

Cheshire Pension Fund

Employer Forum – 2025 Valuation

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Agenda

- 1 Background to the funding valuation
- 2 2025 valuation inputs
- 3 2025 valuation results
- 4 Employer level funding strategy
- 5 What do you need to do?
- 6 Employer valuation results schedule

Background to the funding valuation

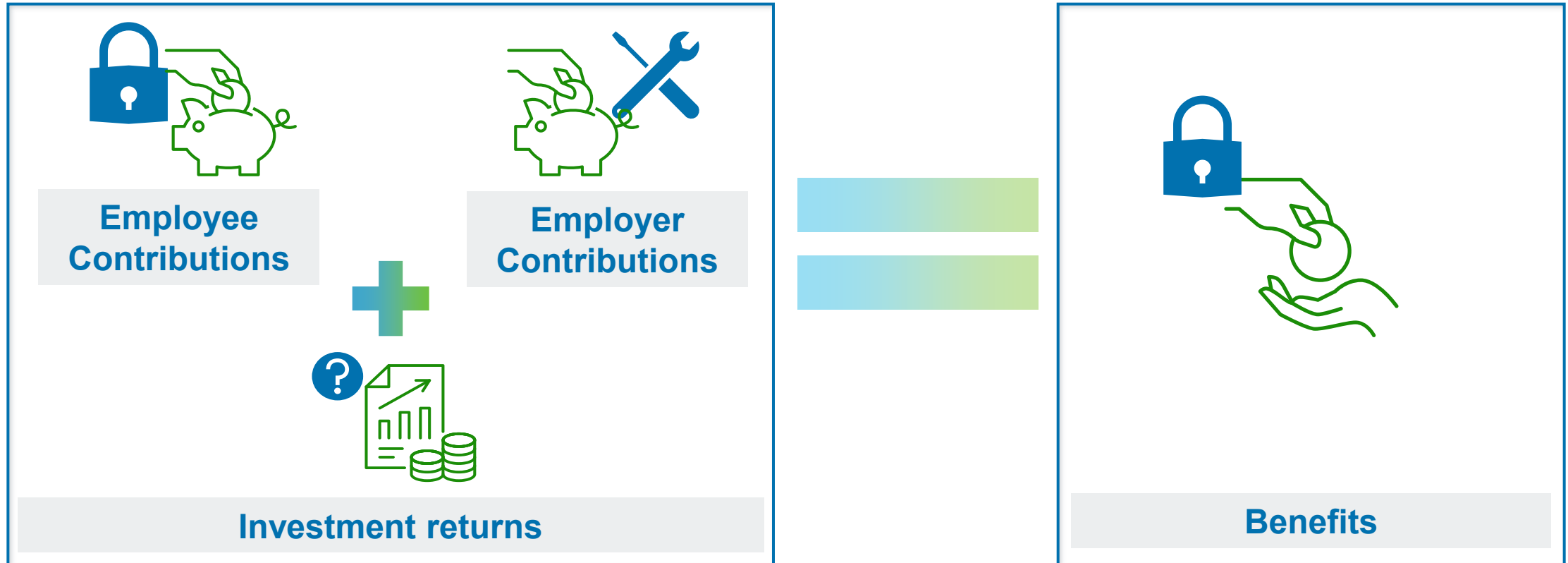


Why do we do a valuation?

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

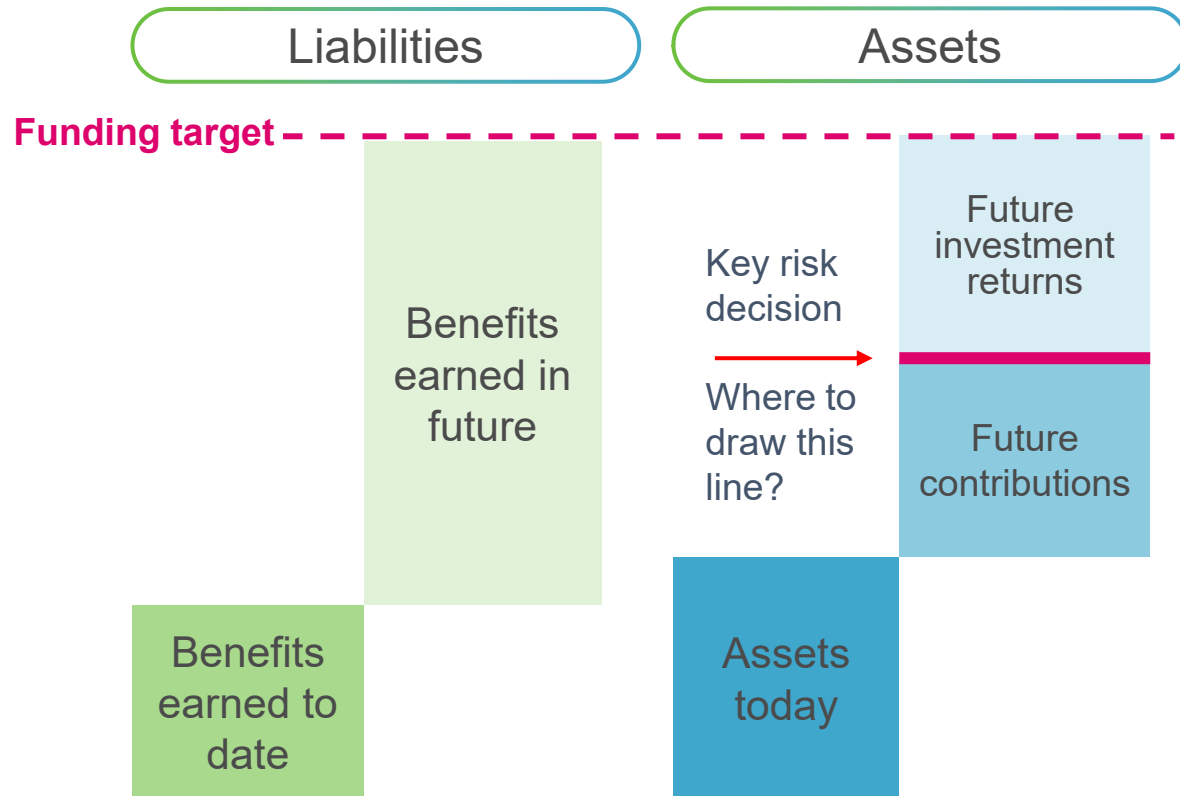
A valuation is a large risk management exercise

How do we get the sides to balance?



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

Key funding decision



General insights



Funding level is 'past service' only



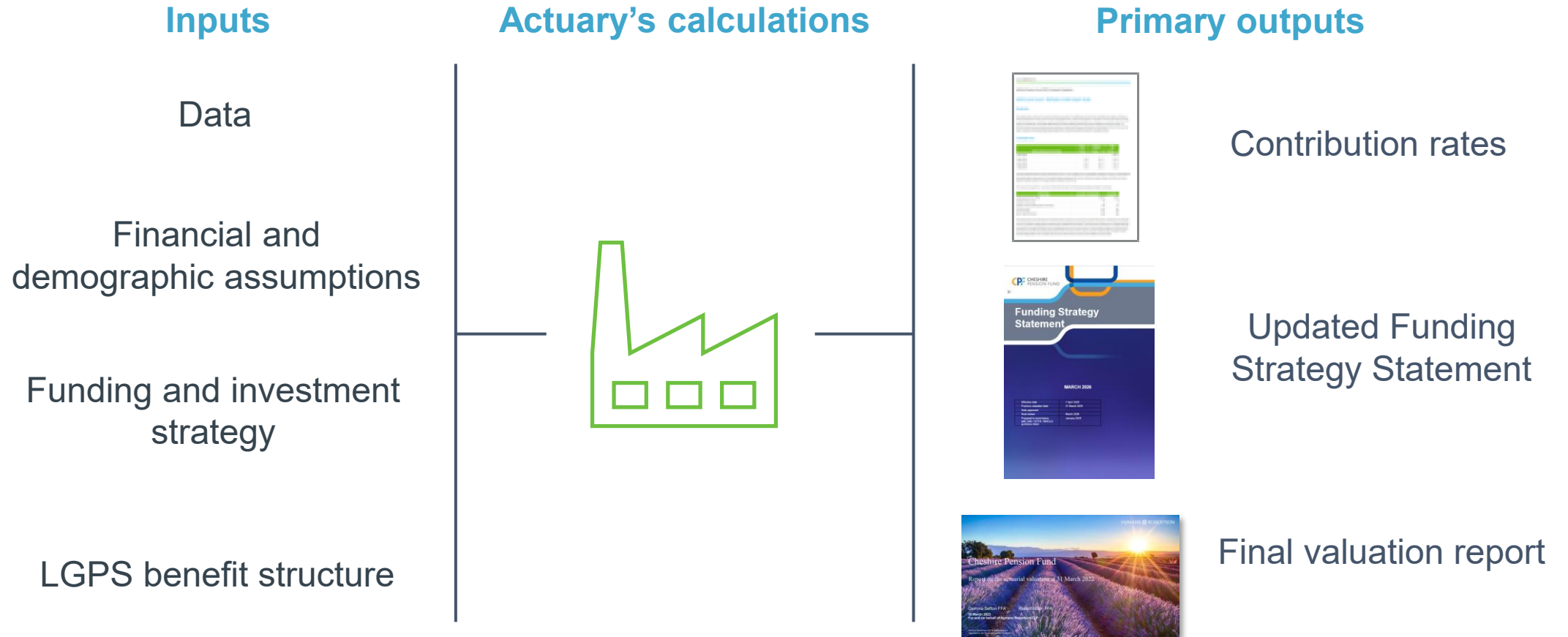
Majority of benefits yet to be earned



Balance future contributions vs investment risk

Setting future contributions requires careful long-term risk management

How we do the valuation



Funding vs accounting

Funding valuation
Triennially
Set cash contributions
Set by the Fund
Based on Fund's actual investment strategy
Individual membership calculations

Frequency

Purpose

Assumptions

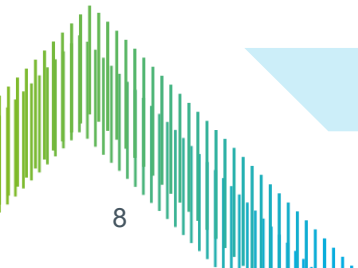
Expected investment return assumption

Methodology

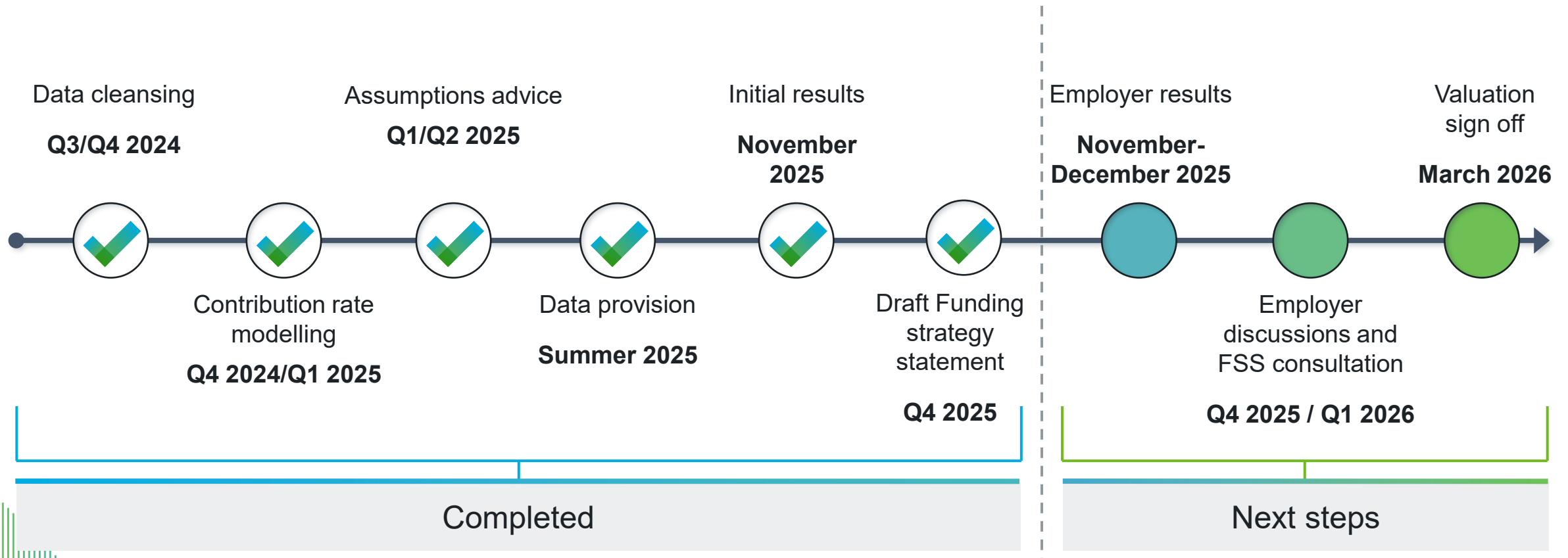
Accounting valuation
Annually
Financial reporting
Responsibility of directors*
Set with reference to UK corporate bond yields
Estimated 'roll forward' approach

*having taken appropriate actuarial advice

The annual accounting valuation does not influence cash contributions



Recap: key valuation milestones



2025 valuation inputs



Membership data and the importance

What is required by employers

- Provision of new salaries and address for members
- Timely information on new joiners and leavers
- Accurate monthly provision of data required and timely response to data queries

Consequences of poor-quality employer data

- Actuary may not be able to calculate an updated contribution rate
- You may end up paying much higher contributions than you need to
- Costly re-runs of valuation position
- Late delivery of valuation results

Employer data quality is fundamental to the reliance placed on results

Valuation assumptions

Assumption	Source
Future investment returns	Based on Fund's asset portfolio and future expected returns on each asset class (incl. margin of prudence)
Benefit increases (CPI)	Consumer Prices Index (CPI) inflation
Longevity / mortality	Tailored to Fund members – Club Vita analysis
Salary increases	Typically (CPI) inflation plus a margin
Other demographics*	Fund specific, based on actual member experience

*including commutation, ill-health retirements, voluntary withdrawals etc.



The future investment return assumption has the largest impact on results

Funding Strategy Statement (FSS) review

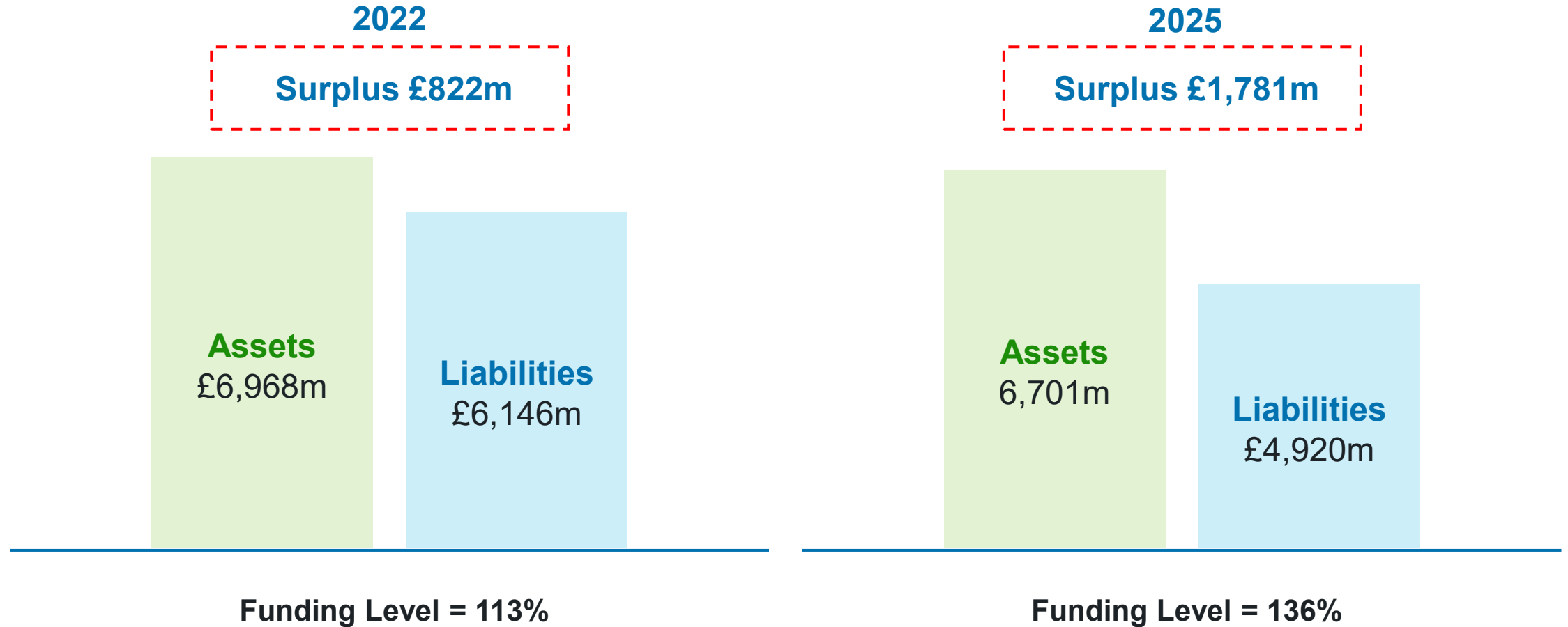
- Publicly available document which all LGPS funds must maintain
- Regulations require a review of FSS at least every three years
- New 2025 guidance from SAB / MHCLG / CIPFA
- Subject to employer consultation

Funding Strategy Statement will be open for consultation with employers later this year

2025 valuation results

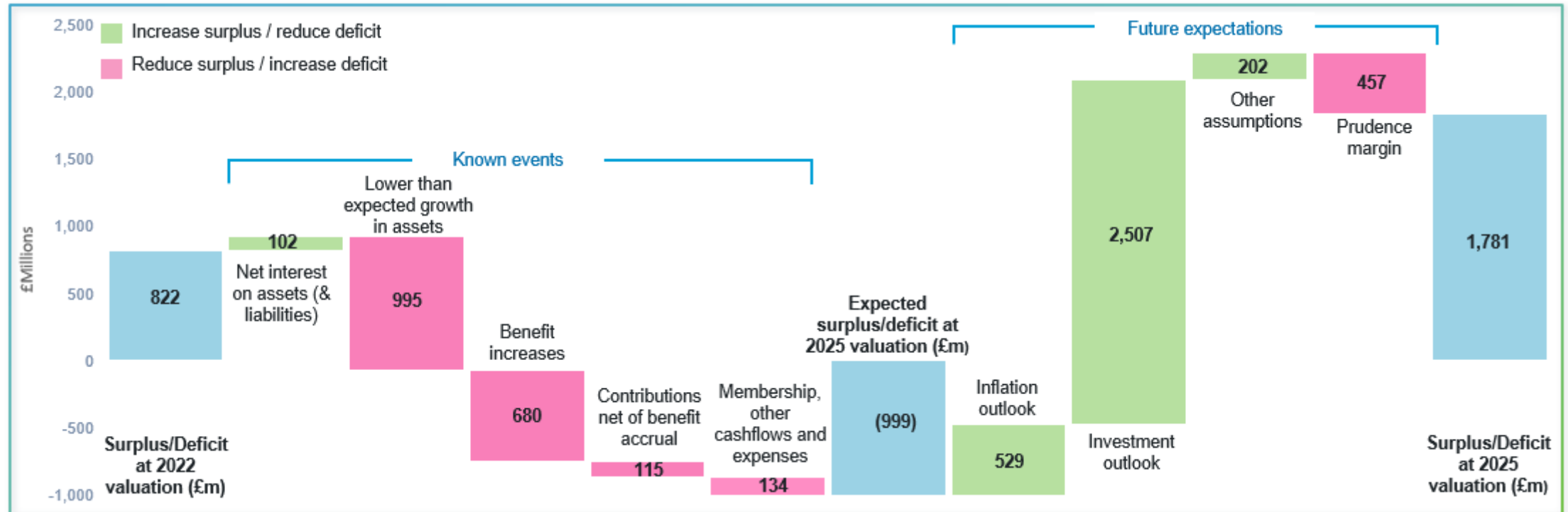


Whole fund valuation results



A snapshot funding position of past service benefits only on a particular day

Change in whole fund funding position



Numbers may not sum due to rounding.

Employers will see variation based on their own circumstances

Individual funding positions

Funding profile and history

LGPS history and active payroll impact past and future costs

Membership experience

Events such as ill-health retirements or salary increases will affect your funding position

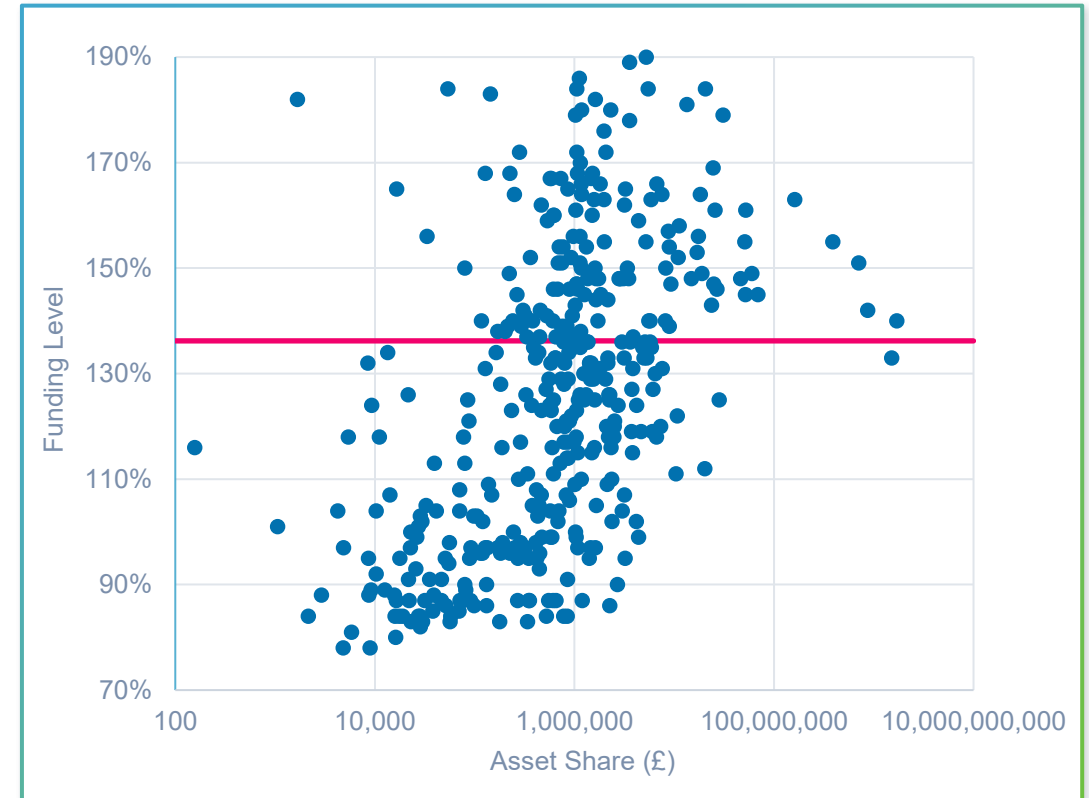
Membership profile

Differences such as age and gender will affect the contribution rate

Contributions being paid

Higher contributions will result in a larger funding level improvement

Employer funding level vs asset share



No two employers are the same

General funding themes at the 2025 valuation

Funding position



Most employers funding positions are improved

Contribution rates



Most employers likely to see managed reductions in contributions

Funding position improvements and contribution changes vary by employer

Employer level funding strategy



Changes in funding environment since 2022

Economic

- Big jump in **interest rates**
- Higher than expected **inflation** - April 2023 (10.1%) and April 2024 (6.7%)
- Increasing **budgetary pressure** for LGPS employers

Demographic

- Post COVID recovery in **life expectancies**.
- Uncertainty over rate of future **improvements**

Political

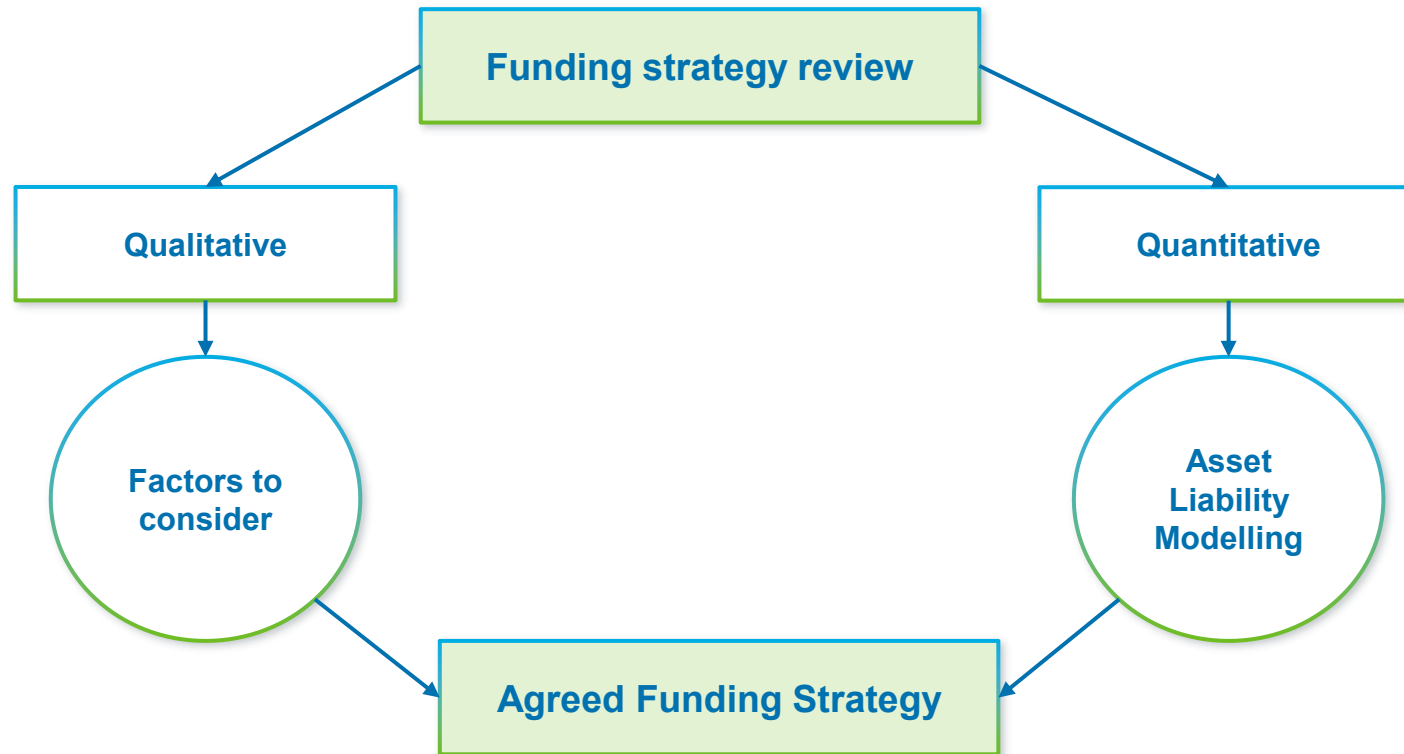
- 'Fit for the Future' and other **consultations**
- Heightened **geo-political** risk

Others

- **National benchmarking** exercise including use of surplus
- Climate and nature-related '**tail**' risks

Fund is increasing prudence margin from 70% to 80% to protect against increased uncertainty.

The decision-making process



Fund considers a combination of qualitative and quantitative information when reviewing funding strategies

Qualitative: Factors considered

The following **qualitative** factors have been considered as part of the Fund's review:

1. Long-term funding objective



- Buffer against future adverse experience
- Market and geopolitical uncertainty
- Climate and nature-related 'tail' risks
- Pay less in the long run

2. Contributions



- Difficulty of future increases
- Inter-generational fairness
- Cost of future benefit accrual

3. Investment strategy



- Balance past and future service benefit costs
- Practicalities
- Cashflow

Considered alongside quantitative factors to enable stable funding strategies

Quantitative: 3 steps to setting the funding strategy



Funding target

What is the employer's funding objective?



Time horizon

Will the employer continue to participate in the Fund for the long term, or will they exit (and when)?

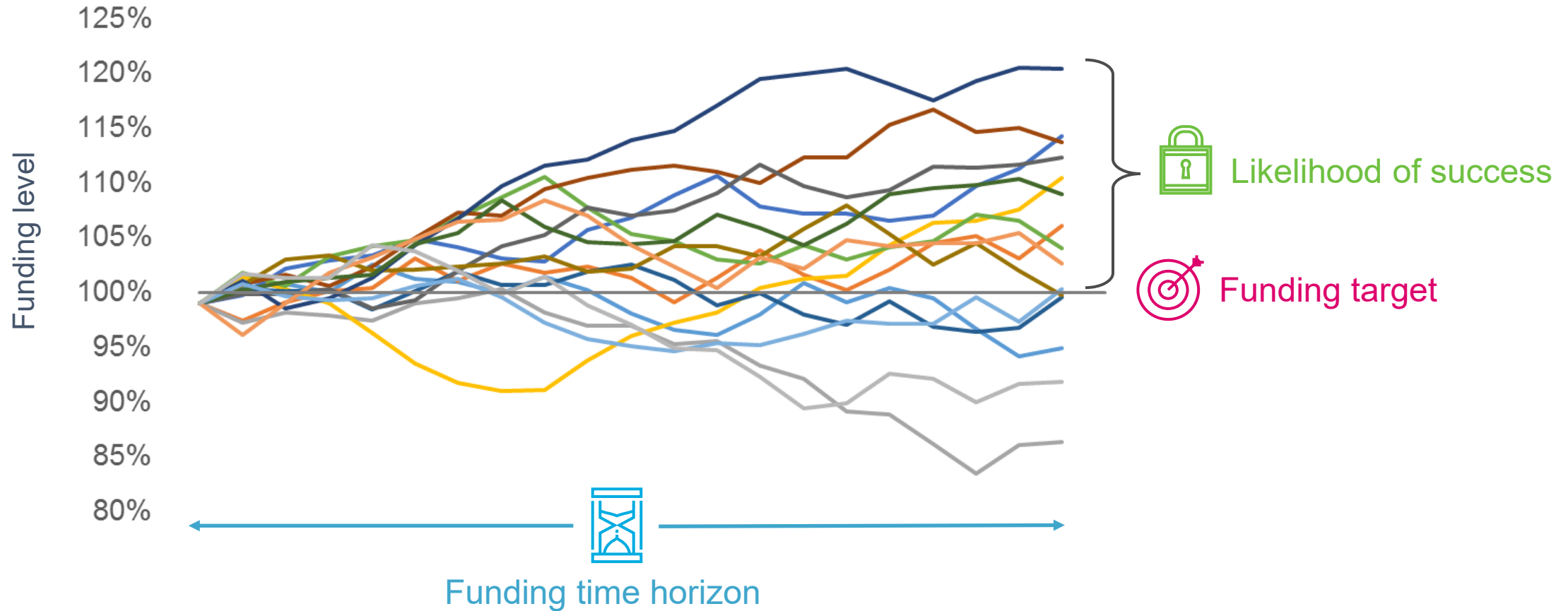


Likelihood of success

How strong is the employer's covenant?

Reflects the circumstances of each employer and allows the Fund to manage risk

Setting risk-based contribution rates



Set contribution rate to have sufficiently high likelihood of meeting the funding target at the end of the time horizon

Contribution setting – Academies

The Fund aims to align the academy rates with that of their ceding council, who are subject to the Fund's stabilisation mechanism. This will occur for academies where the quantitative metrics support a move to the ceding council rate. In rare cases, where the modelling does not support this move, a corrective contribution rate will be applied.

This will help ensure consistent treatment between similar employer types within the Fund. In particular, re-alignment of contribution rates between LEA schools and Academies

Benefits of stability

- Budgeting certainty and avoids difficulty of volatile future increases
- Intergenerational fairness
- Long term cost efficiency
- Protects employers from market volatility in short term

Short term employer affordability needs to be balanced with longer term sustainability and consistency

What do you need to do?

What you need to do?



Read the results schedule (once issued later this year)

Check the data is correct, understand your current funding position and the rate that will come into payment from 1 April 2026



Look out for the updated Funding Strategy Statement

Understand how this applies to your participation in the Fund



Talk to the Fund

Ask any questions and let them know about any possible changes in circumstances

Summary of 2025 valuation direction of travel

1

Funding position

Past service funding position has improved since 2022

2

Reasons for change

Primarily driven by the increase in the expected future investment return

3

Contribution rates

Total rate: downward pressure
Overall impact will vary between employers

Appendix - Employer valuation results schedule*

*results shown are for illustrative purposes only

Funding position

The table below shows the Employer's funding position as at 31 March 2025 on the Fund's Ongoing basis (as defined in the Fund's draft FSS), alongside the funding position at the last valuation for comparison.

Monetary amounts in £000	Last valuation	This valuation
	basis	Ongoing basis
Asset share	1,216	1,547
Employees	954	751
Past-service liabilities		
Deferred pensioners	157	193
Pensioners	-	172
Total liabilities	1,110	1,116
Surplus/(Deficit)	105	431
Funding level	109%	139%

The funding position only covers assets and liabilities accrued up to the calculation date (past service), it does not consider the cost of benefits that will be earned in the future (future service).

Change in funding position

The following table helps to explain the changes in the Employer's assets and liabilities over the period since the last valuation. Due to rounding the columns may not add up exactly.

	£000	Assets	Liabilities	Surplus / (deficit)
	Last valuation	1,216	1,110	105
Cashflows	Employer contributions paid in	231		231
	Employee contributions paid in	56		56
	Benefits paid out	(91)	(91)	
	Other cashflows (e.g. expenses, transfers)			
Changes since last valuation	Expected growth	195	171	24
	Accrual of new benefits		319	(319)
	Membership experience		155	(155)
	Excess return on assets	(97)		(97)
Changes in actuarial assumptions	Financial assumptions		(422)	422
	Longevity assumptions		(72)	72
	Other demographic assumptions		(55)	55
	This valuation	1,547	1,116	431

Contribution rates

The contribution rates for the three-year period from 1 April 2026 to 31 March 2029 are set out in the following table (alongside the current rate in payment).

Employer contribution rates for year ending	Primary rate	Secondary contributions*		Total contributions*	
	% of pay	% of pay	£	% of pay	£
31 March 2026	28.3%	(5.4%)	-	22.9%	-
31 March 2027	18.1%	(3.0%)	-	15.1%	-
31 March 2028	18.1%	(3.0%)	-	15.1%	-
31 March 2029	18.1%	(3.0%)	-	15.1%	-

*Contributions may include a percent of pay and monetary element, both of which are payable.

The above contribution rates are the minimum rate required by the Fund. In most circumstances the Employer can pay additional contributions to improve its funding position but this should be referred to the Fund in the first instance. The Employer's final contribution rates will be certified in the Fund's Rates and Adjustments Certificate.

The Primary Rate includes an allowance of 0.6% of pay for administration expenses.

Employer contribution rates are in addition to employee contributions. The average employee contribution rate is 5.5% of pay.

Appendix A – Data

A.1 Membership data

The results in this schedule are based on the membership data summarised below which was supplied to us by the Fund for the purpose of the 2025 formal valuation.

	Last valuation	This valuation
	Number	24
Employee members	Total actual pay (£000)	311
	Total accrued benefit (£000)	72
	Average age	57.9
	Number	11
Deferred pensioners	Total accrued benefit (£000)	19
	Average age	56.9
	Number	4
Pensioners and dependants	Total accrued benefit (£000)	11
	Average age	66.2

Average ages are weighted by liability.

Thank you

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