these parameters should differ then the results may not be appropriate.

The updated likelihood of success is only calculated at month end dates when an ESS calibration is available. There may be noticeable step changes at each month end when a new ESS calibration is allowed for.

The methodology underlying these calculations mean that the results should be treated as indicative only. The nature of the Fund's investments means that the surplus or deficit identified in this report can vary significantly over short periods of time. This means that the results set out should not be taken as being applicable at any date other than the date shown.

As with all modelling, the results are dependent on the model itself, the calibration of the underlying model and the various approximations and estimations used. These processes involve an element of subjectivity and may be material depending on the context. No inferences should be drawn from these results other than those confirmed separately in writing by a consultant of Hymans Robertson LLP.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Hymans Robertson LLP accepts no liability if any decisions are based solely on these results or if any action is taken based solely on such results.

This report complies with the relevant Technical Actuarial Standards.