Suffolk Pension Fund Annual Employers Meeting

2024 Actuary update

Craig Alexander FFA – Fund Actuary

Morven Galloway – Actuarial Trainee Consultant

What we will cover today

- Introduction to funding
- What has happened since the 2022 valuation?
- Contribution reviews
- 2025 valuation early warning

Introduction to funding

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

Suffolk County Council
Administering Authority

Other ad hoc advice

How the Fund works

Collect money
(contributions)

Invest money
(its assets)

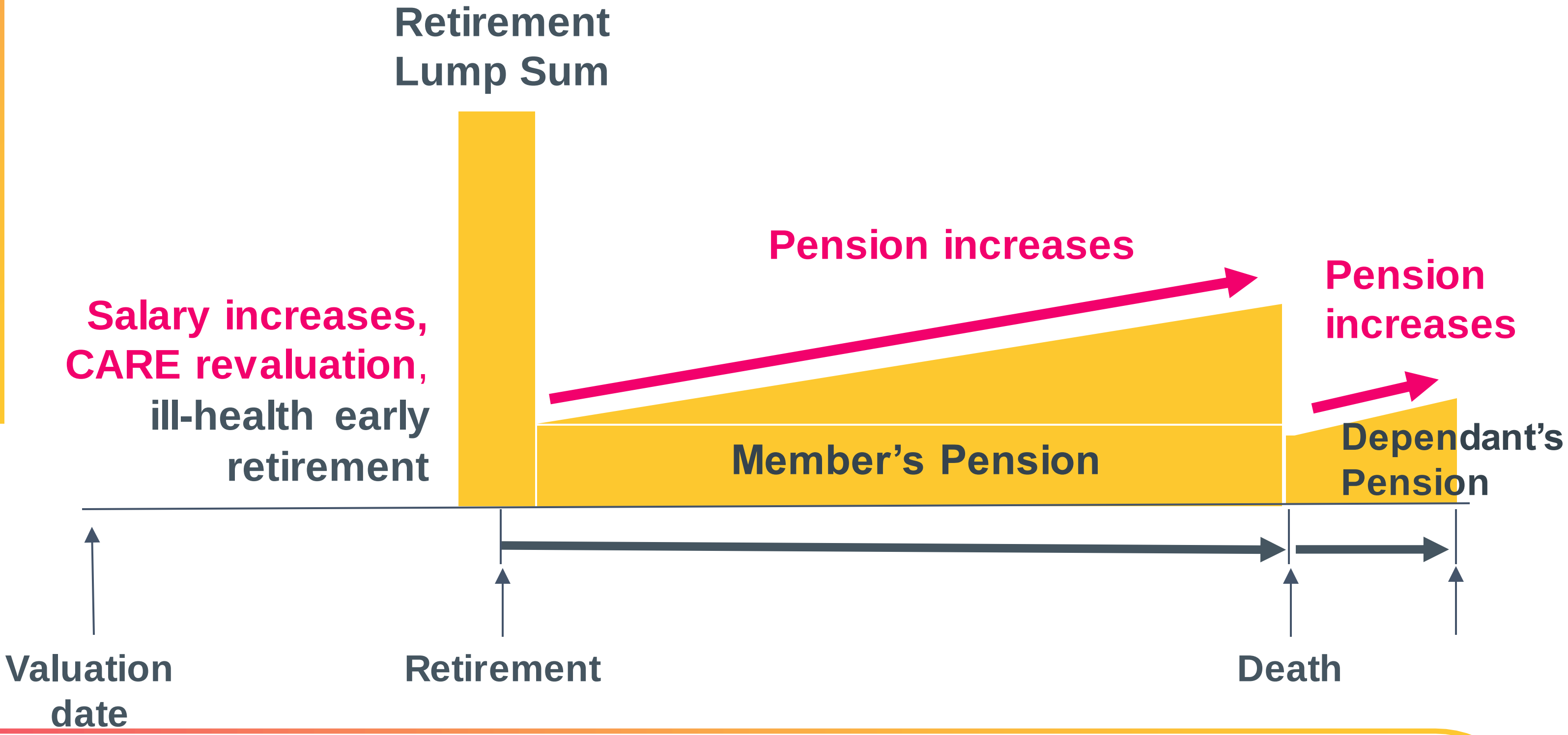
Pay money out
(benefits)

Contributions and investment returns fund all the benefits

Assumptions and why they are needed

2023 benefit increase was **10.1%**

2024 benefit increase expected to be **6.7%**



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

HYMANS ROBERTSON

Which assumptions matter the most

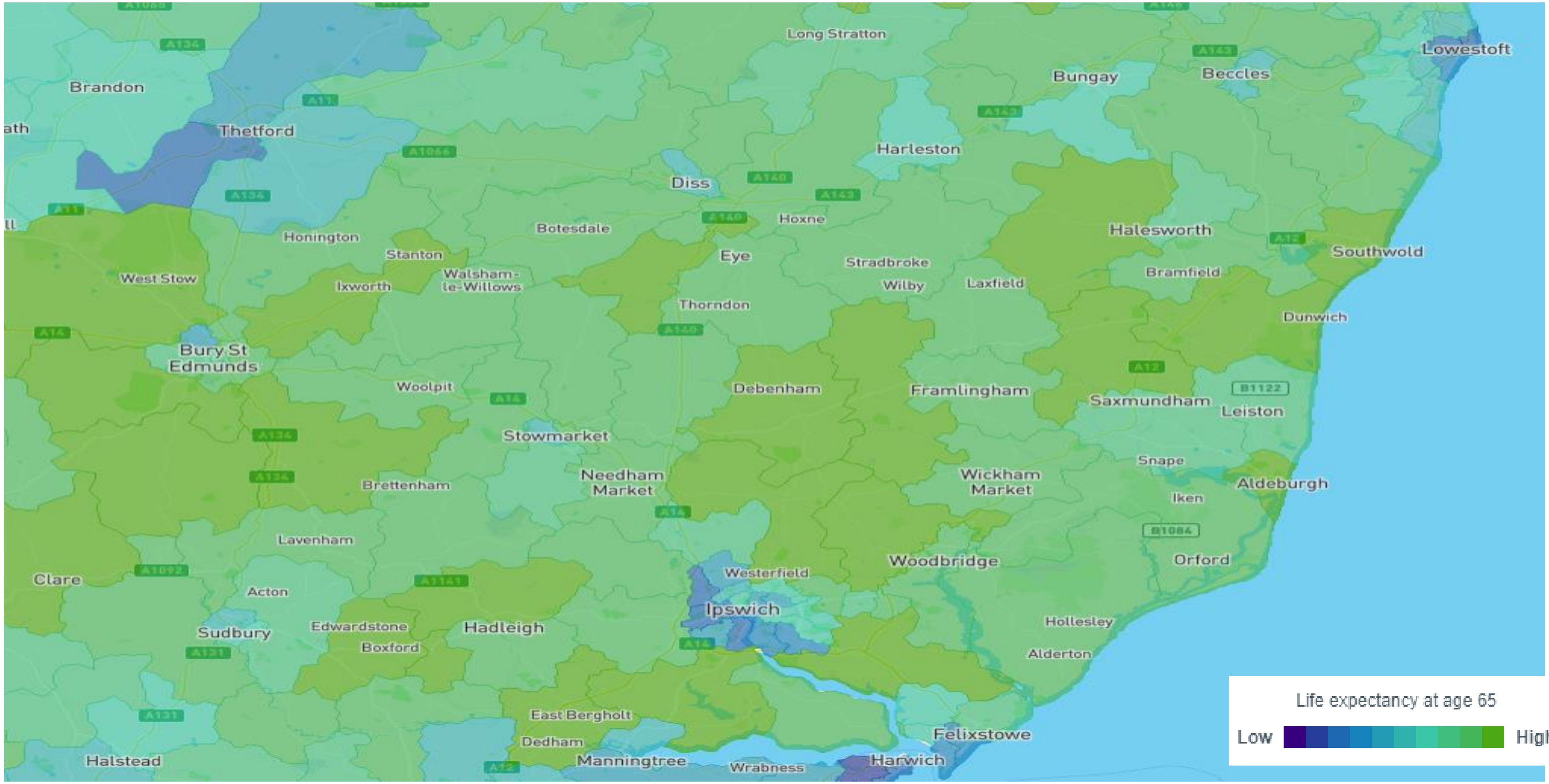
Assumption	Source
Future investment returns	Based on Suffolk Pension Fund's own asset portfolio and future expected returns on each asset class (incl. margin of prudence)
Benefit Increases (CPI)	Consumer Prices Index (CPI) inflation
Longevity / Mortality	Tailored to Fund's individual members – Club Vita 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

https://maps.clubvita.co.uk/

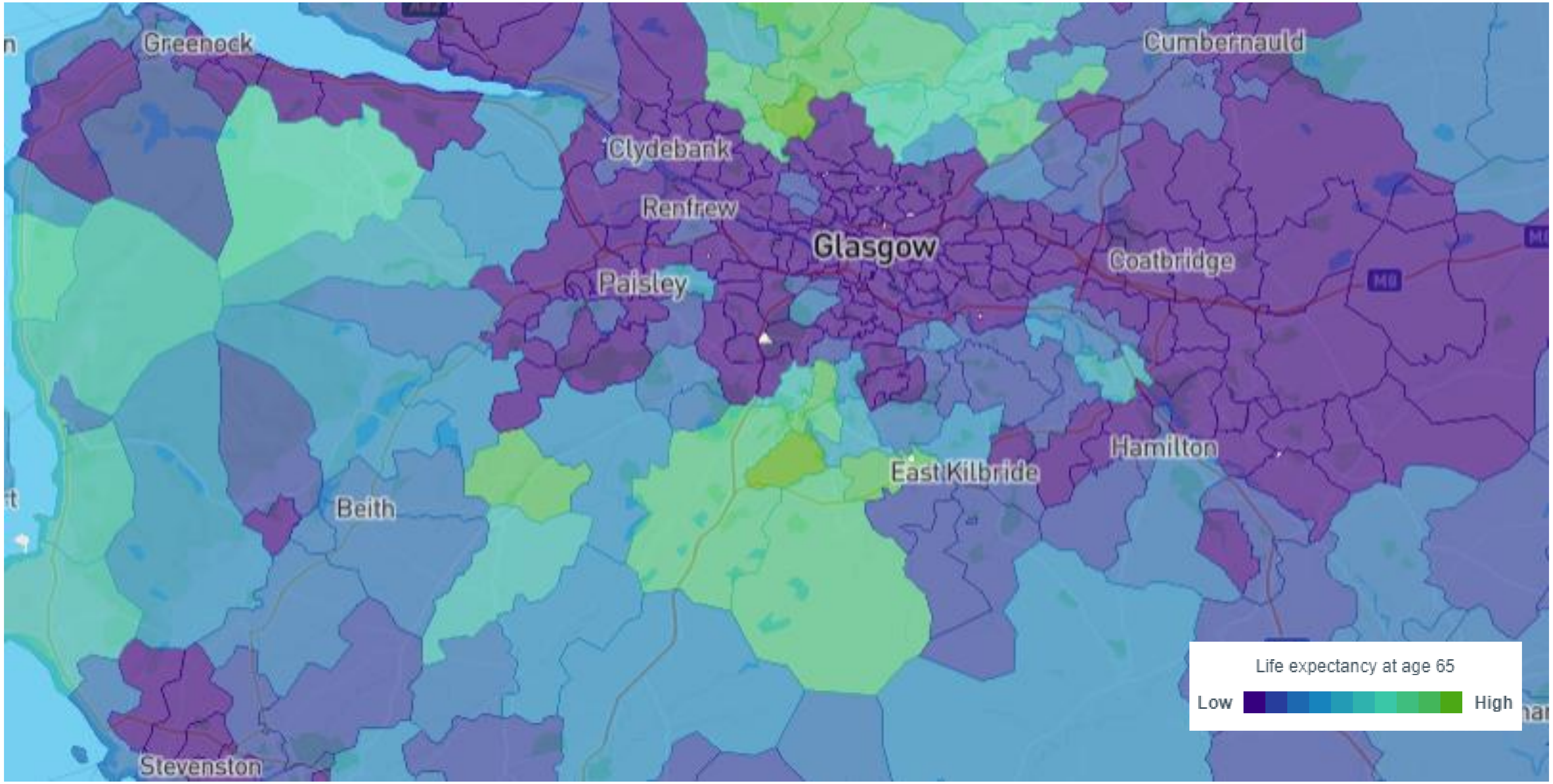
Where you stay has an impact



Assumptions tailored specifically to Suffolk Pension Fund members

https://maps.clubvita.co.uk/

The Glasgow effect…



Valuation “health check”

Liabilities | **Assets**

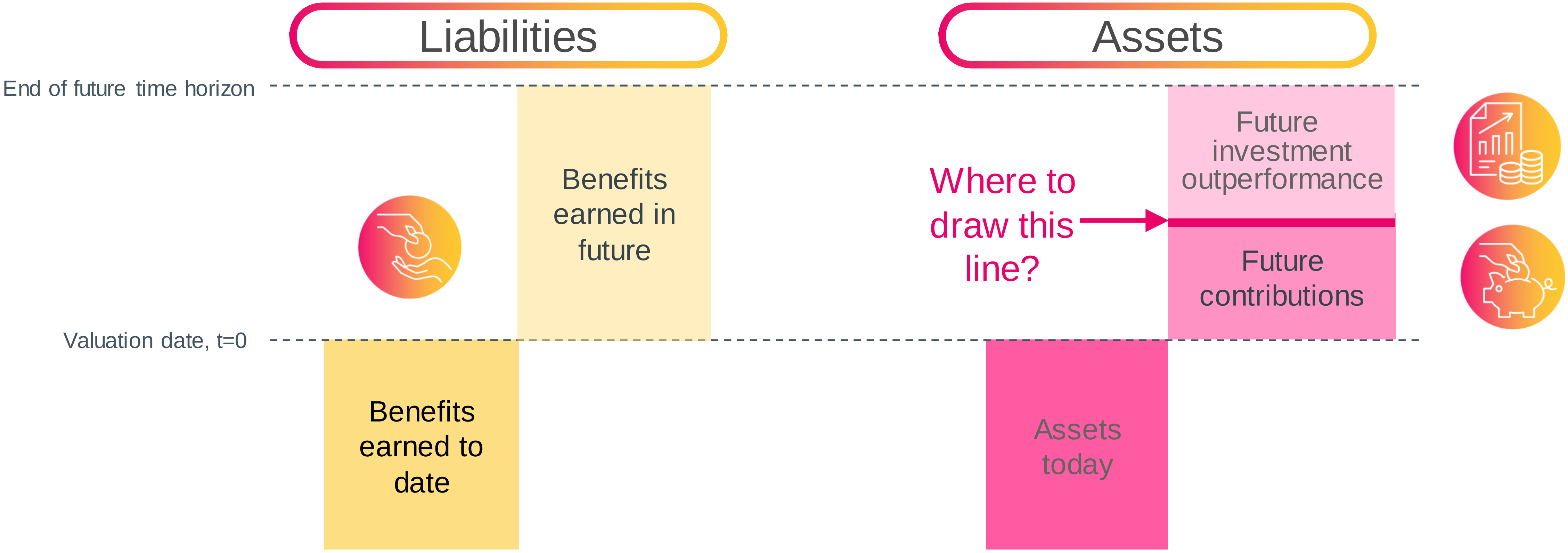
Valuation date, t=0

Benefits earned to date

Assets today

Comparison commonly referred to as “funding level”

Looking to the future

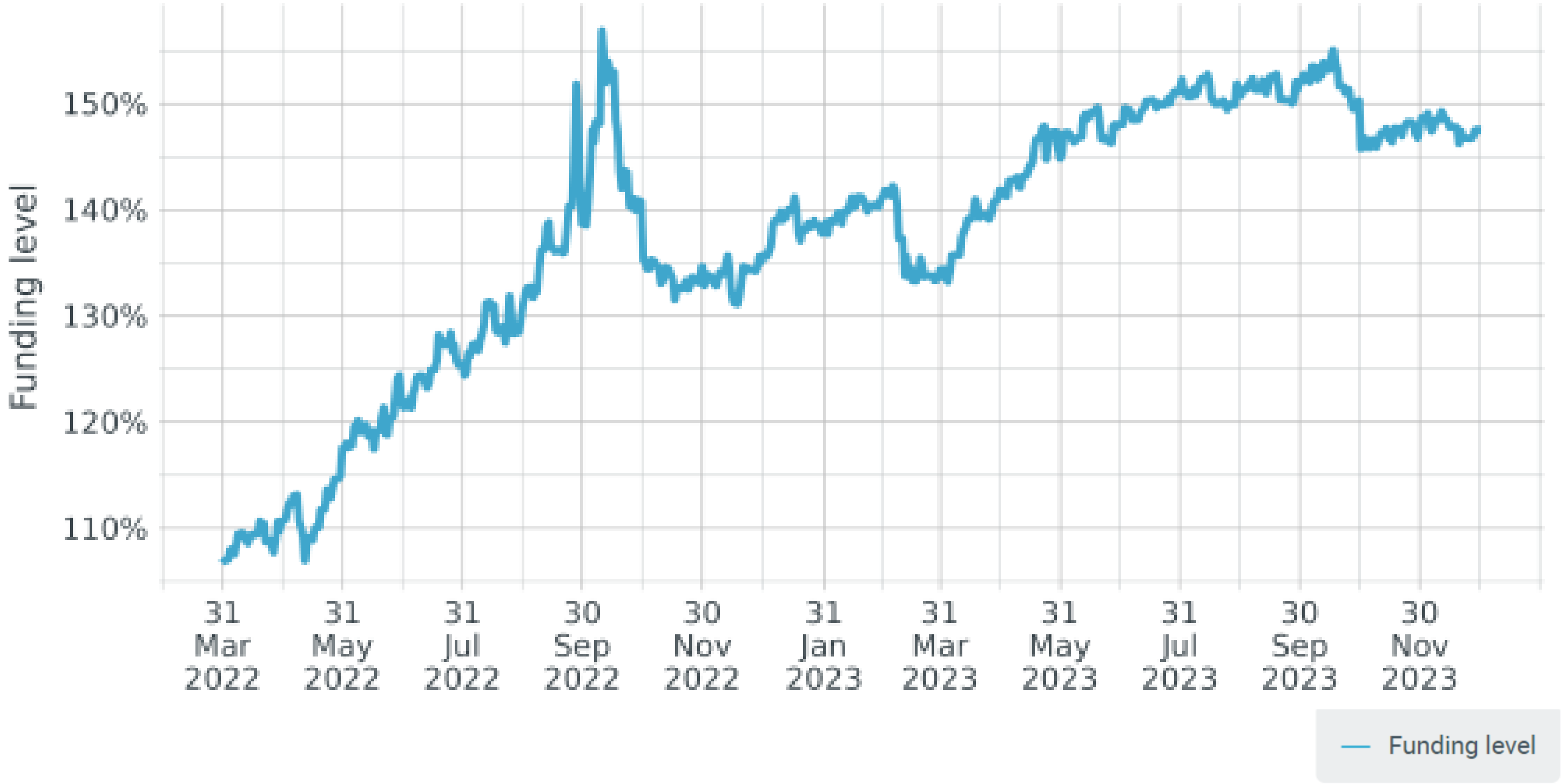


Aim to be at least 100% funded at the end of a time horizon

HYMANS ROBERTSON

Current funding position

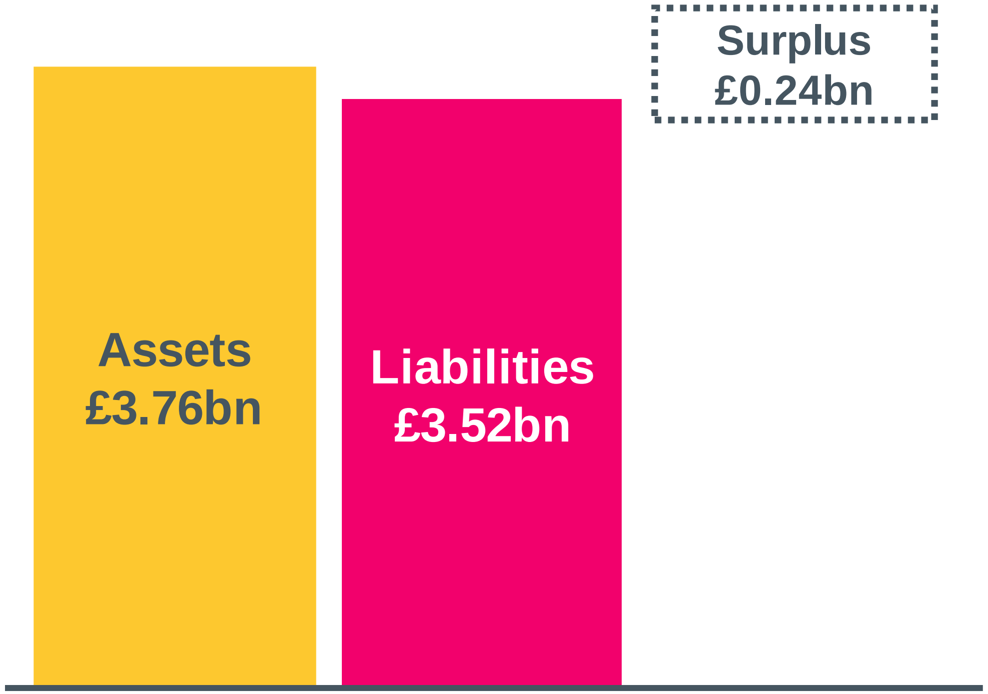
What's happened since the 2022 valuation



Funding level are up, important to understand why

Funding positions have improved

31 March 2022

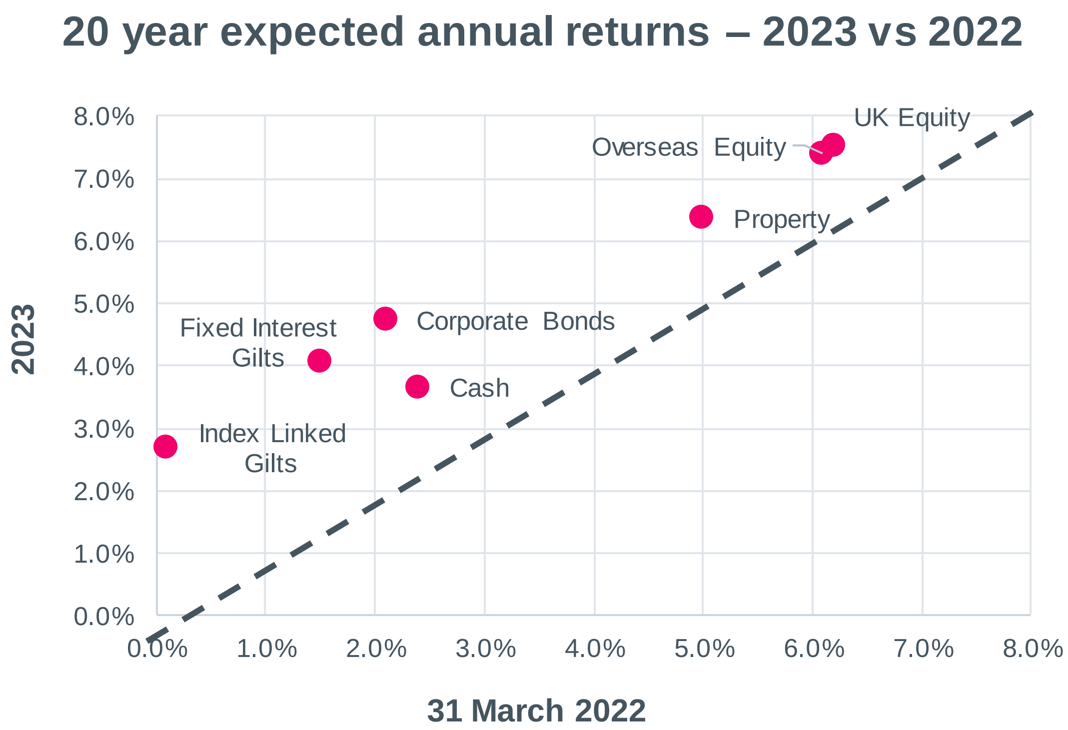


Funding level: 107%

30 September 2023

Funding level: 152%

What's caused the improvement?



Improvements due to higher expected *future* returns.

Summary

INVESTMENTS

- Markets have struggled in general
- Returns more in line with prudent expectations

INFLATION

- Benefit increases have been greater than anticipated
- 2023 benefit increase was 10.1%
- 2024 benefit increase expected to be 6.7%

INTEREST RATES

- Global interest rates have increased significantly
- Increases expected future returns across asset classes

MORTALITY

- Life expectancy improvement rates remaining lower than previous levels

Continually monitored by the Fund and its advisors

HYMANS ROBERTSON

Contribution reviews

Headlines

- A change in the funding level is not an appropriate reason to review contribution rates between valuations.
- Rates will next be reviewed at the 2025 valuation.
- The LGPS Regulations do not allow for another actuarial valuation to be carried prior to 31 March 2025.
- The LGPS rules do allow contribution reviews in limited circumstances.
- However, any review of contributions would not allow for updated market conditions.

Contribution reviews – key documents

Fund's policy on contribution rate reviews

LGPS Regulations

Regulation 64A

DLUHC Statutory Guidance

Section 4

SAB guidance

What triggers a contribution review?

- Employer is likely to **cease sooner** than anticipated
- Changes to LGPS **benefit structure**
- Liabilities have **changed significantly**
- Material change in **employer covenant**
- **Membership of the employer** has changed materially
- **Failure to pay** contributions or insufficient security
- **Employer requests** a review (and Fund agrees)

Fund policy sets out triggers, which are consistent with the regulatory requirements.

2025 valuation early warning - funding in a surplus environment

Where are we now?

Funding positions

- Significantly higher than 2022 valuation
- Increased volatility and uncertainty, especially around inflation
- Snapshot only of built up past service history of members

Contribution rates

- Not reviewed until the 2025 valuation
- Stability of contributions is often key
- Past service funding position often a small element of the total contribution rate

How important is it to be 100% funded?

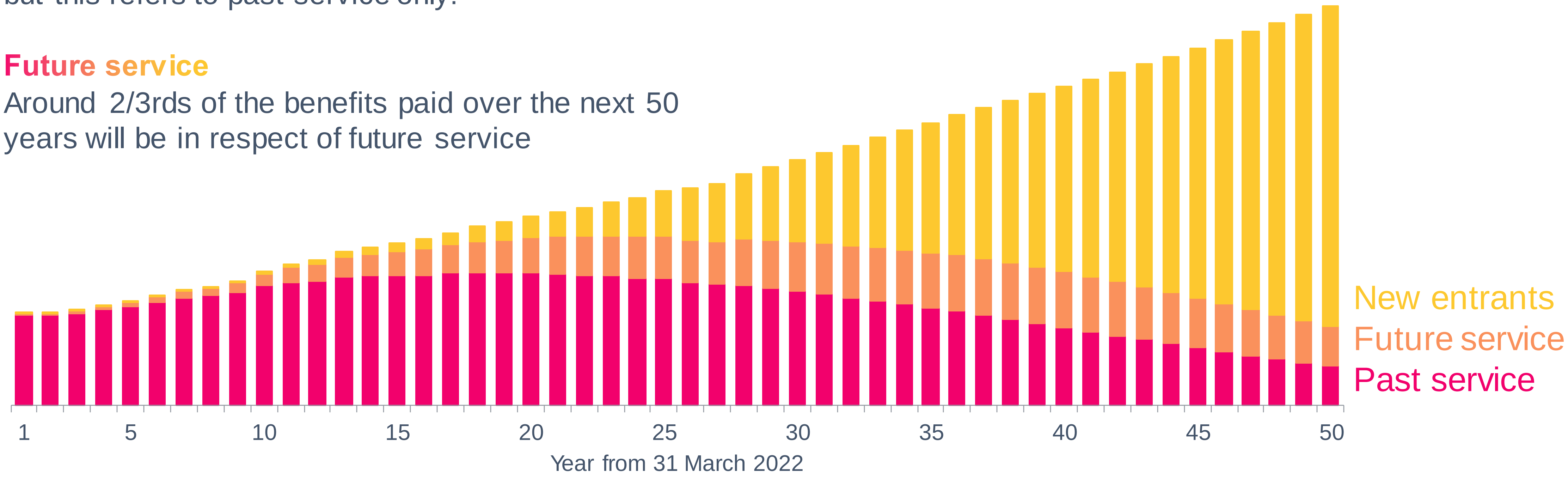
Past service funding position:

Most employers likely to be "fully-funded" at 2025 - but this refers to past service only!

Future service

Around 2/3rds of the benefits paid over the next 50 years will be in respect of future service

Projected benefit payments from 2022 valuation



Cost of future benefits is more important to contributions than past service funding position

HYMANS ROBERTSON

Surplus management

Contribution reduction

Current funding strategy has 'rules' about contribution reductions

Increase prudence

To allow for increased market volatility and uncertainty around key risks such as climate and inflation

Retaining the surplus

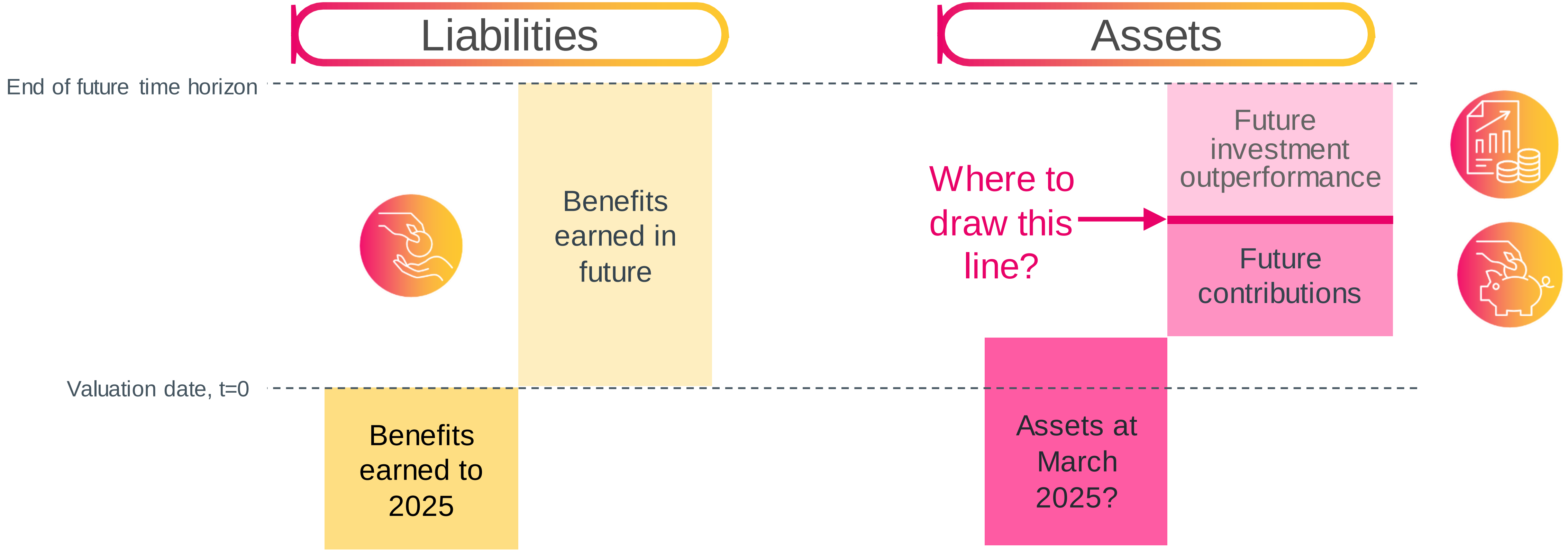
Target more than 100% at end of the time horizon

Investment risk

Consider whether it is appropriate to reduce risk in the investment strategy

Fund considering surplus management policies ahead of 2025 valuation

Looking to the 2025 valuation



Thank you