Meeting:	**Pensions Committee**
Date:	**27/03/2023**
Title:	**Pension Fund Valuation Report**
Author:	**Dafydd L Edwards – Fund Director**
Recommendation:	**For information only**

1. Introduction

In order to fulfil Regulation 62 of the Local Government Pension Scheme Regulations 2013 we commissioned Hymans Robertson to carry out a valuation of the Gwynedd Pension Fund as at 31 March 2022. This work has now been completed and the draft copy of the Valuation report can be seen in the **Appendix**.

The new rates will come into force from 1st April 2023, with the majority of employers seeing a reduction in their contribution rates.

2. Valuation Purpose

The triennial actuarial valuation is a key part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

3. Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable likelihood of having enough money to pay members' benefits. Estimating the amount of benefits that may be paid is complex, as benefits earned today might only start being paid in 50 years' time.

Over that time period, there is significant uncertainty over factors which affect the cost of benefits, e.g. inflation, investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around three key funding decisions set by the Fund and asset-liability modelling:

- **What is the funding target for each employer?** Will the employer remain in the Fund for the long term or exit at some point

- **What is the funding time horizon?** How long will the employer participate in the Fund

- **What is the required likelihood?** How much funding risk can the employer's covenant support

Asset-liability modelling is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios.

4. Employer Contribution Rates

Each employer has a contribution rate which is appropriate to their circumstances, and these can be found in the Rates & Adjustments Certificate, which can be found at the back of the Valuation Report.

Broadly speaking:

- Primary rates have increased since the last valuation, due to rising inflation expectations.
- Secondary rates have decreased, due to strong investment performance since the previous valuation.

However, all employers will be different, and the contribution rate will reflect the membership and experiences of each employer. The contribution rate for each employer can be seen in the Rates & Adjustments Certificate.

Each individual employer received a draft copy of their results in October 2022 and were invited to an Employer Forum at Siambr Hywel Dda on the 26th October 2022 to receive a presentation on the Valuation Process and to discuss any concerns.

Table 1 shows the combined individual employer rates set at this valuation and the last valuation (31 March 2019).

	This valuation 31 March 2022		**Last valuation 31 March 2019**	
Primary Rate:	21.8% of pay		20.1% of pay	
Secondary Rate:	2023/2024	-£8,746,000	2020/2021	£358,000
	2024/2025	-£9,021,000	2021/2022	£366,000
	2025/2026	-£9,303,000	2022/2023	£375,000

Employees in the pension scheme pay a contribution to the Fund in addition to these employer contributions. Employees' contributions are set nationally, in LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.4% of pay (6.4% at 31 March 2019).

5. Funding position

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date is known. The value of future liabilities and the level of future investment returns are uncertain, and hence actuarially estimated.

The liabilities and funding level have been calculated across a range of different investment returns (the discount rate).

At 31 March 2022, the past service funding position has improved from the last valuation at 31 March 2019. Table 2 shows the single reported funding position at the current and previous valuation, analysed by member status and the market value of assets at the valuation date.

Valuation Date	**31 March 2022**	**31 March 2019**
Past Service Liabilities	**(£m)**	**(£m)**
Employees	1,042	855
Deferred Pensions	392	321
Pensioners	874	750
Total Liabilities	**2,308**	**1,925**
Assets	**2,776**	**2,081**
Surplus / (deficit)	**468**	**156**
Funding Level	**120%**	**108%**

The required investment return to be 100% funded is now 3.2% pa (3.5% pa at 2019). The likelihood of the Fund's investment strategy achieving the required return is 84% (78% at 2019).

6. Changes between the last Valuation

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. The experience analysis shows that the amount of pension ceasing was broadly in line with expectations. Overall, mortality experience has had a minimal impact on the funding position. Salary increases have been higher than assumed over the period and, whilst this has increased the value placed on the liabilities, it has only had a small impact on the funding position.

The most significant factor to impact the funding position over the period has been investment returns on the Fund's assets, which have been much better than assumed at the previous valuation. This has had a positive impact on the funding position. In turn, this has helped reduce employers' secondary contribution rates.