Triennial valuation

Employees' benefits are guaranteed by the Local Government Pension Scheme (LGPS) Regulations. Investment returns will help pay for some of the benefits, but not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

What is a triennial actuarial valuation?

An actuarial valuation compares the Fund's assets against the liabilities of the promised benefits earned to date (i.e. does the Fund have more assets than liabilities - a surplus or less assets to liabilities - a deficit at the point of the valuation). In addition to this calculation the actuary calculates how much needs to be paid by an employer in an LGPS fund so that, combined with the Fund's investment returns and member contributions, all existing and future benefit payments accrued by members can be met.

An actuarial valuation is carried out every three years as required by LGPS regulations to assess the ongoing financial position of the LGPS fund and its employers and sets the contribution rates payable for the next three years.

The next valuation due for the East Sussex Pension Fund will take place in 2025 and will set employer contribution rates for the period from 1 April 2026 to 31 March 2029.

Employer contributions are made up of two elements:

1) The estimated cost of future benefits being built up each year, after deducting members' own contributions and including an allowance for the Fund's administration expenses.

This is referred to as the "Primary rate", and is expressed as a percentage of members' pensionable pay;

plus

2) An adjustment for the difference between the Primary rate above, and the total contribution the employer needs to pay. In broad terms, this can be in respect of benefits already accrued at the valuation date and can reflect any deficit/surplus that has built up.

This is referred to as the "Secondary rate" and can be expressed as a percentage of members pensionable pay or a fixed monetary amount.

Funding strategy statement

Alongside the valuation East Sussex Pension Fund is required to produce a statement which sets out the objectives of the Fund's funding strategy, such as:

- To ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
- To ensure that employer contribution rates are reasonably stable where appropriate.
- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.
- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years,

and

- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

East Sussex Pension Fund Funding strategy statement can be found here.

How is the triennial valuation done?

Valuations for open defined benefit multi-employer pension funds such as the East Sussex Pension Fund are complex. This will comprise calculating liabilities attributable to each individual member and employer in the Fund and at total Fund level, along with determining asset allocations to employers and cash flows going forward. These all need to be considered in determining the primary and secondary rates for all employers for the next three years. To undertake this activity East Sussex Pension Fund appoint an actuarial firm (Barnett Waddingham in 2022) to undertake the valuation of the Fund.

Firstly, the time horizons are very long; benefits earned in the LGPS today will be paid out over a period of the next 80 years or more, and new members will continue to join in the future. Secondly, as they depend on unknowns such as future inflation, salary increases and life expectancy, the actual value of future benefit payments is uncertain. Finally, to keep contributions affordable, the Fund invests in return seeking assets which are subject to market volatility. For more information on how the Fund is invested please visit the Pension Fund Website.

Given the above and that the future cannot be predicted with certainty, employer contribution rates can only ever be an estimate. However, the valuation approach adopted uses an understanding of the Fund, and the uncertainties and risks discussed above, to quantify the likelihood of the contribution plan and investment strategy for each employer being sufficient to fund future benefits.

The process of setting employer contributions will vary between different categories of employers, and the Fund will consider individual employer circumstances (such as any pooling or risk sharing arrangements in place).

More information on triennial valuation

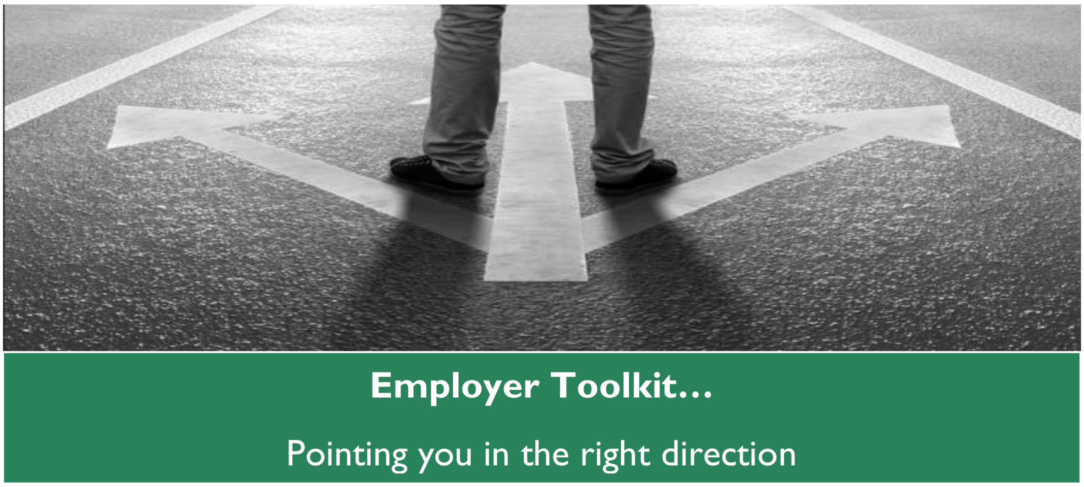
Further information can be found on:

- East Sussex Pension Fund - Funding strategy statement
- East Sussex Pension Fund – Investment strategy statement

Further support

Email: employer.engagement@eastsussex.gov.uk

This factsheet is one of a series put together by East Sussex Pension Fund to help support employers with processing key tasks.



You can view the full employer toolkit at:

https://www.eastsussexpensionfund.org/about-the-scheme/employers/employer-toolkit/