



Nottinghamshire County Council Pension Fund

Annual General Meeting
2022 Actuarial Valuation
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What is a valuation?



Proposed assumptions



2022 Whole Fund results

What is a valuation?



Key outcomes – funding position

Funding
position

Funding level =
Assets / Liabilities

Surplus (Deficit) =
Assets - Liabilities

Key outcomes - Employer contribution rates

Primary rate

- Cost of future benefits
- Employer share only
- Membership profile

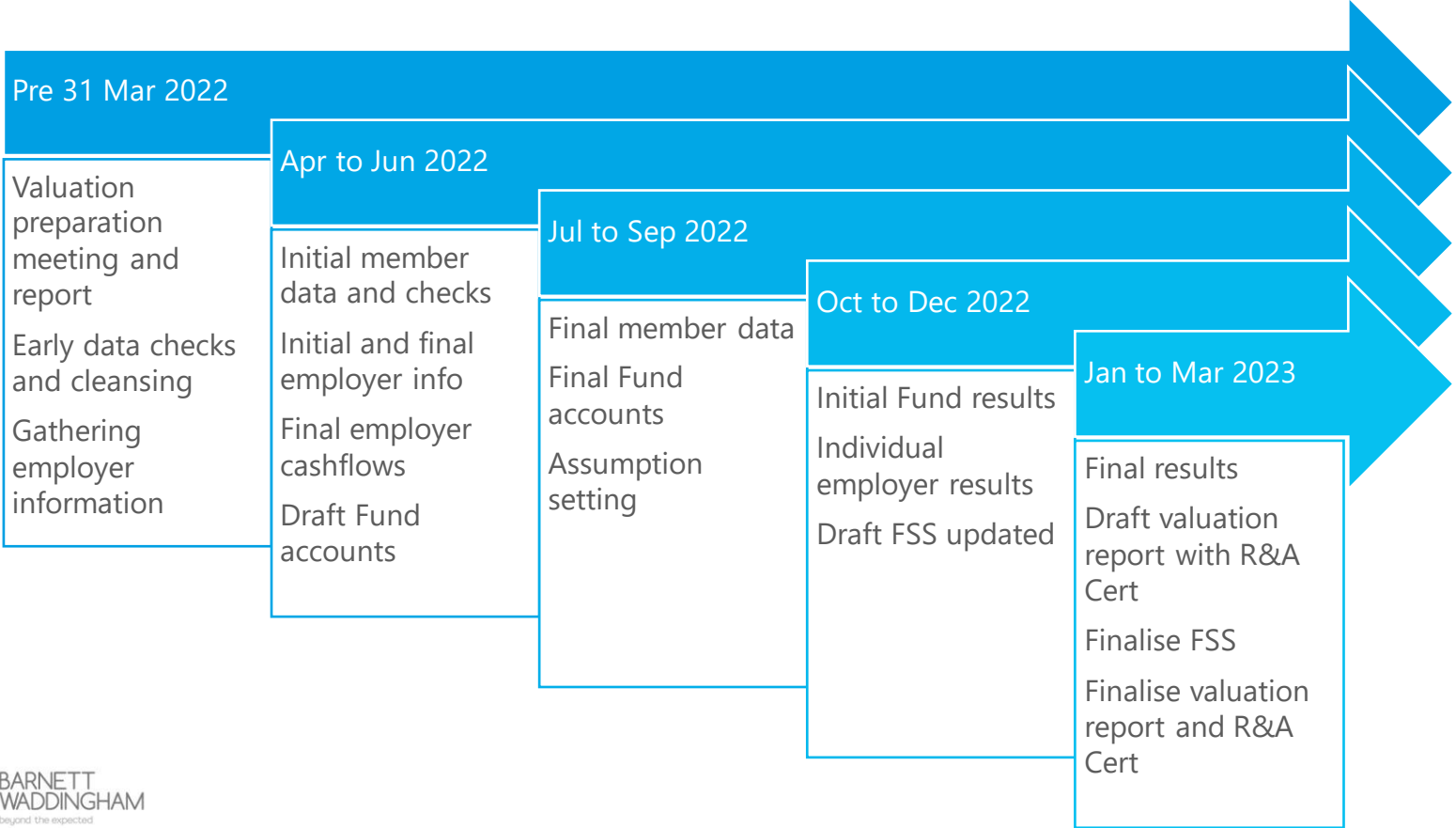
Secondary rate

- Reflects employer's funding position and individual circumstances
- Surplus/deficit

Total contribution rate

- Primary plus secondary
- Stability objective

Valuation project timescales



What is a funding valuation?



Liabilities

- Financial value of pension promises
- Today's value of future pensions from the Fund



Assets

- Long-term investments
- Suitable risk
- Investment return on assets



Employer results

- Employers pooled or standalone
- Tracked separately

Valuing liabilities for each employer



Member data for details of the benefits

Assumptions about future **amount** of benefit

Assumptions about **when** benefits will be paid

Actuary builds **model** and runs (lots of) calculations

Liability for each individual employer, in line with FSS

Valuing assets for each employer



Assets at the **start** of the period

Plus **contributions** paid in

Minus **benefits** paid out

Investment return – gain or loss

Assets at the **end** of the period

Proposed assumptions

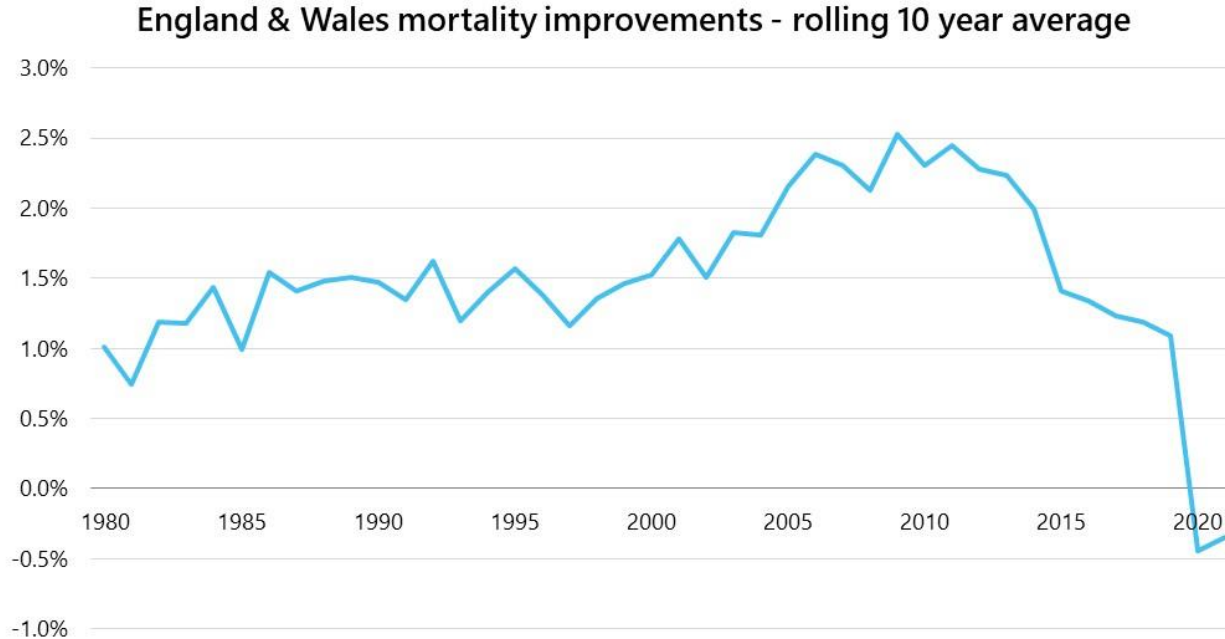


Summary – assumptions and impact

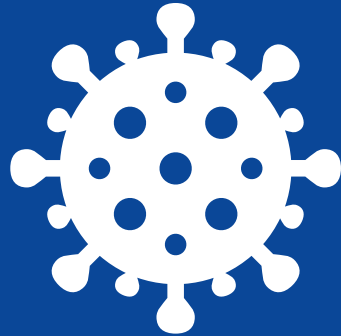
Assumption	2019 valuation	2022 valuation	Impact on liabilities / primary rate (of pay)
CPI inflation	2.65% p.a.	2.9% p.a.	Increase c. 5% / 1.5%
Salary increases	3.65% p.a.	3.9% p.a.	Small impact / no impact
Discount rate	4.8% p.a.	4.7% p.a.	Increase c. 2% / 0.5%

Future mortality improvements

Refers to the percentage reduction in the probability of death for a particular age group from one year to the next. The chart shows how mortality improvement rates in England & Wales, averaged across ages 20-100, have changed in recent decades.



Covid-19



What is the effect
on future longevity
and mortality
assumptions?

Current situation

- › Higher than expected mortality since 2019
- › Different age groups impacted differently
- › Relatively small impact on liabilities

Future longevity

- › Limited information = uncertainty
 - › Could decrease (e.g. long-covid, NHS pressure)
 - › Could increase (e.g. improved health, medical advancements)

Proposed mortality assumptions – impact

Life expectancies

Life expectancy from age 65 (years)	2019 valuation	2022 current mortality, 2019 improvements	2022 current mortality, 2022 improvements	Total change from 2019 to 2022
Male, retiring today, age 65	22.0	21.6	20.7	-1.3 years
Female, retiring today, age 65	24.5	24.2	23.5	-1.1 years
Male, retiring in 20 years, current age 45	23.4	23.0	21.9	-1.4 years
Female, retiring in 20 years, current age 45	26.0	25.7	24.9	-1.1 years

Funding

Reduces liabilities



The proposed mortality assumptions will improve the funding position by 4.4% and reduce Fund primary contributions by 0.9%.

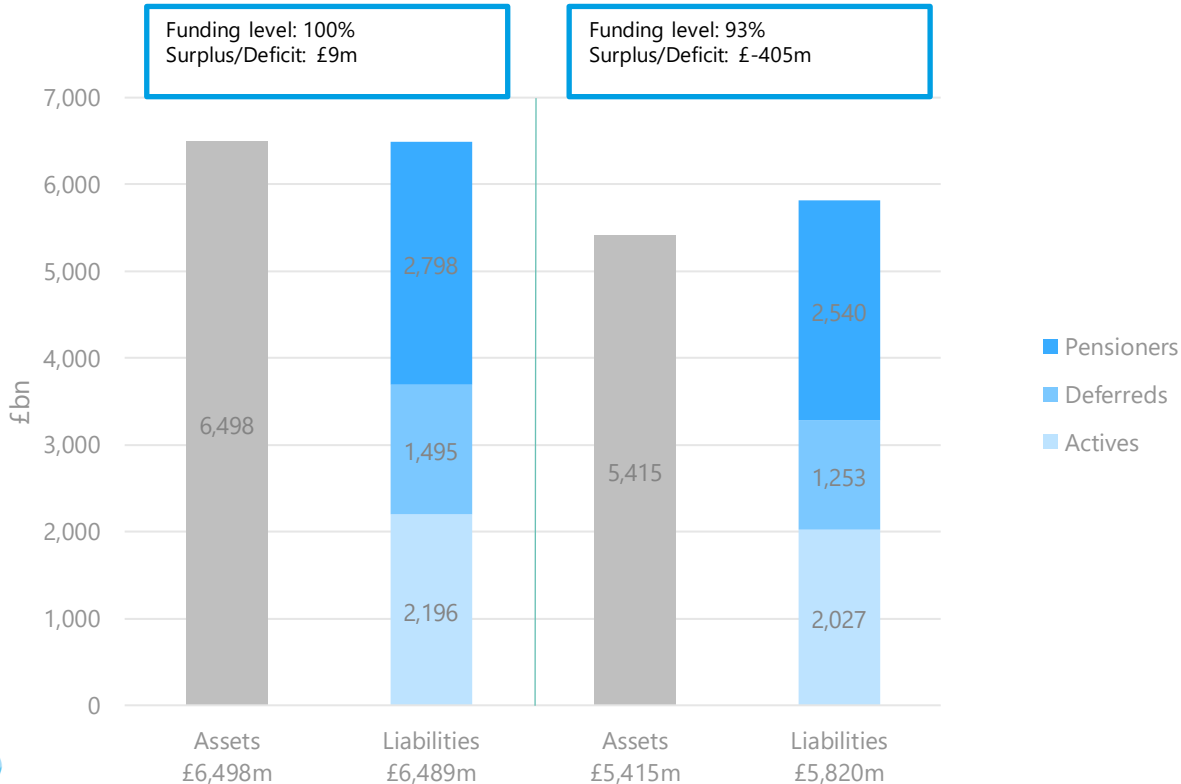
The majority of this improvement is due to the change in approach to future improvements.

Whole Fund results

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2022 whole Fund results

Using the proposed assumptions the results of the valuation are set out in the chart below. We have included the funding position at the previous valuation for comparison.



Investment returns	
2019/ 2020	-6.4%
2020 / 2021	21.8%
2021 / 2022	8.1%
Actual return	23.2%

Expected return 15.1%



2022 whole Fund results

The key factors that have influenced the funding level of the Fund over the period are illustrated in the chart below.



2022 primary rate (whole Fund level)

Primary rate	2022 Proposed basis	Previous valuation
	of payroll p.a.	of payroll p.a.
Average total future service rate	25.4%	24.2%
Less average member rate	6.4%	6.3%
Fund primary rate	19.0%	17.9%



Setting the contribution rates

Contribution rates are certified for the period from 1 April 2023 to 31 March 2026



Primary rate

- Employer's share of cost of new benefits
- Over a period of time
- Current employees only

Secondary rate

- Adjustment to primary rate
- Typically set to remove a deficit or surplus
- May vary by employer

Funding strategy statement

- Employer covenant and circumstances
- Contribution Stability
- Prepayment policy

Why are there differences at employer level?

- Funding positions at 2019
 - Better funded, more benefit of returns
- Membership profiles
 - Changes since 2019
 - Impact from changes in assumptions
 - Older membership, costs more
- Contributions paid over the last 3 years
- Membership experience
 - Salary increases, IH retirements, transfers etc

Any questions?