Havering
LONDON BOROUGH

PENSIONS COMMITTEE 09 December 2025

Subject Heading:	Valuation Update and Draft Funding Strategy Statement
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Policy context:	To meet the statutory obligation to have an actuarial valuation every three years
Financial summary:	The funding level is a snapshot at a point in time. It is sensitive to the assumptions used for the valuation

The subject matter of this report deals with the following Council Objectives

People - Supporting our residents to stay safe and well	[X]
Place - A great place to live, work and enjoy	[X]
Resources - Enabling a resident-focused and resilient Council	[X]

SUMMARY

This report presents the initial results of the 31 March 2025 triennial valuation, summarises the underlying actuarial assumptions, and seeks the Committee's approval for the resulting draft Funding Strategy Statement.

RECOMMENDATIONS

1. To note the Initial Whole Fund Results Report (Appendix A **Exempt**) including;

    a. the proposed valuation assumptions;
    b. Prudence level of 85% is adopted (2022 80%), which results in a future investment return assumption (‘discount rate’) of at least 5.5% per annum (2022 3.5%);
    c. the potential impact of post 31 March market volatility and that the proposed assumptions and employer funding plans remain appropriate for the 2025 valuation.

2. To approve the draft Funding Strategy Statement (Appendix B).

REPORT DETAIL

1. Every three years, Local Government Pension Scheme (LGPS) administering authorities have a statutory duty to carry out an actuarial valuation of their pension fund. For the London Borough of Havering Pension Fund (the “Fund”), this process involves assessing the Fund’s assets and liabilities as at 31 March 2025, based on prevailing market conditions, to determine its overall funding position.

2. The primary objective of the valuation is to establish employer contribution rates for the three-year period beginning one year after the valuation date, i.e. from 1 April 2026 to 31 March 2029.

3. Although the assumptions used do not affect the ultimate cost of paying benefits, they enable the Actuary to estimate the present value of liabilities arising from pension benefits. These assumptions influence employer contribution levels.

4. LGPS Regulations require that actuarial assumptions incorporate a degree of prudence. The Actuary must set contributions based on these prudent assumptions while aiming to maintain stability for employers wherever possible.

5. Prudence effectively provides a ‘buffer’ against the various risks and uncertainties inherent in funding LGPS benefits. This buffer helps safeguard the Fund and its employers against adverse future outcomes, such as lower-than-expected investment returns. It is primarily reflected in the discount rate assumption, which represents the expected future investment return.

6. The significant assumptions underpinning the valuation are detailed in Appendix A and include:

Financial Assumptions	**31 March 2025**	**31 March 2022**
Discount rate (assumed future investment return)	5.5% (85% prudence margin)	3.5% (80% prudence margin)
CPI inflation (benefit revaluation)	2.6% (best estimate)	2.7% (best estimate)
Longevity assumptions	CMI 2024 model	CMI 2021 model

7. The discount rate (assumed future investment return) and CPI inflation (benefit revaluation) generally have the most significant impact on the value placed on pension benefits (liabilities) and the resulting employer contribution rates.

Discount Rate Assumption – investment returns

8. Pension benefits accrued within the Fund will be paid over many decades. To compare these future obligations with the Fund's current assets, the Actuary calculates their present value by applying a discount rate to future benefit payments.

9. The Fund's approach is to base the discount rate on the expected long-term returns from its investment portfolio over the next 20 years. These projections are derived using the Economic Scenario Service (ESS) model, which simulates 5,000 potential future economic scenarios.

10. At the 31 March 2022 valuation, the discount rate was set at 3.5% per annum, reflecting an 80% prudence level.

11. The funding environment remains challenging, with heightened geopolitical risks and market volatility potentially impacting inflation and investment returns. To strengthen the Fund's resilience, officers recommend increasing the prudence level from 80% to 85% for the 2025 valuation. This means the discount rate is set so that there is an 85% probability of being achieved by the Fund's asset portfolio over the next 20 years, and conversely a 15% chance that actual returns could fall short.

12. Based on the Actuary's modelling of expected returns over 20 years and applying an 85% prudence margin, the proposed discount rate for the 2025 valuation is 5.5% per annum.

CPI Inflation Assumption - benefit revaluation

13. Members' pension benefits in the LGPS are linked to Consumer Price Inflation (CPI), ensuring that benefits maintain their value over time.

14. The Actuary incorporates CPI inflation into the valuation by using the Economic Scenario Service (ESS) model, which generates 5,000 potential future economic scenarios, each reflecting different inflation outcomes.

15. At the 2022 valuation, the Fund adopted a CPI assumption of 2.7% per annum. While inflation has been elevated during 2023 and 2024, it is anticipated to trend back towards the Bank of England's long-term target of 2% per annum. For the 2025 valuation, the Actuary recommends a CPI assumption of 2.6% per annum.

16. Officers remain cautious about levels of future inflation given current levels of political and economic uncertainty; however, they remain comfortable that a sufficient level of prudence is included within the discount rate to capture this uncertainty.

Longevity assumptions

17. The Fund uses Club Vita analytics to determine the life expectancy assumptions, tailoring them to reflect the Fund's membership. These assumptions comprise two key components:

    a. Baseline
    b. Future improvements

18. The baseline assumption estimates how long members are expected to live based on current observed mortality rates.

19. Assumptions about future improvements in longevity are more subjective and have become increasingly uncertain in recent years. Factors contributing to this uncertainty include the impact of the COVID-19 pandemic and its aftermath, potential effects of climate change, and changes in healthcare provision.

20. Despite these uncertainties, it is generally assumed that mortality rates will continue to decline over time, resulting in ongoing improvements in life expectancy, consistent with long-term historical trends.

Other assumptions

21. Other demographic assumptions based on national LGPS experience include:

    a. The proportion of members opting to join the 50/50 section of the scheme

b. The level of cash commutation at retirement (i.e., exchanging part of pension for a lump sum)
c. Assumed retirement ages

22. The results presented in this report are as at 31 March 2025. Since that date, financial markets and other factors have continued to experience volatility, which may affect these results. However, the Actuary does not believe the impact to be material on the valuation or require any additional adjustments.

Draft Funding Strategy Statement

23. The Funding Strategy Statement (FSS) is a statutory document that sets out the Fund's approach to meeting its long-term pension liabilities. It links the actuarial valuation to the practical funding policies of the Fund, including how employer contribution rates are determined and reviewed. A copy of the draft FSS can be found at Appendix B.

24. Following the 31 March 2025 triennial valuation, the FSS has been updated, primarily to reflect new guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Scheme Advisory Board (SAB), which aims to create greater consistency across LGPS funds.

25. The main changes to the FSS are:

    a. **Structural Alignment:** The document has been restructured into two main parts (*Key Funding Principles and Employer Events*) to align with the format prescribed in the new guidance.
    b. **Standardised Terminology:** New, consistent language (e.g., 'resolution bodies', 'SAB Tiers') has been adopted to improve clarity and comparability for employers participating in multiple LGPS funds.
    c. **Enhanced Governance:** The FSS now includes a formal commitment to a regular review, as recommended by the new guidance.
    d. **Updated Assumptions:** The appendices will be updated to reflect the assumptions outlined earlier in this report.

26. As required by LGPS Regulations, the next step is to carry out a formal consultation on the draft FSS with all scheme employers. Any feedback will be reviewed before presenting the final version to the Committee for approval.

27. The Committee should note that minor changes may be made following the consultation and before the FSS becomes effective on **1 April 2026**.

28. The Fund commissioned Hyman's to develop a Valuation and FSS Consultation FAQ to support employers in engaging with the consultation process.

Initial Whole Fund Results

29. The initial results of the 31 March 2025 triennial valuation have been received from the Fund Actuary, Hymans Robertson. They show an improvement in the Fund's overall funding position since the previous valuation in 2022. The Fund is now in surplus, meaning the value of its assets is higher than the estimated value of its long-term pension liabilities.

30. The improvement in the funding level is primarily due to changes in long-term economic assumptions, particularly higher expected future investment returns. This has the effect of reducing the present-day value of the Fund's future liabilities. While actual investment returns over the last three years were lower than assumed, and high inflation increased the value of benefits, these factors were more than offset by the positive impact of the revised future outlook.

31. The next stage of the valuation process will involve detailed analysis at the individual employer level to set individual employer specific contribution rates commencing 1 April 2026.

IMPLICATIONS AND RISKS

Financial implications and risks:

The valuation process makes several assumptions in calculating the long term financial position of the fund. Considering the financial and economic risks facing the fund the level of prudence assumed for investment returns has been increased to 85%, to provide increased mitigation against the risk of future returns falling below expectations

The funding level is a snapshot at a point in time. It is sensitive to the assumptions used for the valuation, particularly the assumed level of future investment returns, inflation and life expectancy (which are uncertain), and other sources of funding risk.

Legal implications and risks:

There are no legal implications other than those referenced in the report, which is aimed at ensuring legal compliance.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

An EHIA (Equality and Health Impact Assessment) has not been completed and is not required for this decision. The Council seeks to ensure equality, inclusion, and dignity for all. There are no equalities and social inclusion implications and risks associated with this decision.

BACKGROUND PAPERS

1. FSS Supporting Drafting Guide, by Hyman's Robertson

2. 2025 Actuarial Valuation – Frequently asked questions