

Staffordshire Pension Fund

2022 actuarial valuation
– Employer AGM

Douglas Green FFA

Rob Bilton FFA

Joe McGhee

15 November 2022 (morning)

What we will cover today

- 1 Background to the 2022 valuation
- 2 Inputs at 2022
- 3 Models
- 4 2022 valuation results



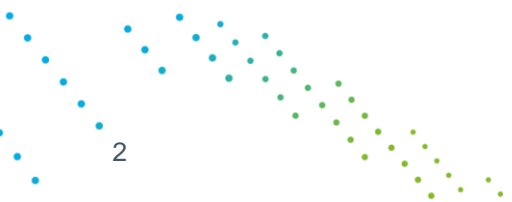
Douglas Green
douglas.green@hymans.co.uk



Joe McGhee
joe.mcghee@hymans.co.uk



Rob Bilton
robert.bilton@hymans.co.uk



How the Fund works



Collect money
(contributions)



Invest money
(its assets)



Pay money out
(benefits)

Contributions and investment returns fund all the benefits



A collective term

- “The Fund” = the combination of all c.500 employers
- Each employer has its own valuation: “tend your own field”
- All employers are different and funding strategy is tailored accordingly to each

Key funding decision

Liabilities

Assets

Benefits earned in future

Future investment returns

Future contributions

Where to strike the balance between contribution rates (affordability) and investment returns (risk)

Benefits earned to date

Assets today

Why we do a valuation?



Calculate employer contribution rates



Compliance with legislation



Analyse actual experience vs assumptions



Review Funding Strategy Statement



Part of continual 'health check' on Fund solvency

The valuation is a key risk management for the Fund

How we do the valuation

Inputs

Data for each member

Financial and demographic assumptions

Funding and investment strategy

LGPS benefit structure

Actuary's models



Primary outputs



Individual employer results schedule



Updated Funding Strategy Statement



Final valuation report

2022 valuation timetable

Q4 2021 – Q1 2022

Pre-valuation work:

- Planning
- Data cleansing
- Review of high-level funding & investment strategy
- Review of stabilisation mechanism for precepting employers



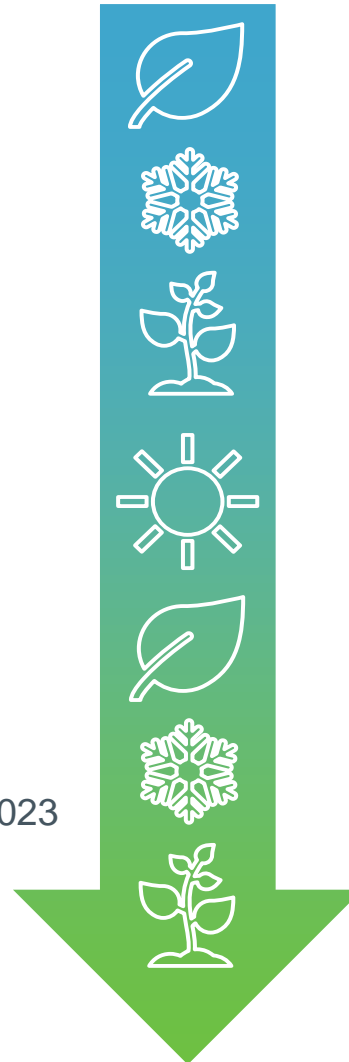
Q3 2022

Initial results & discussions with Officers



Q1 2023

Funding Strategy Statement finalised
Final valuation report signed off by 31 March 2023



Q2 2022

Data cleansed and submitted to actuary
Review of assumptions



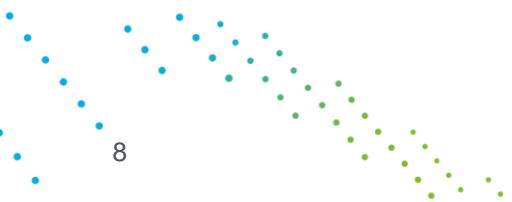
Q4 2022

Employer results issued to employers
Employer AGM & consultation period
Funding Strategy Statement consultation

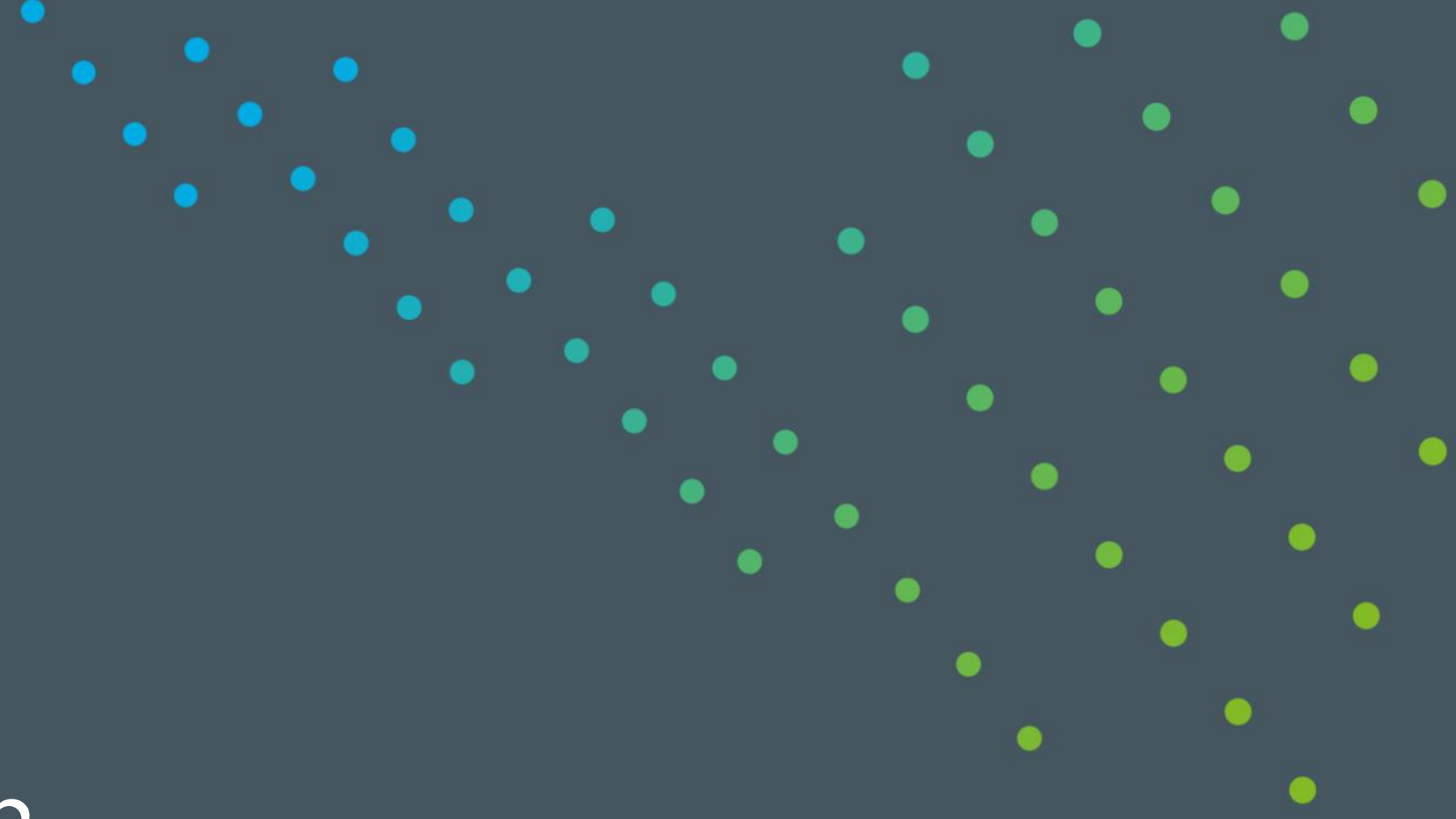


1 April 2023

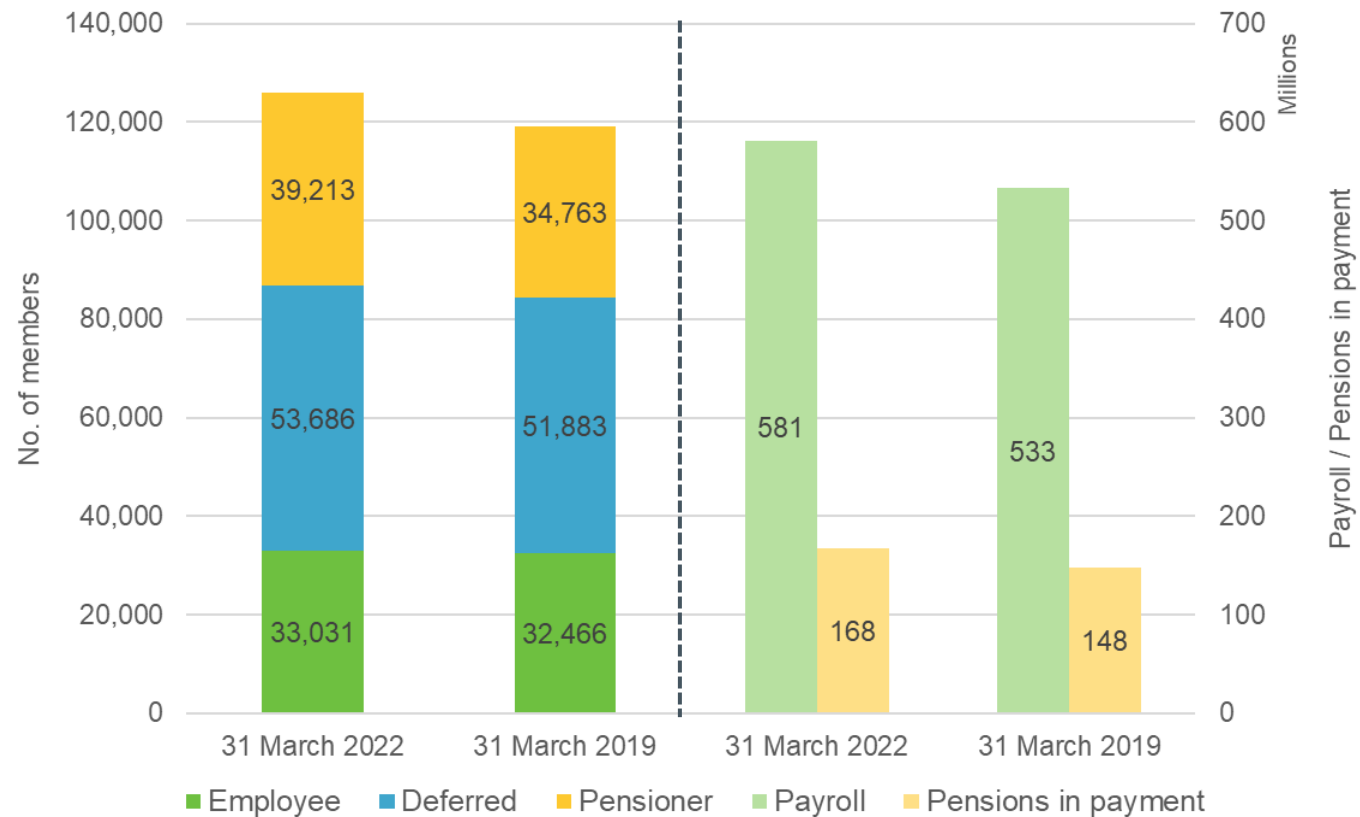
New employer contributions start to be paid



Inputs at 2022

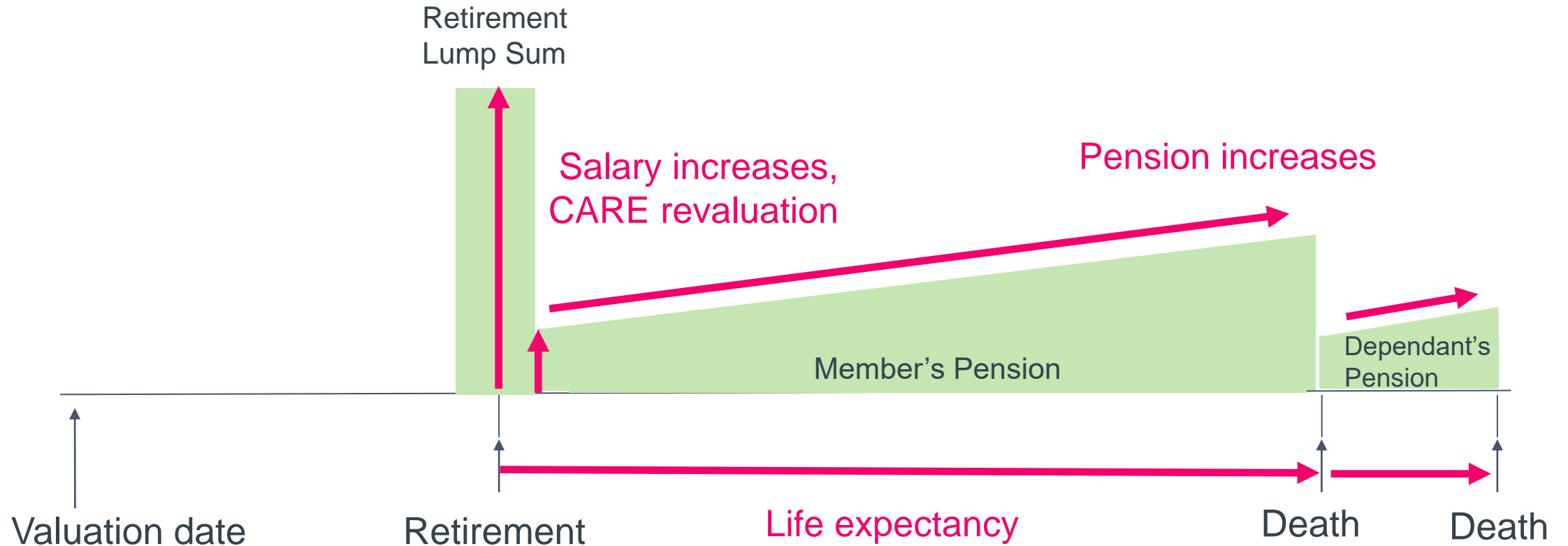


Membership data as at 31 March 2022



High quality membership data – thank you!
Check your own data summary – p4 of results schedule

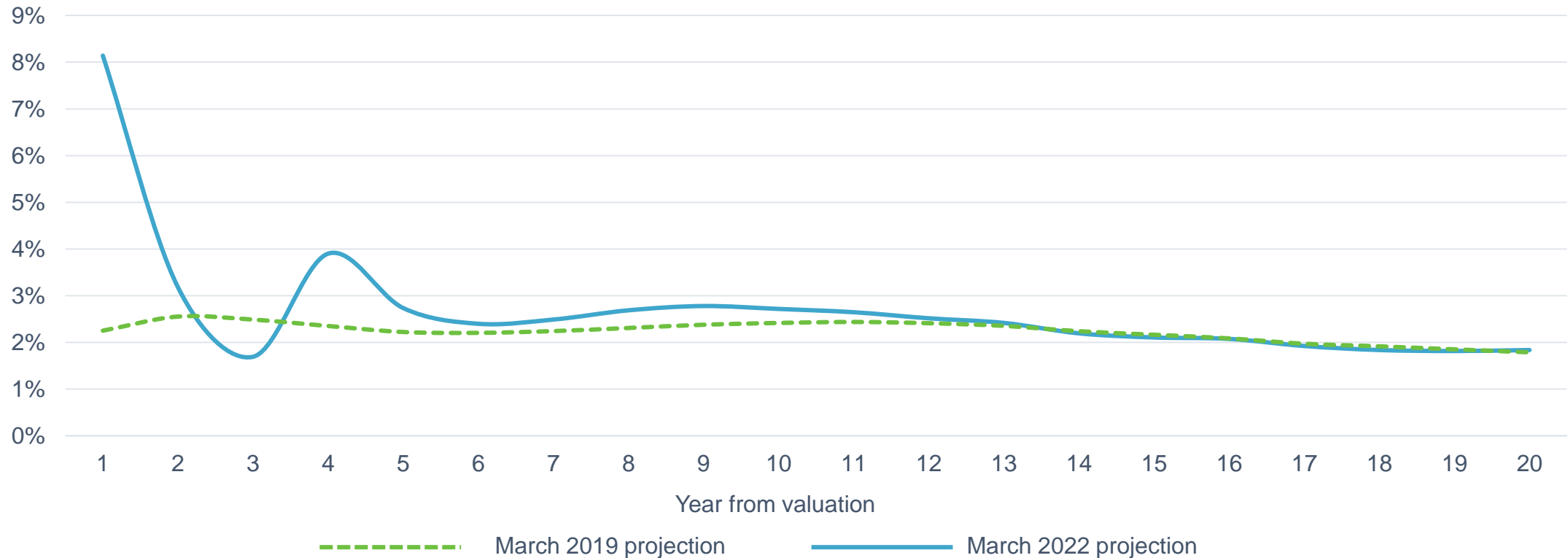
Assumptions – why they are needed



No significant changes in assumptions, except for inflation...

CPI inflation – 2019 vs. 2022

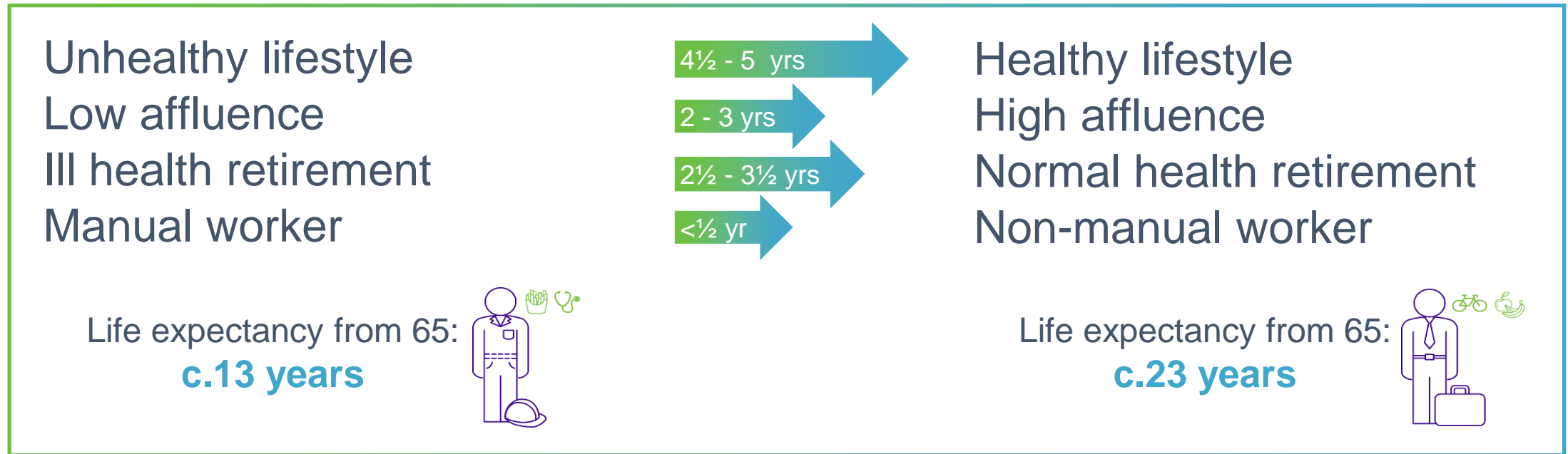
Annual CPI inflation – 2019 vs. 2022



Average level of future 20 years' inflation: 2019 = 2.3% pa, 2022 = 2.7% pa

Focus on life expectancy

- Observed life expectancy varies significantly between members



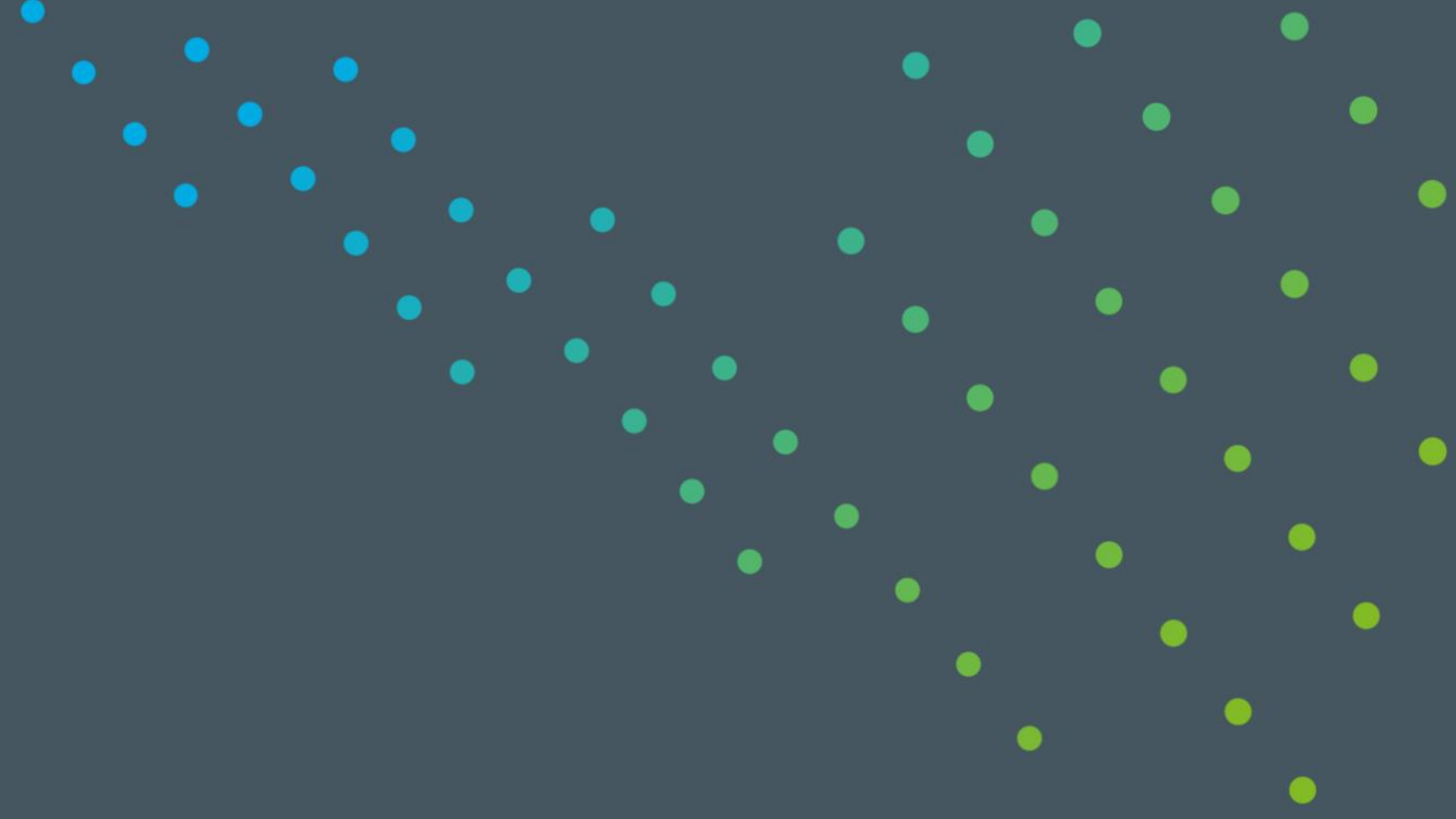
Very important to capture these variances in life expectancy assumption

Lifestyle vs location



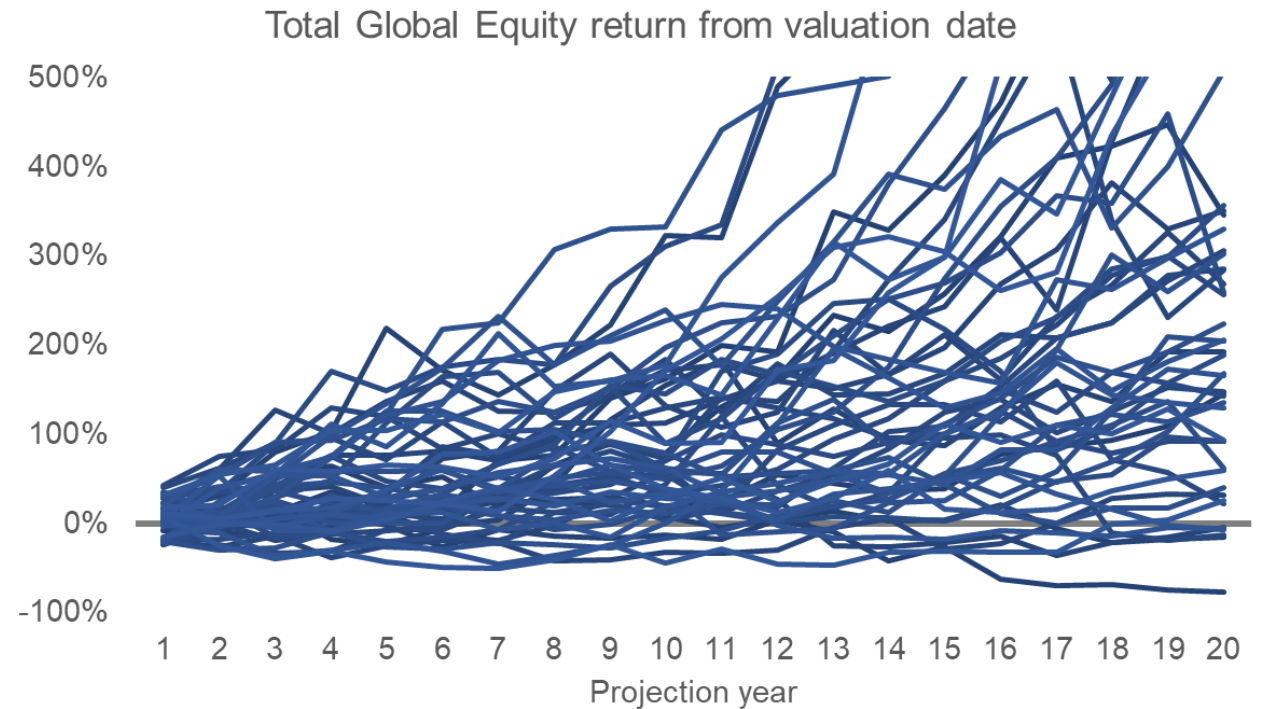
Models

(this will be quick, we promise!)



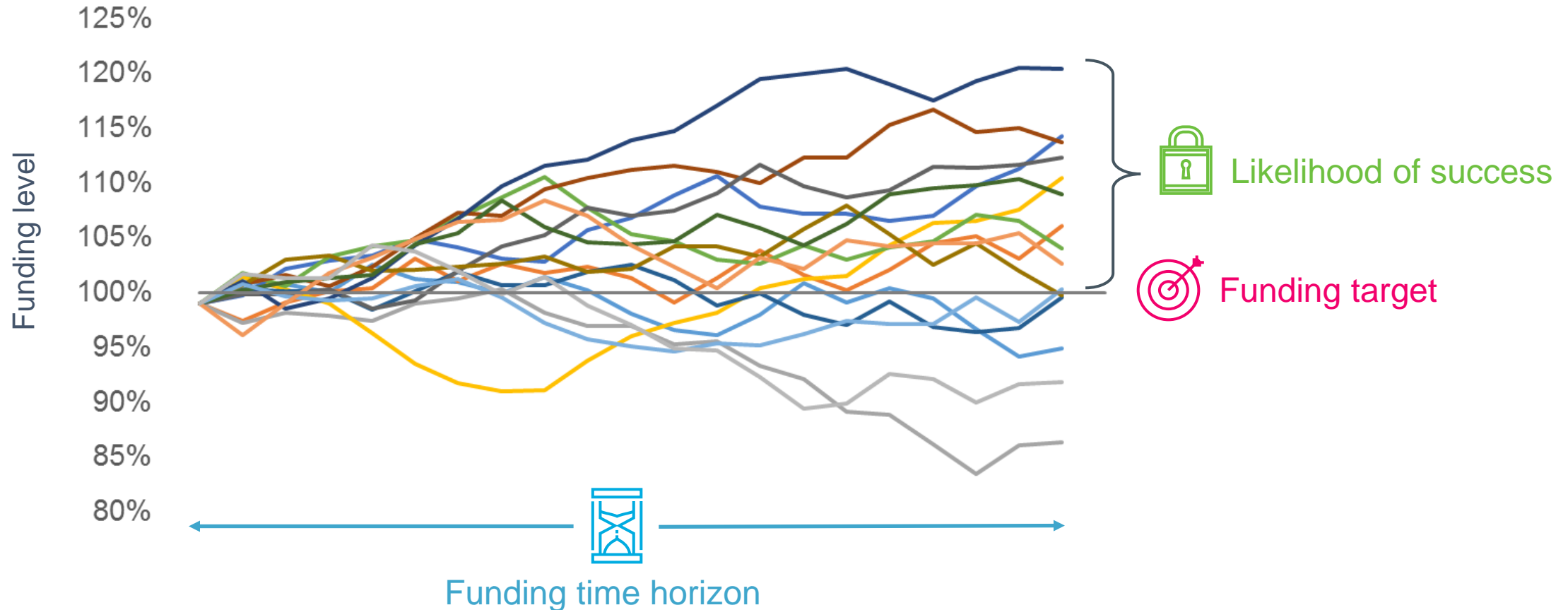
Risk-based valuation approach

- Future investment returns and inflation are uncertain and volatile
- Use a valuation approach which reflects the real-world
- Capturing uncertainty allows users to better understand risk in the funding plan
- Model 5,000 different future economic scenarios



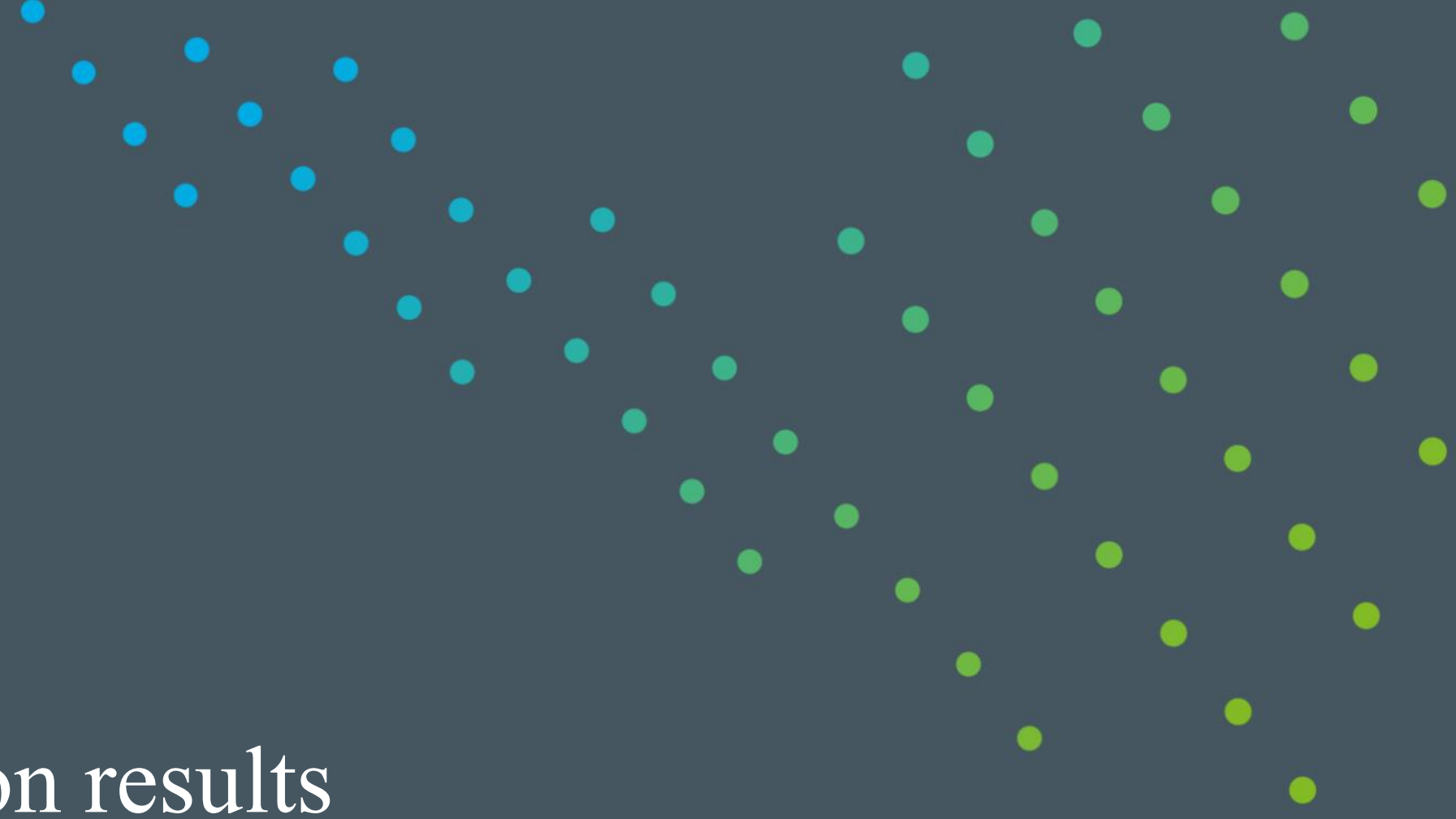
Similar evolution to weather forecasts!

Setting risk-based contribution rates



Set contribution rate to have sufficiently high likelihood of meeting the funding target at the end of the time horizon

2022 valuation results (outputs)



Single reported 2022 funding position

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	(£m)	(£m)
Employees	1,764	1,666
Deferred Pensioners	1,282	1,180
Pensioners	2,651	2,359
Total Liabilities	5,696	5,204
Assets	6,833	5,131
Surplus/(Deficit)	1,137	(73)
Funding Level	120%	99%

- You get your own reported position (page 2 of your results schedule)
- Important to remember limitations with funding level
 - It only considers past service
 - It is a snapshot on one particular day, it will fluctuate

Numbers may not add up due to rounding

**Funding level improvement driven by asset returns – see p5 of your schedule
Staffordshire Fund doing well vs LGPS peers***

What's changed since 2019 (whole Fund)

Expected development

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Last valuation at 31 March 2019	5,131	5,204	(73)
Cashflows			
Employer contributions paid in	484	0	484
Employee contributions paid in	109	0	109
Benefits paid out	(583)	(583)	0
Net transfers into / out of the Fund	(14)	*	(14)
Other cashflows (e.g. Fund expenses)	(13)	0	(13)
Expected changes			
Expected investment returns	611	0	611
Interest on benefits already accrued	0	628	(628)
Accrual of new benefits	0	503	(503)
Expected position at 31 March 2022	5,725	5,752	(27)

Impact of actual events

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Expected position at 31 March 2022	5,725	5,752	(27)
Events between 2019 and 2022			
Salary increases greater than expected	0	27	(27)
Benefit increases less than expected	0	(76)	76
Early retirement strain (and contributions)	19	20	(1)
Ill health retirement strain	0	(2)	2
Early leavers more than expected	0	(5)	5
McCloud remedy	0	9	(9)
Other membership experience	0	31	(31)
Higher than expected investment returns	1,089	0	1,089
Changes in future expectations			
Investment returns	0	(476)	476
Inflation	0	416	(416)
Salary increases	0	6	(6)
Longevity	0	24	(24)
Other demographic assumptions	0	(30)	30
Actual position at 31 March 2022	6,833	5,696	1,137

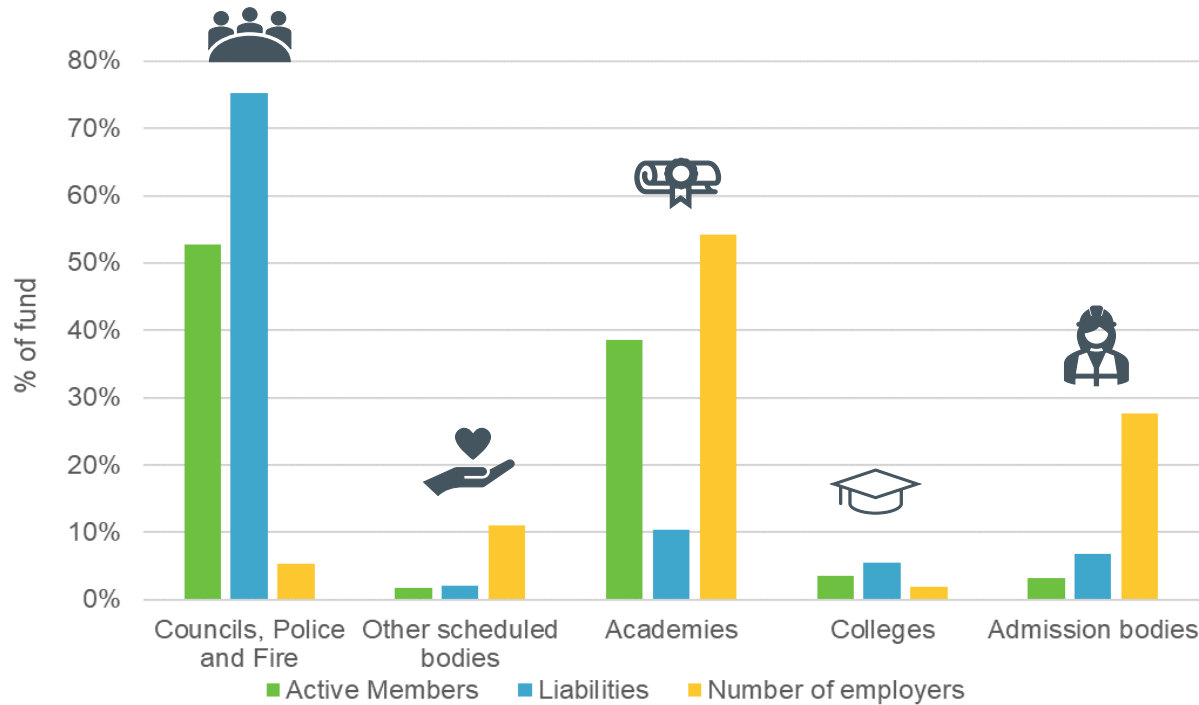
Numbers may not add up due to rounding

See p5 of your schedule for your own analysis

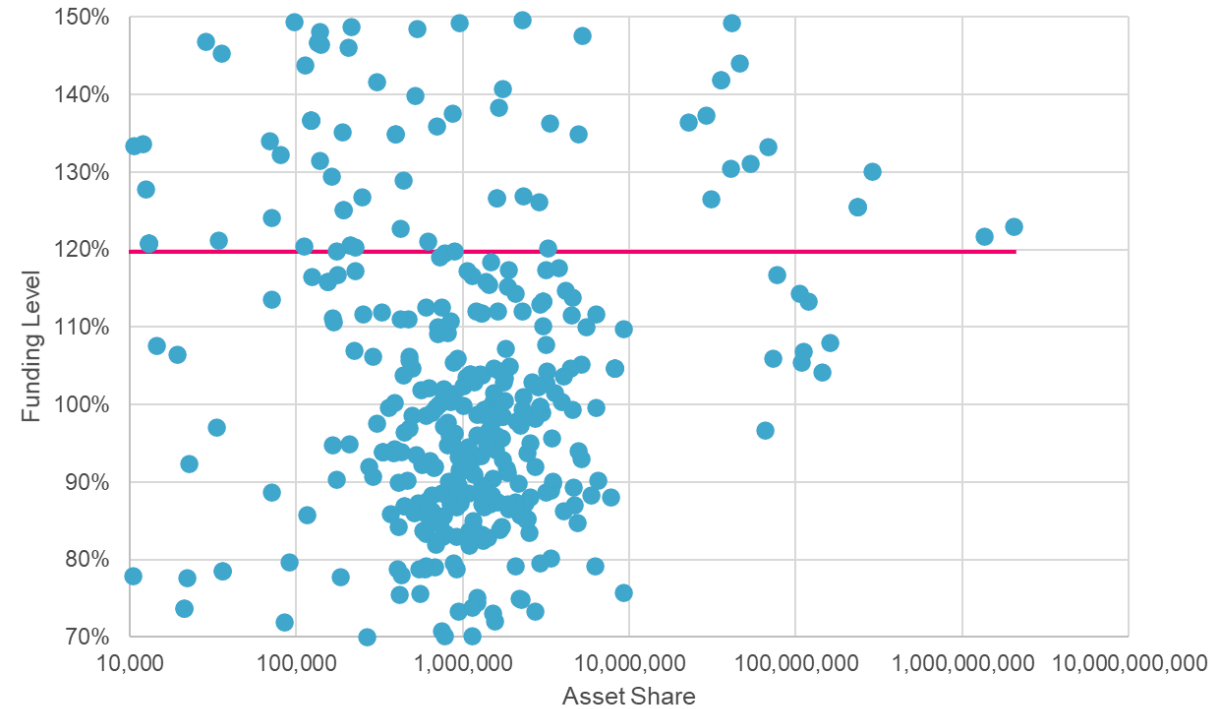
* We do not collect the level of detail necessary to value the impact on the liabilities as a result of transfers in/out

Employer-level results

Fund employers by type



Employer funding level vs asset share



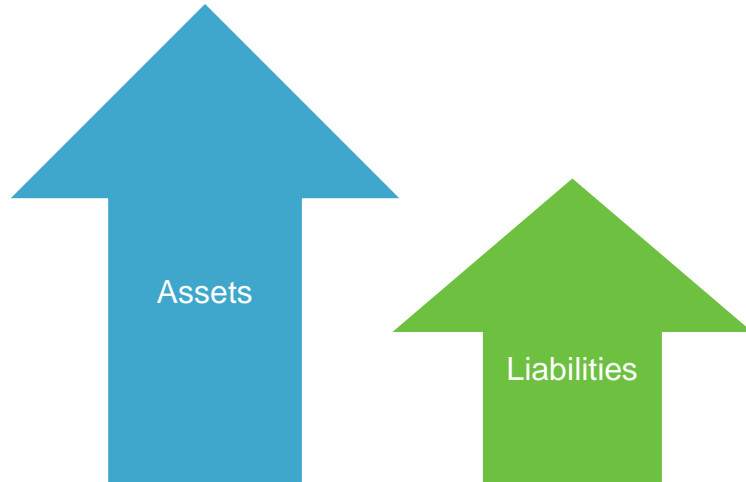
Funding is carried out at individual employer level

Funding themes at 2022 valuation

Looking back:

Funding position + secondary contributions

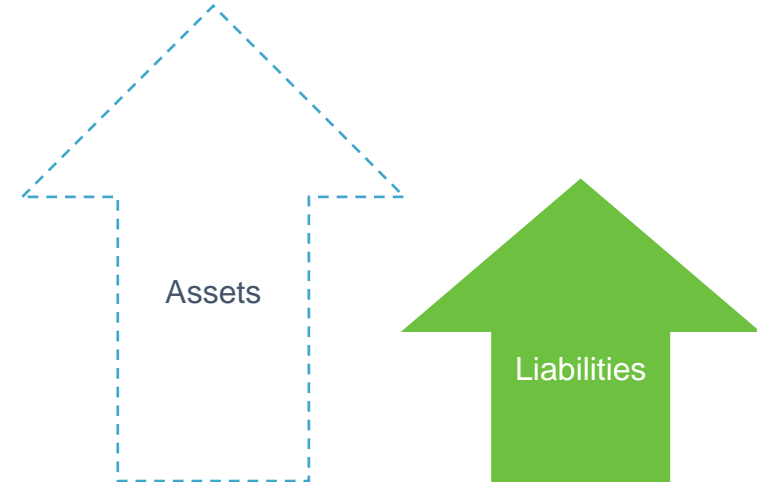
Change from 2019



Likely see an improvement in funding position and lower secondary contributions...

Looking forward:

Primary contributions



...but primary rates don't benefit from asset performance and may see upward pressure due to inflation pressures

Net impact will vary by employer, depending on funding profile

Your own contribution rates from 1 April

Contribution rates

	Primary	Secondary	Total		
Employer contribution rates for year ending	% of pay	% of pay	£	% of pay	£
31 March 2023				19.0%	0
31 March 2024	20.0%	-0.9%	0	19.1%	0
31 March 2025	20.0%	-0.9%	0	19.1%	0
31 March 2026	20.0%	-0.9%	0	19.1%	0

The above contribution rates are the minimum rate required by the Fund. In most circumstances you can pay additional contributions to improve your funding position but this should be referred to the actuary first. The Primary Rate includes an allowance of 0.8% of pay for administration expenses. Employer contribution rates are due in addition to employee contributions. The average employee contribution rate is 5.8% of pay.

Outlined on p1 of your own results schedule

Other factors causing diversity in results

Funding profile

Balance between past and future service matters at 2022

Membership experience

Events such as ill-health retirements, salary increases will affect your funding position

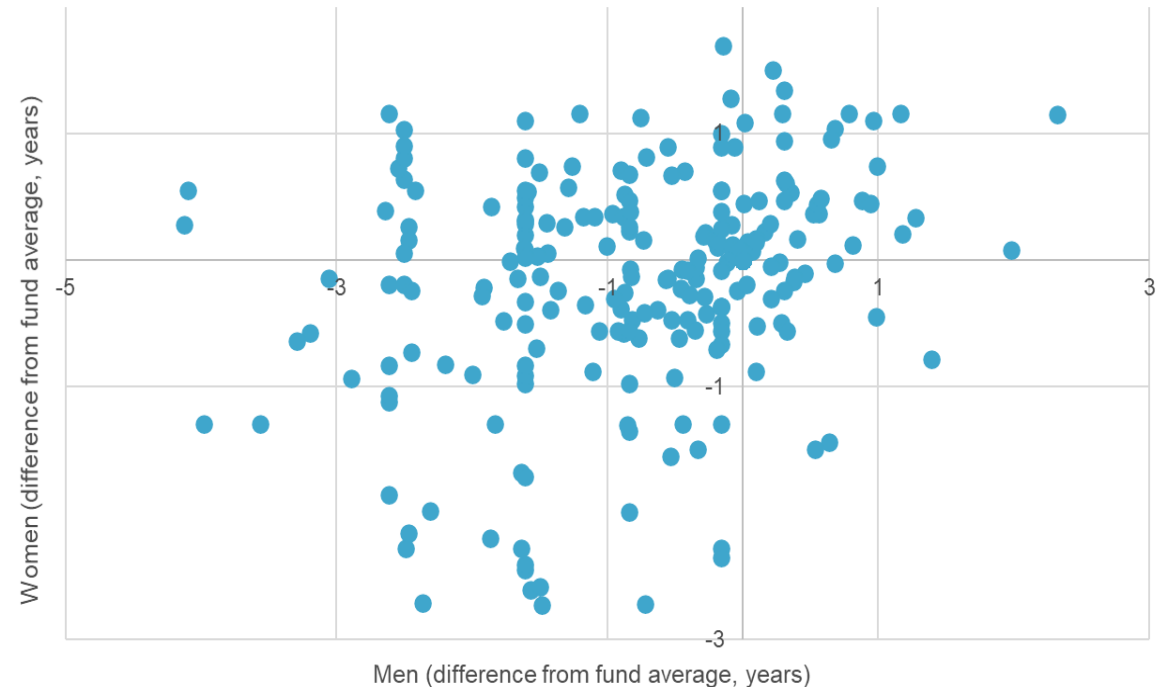
Membership profile

Differences such as age and gender will affect the contribution rate

Contributions being paid

Higher contributions will result in a larger funding level improvement

Difference in average life expectancy (from fund average) for each employer



No two employers are the same

Focus on different employer groups (1)

Councils Police Fire

- Large precepting bodies, long time horizon, majority of Fund
- Paying stabilised contributions
- **Generally freezing rates (as % of pay) with some increases**

Town & Parish Councils

- Pooled together for contribution-setting purposes
- Paying stabilised contributions (currently 25.6% of pay)
- **Rate will drop by 3% in stabilised 1% of pay reductions each year**

Colleges & Uni.

- Typically strong funding position
- Fund has considered risk / covenant issues
- **Rate will move by maximum of 1% of pay each year**

Different circumstances reflected in different funding strategies

Focus on different employer groups (2)

Housing Assoc'ns

- May or may not be heading to cessation
- May provide some degree of added explicit security to the Fund
- Contributions reflect the above, as well as own funding position

Contractors

- Typically short time horizon with large current surplus
- Contribution reductions likely to apply (possibly £nil rate resulting)
- If “pass-through” then no change in contribution rate

Different circumstances reflected in different funding strategies

Funding Strategy Statement review

- No material changes in funding strategy at 2022 valuation
- Used the opportunity to review structure and layout of the FSS
- Improve accessibility and navigation for stakeholders
- Updated FSS being sent around for consultation to all employers



Please read, understand what it means for you and let the Fund know any thoughts

Next steps

Q4 2021 – Q1 2022

Pre-valuation work:

- Planning
- Data cleansing
- Review of high-level funding & investment strategy
- Review of stabilisation mechanism for precepting employers



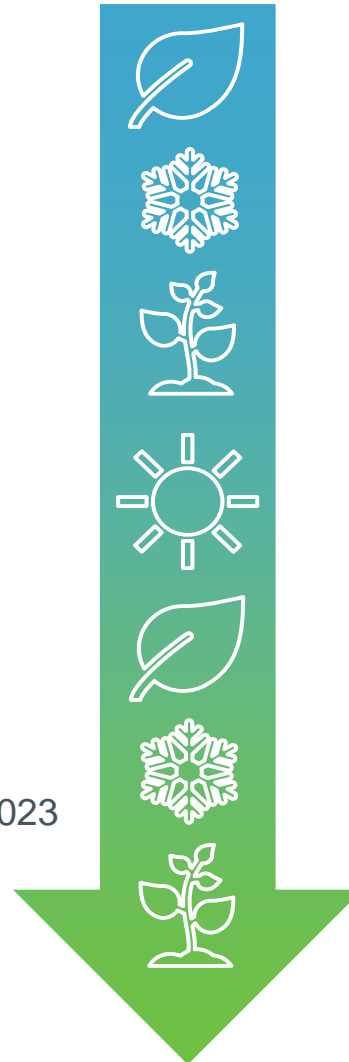
Q3 2022

Initial results & discussions with Officers



Q1 2023

Funding Strategy Statement finalised
Final valuation report signed off by 31 March 2023



Q2 2022

Data cleansed and submitted to actuary
Review of assumptions



Q4 2022

Employer results issued to employers
Employer AGM & consultation period
Funding Strategy Statement consultation



1 April 2023

New employer contributions start to be paid

What you need to do



Read the results schedule

Check the data is correct, understand your current funding position and the rate that will come into payment from 1 April 2023



Review the updated Funding Strategy Statement

Understand how the Fund's strategy applies to your participation in the Fund



Talk to the Fund

Ask any questions and let them know about any possible changes in circumstances

Thank you

This Powerpoint presentation contains confidential information belonging to Hymans Robertson LLP (HR). HR are the owner or the licensee of all intellectual property rights in the Powerpoint presentation. All such rights are reserved. The material and charts included herewith are provided as background information for illustration purposes only. This Powerpoint presentation is not a definitive analysis of the subjects covered and should not be regarded as a substitute for specific advice in relation to the matters addressed. It is not advice and should not be relied upon. This Powerpoint presentation should not be released or otherwise disclosed to any third party without prior consent from HR. HR accept no liability for errors or omissions or reliance upon any statement or opinion herein.