

Brent Pension Fund

Assumption setting for the 2025 valuation

Pensions Sub-Committee

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Today's session

The valuation assumptions

- Background
- Change in environment since 2022
- Discount rate assumption
- Inflationary assumptions
- Longevity assumption
- Other demographic assumptions

Questions and comments welcome throughout

The valuation assumptions

Why we need assumptions

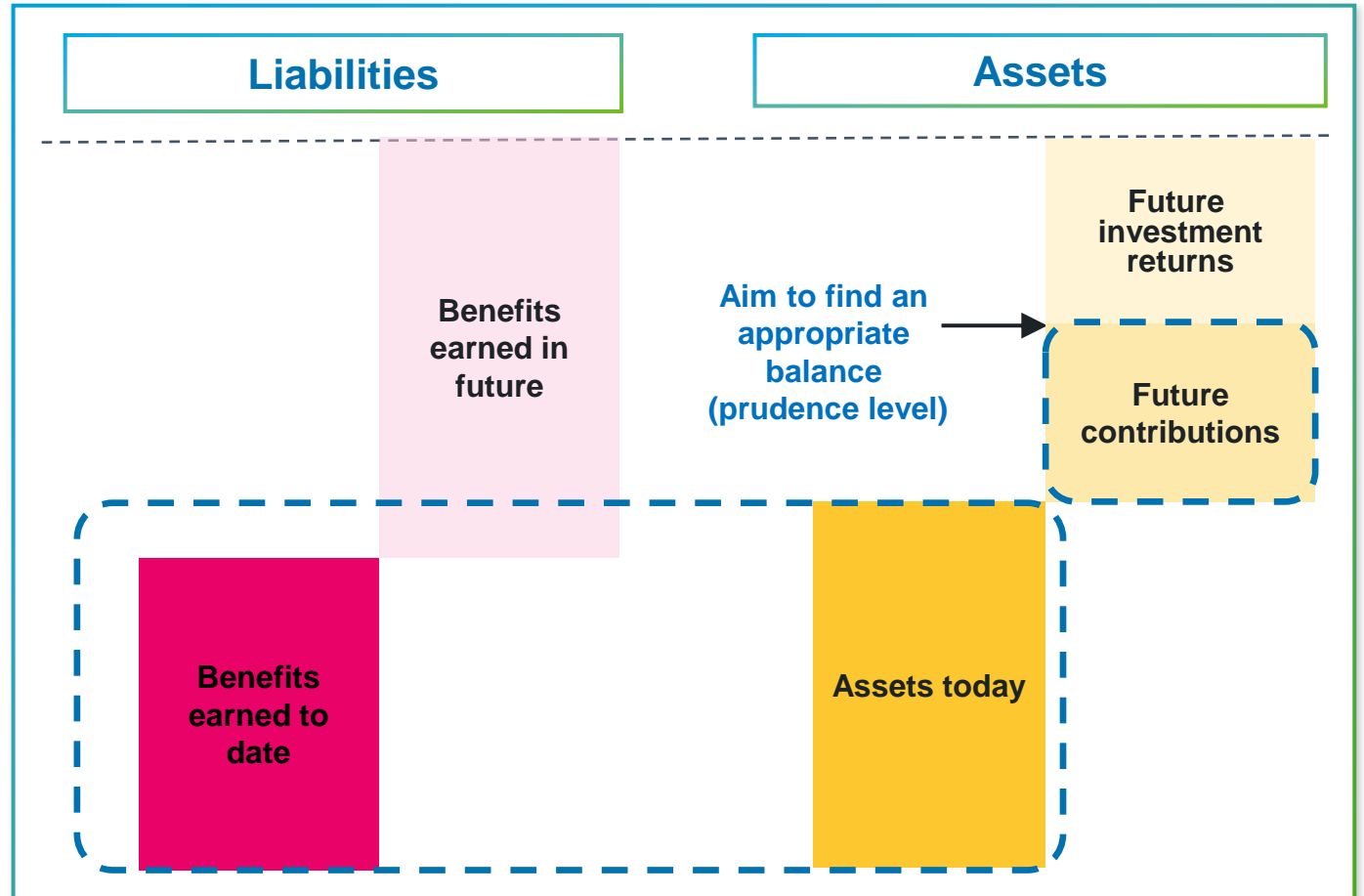
Required for key valuation outputs:

- **Employer contribution rates**
- **Funding level**

To calculate the cost of benefits earned to date and in the future, assumptions need to be made about the timing and amount of these future benefit payments.

Assets today are known, but we need to make an assumption about future investment returns.

[] = key valuation outputs



Which assumptions matter the most

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

High
↓ Impact
Low

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

Focus time and effort on assumptions that matter the most

Assumption setting ‘rules’



Set by the Fund Actuary through discussions with Officers and Sub-Committee



Reflect the specific characteristics of the Fund (where practical) and the timeframe of the liabilities i.e. very long-term view



LGPS guidance requires funds to adopt prudent assumptions



Margin of prudence adopted in the future investment return (discount rate) assumption



All other assumptions are best estimate

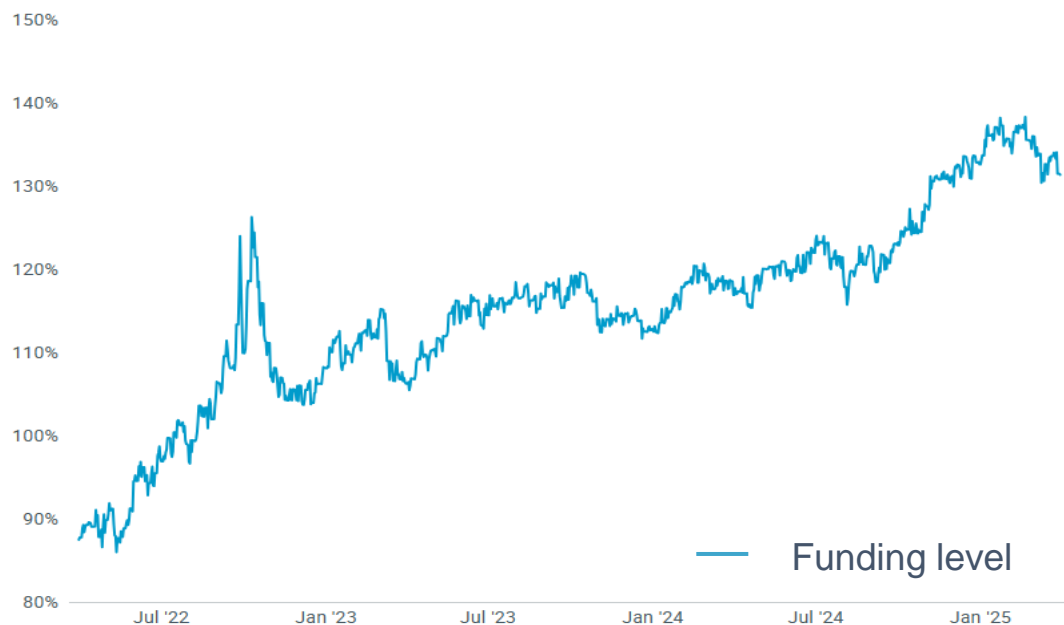


Starting point is current assumptions, then consider any relevant changes

Evolution from 2022, not a revolution

What has happened since 2022 valuation?

Funding progression since 2022 valuation



General insights



Whole Fund funding position has improved since 2022



Assets returns have been positive



Rising interest rates & high inflation

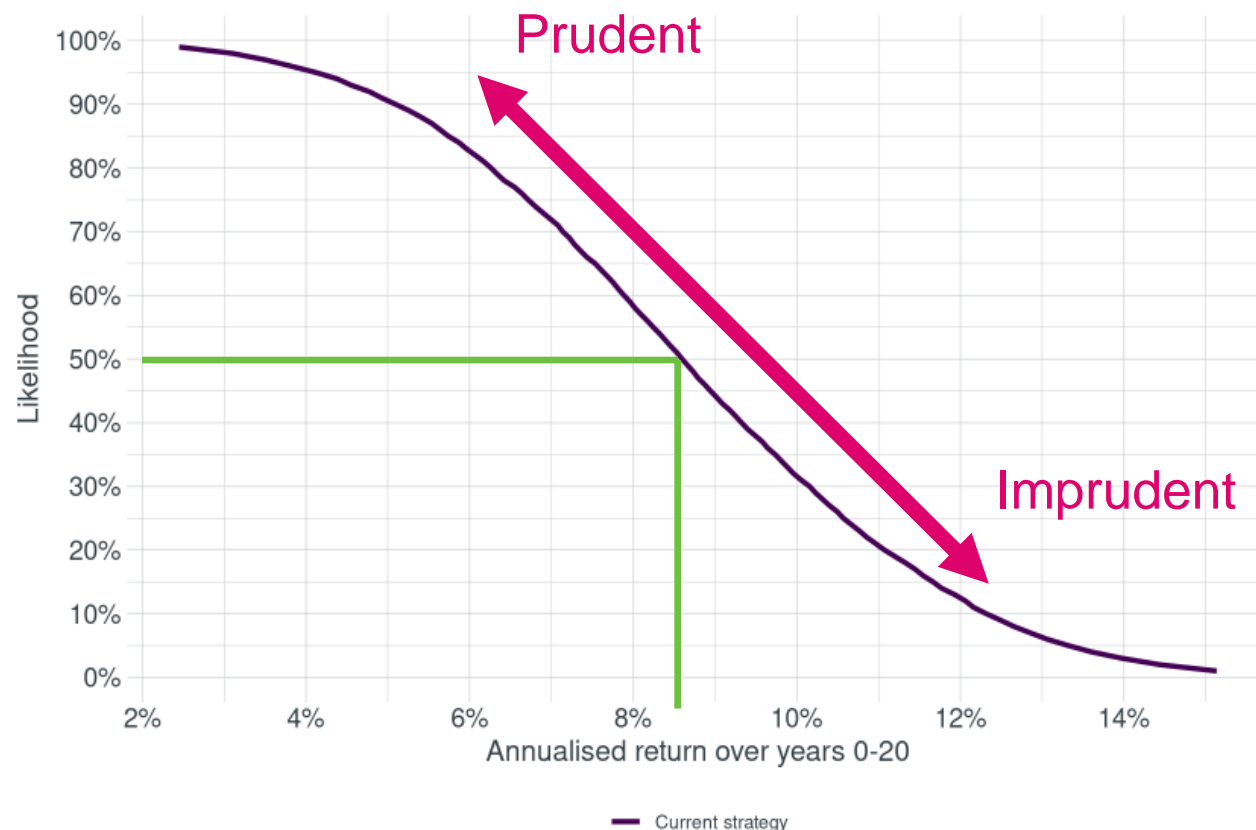
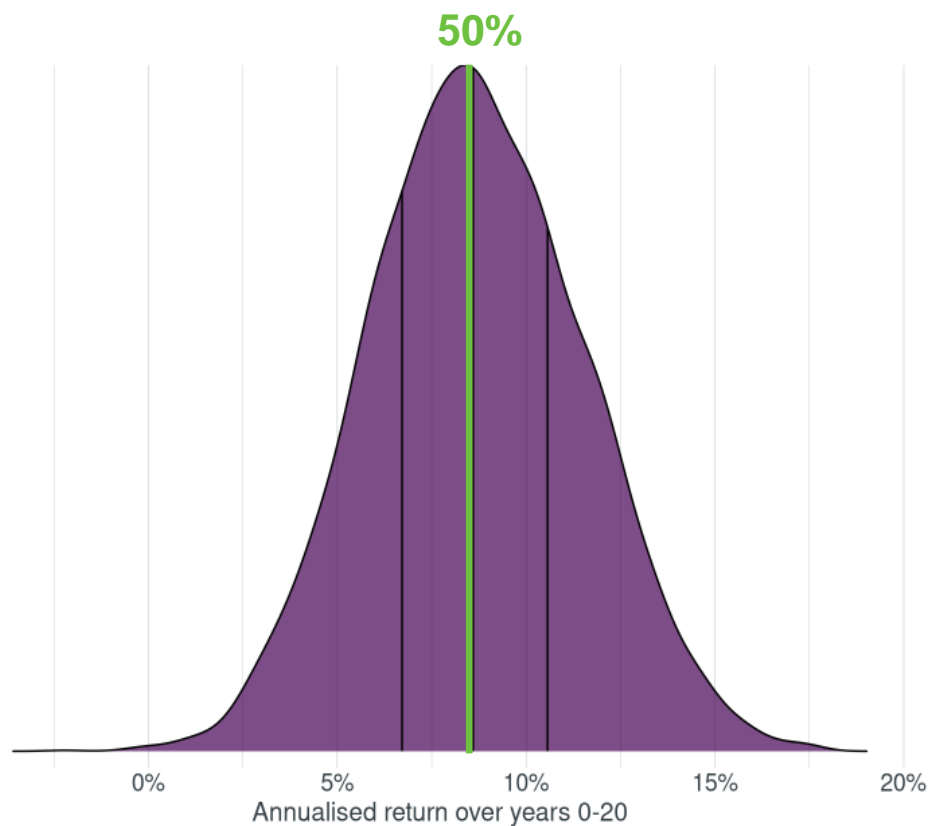


Higher expected future return on the Fund's assets

2025 valuation will reflect actual experience since 31 March 2022

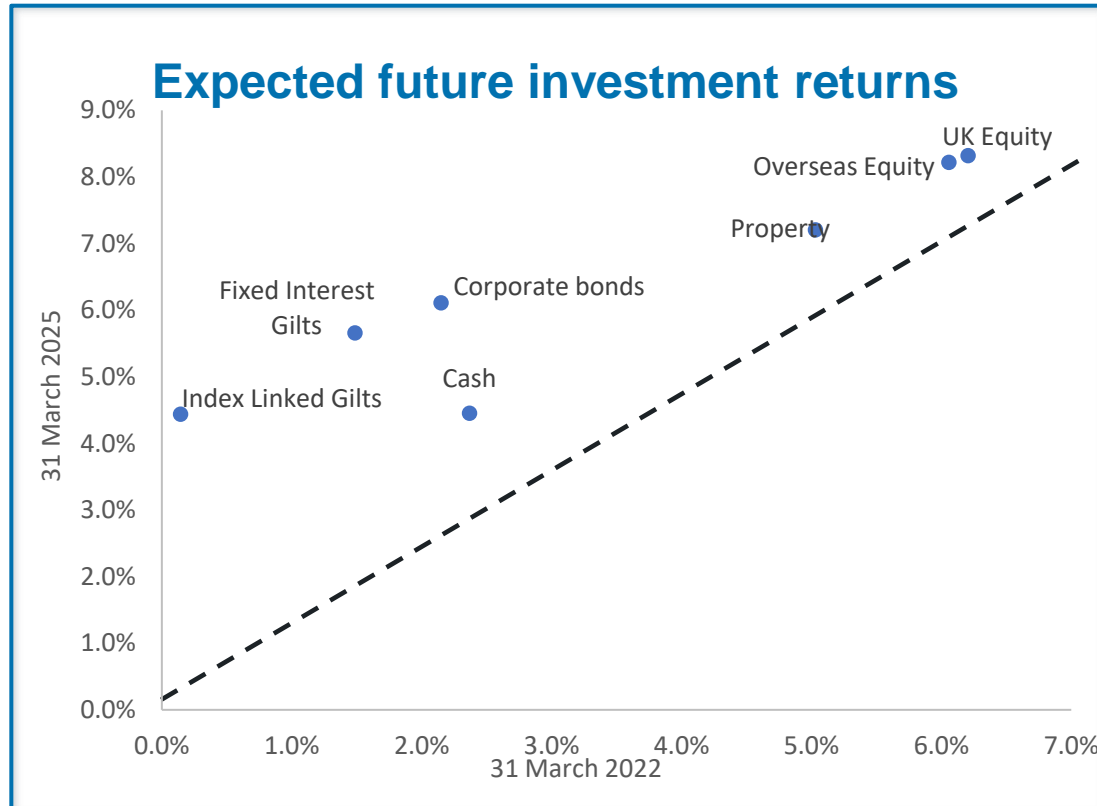
Financial assumptions

How much prudence is appropriate?



Choosing the level of prudence is a subjective decision

Future investment returns (discount rate)



- Higher expected future investment returns
- Leads to lower value place on future benefit costs
- Higher funding levels and downwards pressure on contribution rates
- But significantly increased market volatility and global economic uncertainty
- Justifies an increase in prudence at this valuation (whilst still targeting a higher nominal level of future investment return)

Recommendation: Increase prudence level from 73% to 80%

Benefit and salary increases

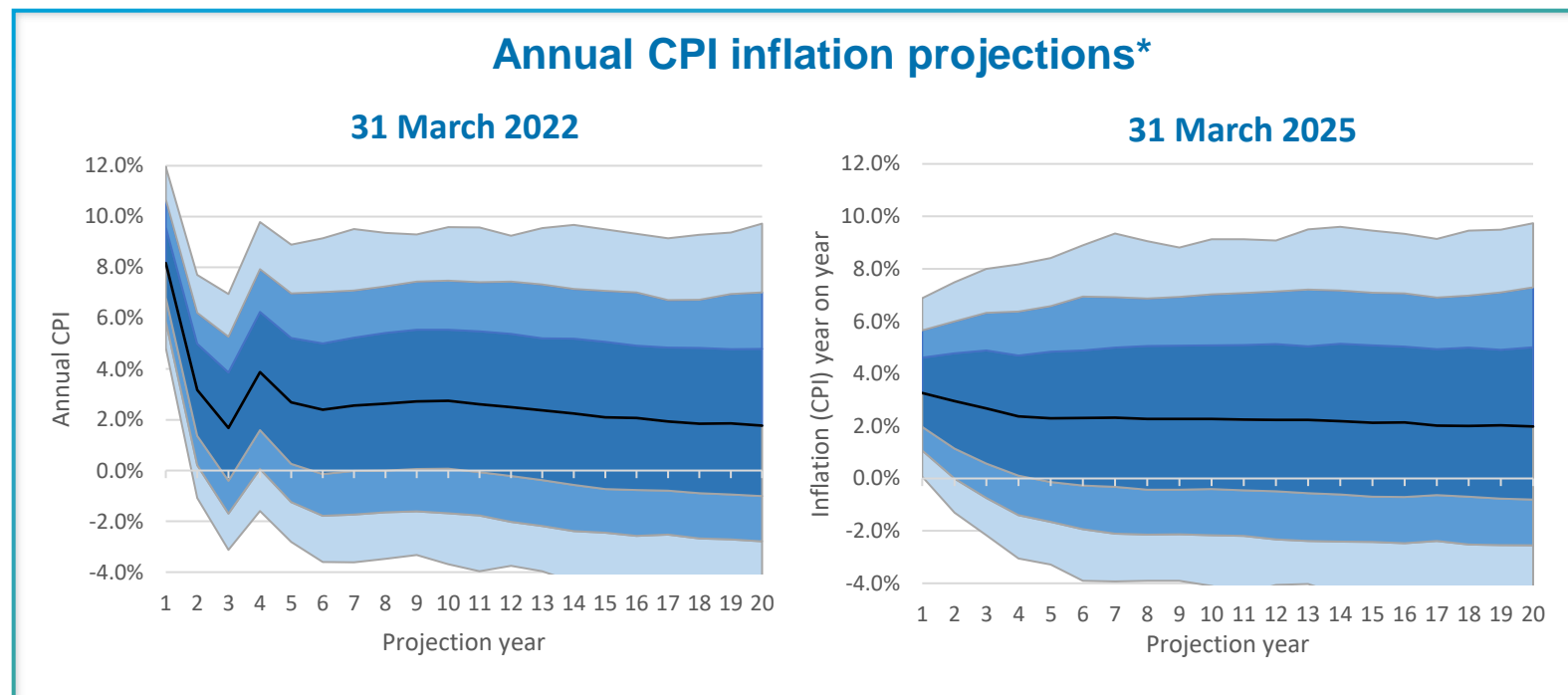
Benefit increases

- Benefit increases (and CARE revaluation) linked to CPI
- Reflect current inflation expectations

Salary increases

Inflationary salary increases set at $\text{CPI} + 0.3\%$:

- Uncertainty due to competing factors
- Maintain at current margin in absence of strong reason for change



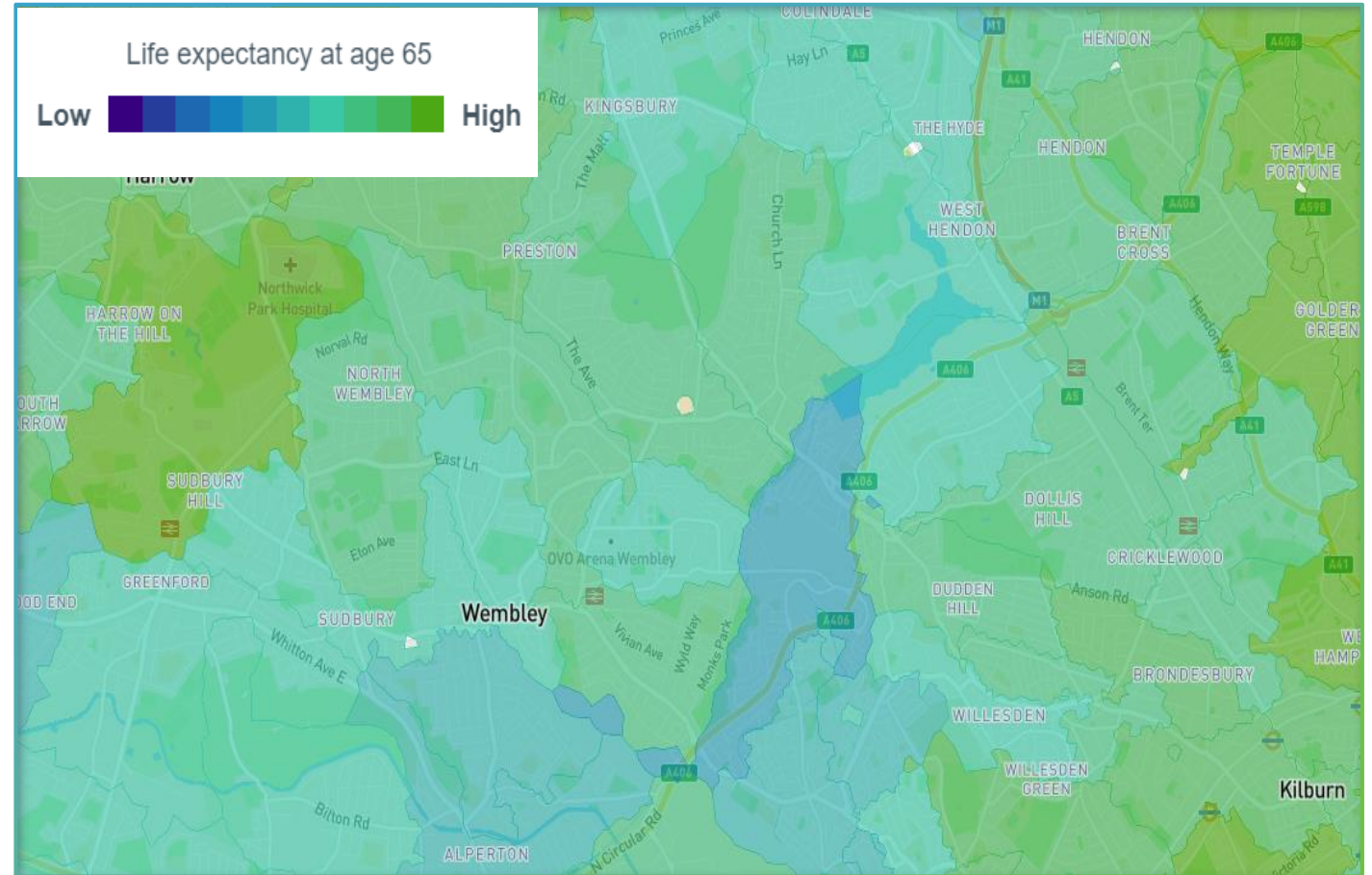
Average* level of future inflation at 31 March 2025 = **2.3% pa (vs 2.7% pa at March 2022)**

Recommendation: Adopt same approach as 2022 valuation but reflect current inflationary environment

Longevity assumptions

Baseline assumption

- Life expectancy tailored to member postcodes
- Considers postcode (proxy for lifestyle), retirement type and affluence
- Assumption is updated annually to reflect latest available data



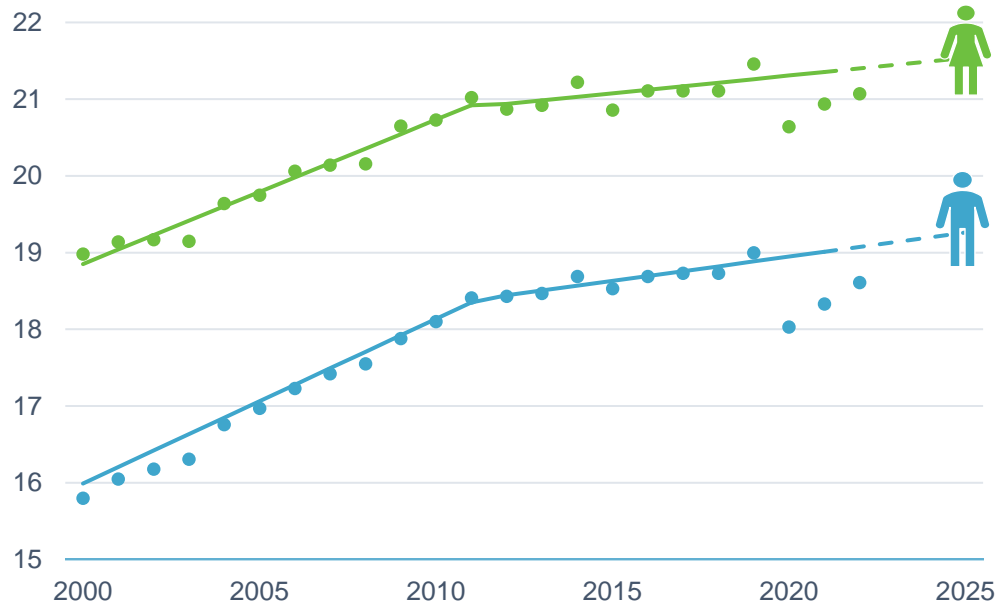
Recommendation: Continue to use tailored Club Vita assumptions

Life expectancy in Glasgow



Future improvements – recent experience

Period Life Expectancies from 65 in England & Wales



The world does not stand still, including life expectancy



Need to allow for future improvements in life expectancy



Improvements will be driven by medical advances, lifestyle behaviours and other external factors



Will require subjective decision making

Recommendation: Adopt overall Club Vita LGPS future improvement assumption

Other demographic assumptions

Other demographic assumptions

Withdrawal

Ill-health retirements

Promotional salary scale

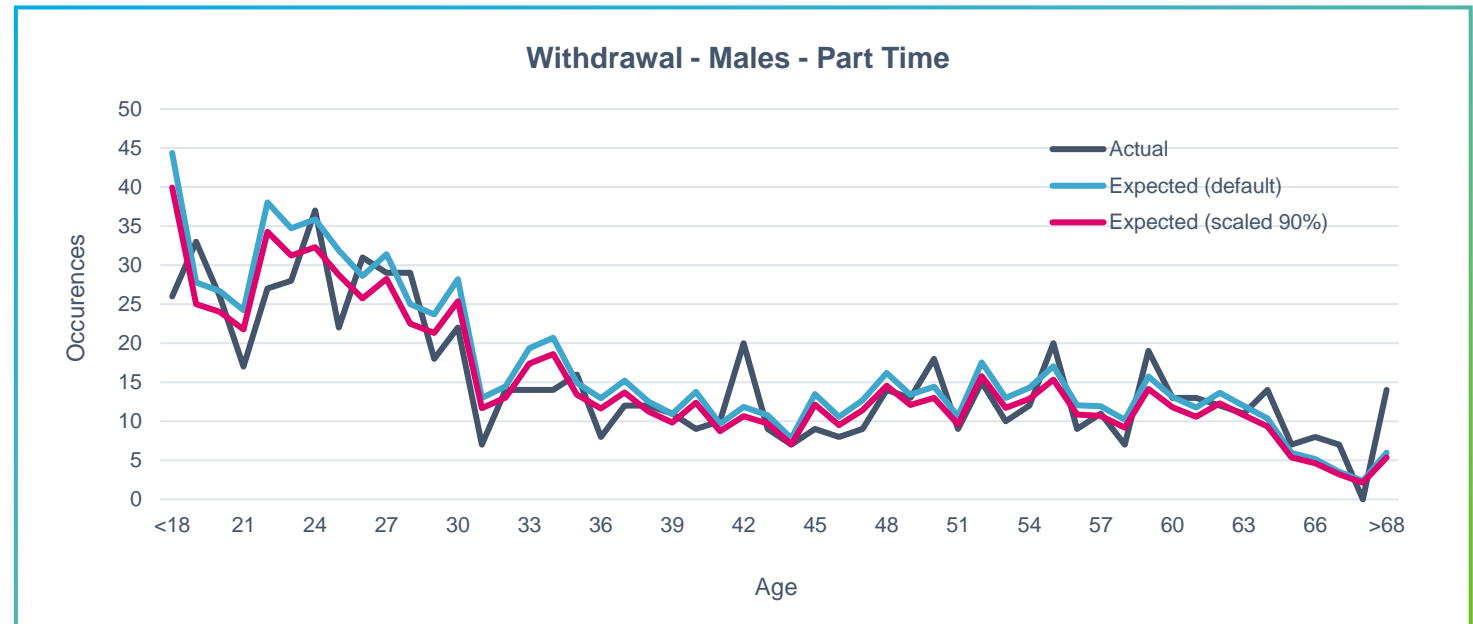
Death before retirement

50:50 option take-up

Retirement age

Cash commutation

Use analysis of Fund's actual membership experience.



Consider external factors e.g. short-term events which skew analysis or upcoming changes

Recommendation: Adopt assumptions based on analysis of the Fund's actual membership experience

Recommended assumptions

Assumptions to be approved

Assumption	2022 valuation assumption	Proposed 2025 valuation assumption
Discount rate (level of prudence)	73% LoS prudence level	80% LoS prudence level Reflects increased market/economic uncertainty
Ongoing basis funding level discount rate	4.3% p.a.	6.0% p.a.,
CPI inflation (Benefit increases and CARE revaluation)	Based on Hymans' ESS model, reflecting market expectations Median CPI expectation of 2.7% pa	Based on Hymans' ESS model, reflecting market expectations Median CPI expectation of 2.3% pa
Salary increases	CPI + 0.3%	CPI + 0.3%
Baseline longevity	Latest Club Vita tables	Latest Club Vita tables
Future improvements in longevity	<ul style="list-style-type: none"> • Use latest available CMI model • Reflect Fund's membership characteristics • Avoid recent Covid experience skewing projections 	<ul style="list-style-type: none"> • Use latest available CMI model • Reflect Fund's membership characteristics • Avoid recent Covid experience skewing projections • Reflect Fund's beliefs about future longevity drivers
Other demographic assumptions (excluding longevity)	<ul style="list-style-type: none"> • Withdrawals (excl. ill health) – Hymans' default LGPS assumption • Ill health early retirements – Hymans' default LGPS assumption • Promotional salary scale – Hymans' default LGPS assumption • Death in service – Hymans' default LGPS assumption • 50:50 assumption – 1.0% uptake • Retirement age – earliest age at which a member can retire with their benefits unreduced. • Cash commutation – 50% of the maximum tax-free amount. • Members leaving dependants – Hymans' default LGPS assumption • Age difference with dependant – Dependant is 3 years younger or older for males and females respectively 	<ul style="list-style-type: none"> • Withdrawals (excl. ill health) – Hymans' default LGPS assumption is increased by 10% for full-time males and reduced by 20% for part-time males and females. • Ill health early retirements – Hymans' default LGPS assumption • Promotional salary scale – Hymans' default LGPS assumption • Death in service – Hymans' default LGPS assumption • 50:50 assumption – 0% uptake • Retirement age – no change • Cash commutation – 80% of the maximum tax-free amount. • Members leaving dependants – Club Vita LGPS-wide analysis • Age difference with dependant – Club Vita LGPS-wide analysis (Dependant is 3.5 years younger for males and 0.6 years older for females)

Thank you

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