SOUTH YORKSHIRE PENSIONS AUTHORITY

Subject	**Valuation 2022 – Initial Assumptions and Delivery Plan**	**Status**	For Publication
Report to	Authority	**Date**	17th March 2022
Report of	Director and Head of Pensions Administration		
Equality Impact Assessment	Required	Attached	No
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1 Purpose of the Report

1.1 To gain agreement to the initial assumptions to be used in the valuation process and to provide an update on the planned process for the valuation.

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2 Recommendations

2.1 Members are recommended to:

a. **Approve the valuation assumptions set out in the body of this report.**

b. **Note the plan for the valuation process.**

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3 Link to Corporate Objectives

3.1 This report links to the delivery of the following corporate objectives:

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes.

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

4 Implications for the Corporate Risk Register

4.1 The actions outlined in this report impact the risks around the affordability of employer contributions and the level of investment risk set out in the Corporate Risk Register.

5 Background and Options

5.1 The triennial valuation of the pension fund which sets employer contributions (for the three years beginning 1 April 2023) takes place this year and is based on the value of the fund's assets and liabilities as at 31st March 2022. This is the first valuation that will be undertaken by Hymans Robertson as the Fund's actuary. This report sets out the initial assumptions which it is proposed should feed into the Funding Strategy Statement and the overall plan for the process. The Fund's actuary will be present at the meeting and will be able to answer members' questions.

Overall Objective

5.2 While there remains significant uncertainty in financial markets (not least due to the war in Ukraine) this valuation is being conducted from a more favourable starting point than previous ones due to the investment returns achieved over the last three years. Given this it is appropriate to consider the Authority's overall objective in the valuation process. Given the risk environment the Fund faces and the pressure on employers it is suggested that the overall objective should be framed in the following terms.

The objective of the Authority is to achieve medium to longer term stability in employer contribution rates taking account of the different starting points and membership profiles of individual employers.

5.3 This reflects the fact that employers within the Fund start in significantly different places in relation to their overall funding level and level of employer contributions relative to what might be regarded as a longer-term stable contribution rate for a given membership profile. Importantly in this context stability does not mean rates will never change simply that they parameters within which they will change are defined as a range.

Prudence

5.4 All actuarial processes reflect a degree of prudence, but different actuaries do this in different ways. The Hymans Robertson approach is to be very explicit about this with prudence being expressed as a given combination of contributions and investment returns having an x% likelihood of achieving or maintaining full funding. This makes it easier for employers to understand the degree of downside risk which they are taking with any given level of contributions. For the 2022 valuation it is proposed that 70% be set as the acceptable likelihood of success for any contribution plan. While expressed slightly differently this is not inconsistent with the level of prudence at previous valuations.

Key Financial and Demographic Assumptions

5.5 Any actuarial process requires the actuary to make estimates (or assumptions) about how key factors which influence the value of the Fund's assets and liabilities will behave over a very long timescale. The following sections set out the key assumptions proposed by Hymans Robertson for this valuation. It should be borne in mind that where figures are provided these are annual averages over a 50 plus year timescale and do not necessarily reflect the situation today.

Assumption	Recommended approach	Comments
Future investment return assumption	Based on Hymans Robertson economic model updated to latest market calibration	Asset class return expectations are generally higher than in 2019
Discount rate	Adopt a prudence level of 70%, resulting in a long-term discount rate assumption of 2.3% p.a. above risk-free rate	Adopting a prudence level of 70% is broadly equivalent to your current funding strategy and is appropriate as a result of no significant change in environment to suggest an increase or decrease.
CPI inflation	Based on Hymans Robertson economic model	Inflation expectations are slightly higher (c.0.2-0.3% p.a.) than 2019 due to current economic outlook
Salary increases	0.6% above CPI inflation	2022 proposed assumption in line with 2019 short-term salary increase expectations. Given subsequent increases in National Living Wage and reduced impact on pension liabilities from short-term pay expectations, recommend that no separate allowance is made for any short-term pay restraint. However an allowance for incremental progression is proposed
Baseline longevity	Based on Club Vita analysis updated to reflect non-Covid related experience	Longevity assumptions are tailored to the Fund's experience and membership
Future improvements in longevity	Updated to CMI 2021 model with no weight on 2020/21 data with long term improvement of 1.5%	Latest version of CMI model is best practice but avoid projections being affected by short-term Covid-19 experience
Other demographic assumptions including ill health, death in service, age at retirement.	Fund specific assumptions or assumptions based on an LGPS data set where there is insufficient Fund data.	All demographic assumptions have been reviewed against LGPS wide experience with some adjustment to reflect Fund's own experience

5.6 Club Vita is a longevity analysis organisation that supports the development of more fund specific demographic assumptions.

5.7 Where appropriate employer specific assumptions around for example pay may be used if justified by objective evidence provided by the employer.

5.8 These assumptions continue to maintain an appropriate level of prudence and are likely to withstand external scrutiny from the Government Actuary as part of the Section 13 review that will take place following the valuation.

Surpluses and Deficits

5.9 Beyond these assumptions the Authority has to agree its position on the impact on employer contributions of its current funding position (i.e. any deficit or surplus at the valuation date). It is proposed that in relation to this the following position be agreed.

I. That the starting point be the current contribution rate and the employer's existing time horizon (previously referred to as its "deficit recovery period" at the 2019 valuation). The actuary will test the likelihood of this rate being sufficiently likely to allow the employer to be fully funded within that time horizon. Where that likelihood is too low, contribution increases will be proposed to the employer.

II. Where an employer is heading to a cessation date, that its time horizon reduces by 3 years from that used at the 2019 valuation, and its contributions set to achieve a suitable likelihood of full funding within that time horizon.

III. That employers with a deficit will not be allowed to reduce the cash level of contributions expected over the valuation period as compared to the previous period. All other things being equal this will allow a quicker improvement in funding position.

IV. That employers with a surplus will generally not be permitted to reduce their contribution rate below the Primary rate (the cost of ongoing accrual for current active members), unless there are specific reasons for doing so and the resulting contribution rate provides a sufficient likelihood that the employer will be fully funded within the time horizon. All other things being equal this builds in an additional buffer against volatility for employers not heading to cessation.

V. That the Fund retain discretion to amend contribution rates for employers facing material increases in contributions where affordability is constrained.

5.10 Overall these rules are designed to achieve some acceleration of the recovery of remaining deficits, while retaining some element of surpluses to assist in managing the downside risk to future contribution rates. Consequently, these rules support the overall objective of stabilising contributions.

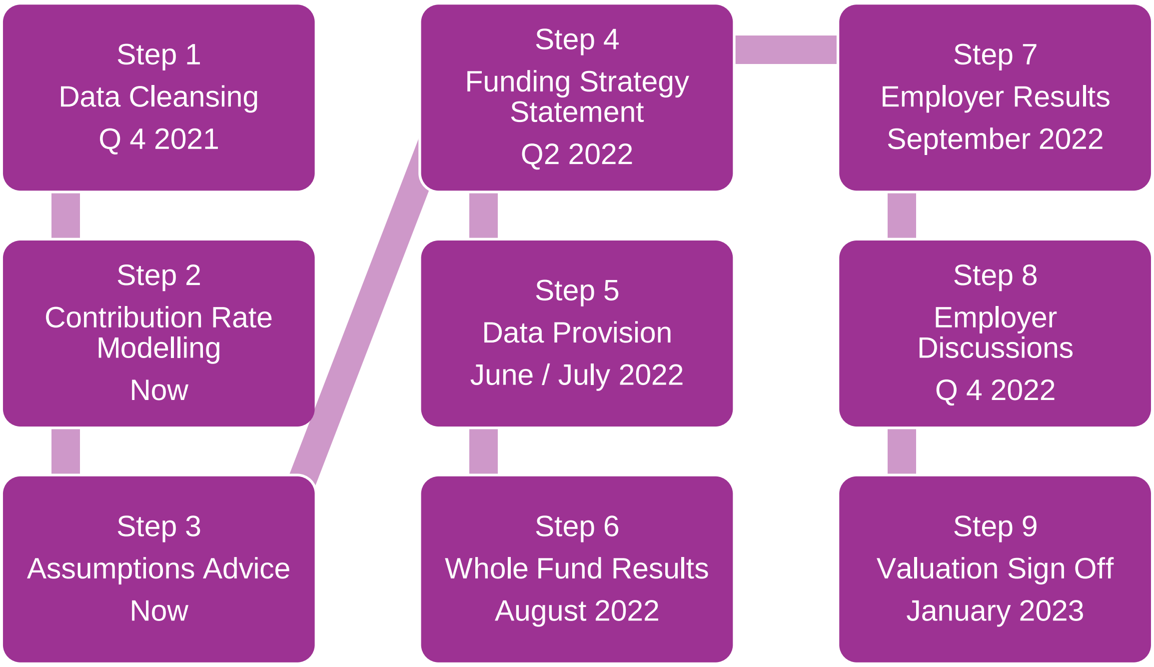
Contribution Stabilisation

5.11 The Hymans Robertson methodology seeks to stabilise future contributions for employers such as the Councils, Police, Fire and colleges. This is achieved through modelling the impact of future contribution increases or decreases on the likelihood of successfully maintaining full funding. Generally, the long term +/- corridor for this employer group's analysis is0.5% or 1% of pay change in contribution rates from one year to the next. Initial analysis indicates that different corridors may be appropriate for different groups of employers (and in the short term may need to be higher than 1%

of pay annual steps) so at this stage it is not proposed to make a decision at this stage, other than to acknowledge the need to make a decision in due course.

The Planned Process

5.12 The planned process for the valuation is outlined below:



5.13 The first column within this chart is complete and initial discussions have been held with the local authorities and further and higher education institutions as the largest employers within the Fund. The process as outlined provides the opportunity to use the member seminar planned for September to consider the whole fund results and also discuss identified problem areas, if any, with members. This plan also delivers the completion of the valuation earlier than has been achieved previously although this is highly dependent upon the data provision stage of the process, which at previous valuations has proved to be a not particularly easy process.

5.14 There remains significant opportunity for dialogue with employers throughout this process and it is anticipated that a series of on line and in person events will support the release of individual employer results, as well as the opportunity for employers to meet with officers and discuss the implications of the results.

6 Implications

6.1 The proposals outlined in this report have the following implications:

Financial	The costs of undertaking the valuation process are contained within the budget approved by the Authority.
Human Resources	None
ICT	None
Legal	The undertaking of the valuation and the determination of the Funding Strategy Statement of which the assumptions set out in this report form part are legal duties of the Authority.
Procurement	None

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Background Papers	
Document	**Place of Inspection**