LONDON BOROUGH OF CAMDEN	WARD: All
REPORT TITLE: Triennial Valuation assumptions	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Committee	**DATE:** 17 July 2025

SUMMARY OF REPORT:

This report updates Pension Committee on the assumptions underpinning the triennial valuation for salary growth, discount rate (asset outperformance assumption) and other assumptions used in calculating the triennial valuation of the Pension Fund liabilities.

Local Government Act 1972 – Access to Information
No documents requiring to be listed were used in the preparation of this report:

Contact Officer: Saul Omuco
Head of Finance Treasury and Pensions
Finance
Corporate Services
5 Pancras Square
London N1C 4AG

Telephone 0207 974 7116
Email saul.omuco@camden.gov.uk

RECOMMENDATIONS:

The Committee is asked to:

- Note the contents of the report.
- Approve the proposed assumptions including:
    - A discount rate of 5.7% per annum, corresponding to a prudence level of 80%.
    - Continuation of the salary growth margin at CPI + 0.5%.
    - Adoption of a contribution strategy based on a 3% immediate reduction from the current total contribution rate, in line with stabilisation.

Signed by

Director of Finance …………**Agreed**……………...

Date …………**08/07/2025**……..….

1. INTRODUCTION

1.1. The Fund's actuary, Hymans Robertson, and Pension Shared Service are busy preparing data in order to complete the Fund's triennial valuation, which will be reported in September with detailed employer valuations to follow in December. Some of the most important assumptions underpinning the triennial valuation are the discount rate, CPI inflation and salary growth. This report and the appendix review these assumptions amongst others and report on decisions taken in order to progress the triennial valuation.

1.2. This Fund has always placed great importance on taking professional advice from our actuary on appropriate, prudent and realistic assumptions and has never been tempted to influence these in order to adjust the outcome of the valuation in any way, shape or form. This means we will not set over ambitious discount rates (assumptions on asset outperformance over and above the risk-free gilt rates) and also want to have consistency from valuation to valuation in assumptions used if still fit for purpose.

1.3. As part of each formal valuation exercise, the Fund reviews its funding strategy and funding plans to ensure it is on track to meet all future benefit payments. As part of this, it is good practice to review all of the Fund's **financial** and **demographic assumptions** to take account of how the fund's membership and investment strategy have changed, and to reflect any changes in the environment within which the fund operates (economic, demographic, political etc.). The outcome of this review supports the Fund's governance around the valuation by clearly explaining the rationale behind the assumptions.

1.4. This report builds on thinking and prudent practice embedded in previous valuations and is part of the Fund's transparent, evidence based and well documented approach to setting these assumptions. It reviews the following assumptions:

- future investment returns
- the discount rate (used to price liabilities at today's prices)
- CPI inflation
- salary increases
- baseline longevity
- future improvements in longevity
- demographic assumptions – withdrawals, ill-health retirements, commutation (how much members choose to take as a lump sum versus conversion to a pension at retirement)

1.5. In order to perform the triennial valuation, the actuary needs to make assumptions about several factors based on experience. In particular the actuary needs to perform a **benefit projection** based on benefits earned and estimated future accrual of benefits.

1.6. The actuary also needs to make an **asset projection** estimating future employer and employee contributions, future estimated benefits paid out and future investment returns.

1.7. Contribution rates are set so that over a specified time horizon (known as the funding time horizon) the Fund can balance benefit payments with assets and with sufficient confidence over a number of economic and market scenarios.

1.8. Appendix A presents the work of our Actuary, Hymans Roberston, on reviewing the appropriateness of these assumptions which have been agreed by the Director of Finance as part of the arrangements underpinning the triennial valuation.

2. Purpose of Report

This report presents the proposed actuarial assumptions for the 2025 triennial valuation of the Camden Pension Fund. These assumptions have been prepared by Hymans Robertson, the Fund's actuary, and are required to allow completion of the valuation in line with Regulation 62 of the LGPS Regulations 2013. Following review and approval by the Director of Finance and the Pensions Committee, the assumptions will be confirmed to Hymans to proceed with the full funding analysis.

3. Background and Legal Context

Under Regulation 62 of the LGPS Regulations, an actuarial valuation must be carried out every three years. The purpose of the valuation is to establish the funding position of the Fund and to certify employer contribution rates for the next three-year cycle (2025/26 to 2027/28). Assumptions must reflect a prudent approach and be consistent with the Fund's Funding Strategy Statement.

4. Summary of Proposed Assumptions

The following table highlights the key financial and demographic assumptions proposed by Hymans Robertson for the 2025 valuation, alongside commentary on changes from the 2022 valuation:

Assumption	2022 Valuation	2025 Proposed	Comments
Discount Rate	4.4% (70% prudence level)	Up to 6.7% depending on chosen prudence *(Recommendation:5.7% p.a. at 80% prudence)*	Economic conditions suggest higher expected returns. Officers to consider whether a more prudent discount rate (e.g. 5.7% at 80% prudence) is appropriate in light of market volatility.
CPI Inflation	2.7% p.a.	2.3% p.a.	Reflects latest ESS calibration; lower short-term inflation outlook than in 2022.
Salary Increases	CPI + 0.5%	Fund to confirm	No change proposed. Conflicting pressures from National Living Wage vs employer affordability.
Longevity Baseline	Fund-specific Club Vita model	No change	Tailored to Camden's data; remains valid.

Future Mortality Improvements	CMI_2021 model with adjusted parameters	CMI_2023 (or CMI_2024 if available) with refined parameters	Reflects best practice. Default assumption decreases liabilities by ~1.5–2.0%.
Commutation	50% of max tax-free cash	70% of HMRC limit	Updated to reflect Camden's experience (71%).
Proportion Married at Retirement	Varying (e.g. 90% males)	Align to LGPS-wide experience	Reduces liabilities by ~2% based on Club Vita analysis.
50:50 Scheme Take-Up	1.00%	0%	Reflects observed low take-up and minimal movement.

5. Contribution Strategy Modelling

Hymans Robertson have modelled several contribution strategies as part of their Asset Liability Modelling exercise. These scenarios are based on a payroll of £211.7m as at 31 March 2024, growing by 3.2% per year. The results are summarised below:

Contribution Strategy	2026/27	2027/28	2028/29	Total (3 years)	Savings vs Freeze
Freeze at 27.4%	£63.7m	£65.8m	£67.9m	£197.4m	-
3% immediate reduction (to 24.4%)	£56.7m	£58.6m	£60.5m	£175.8m	£21.6m

This approach aligns with the Fund's stabilisation mechanism and has been confirmed by Hymans to be supportable even under the more prudent 80% assumption level. Hymans have confirmed that adopting the 3% immediate reduction while using a discount rate of 5.7% (80% prudence) still results in a high probability of full funding over 20 years.

The projected reduction in secondary contributions reflects the Scheme's strong funding position as at the valuation date, supported by prudent assumptions and a robust investment strategy.

Officers recommend adopting the **3% immediate reduction** contribution strategy as it balances affordability and funding strength while remaining within the Fund's stabilisation framework.

6. Risks and Considerations

- Discount Rate and Prudence Level: The most material assumption is the discount rate, which drives the present value of liabilities. Hymans provide a range of discount rates linked to different levels of prudence. While the default discount rate at a 70% prudence level would result in the lowest funding liabilities, this may understate risk in the current climate. Conversely, a prudence level over 85% could lead to unnecessarily high employer contributions.

After reviewing Hymans' analysis and stress-testing across scenarios, officers recommend adopting a discount rate based on an **80% prudence level**. This level strikes an appropriate balance between:

- Funding security: Ensures liabilities are unlikely to be understated, improving resilience against adverse market movements or sponsor risk.

- Consistency: Maintains a cautious trajectory consistent with past valuations, while acknowledging higher current investment return expectations.

- Regulatory expectations: Aligns with the direction of travel under The Pensions Regulator's DB Funding Code, which emphasises 'low dependency' assumptions and appropriate risk margins.

- Peer positioning: Hymans note that while some LGPS clients use 70%, many are now targeting levels closer to 80% to reflect growing focus on sustainable funding strategies.

Based on this, the recommended discount rate is **5.7% p.a.**, derived using Hymans' methodology at the 80% prudence threshold

- CPI Inflation Assumption: Hymans propose a long-term CPI assumption of **2.3%**, lower than the 2.7% used in 2022. This reflects current market expectations and model calibration but may be exposed to upside risk due to structural factors like supply chain disruptions, climate transition costs, or public sector wage pressures. While not materially contentious, this assumption should be monitored for material changes during the inter-valuation period.

- Salary Growth Margin: The default assumption remains CPI + 0.5%, but Camden should consider whether this remains realistic given:

  - Emerging pressure from National Living Wage increases (especially affecting lower-graded staff).

  - Public sector affordability constraints that may limit actual salary growth.

  - Given these crosscurrents, officers suggest maintaining CPI + 0.5% for consistency, but keeping this under review during employer engagement.

- Mortality Improvement Models: Hymans propose updating from CMI_2021 to **CMI_2023**, with parameters reflecting post-pandemic experience. This change is reasonable and aligns with LGPS-wide practice. However, if a more optimistic mortality outlook is adopted (e.g. heavier weighting to recent data), it could reduce liabilities by around 1.5–2%. The Committee should note that this assumption can materially affect long-term liabilities and funding levels and may be revisited as part of future longevity monitoring.

7. Actuary’s commentary on LGPS Contribution Rate Discussions

In recent months, there has been increased public and media interest in the contribution rates and funding position of LGPS funds. Reports from external consultants and national press coverage have suggested that employer contribution rates could be significantly reduced or surpluses returned—particularly given the strong funding positions of many LGPS funds.

In response to this, Hymans Robertson have provided the following commentary to aid understanding and support Funds in responding to such narratives:

- The LGPS has reached its current strong funding position through consistent contributions and sound investment returns over the past decade.
- However, stability in employer contributions remains a core objective. Sudden or sharp reductions would not be consistent with the long-term nature of the Fund and its responsibilities to members and local taxpayers.
- While downward movement in contribution rates is expected at the 2025 valuation, this will likely be gradual and based on dialogue with employers to ensure budgetary stability.
- External commentary often fails to reflect the investment strategy of LGPS funds, which includes a broader asset mix (not just government bonds) and long-term risks such as climate change and longevity shifts.
- The process of setting contribution rates involves a partnership approach and aims to deliver funding resilience over time. Sudden changes would risk undermining this.
- Officers support this measured perspective and believe the assumptions proposed for Camden’s 2025 valuation reflect both the Fund’s strong funding position and its responsibility to maintain long-term financial stability.

8. Recommendation

That the Director of Finance:

- Reviews the attached actuarial advice paper and confirms agreement (or otherwise) with the proposed assumptions.
- Recommends the assumptions for formal approval by the Pensions Committee
- Provides feedback to the actuary (via officers) on the chosen prudence level for the discount rate and salary growth margin
- Once confirmed, the assumptions will be finalised and incorporated into the 2025 actuarial valuation for funding level and contribution rate calculations.

9. RESPONSIBLE INVESTMENT COMMENTS

9.1. When the Actuary completes the Triennial Valuation, they will consider the impact of varying climate scenarios on both the Fund's assets and liabilities. This will help to highlight how climate risk impacts on the Fund's strategic aims.

9.2. ENVIRONMENTAL IMPLICATIONS

9.3. There are no environmental implications to this report.

10. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

10.1. It is important that the assumptions underpinning the Triennial Valuation are prudent, consistent and transparent. This report sets out the Actuary's review of key factors and assumptions in the pending triennial valuation and aims to continue to follow these principles.

11. LEGAL COMMENTS OF THE BOROUGH SOLICITOR

11.1. Regulation 35 Local Government Pension Scheme (Administration) Regulations 2008 requires every local authority that administers a pension fund to prepare, maintain and publish a statement setting out their funding strategy stating the assumptions and judgements. The actuary when undertaking triennial valuations must have regard to this statement.

APPENDICES

APPENDIX A - Hymans Robertson 2025 Valuation: Actuarial Assumptions