

PENSION FUND COMMITTEE – 10 JUNE 2022

ACTUARIAL VALUATION 2022

Report by the Director of Finance

Recommendation

- 1. The Committee is RECOMMENDED to endorse the assumptions recommended by the Fund Officers and Fund Actuary for the 2022 triennial valuation of the Oxfordshire County Council Pension Fund, including the small increase in level of prudence.**

Introduction

2. Every three years, each LGPS administering authority has a statutory obligation to carry out an actuarial valuation of the pension fund. The Oxfordshire County Council Pension Fund's assets and liabilities will be valued as at 31 March 2022 and the overall funding position calculated. Contribution requirements will also be set for all actively participating employers for the three-year period commencing one year after the valuation date (i.e. for the period from 1 April 2023 to 31 March 2026) in line with the Fund's funding strategy.
3. It is good practice at every formal valuation to review all of the assumptions about future experience on which these results are based. Setting financial and demographic assumptions for the 2022 valuation is a key part of setting the funding strategy. The chosen assumptions affect the value of the Fund's liabilities and future benefit payment projections, which form the basis of the decision making.
4. The chosen assumptions do not, however, impact the ultimate cost of making benefit payments to members. The chosen assumptions only affect the value of the Fund's liabilities as at the valuation date and the pace at which employers set monies aside to pay for their future obligations to the Fund.
5. Modelling has been carried out to inform the choice of assumptions for the 2022 valuation that meet the requirements of the LGPS guidance stating that the assumptions adopted contain an appropriate margin for prudence. All proposed assumptions have been set in line with the Actuary's best estimate of future experience, however a prudent discount rate has been set to meet the requirement for a prudent valuation.
6. The attached annex sets out in detail the approach to the Valuation and the key assumptions that are required as part of the Valuation process. The annex has been subject to discussion with the Fund Officers and reflects their preferred approach to be taken. A summary of the key assumptions is set out below.

Financial Assumptions

7. Financial assumptions are those that affect the projections of the value of the benefits required to be paid out in the future and therefore the money the Fund is aiming to hold in the future. The financial assumptions required to be set for the 2022 valuation are as follows:
 - Future investment return
 - Discount rate
 - CPI Inflation (benefit increases / CARE revaluation)
 - Salary increases
8. The future investment return and discount rate assumptions are set based on Hymans Robertson's ESS (Economic Scenario Service) model, updated to reflect the latest available market calibration as at the valuation date. It is proposed to increase the prudence level associated with these assumptions from 67% used in the 2019 Valuation to 70%. The high level of investment performance achieved over the last three years means that the level of prudence can be increased at this time with minimal impact on the contribution rates to be set for 2023/24 onwards. The higher level of prudence is in line with other LGPS Funds advised by Hymans Robertson, and allows for the increased uncertainty associated with impact of the pandemic, the Russian invasion of Ukraine and the on-going impacts of climate change.
9. CPI inflation (benefit increases / CARE revaluation) is set based on long-term projections of inflation expectations. Inflation expectations are expected to be slightly higher (around 0.4% to 0.5% p.a.) higher than at the 2019 valuation due to the current high economic outlook for inflation in the short term.
10. "Inflationary" salary increases will be set equal to the CPI inflation assumption reflecting sustained local government budgeting constraints over the longer term. An additional allowance will be made for promotional salary increases through the salary scale assumption.

Longevity assumptions

11. Longevity assumptions affect the length of time benefits are expected to be paid to members and their dependants. The longevity assumptions required to be set for the 2022 valuation are as follows:
 - Baseline longevity
 - Future improvements
12. Baseline longevity will be based upon the latest available member-specific Club Vita base tables which capture the most up-to-date experience (the same approach as at the 2019 valuation). An appropriate adjustment to recent data will be made to avoid the assumption being skewed by excess deaths due to Covid-19 in 2020 and 2021.
13. Future improvements in longevity will be set based on the latest version of the Actuarial Profession's CMI (Continuous Mortality Investigation) model, with the

parameters of the model updated to reflect the improved longevity for Fund members in comparison to the national population. We also recommend that no weighting is placed on the data from 2020 and 2021 which has been significantly affected by the Covid-19 pandemic.

Other demographic assumptions

14. Other demographic assumptions affect the timing and magnitude of the future benefit payments, however any changes to these assumptions only have a minor impact on the Fund's liabilities.
15. Following analysis of the Fund's other demographic assumptions, we propose to slightly increase the likelihood of withdrawal from active membership at each to reflect the Fund's own experience. We also propose to change the retirement age assumption to reflect the earliest age at which a member can retire with all benefits unreduced. All other demographic assumptions will remain unchanged from the 2019 valuation.

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