Gwynedd Pension Fund

Pensions Committee - Actuarial update

16 September 2024

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Actuarial valuation basics

How the Fund works

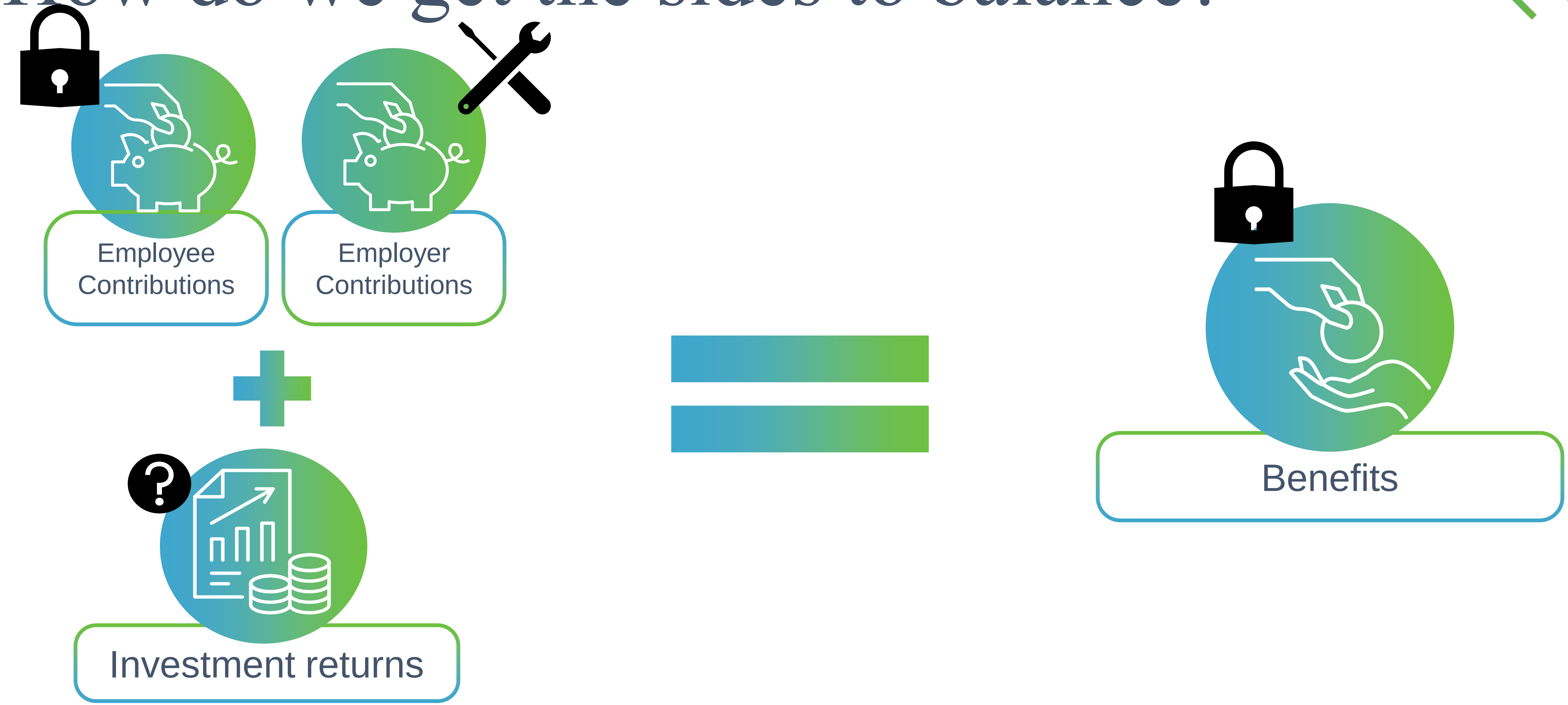
Collect money
(contributions)

Invest money
(its assets)

Pay money out
(benefits)

Overriding goal of the valuation is to make sure there is enough money to pay the benefits

How do we get the sides to balance?



Employer contributions are the main tool we can control to meet the balance of cost

Why else we do a valuation?

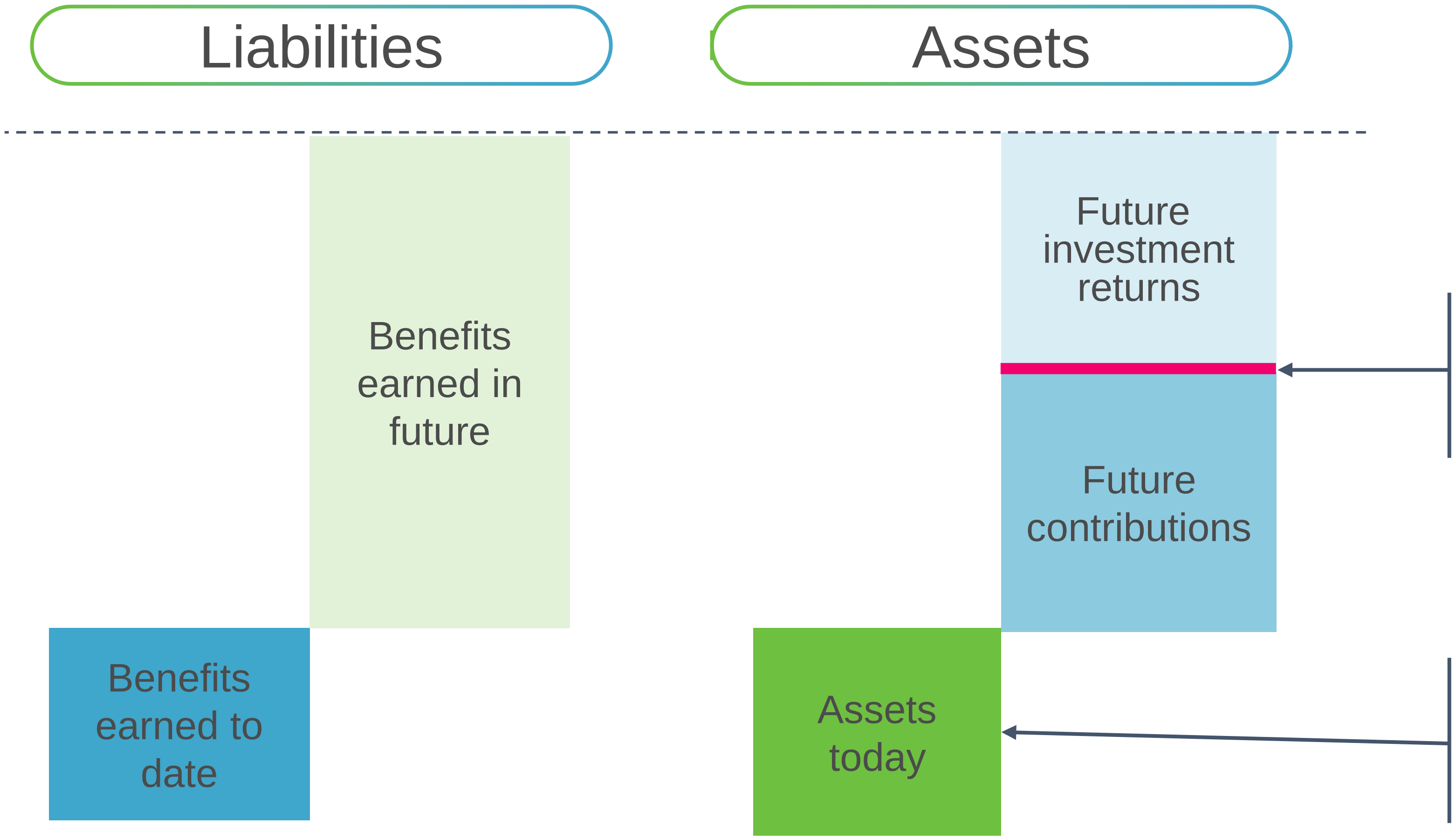
- Calculate employer contribution rates
- Compliance with legislation
- Analyse actual experience vs assumptions
- Review Funding Strategy Statement
- Part of continual ‘health check’ on Fund solvency

The triennial valuation is a key risk management exercise for the Fund

How we do the valuation

Inputs	Actuary's models	Primary outputs
Data for lots of members		Ratio of assets held against benefits promised to date **"Funding level"**
Financial assumptions		Estimated cost of future benefit accrual **"Primary Contribution Rate"**
Demographic assumptions		Estimated cost to fund benefits promised to date **"Secondary Contribution Rate"**
LGPS benefit structure		

Key decision of the valuation



Key funding strategy decision

How much to rely on contributions vs investment returns?

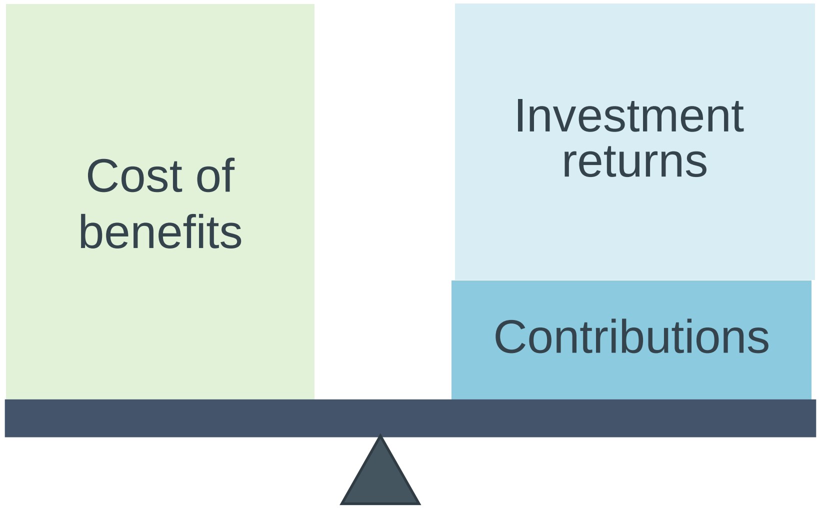
Funding level

Comparison of ‘assets today’ vs. ‘benefits earned to date’

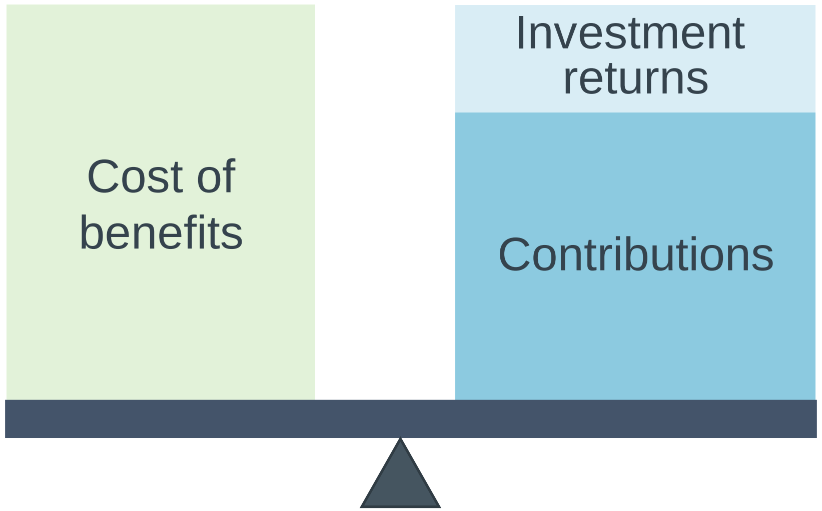
Balance sheet snapshot of Fund at valuation date

Setting strategy is a balancing act

High risk funding strategy



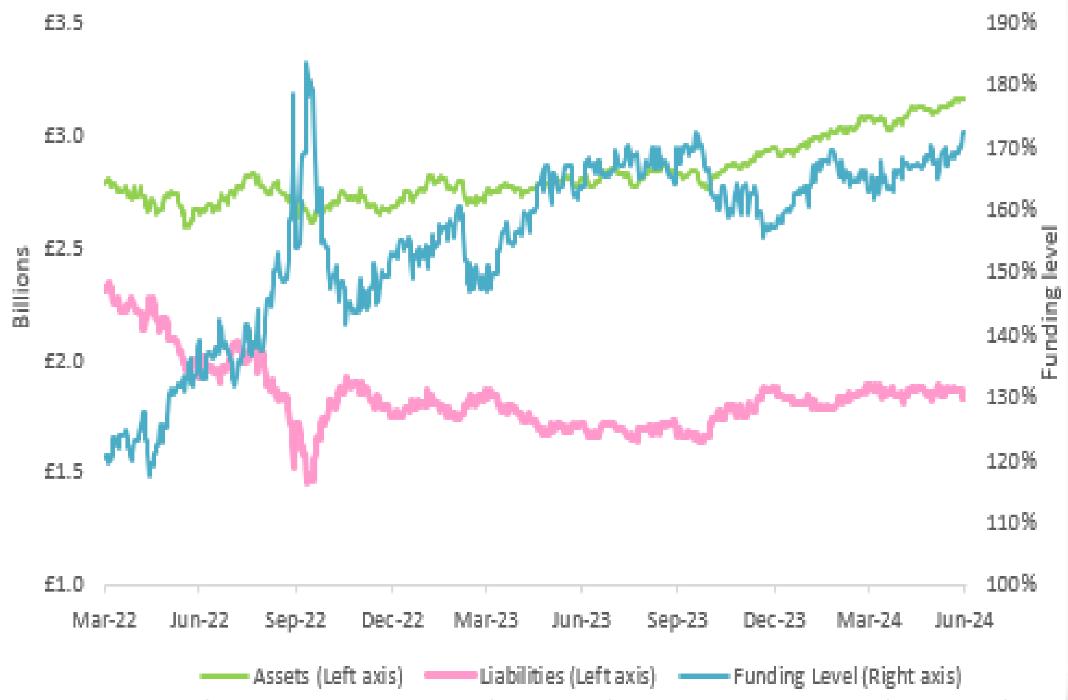
Low risk funding strategy



We must set employer contributions with an appropriate level of prudence (i.e. risk)

Funding update and change in environment

What's happened since 2022?



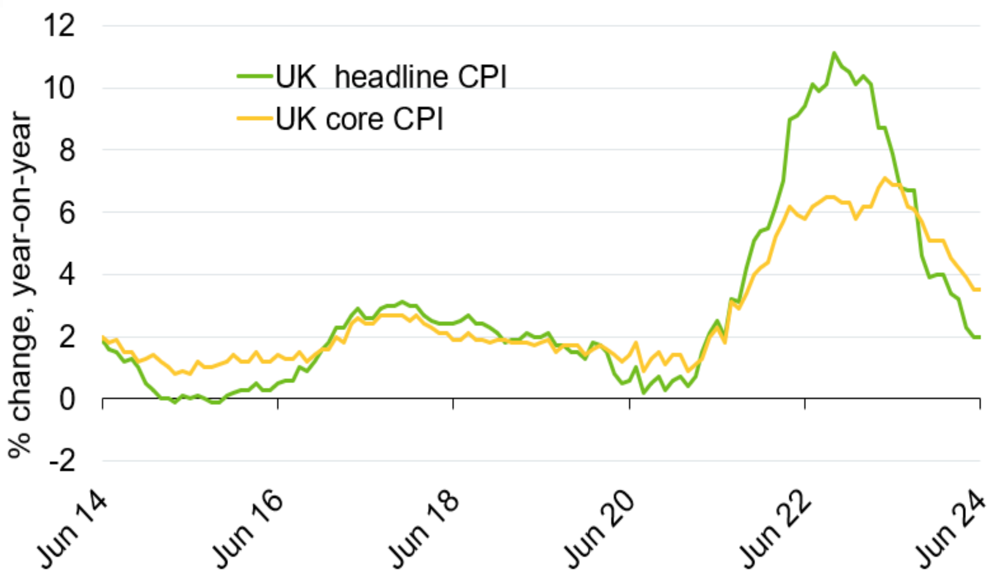
General insights

- Funding level has improved since 2022 (was 120%)
- Assets returns were lower than expected up to September 2023 but have since improved
- Rising interest rates & high inflation
- Higher expected return on the Fund's assets

The funding level has risen to an estimated 171% at 30 June 2024

High inflation

UK inflation over past 10 years

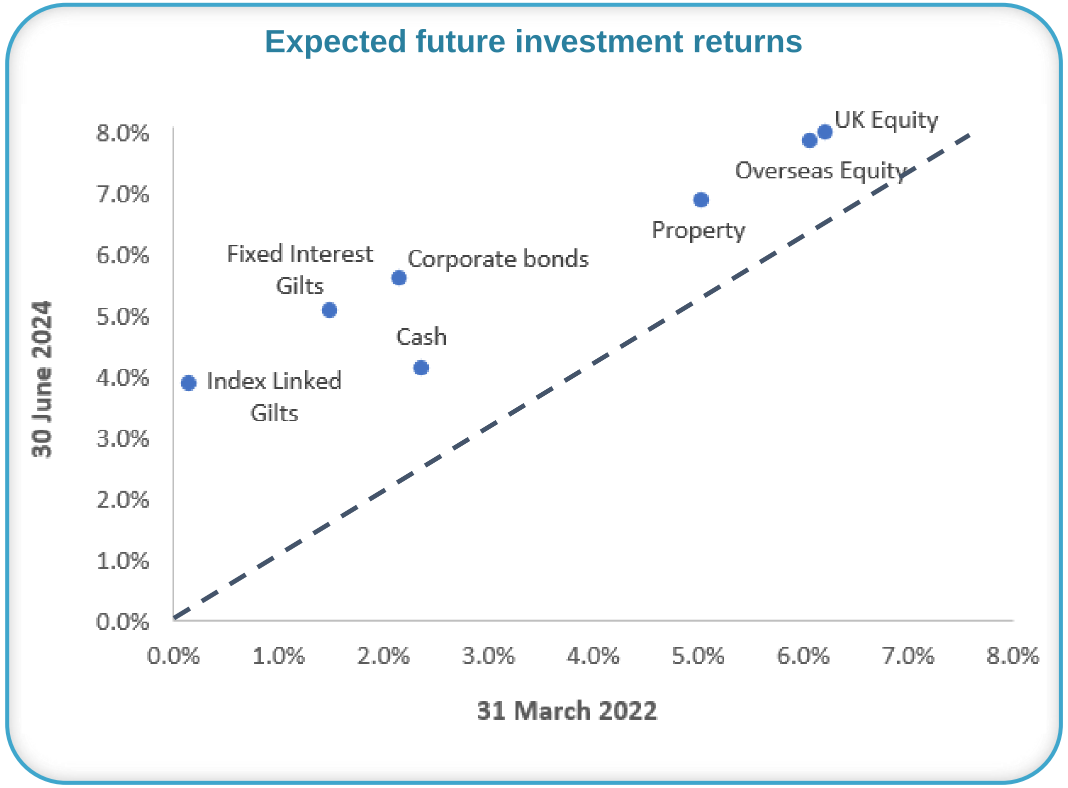


General insights

- High inflation increases the cost of benefits
- Pension increases of 10.1% (2023) and 6.7% (2024)
- Immediate impact on Fund’s net cashflow position
- Future inflation remains uncertain

Monitoring inflation is important to manage long-term benefit cost and short-term cashflow risks

Investment outlook



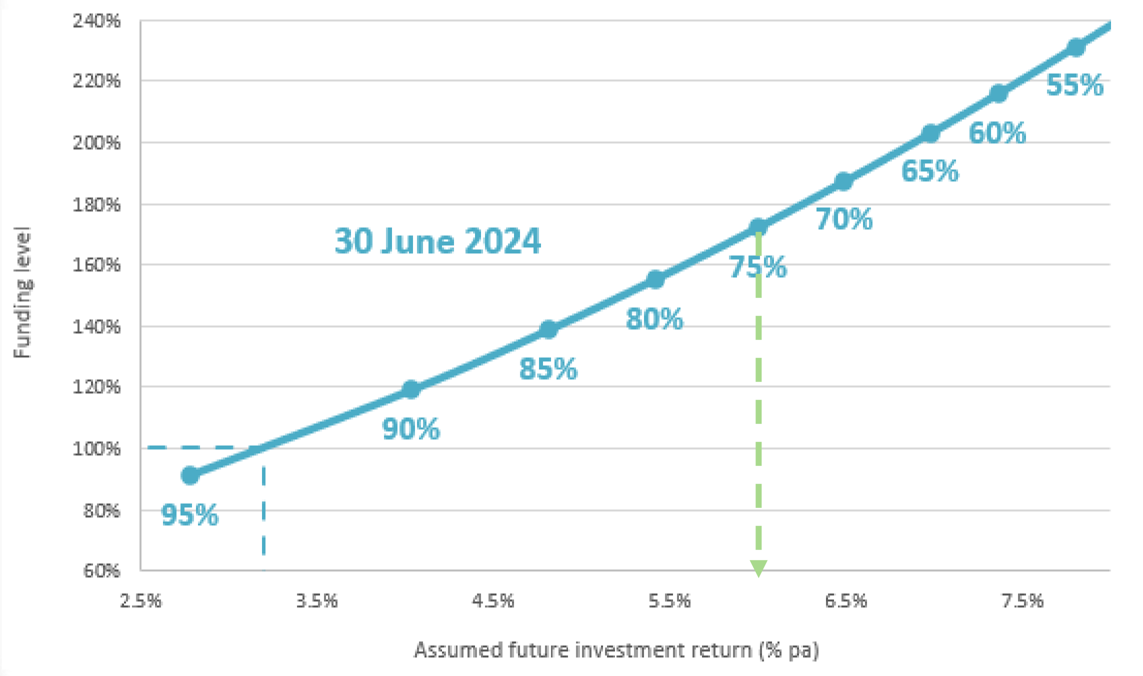
General insights

- Expected returns are higher for all asset classes
- Higher returns driven by increased interest rates
- Leads to a lower value placed on Fund's liabilities
- Caution required at 2025 valuation

The improvement in funding level is being driven by higher expected *future* investment returns

Key funding risks

Key uncertainty: Investment returns



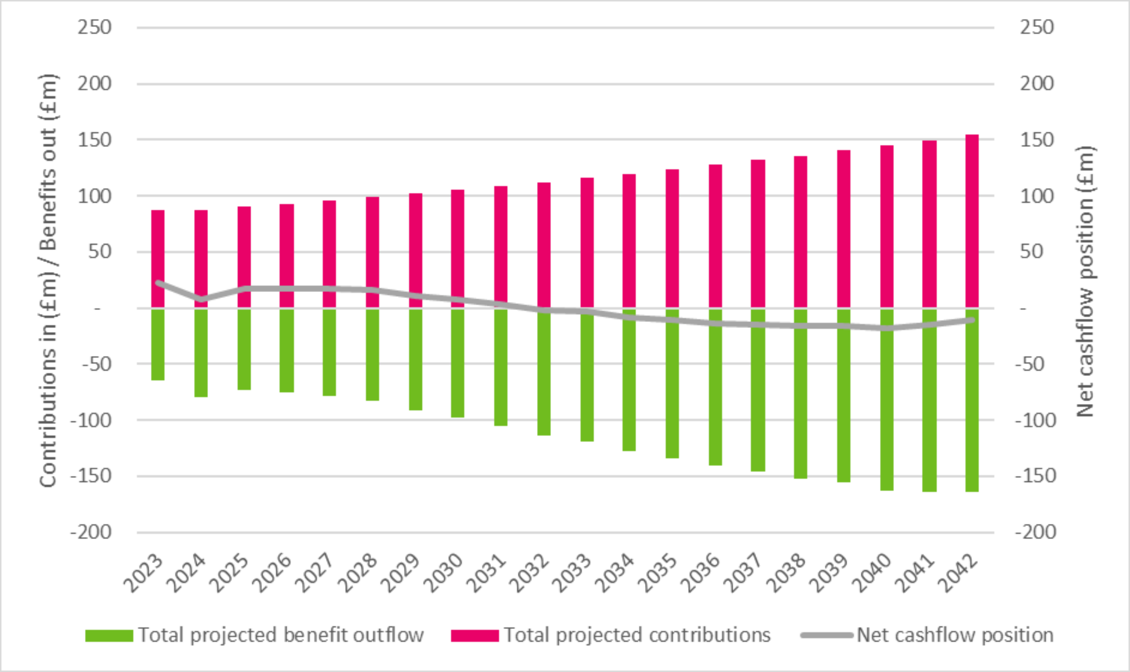
General insights

- Future investment returns remain uncertain
- Funding position is based on 75% likelihood
- Prudence levels will be reviewed at 2025 valuation

Future investment performance is uncertain during periods of increased market volatility

Key uncertainty: Cashflow position

Projected cashflows (baseline scenario)



General insights

- Cashflow negativity possible in medium-to-longer term
- Sensitive to future levels of inflation
- Contribution reductions would worsen the position
- Cashflow monitoring to be carried out more frequently

The Fund is currently in a cashflow positive position however the focus on cashflow is increasing

Key uncertainty: Life expectancy

Socio-economic factors can make a big difference to longevity

Source: Club Vita, map available at https://maps.clubvita.co.uk

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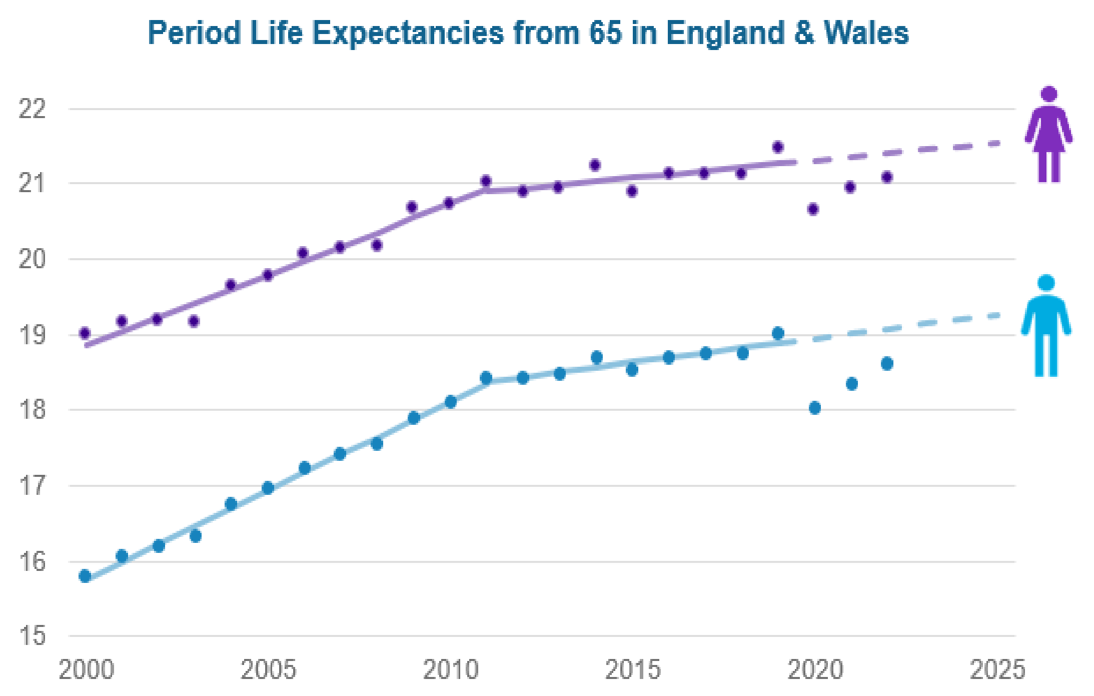
Recent longevity trends



General insights

Improvements slowing down

Long term impact of the pandemic uncertain

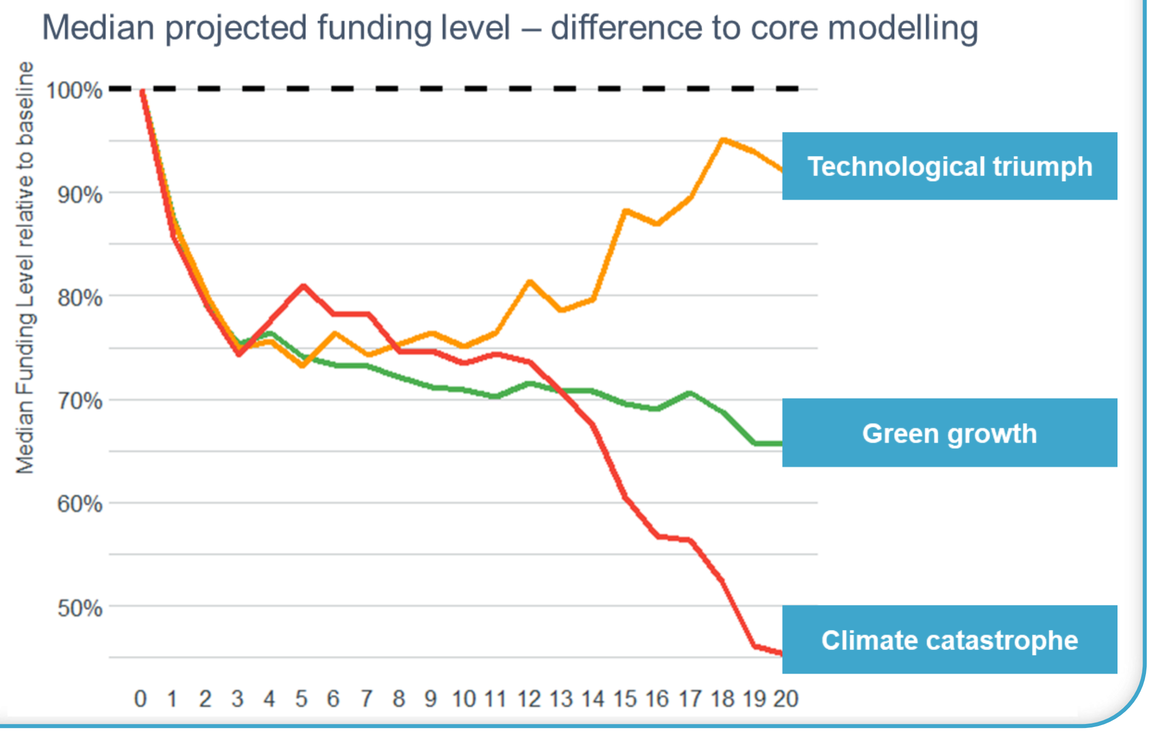
LGPS 'bucking the trend' on excess deaths

Monitoring longevity trends is key to setting life expectancy assumptions

Source: CMI_2022 model. Life expectancies calculated using projected qx rates, using calibration data, with W_{2020} through W_{2022} set to 100% and S_{κ} set to 0%.

Key uncertainty: Climate risk

Global food supply shock (example)



General insights

- Climate damages could be extreme
- Narrative-based modelling of downside risks
- Consider impact of 'shocks' in funding strategy

Factor in extreme risks when exploring strategy at 2025 valuation

A challenging environment?

Market risk

- High inflation
- Interest rates
- Market volatility

Cashflow risk

- High inflation
- Reduced contributions
- Liquidity risks

Longevity risk

- Increased deaths
- Longevity trends
- Future improvements

Climate risk

- Inflation
- Investment returns
- Longevity

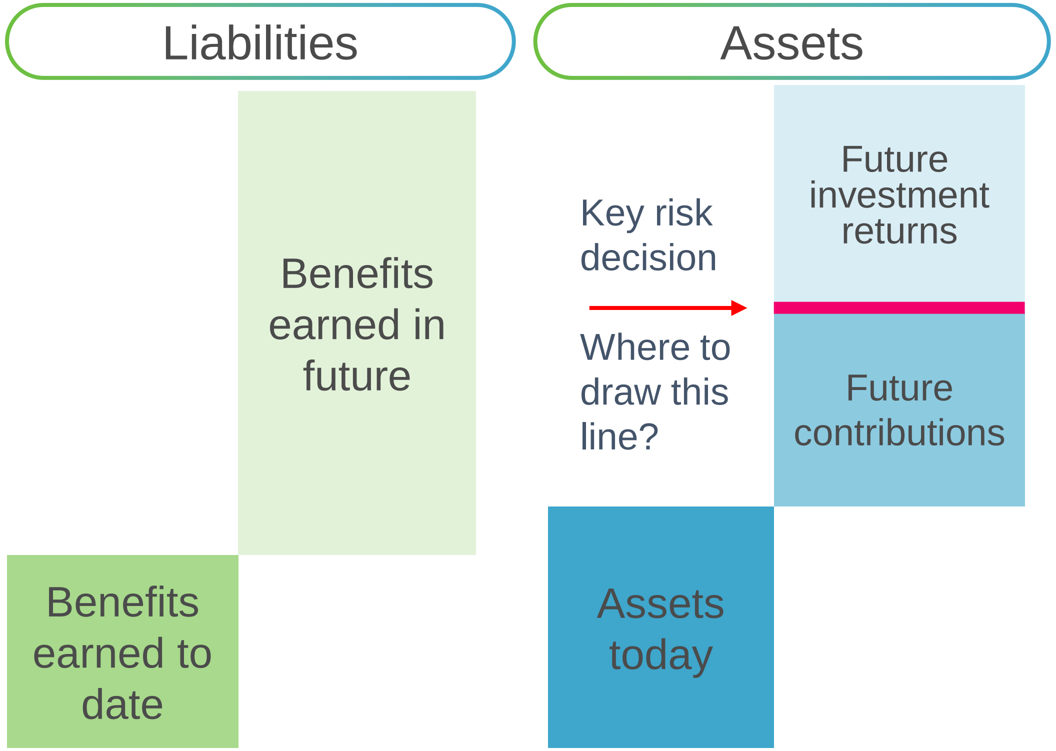
Covenant risk

- Economic environment
- Demographic changes
- Regulatory environment

New economic cycle? What are the key risks to future funding…

2025 valuation

Surplus – what now?



General insights

- Funding level is ‘past service’ only
- Majority of benefits yet to be earned
- Balance future contributions vs investment risk

Setting contributions requires careful management

Surplus – what are the options?

1. Reduce employer contributions

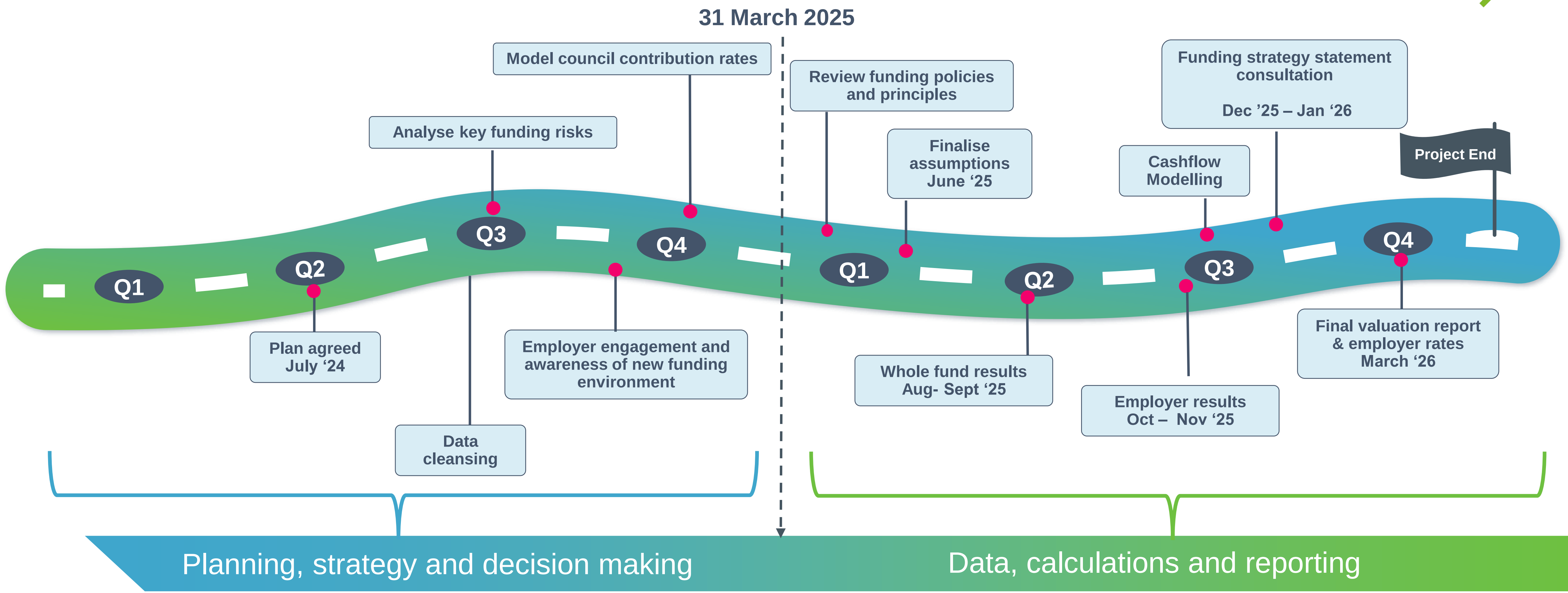
2. Change investment strategy

3. Increase prudence levels

4. Retain the surplus

Seek to balance employer affordability with long term sustainability

2025 valuation – key dates



Thank you