Nottinghamshire County Council Pension Fund

Actuary’s statement as at 31 March 2024

Barnett Waddingham LLP

6 June 2024

Introduction

The last full triennial valuation of the Nottinghamshire County Council Pension Fund (the Fund) was carried out as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 30 March 2023.

Asset value and funding level

The results for the Fund at 31 March 2022 were as follows:

- The smoothed value of the Fund's assets for funding purposes as at 31 March 2022 was £6.5bn.
- The Fund had a funding level of 100% i.e. the value of assets for funding purposes was 100% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £9m.

Contribution rates

The employer contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 19.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2023.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in the triennial valuation report.

Assumptions

The key assumptions used to value the liabilities at 31 March 2022 are summarised below:

Assumptions	Assumptions used for the 2022 valuation
Financial assumptions	
Market date	31 March 2022
CPI inflation	2.9% p.a.
Long-term salary increases	3.9% p.a.
Discount rate	4.7% p.a.
Demographic assumptions	
Post-retirement mortality	
Base tables	115% (M) / 110% (F) of S3PA
Projection model	CMI 2021
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.0
Initial addition to improvements	0% p.a.
2020/21 weighting parameter	5%

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2022 valuation report.

Progress since the 2022 valuation

Assets

Investment returns on the Fund's assets over the year to 31 March 2024 have been strong, estimated at 8.5% p.a. This has helped to offset the lower-than-expected return in the year to 31 March 2023. As at 31 March 2024, in market value terms, the Fund's assets were slightly less than where they were projected to be based on the previous valuation.

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2024, the real discount rate, calculated using the same methodology as at 31 March 2022 but updated for changes in market conditions, is estimated to be marginally higher than at the 2022 valuation due to a reduction in the long term rate of inflation.

The value of liabilities will have increased since the 2022 triennial valuation, due to interest accrued over the period as well as actual CPI inflation being higher than previously anticipated. On top of the 10.1% 2023 pension increase order, accrued benefits increased by 6.7% in line with the 2024 pension increase order, which is higher than the pension increase assumption at the previous valuation, increasing the value of liabilities further.

Therefore, the financial position of the Fund, as measured by the funding level, is estimated to have decreased when compared on a consistent basis to the position as at 31 March 2022. This is primarily due to lower-than-expected investment returns which have therefore not kept pace with the discount rate assumed and persistently high levels of inflation which negatively impacts the value of the liabilities.

Were we to carry out a valuation at 31 March 2024 based on the same data and methodology for deriving the assumptions used for the 31 March 2022 valuation, we estimate that the average primary contribution rate across all employers would be slightly lower due to the marginally higher real discount rate compared to 31 March 2022. The impact of the weakened funding position on secondary contributions would vary by employer, however in general we would expect them to marginally increase.

The next formal valuation will be carried out as at 31 March 2025 with new employer contribution rates set from 1 April 2026. As always, the funding objective is to adopt methods and assumptions that aim for a fully funded position in the long term and to keep employer contribution rates as stable as possible.

Barry McKay

Barry McKay FFA
Partner, Barnett Waddingham LLP