

# 2025 Valuation Briefing

## Shropshire County Pension Fund

24 November 2025

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**Employer Results**

# Agenda

1. Back to Basics
2. Preliminary 2025 Valuation Analysis and Outcomes
3. Funding Strategy Statement
4. Questions



**Employer Results**

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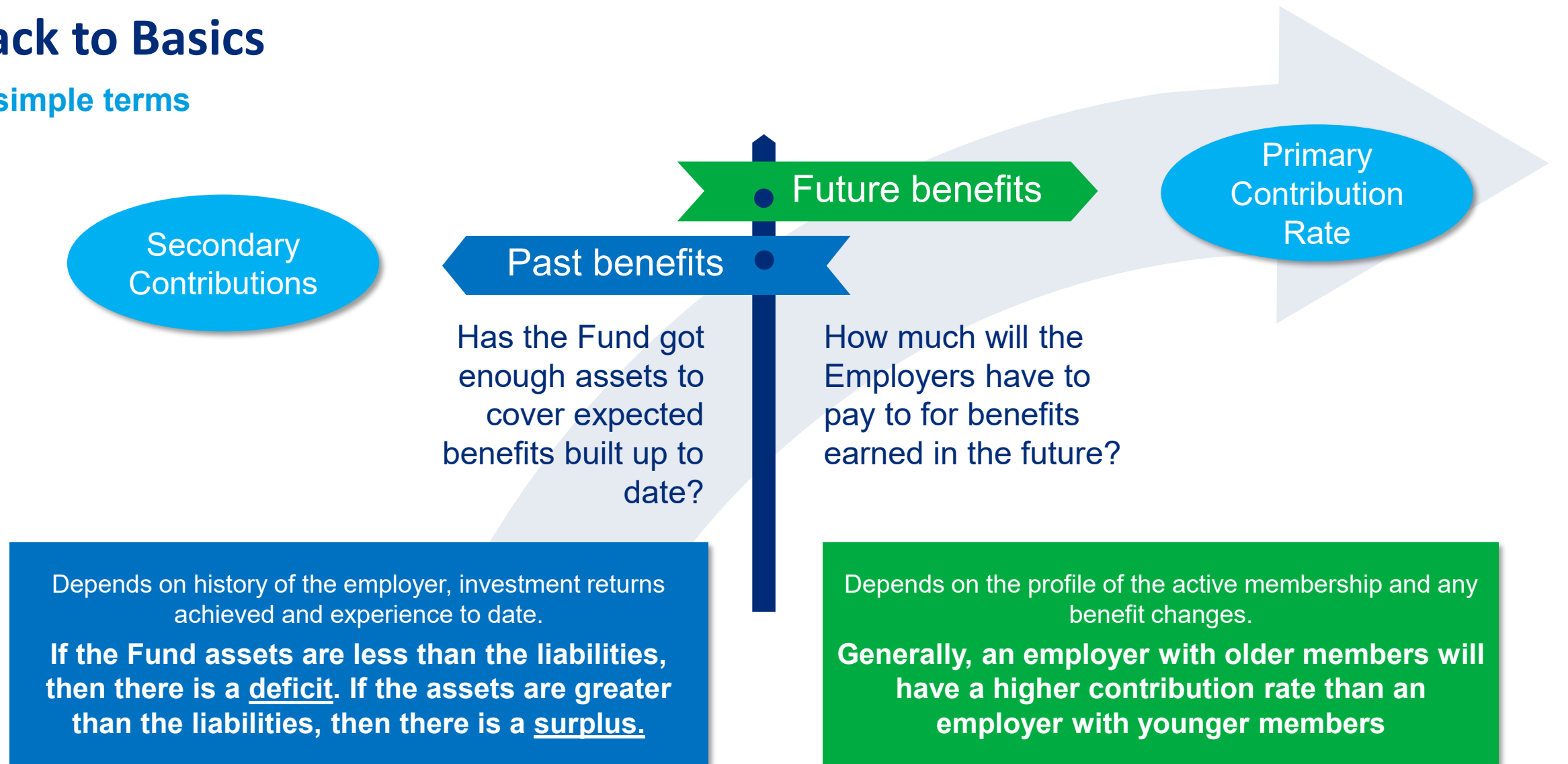
**Back to Basics**

**Employer Results**



# Back to Basics

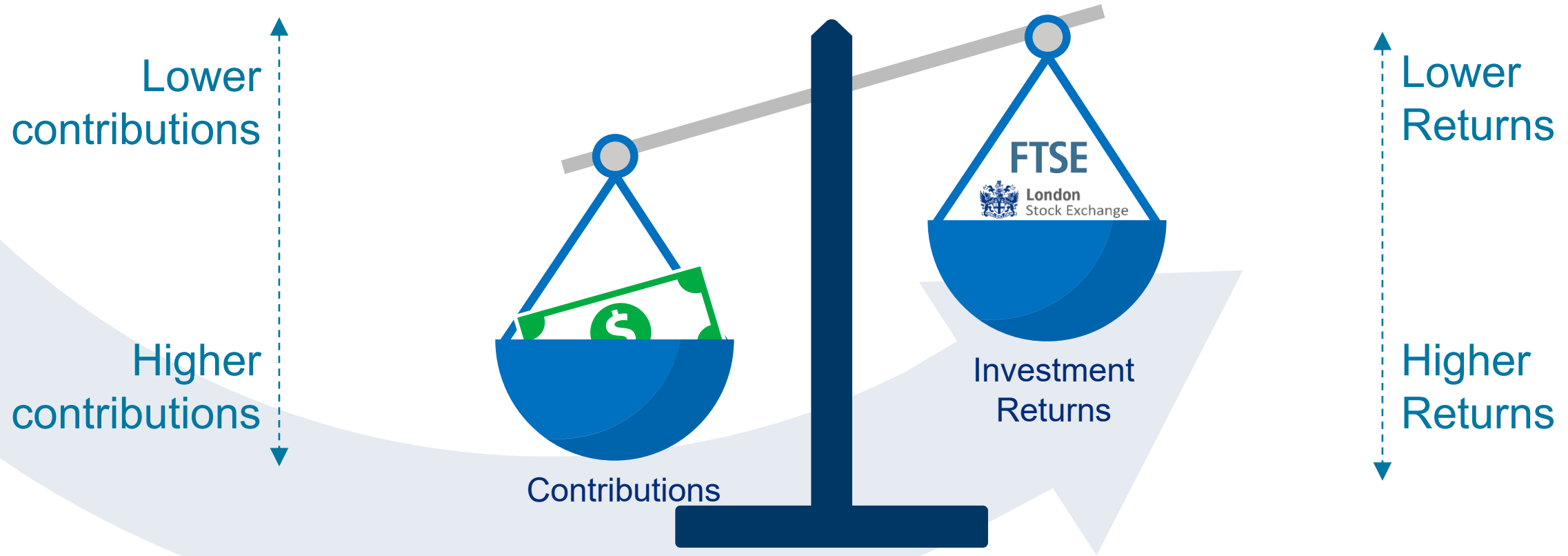
In simple terms



Calculated for the Fund, but also at employer level – each employer is responsible for their own members

# Back to Basics

## Financing the benefits



**Objective is to have sufficient assets to pay benefits when they fall due.**

# Back to Basics

## Actuarial Assumptions

### Financial and Demographic Assumptions



Investment  
Return  
“Discount  
Rate”



Inflation /  
Pension  
increases



Life  
Expectancy



Normal / Early /  
Ill Health  
Retirement



Cash Commutation  
/ 50:50 Take up etc



Salary  
Increases



Leavers

Considers market outlook and Fund objectives around affordability & stability

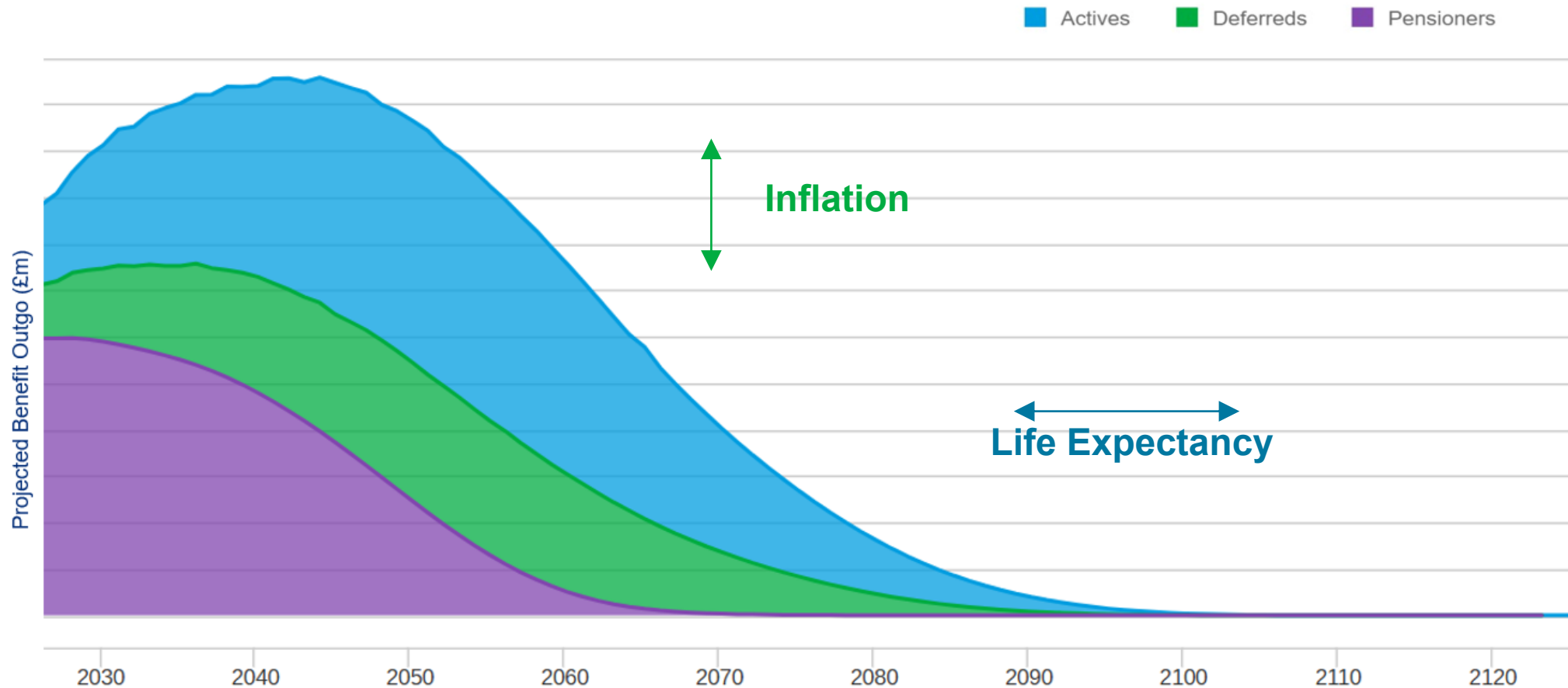
Reviewed based on the latest data

Considers Fund specific analysis for base tables as well as projection trend evidence and scenarios using the national CMI models.

Ill health incidence, commutation, pay growth, leavers, etc. usually much less impactful, although important for setting terms for captive insurance arrangements. Considered as part of valuation process demographic analysis.

# Back to Basics

How do assumptions affect the liabilities



**Higher future inflation and a higher life expectancy increase benefit cashflows.  
Other assumptions impact projected cashflows to a lesser extent**

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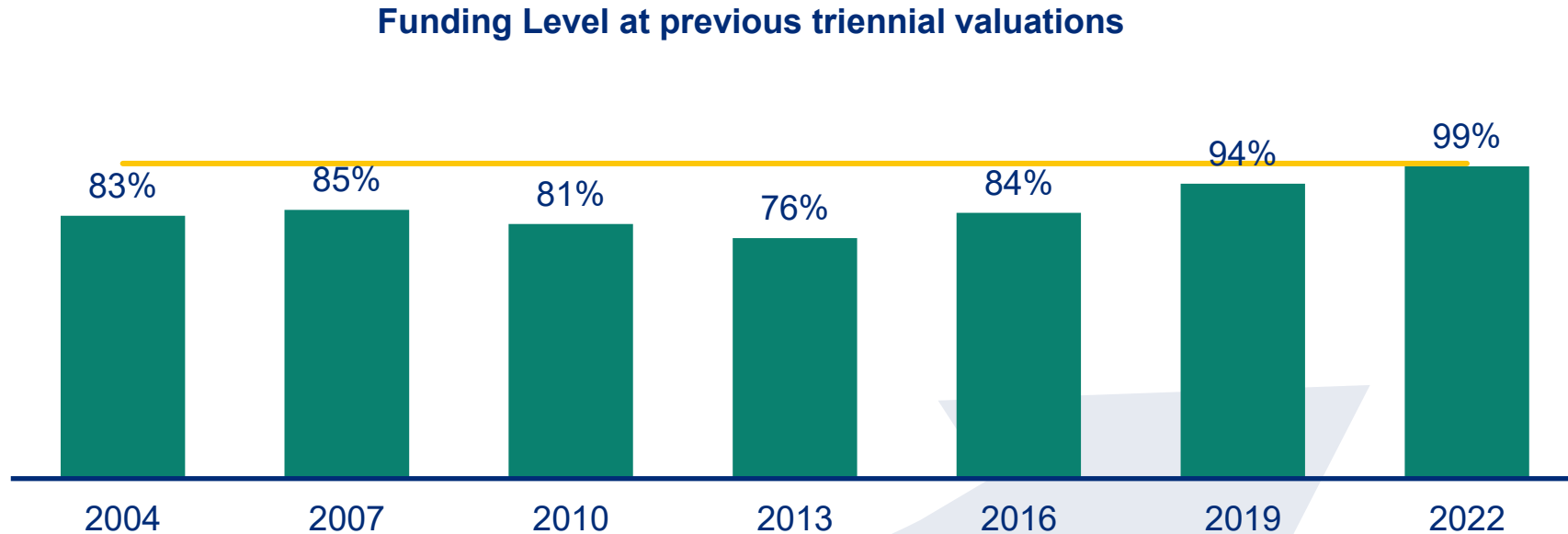
# Preliminary 2025 Valuation Analysis and Outcomes

Employer Results



# Preliminary 2025 Valuation Analysis and Outcomes

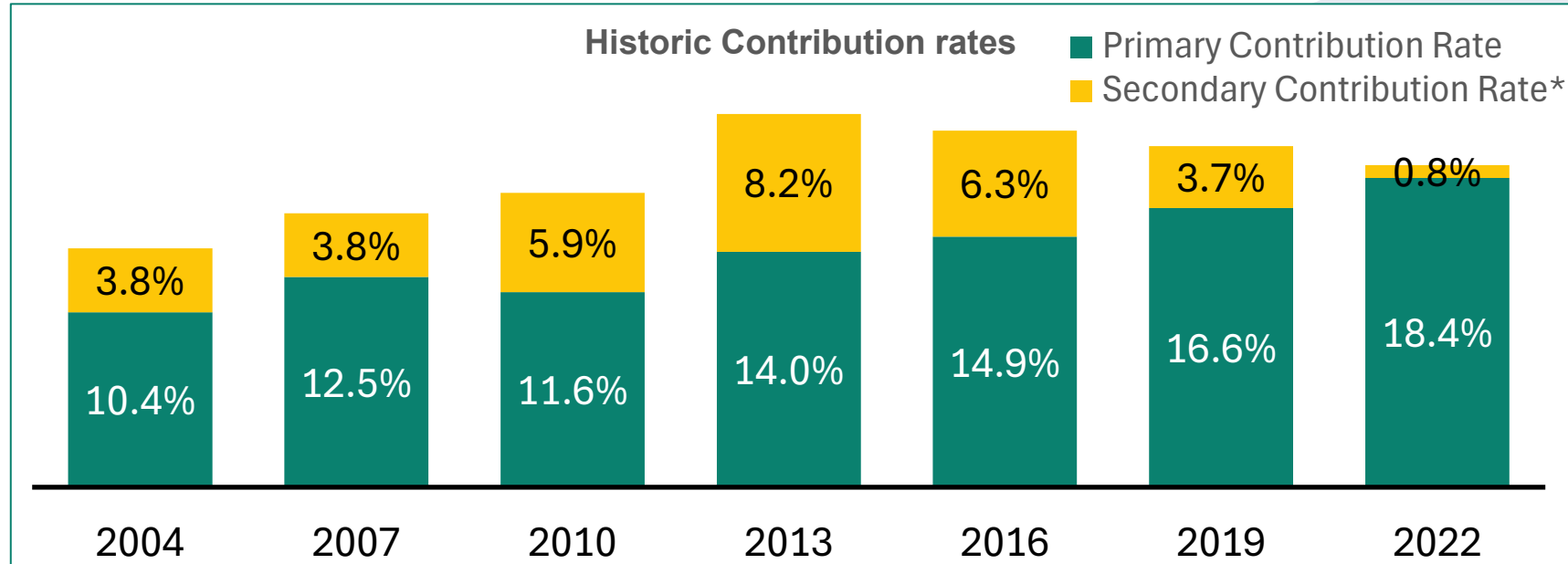
Funding level hasn't always been as healthy



- The chart shows the Fund's aggregate funding level\* at each of the triennial valuations since 2004
- The Funding level was less than 100% (i.e. there was a deficit) during all of this time
- Over those 18 years, it was restored primarily by investment returns and additional employer contributions.

# Preliminary 2025 Valuation Analysis and Outcomes

Contributions have been higher to remove deficits



\* % figures are estimated based on £ amounts where applicable.

**Historic contributions have varied significantly, with increases in the past to:**

- Remove the deficit from 2004 to 2022
- Recognise better understanding of risk, and desire to protect against it

**When funding deteriorated, steps were taken to limit contribution increases and improve stability:**

- 2007 valuation assumed a higher investment return to calculate the secondary contribution
- 2013 valuation was based on the better August 2013 funding position

# Preliminary 2025 Valuation Analysis and Outcomes

## Experience since 2022 - Key factors



### Investment performance

The 3-year return of **c14.4%** (4.6% p.a.) was below the main 2022 valuation assumption of 4.8% p.a.  
In isolation, this **reduced the funding level by around 1%**



### High levels of CPI

Since 2022 total CPI was **16.6% (5.2% p.a.)**, vs. the valuation assumption of 3.1% p.a.  
In isolation, this caused a **reduction in the funding level of c5%**



### Increases in future investment return outlook

Interest rates increased significantly since 2022  
This leads to higher expected future returns which in isolation this will **increase the funding level**  
***But the size of the increase depends on how much credit for these expected future returns is taken***

The net result is a significantly improved position compared to 2022.

# Preliminary 2025 Valuation Analysis and Outcomes

## Demographic assumptions / life expectancy

Based on our analysis, we propose to update the life expectancy tables and associated weightings, with the following impact on life expectancies:

Impact of allowing for the updated tables on life expectancies		
	Males	Females
Actives	Reduced by 0.6 years	Reduced by 0.5 years
Deferreds	Reduced by 1.1 years	Reduced by 0.7 years
Pensioners	Reduced by 0.5 years	Reduced by 0.3 years

The impact of moving to these tables, coupled with the other updates to the demographic assumptions, is to reduce past service liabilities by c2.6% and reduce the primary contribution rate by c0.2% of pay.

The impact by employer varies based on their own membership profile.

# Preliminary 2025 Valuation Analysis and Outcomes

## Key parameters



### **Real discount rate**

(i.e. assumed investment return above inflation).

Higher assumption means *more risk* but also means lower assessment of liabilities and so *lower current* contributions.



### **Sustainability reserve**

Provides extra contribution stability – first x% of surplus retained in employer notional asset share, remainder returned to employers via lower contributions



### **Recovery period**

Over which excess surplus / deficit removed. Longer = more stability (as enables more smoothing)

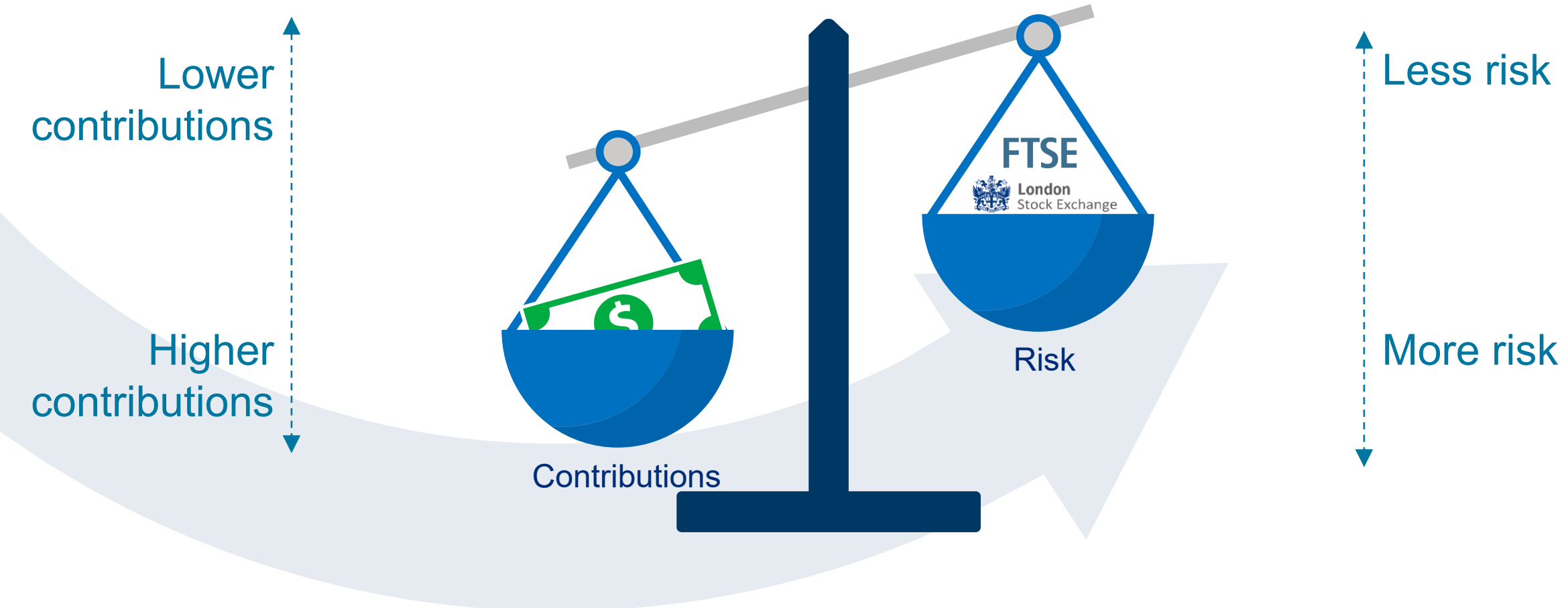
## Impact (for the Fund in aggregate)

	Real discount rate reduces by 0.1%	Sustainability reserve increased by 5%	Recovery period reduced by 3 years
Primary rate	0.5% of pay	No impact	No impact
Secondary rate	0.9% of pay	2.7% of pay	(0.5%) (where surplus)

**Impacts for individual employers will vary potentially materially, depending on their own circumstances**

# Preliminary 2025 Valuation Analysis and Outcomes

The 2025 valuation will see contribution reductions for many employers



**Balancing short-term affordability versus longer term contribution stability**

# Preliminary 2025 Valuation Analysis and Outcomes

## 2025 Valuation – preliminary results

	31 March 2022 Final valuation position	31 March 2025 Updated position
Real discount rate - past	1.70%	3.00%
Real discount rate - future	2.10%	2.50%
Assets (£m)	2,339	2,626
Liabilities (£m)	2,361	2,291
Surplus / (deficit) (£m)	(22)	335
Funding level	99%	115%
Smoothing period	16	15
Sustainability reserve	0%	10%
Secondary contributions	0.7%	(2.7)%
Primary contributions	18.4%	15.7%
<b>Total contributions</b>	<b>19.1%</b>	<b>13.0%</b>



The provisional results show:

**A higher funding level / lower contributions** compared to any recent valuations

**An increase in prudence levels**

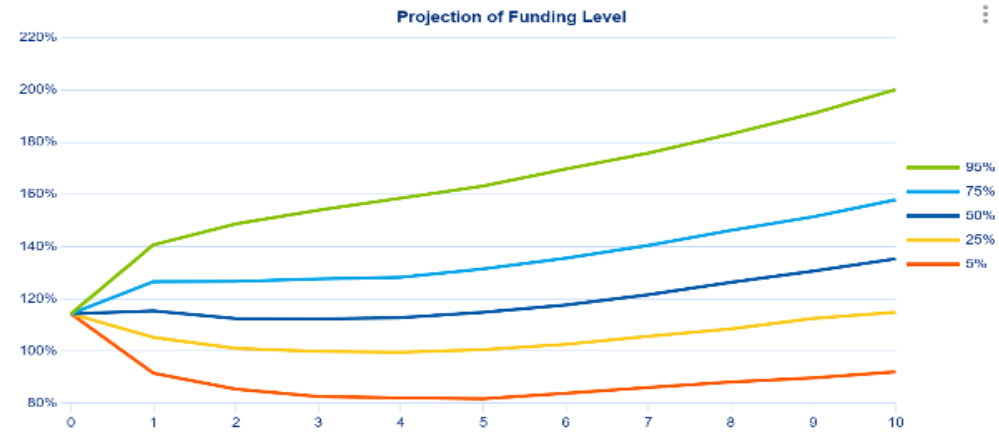
**This means:**

The Fund is in an **improved position to keep contributions stable** in future (although significant risks still remain).

The Fund's average contribution rate is reducing from 19.1% to 13.0%

# Preliminary 2025 Valuation Analysis and Outcomes

## Contribution sustainability



Assumption	3 yrs	6 yrs	10 yrs
Maintain 13% or lower	51%	53%	70%
Increase by 3% or more	26%	31%	21%
Increase by 5% or more	17%	20%	14%

What is the chance of maintaining the proposed contributions for the next two valuations?  
How can we improve this by using prudence in the funding plan?

Likelihood of maintaining 13% contribution rate			
Valuation Year	Retain 2025 valuation parameters	Use 5% of sustainability reserve	Use full sustainability reserve
2028	c50%-55%	c60%	c65%-70%
2031	c50%-55%	c60%	c65%-70%

If future experience is better than assumed, there may be the opportunity to reduce contributions further



# Preliminary 2025 Valuation Analysis and Outcomes

## Employer risk policy – “Lower Risk” employers

**1** The Fund has a separate policy for employers without taxpayer backing – “lower risk” employers: This is to reflect the risk of unfunded exits falling to other Fund employers.

**2** Currently employers provide a bond or pay higher contributions: The current policy allows more prudent assumptions (requiring higher contributions) unless a bond is provided to cover risk. Employers cannot receive surplus offsets if there is a termination debt.

**3** The risk is reduced at this valuation: Materially reduced termination deficits and more prudent “standard” assumptions mean that the Fund’s exposure is reduced.

**4** The policy is being updated to reflect this: There is no assumption gap for primary contributions. Where the bond requirement falls to zero then the employer will be treated as if there is a bond in place. Employers with a surplus on the termination position will receive contribution off-sets.

**5** The net result is: Lower risk employers are *expected to receive similar treatment to taxpayer backed employers in most cases*



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# Funding Strategy Statement

Employer Results

# Funding Strategy Statement

Guidance (January 2025)

## SAB CIPFA & MHCLG

- Support the desirability of maintaining as nearly constant a primary contribution rate as possible
- Encourage administering authorities to take a prudent longer-term view of funding their liabilities

## Purpose of the FSS

Clear and transparent fund-specific strategy to meet employers' pension liabilities:

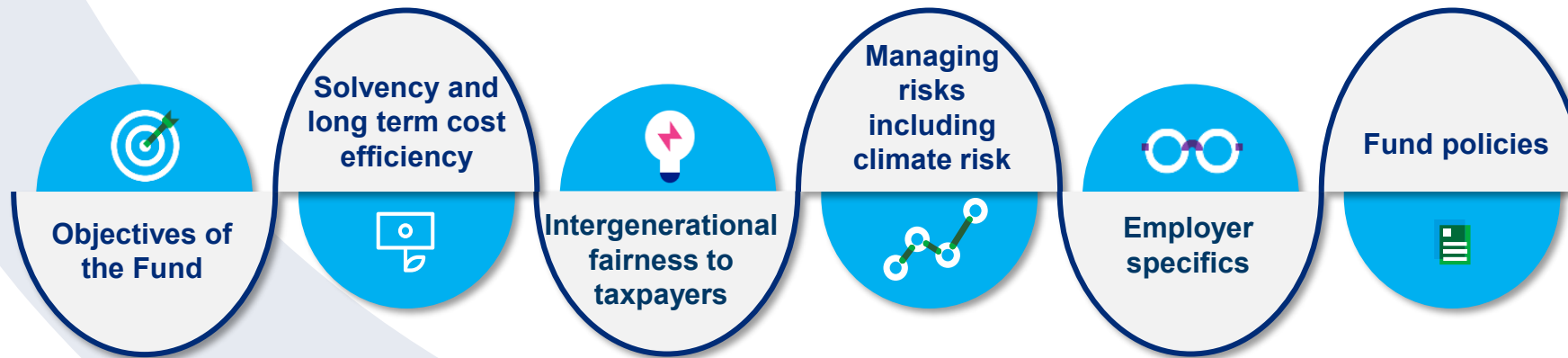
- Support the desirability of stability in contribution rates as far as possible
- Prudent approach in funding the liabilities
- How the Fund balances employers' interests and deals with conflicts

## Additional guidance prepared by the SAB

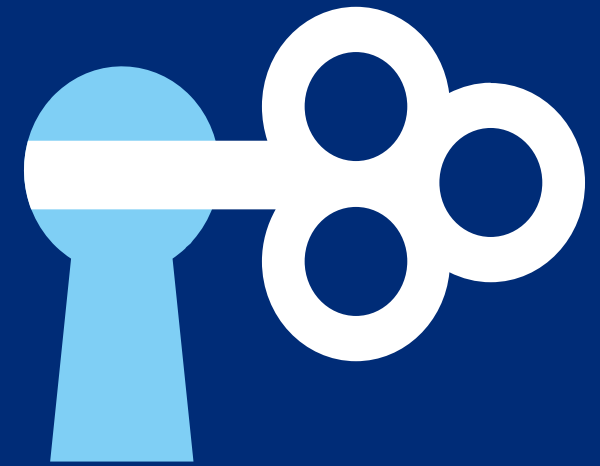
- Surplus statement (December 2023)
- Valuation guidance (May 2025)

# Funding Strategy Statement

## Main Area



The draft FSS reflects the requirements of the updated guidance



## Updated Guidance (January 2025) - key changes

- integrated risk management (incl. covenant / climate risk)
- employer engagement and consultation
- treatment of emerging issues (e.g. surplus, guarantors)
- layout and content

# Funding Strategy Statement

## Layout and content

Shropshire County Pension Fund – 2025 Funding Strategy Statement	
<b>Contents and Guide to the Funding Strategy Statement (FSS) and Policies</b>	
The key sections of the FSS, as required by overarching guidance and Regulations are as follows:	
A. <a href="#">Purpose of the Fund and the FSS</a>	
B. <a href="#">Key funding principles</a>	
C. <a href="#">Employer events</a>	
This document also sets out the Fund's detailed policies in the following key areas. Please contact us <a href="mailto:xyz@shropshire.gov.uk">xyz@shropshire.gov.uk</a> for any queries relating to the FSS or Fund policies below.	
<b>1. Demographic Assumptions (Appendix A)</b>	In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out <a href="#">here</a> .
Details of the demographic assumptions used for assessing the funding position and contribution requirements for the Fund and individual employers, are set out <a href="#">here</a> .	
<b>2. Deficit Recovery Plans (Appendix B)</b>	<b>7. Employer Risk Management Policy (Appendix G)</b>
The key principles when considering deficit recovery plans as part of the valuation are set out <a href="#">here</a> .	The Fund operates a separate policy to address the risks related to employers who do not have direct or indirect taxpayer backing. Further details on the policy are set out <a href="#">here</a> .
<b>3. Surplus Policy (Appendix C)</b>	<b>8. Covenant Assessment and Monitoring Policy (Appendix H)</b>
The key principles when considering how any surplus identified as part of the valuation is used, including the impact on employer contribution rates, is set out <a href="#">here</a> .	Details on how employer covenant is assessed, monitored and impacts the funding / termination approach are set out <a href="#">here</a> .
<b>4. New Employer Admission Policy (Appendix D)</b>	<b>9. Notifiable Events Framework (Appendix I)</b>
Various types of employers are permitted to join the LGPS under certain circumstances. The conditions upon which their entry to the Fund is based and the approach taken is set out <a href="#">here</a> .	This policy sets out events which employers should proactively inform the Fund about. More details are set out <a href="#">here</a> .
<b>5. Termination Policy (Appendix E)</b>	<b>10. Ill Health Captive Arrangement (Appendix J)</b>
When an employer ceases to participate within the Fund, it becomes an <a href="#">exiting</a> employer under the Regulations. The Fund's approach in such cases is set out <a href="#">here</a> .	The Fund has implemented a captive insurance arrangement which pools the risks associated with ill health retirement costs for smaller employers. More details are set out <a href="#">here</a> .
<b>6. Inter-Valuation Contributions Review (Appendix F)</b>	<b>11. Roles and responsibilities of key parties (Appendix K)</b>
	The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out <a href="#">here</a> .
	<b>12. Glossary (Appendix L)</b>
	A glossary of the key terms used throughout the FSS and Fund policies is available <a href="#">here</a> .

## NEW

- **Surplus policy**
- **Asset share policy**

## UPDATED

- **Deficit recovery policy**
- **Admission and termination policies**
- **Employer Risk Management policy**
- **Notifiable Events Framework**
- **Employer Events policy is now part of the FSS document**

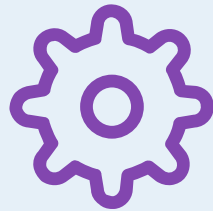
The updated draft FSS includes new sections and Fund policies brought into the document.

# Funding Strategy Statement

## The consultation process



**All employers  
must be  
consulted**



**Process decided  
by the  
Administering  
Authority**



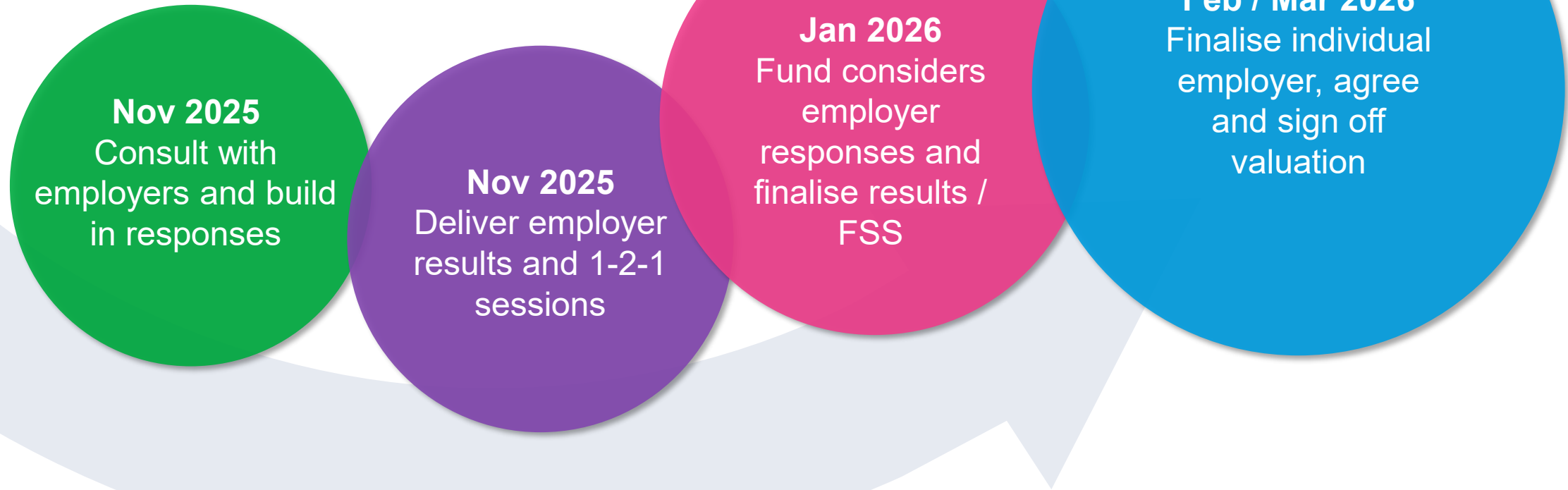
**Employers  
views must be  
considered**



**Final decision  
rests with the  
Committee**

# Funding Strategy Statement

## Timeline to finalise FSS and valuation



**The employer consultation on the FSS is now open**

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Questions

Employer Results

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A large, dark blue curved arrow pointing from the bottom left towards the top right, positioned behind the "Employer Results" text.

# Employer Results