Bath & North East Somerset Council	
MEETING:	**AVON PENSION FUND COMMITTEE**
MEETING DATE:	**13 DECEMBER 2024**
TITLE:	**INTERIM ACTUARIAL VALUATION 2024 AND GAD SECTION 13 UPDATE**
WARD:	ALL
AN OPEN PUBLIC ITEM	
List of attachments to this report: Appendix 1 – Summary of the 2024 Interim Funding Review Appendix 2 – Summary of the Fund's Section 13 outcome	

1. THE ISSUE

1.1 Local Government Pension Scheme Regulations 2013 require the Fund to carry out an actuarial valuation every three years, the next is due as at 31 March 2025. Between these mandatory valuations, the Fund periodically requests interim valuations to assess whether the funding strategy is on track and to begin the discussions with the actuary, committee and employers about the 2025 valuation.

1.2 The Fund commissioned an interim valuation which considers the results as at 31 August 2024 and provides the current context for the funding strategy discussions as we move towards the 2025 valuation.

1.3 The interim valuation provides an update to the current funding position allowing for updated membership information at 31 March 2024. Current employer contribution rates and deficit payments are not revised as a result of this update; however, it provides an indication of potential outcomes at 2025. **It is important to note that the interim valuation is a snapshot of the funding level at a particular point in time.**

1.4 The Actuary presented the interim valuation report at a committee workshop on 24th October 2024. A shortened summary of the report used at the workshop is in Appendix 1.

1.5 On 14 August 2024 the Government Actuaries Department (GAD) issued their Funding Analysis Report of the Local Government Pension Scheme based on the 31 March 2022 Actuarial Valuation. Section 13 requires the Government Actuary to report on whether Compliance, Consistency, Solvency and Long-term cost efficiency aims are achieved across the scheme. The analysis of the 86 local Funds includes Avon Pension Fund. A summary of the key measures used by the GAD is in Appendix 2.

2. RECOMMENDATION

That the Avon Pension Fund Committee notes:

2.1 The outcome of the 2024 interim valuation and 2025 valuation timetable.

3. FINANCIAL IMPLICATIONS

3.1 The actuarial valuation sets the contribution rates and deficits payments required from scheme employers for the three years following the valuation. The Interim valuation provides some insight into how the funding position has progressed against the funding strategy set out at the 2022 valuation and an indication of the potential changes in contributions required at the 2025 valuation which will set the employer contributions from 1 April 2026.

3.2 The cost of the interim valuation is included in the budget for 2024/25.

4. THE REPORT

4.1 The interim valuation summary report from the Actuary is in Appendix 1. The key points are as follows:

a) The funding level has improved since 2022 indicating a likely surplus at the total Fund level

b) The life expectancy assumptions have been updated to reflect the latest models from the Continuous Mortality Investigation (CMI). The outcome is a reduction in life expectancy, and this reduces the liabilities and the indicative future service rates.

c) The increase in expected return outlook has predominantly led to an increase in the real past and future service discount rates used for the interim review (versus the 2022 assumptions adopted) and hence lower liabilities and lower future service rates.

d) The short and long-term inflation rates have fallen since 2022. As the long-term inflation assumption is effectively the assumed rate of pensions increases going forwards, this has led to a reduction in liabilities.

4.2 The interim valuation updates the 2022 valuation using updated membership data as at 31 March 2024, actual cash flow data since 2022, updated financial assumptions to reflect changes in market values, updated life expectancy trends, but uses the same other actuarial assumptions used in 2022. No short term pay assumption for the 3 years of the 2025 valuation period, 2026-29, has been used for this interim exercise. The actuary based the calculations on the updated membership data and has assessed the funding position at 31 August 2024 (based on the financial outlook at this date) for the Committee workshop.

4.3 The Actuary updated the life expectancy assumptions for the Fund based on the latest models from the CMI only which led to updated life expectancy tables and associated weightings. The result is that life expectancy has reduced, and the impact is likely to reduce past service liabilities by c1.6% and reduce future service rates by c0.3% of pay. However, the impact by employer will vary based on their own membership profile. A full analysis of the life expectancy assumption and other demographic assumptions will be undertaken as part of the 2025 valuation. This will be based on the Fund’s own experience as opposed to that implied by the CMI models. This could lead to a different outcome.

4.4 The key assumption which drives the value of the pension Fund liabilities (the future benefit payments) and contributions rates is the discount rate relative to inflation.

This is set by the Actuary to reflect the overall investment return which we expect to achieve on the Fund's assets over the long term with a suitable allowance for prudence taking account of the Fund's risk management strategy. In other words, we need to reflect the "real" investment return expected on the Fund assets as this is the key driver of the overall contribution requirements for the Fund.

4.5 There have been significant changes in economic outlook, inflation expectations and further developments in the Fund's investment strategy since the 2022 valuation. The best estimate expected returns have increased over the period which is in part driven by the increase in average gilt yields (which have increased mainly due to interest rate increases) and have increased from 1.7% p.a. to 4.4% p.a. based on the correlation of invested asset classes considering the risk management framework. At 2022 the discount rate was CPI +1.5% for past service; the updated discount rate for the interim review is CPI +2.75, which reduces the value of the past liabilities. In 2022 the future service discount rate was CPI +2% whereas a potential updated discount rate is CPI +2.25%, resulting in a reduction in the future service contribution rate.

4.6 On a consistent basis, between March 2022 and August 2024 expectations of long-term CPI inflation had reduced by c0.6% p.a. from 3.1% p.a. to 2.5% p.a. The current short term inflation rate has fallen significantly (annual CPI rate in September 2024 was 1.7% which will determine the 2025 pension increase, which compares to the annual September 2022 CPI of 10.1%).

4.7 The interim valuation outcome shows the funding level was c.96% at 2022; it increases to 103% on the proposed 2024 basis. The improvement is driven primarily by the increase in the discount rate and the change in demographic assumptions. This compares to an expected funding level of 97% at 31 August 2024 if the 2022 valuation assumptions had been borne out i.e. 6% ahead of target.

4.8 The objective of the Fund is to keep contributions as stable and affordable as possible and also ensure intergenerational equity for taxpayers ("Long Term Cost Efficiency"). Therefore, the aim in 2025 will be to have stable lower employer contribution rates and consider the position employer by employer relating to deficits and surpluses as supported by the employer covenant assessment.

4.9 A key discussion for the 2025 valuation will be the level of 'prudence margin' in the discount rate assumptions which enables the contribution rates to be sustainable over time. The Fund has two investment strategies purely to reduce investment risk within the portfolio (the Liability Driven Investing strategy and the Equity Protection strategy) with the objective to increase the certainty of achieving the target investment return. As a result the actuary can 'release' some of the prudence within the discount rate assumptions given the greater certainty of achieving the investment return.

4.10 The actuary discussed the interim position in detail at the workshop on 24 October 2024. It has also been discussed with large employers (UAs and HFE employers) to provide a context for budget planning for contribution rates from 1 April 2026.

5. 2025 VALUATION TIMETABLE

5.1 The indicative timetable for the 2025 Valuation is as follows:

a) The actuary and officers will develop the funding strategy during 1Q25 and assess the impact of the market derived financial assumptions in 2Q25. At this stage the membership data as at 31 March 2025 will not have been processed.

b) A Committee workshop will be held in June 2025 prior to the June Committee meeting to review the Funding Strategy Statement (FSS) and initial valuation outcome, updated only for financial assumptions. The draft FSS which sets the parameters for the valuation including the actuarial assumptions and the deficit recovery policy/surplus release policy will be agreed at the June Committee meeting. The draft FSS will then be circulated to employers for consultation (as required in the Regulations).

c) The final FSS will be agreed at the September 2025 Committee meeting following which the individual employer results will be calculated by the actuary and disseminated to employers.

d) 2025 valuation report to be presented at March 2026 committee meeting.

6. GAD SECTION 13 REPORT KEY POINTS FOR AVON PENSION FUND

6.1. On 16th August the Government Actuary's Department published its report on the 2022 fund valuations, as required by Section 13 of the Public Service Pensions Act 2013. Overall, as expected the results showed a positive funding position for the LGPS, with 70% of funds now reporting a funding surplus and an aggregate funding level of 106% on a local basis as at 31 March 2022 (119% on the standardised GAD "best estimate" set of assumptions – i.e. excluding prudence).

6.2. No red flags were raised and only a handful of amber flags were raised as areas of concern for individual Funds. The Avon Pension Fund was green for all measurements in terms of meeting the required Solvency and Long-Term Cost Efficiency objectives.

6.3. Given the strong financial position quoted, and the limited number of flags to emerge, this highlights the hard work, improved governance and strong performance of all LGPS Funds. However, it was highlighted that there will be more scrutiny on the use of surplus as part of the 2025 valuation Section 13 project given more Funds will have moved into surplus on a local basis. The Actuary is directly inputting into how this should be considered to ensure there are no unintended consequences.

6.4. We have attached Appendix 2 which summarises the approach to Section 13 and the results for the Avon Pension Fund for the 2022 actuarial valuation and also the 2019 valuation for comparison purposes.

7. RISK MANAGEMENT

7.1. The funding strategy is key to ensuring pension liabilities can be met in the future and therefore the strategy must be regularly monitored so that the Fund and employers are aware as to whether the current funding level deviates from the long-term funding plan and the scale of any shortfall / surplus. Such information can assist employers in planning their medium-term budgets and assist the Fund officers in managing those employers that pose a greater financial risk to the Fund.

8. CLIMATE CHANGE

8.1. The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint in line with the Council's Climate Strategy. The Fund acknowledges the financial risk to its assets from climate change addresses this through its strategic asset allocation to Sustainable and Paris Aligned Equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

9. EQUALITIES

9.1. An Equalities Impact Assessment has not been completed as the report is for information only.

10. OTHER OPTIONS CONSIDERED

10.1. N/a, for noting only.

11. CONSULTATION

11.1. The Council's Monitoring Officer and Section 151 Officer have had the opportunity to input to this report and have cleared it for publication.

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Background papers	None
Please contact the report author if you need to access this report in an alternative format	