Meeting:	Pensions Committee
Date:	07/04/2025
Title:	ASSUMPTIONS SETTING FOR THE 2025 VALUATION
Purpose:	For information only
Author:	Meirion Jones, Pensions Manager

1. Introduction

Following on from last month's training session, Hymans Robertson's 'Assumptions setting for the 2025 valuation' paper is attached in **Appendix A**.

This paper outlines the assumption setting for the Gwynedd Pension Fund's 2025 valuation. It details the financial, life expectancy, and other demographic assumptions the Fund needs to make. These assumptions are set by the Fund Actuary through discussions with Officers and the Committee, starting from current assumptions and considering relevant changes, while reflecting the Fund's specific characteristics and taking a very long-term view. The assumptions also adhere to LGPS guidance requiring prudence in the discount rate, while all other assumptions are best estimates. The approach is an evolution from the 2022 valuation, not a revolution.

2. Financial Assumptions

Regarding **financial assumptions**, the paper notes significant changes in economic conditions since the 2022 valuation, including increased interest rates, higher than expected inflation, and increased market volatility. Political and climate risks are also mentioned as influencing factors. The **discount rate**, representing the average annual rate of future investment return, has seen a significant change in the economic environment since 2022, leading to higher expected future investment returns and funding levels, but also increased uncertainty. The recommendation is to **increase the prudence level for the discount rate from 75% to 80%**. For **benefit increases and CARE revaluation**, which are linked to CPI, the approach remains the same as the 2022 valuation but reflects current inflation expectations. The average level of future inflation at 30 November 2024 was 2.3% pa (compared to 2.7% pa in March 2022). **Salary increases** are recommended to be maintained at **CPI + 0.5%**, reflecting uncertainty despite current inflation expectations.

3. Life Expectancy Assumption

For the **life expectancy assumption**, it is broken down into baseline longevity (how long members currently live) and future improvements in longevity (how death rates are expected to change). The **baseline assumption** will continue to use **tailored Club Vita assumptions**, which are updated annually and consider member characteristics like postcode, retirement type, and affluence. For **future improvements**, the paper highlights the uncertainty in the outlook and the real-

world drivers that will affect future life expectancy, suggesting the Fund should consider its beliefs around future trends. Various longevity drivers such as medical advances, lifestyle behaviours, and external factors like climate change and pandemics are discussed.

4. Other Assumptions

Regarding **all other demographic assumptions**, the recommendation is to **adopt assumptions based on analysis of the LGPS and the Fund's actual membership experience**, considering external factors. These assumptions include withdrawal rates, 50:50 option take-up, death before retirement, promotional salary scale, ill-health retirements, retirement age, and cash commutation. Assumptions for members leaving dependants and the age difference with dependants are informed by Club Vita LGPS-wide analysis.

5. Conclusion

The paper concludes with a table summarising the proposed changes in assumptions from the 2022 valuation to the proposed 2025 valuation. Key changes include the increase in the discount rate prudence level, a decrease in the median CPI expectation, changes to withdrawal assumptions, a decrease in 50:50 uptake assumption, and an increase in the cash commutation assumption. The baseline longevity will remain based on the latest Club Vita tables, and future improvements will use the latest available CMI model while reflecting the Fund's characteristics and beliefs.

Assumptions to be approved

Assumption	2022 valuation assumption	Proposed 2025 valuation assumption
Discount rate (level of prudence)	**75%** LoS prudence level	**80%** LoS prudence level Reflects increased market/economic uncertainty
CPI inflation (Benefit increases and CARE revaluation)	Based on Hymans' ESS model, reflecting market expectations Median CPI expectation of **2.7% pa**	Based on Hymans' ESS model, reflecting market expectations Median CPI expectation of **2.3% pa** (as at November 2024, will be based on March 2025 expectations for valuation)
Salary increases	**CPI + 0.5%**	**CPI + 0.5%**
Baseline longevity	**Latest Club vita tables**	**Latest Club vita tables**
Future improvements in longevity	• Use latest available CMI model • Reflect Fund's membership characteristics • Avoid recent Covid experience skewing projections	• Use latest available CMI model • Reflect Fund's membership characteristics • Avoid recent Covid experience skewing projections • Reflect Fund's beliefs about future longevity drivers
Other demographic assumptions (excluding longevity)	• **Withdrawals (excl. ill health)** –Hymans' default assumption is reduced by 20% for full-time males and females, and 25% for part time males • **Ill health early retirements** – Hymans' default assumption • **Promotional salary scale** – Hymans' default assumption • **Death in service** – Hymans' default assumption • **50:50 assumption** – 0.5% uptake • **Retirement age** – earliest age at which a member can retire with their benefits unreduced. • **Cash commutation** – 65% of the maximum tax-free amount. • **Members leaving dependants** –Club vita LGPS-wide analysis • **Age difference with dependant** – Dependant is 3 years younger or older for males and females respectively	• **Withdrawals (excl. ill health)** – Hymans' default assumption is reduced by 40% for full-time and part time males, 30% for full-time females and 10% for part-time females • **Ill health early retirements** – Hymans' default assumption • **Promotional salary scale** – Hymans' default assumption • **Death in service** – Hymans' default assumption • **50:50 assumption** – 0% uptake • **Retirement age** – no change • **Cash commutation** – 75% of the maximum tax-free amount. • **Members leaving dependants** – Club vita LGPS-wide analysis • **Age difference with dependant** – Club vita LGPS-wide analysis (Dependant is 3.5 years younger for males and 0.6 years older for females

The assumptions were adopted by the Pensions Committee in their meeting on 17/03/2025.