

# 2025 Valuation

## Shropshire County Pension Fund

5 December 2025 – Committee Meeting

Michelle Doman FIA C.Act  
Mark Wilson FIA C.Act



Employer Results

# Agenda

1. Preliminary 2025 Valuation Analysis and Outcomes
2. Funding Strategy Statement
3. Questions



Employer Results

1

# Preliminary 2025 Valuation Analysis and Outcomes

Employer Results



# 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

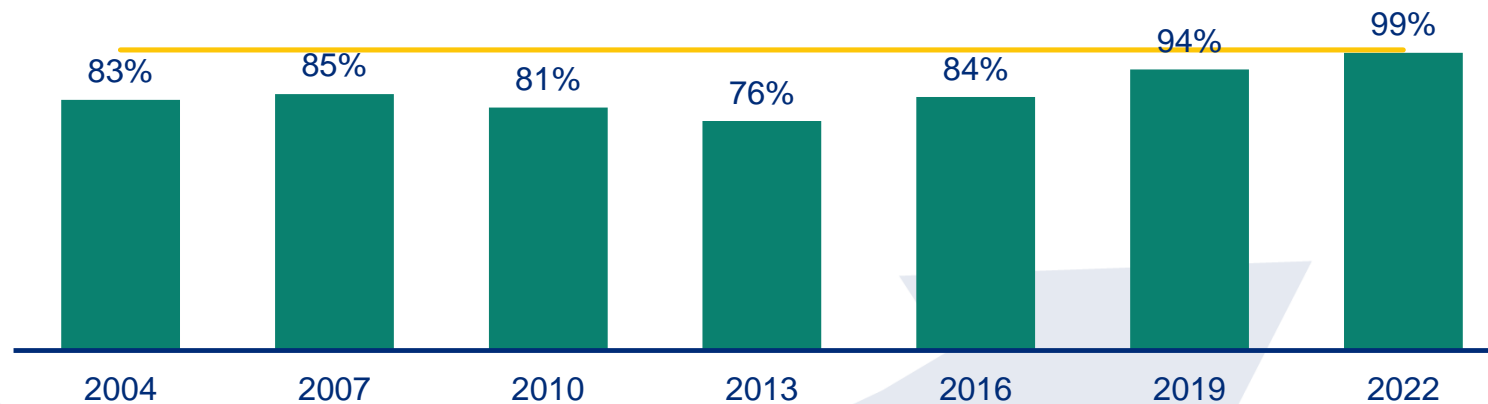
Interest rates increased significantly since 2022  
This leads to higher expected future returns which in isolation this will **increase the funding level**  
***But the size of the increase depends on how much credit for these expected future returns is taken***

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

# Preliminary 2025 Valuation Analysis and Outcomes

Funding level hasn't always been as healthy

Funding Level at previous valuations



- The chart shows the Fund's aggregate funding level\* at each valuation 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

## 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)

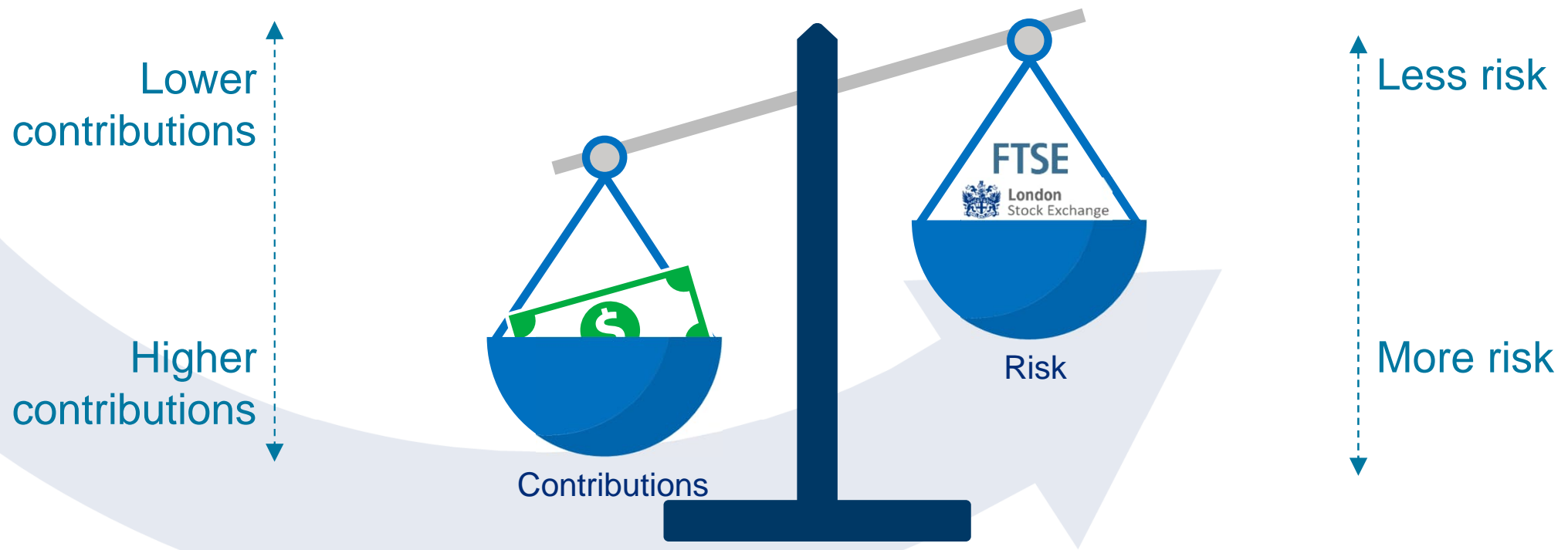
## Impact (for the Fund in aggregate)

	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

## Other policy points

1

### Employers without taxpayer backing – “lower risk” employers:

A different approach is applied currently to reflect the different risks to the Fund from these employers

Due to the improved positions / reduced risk, the treatment is moving closer to the “standard” approach .

2

### Termination policy:

Changes to the termination policy – particularly for the “lower risk” employers, so provide greater protection to the Fund when they exit

3

### Academies:

Going forward new academy conversions will receive a share of the ceding Council’s sustainability reserve, to ensure consistent contributions before and after conversion



2

# Funding Strategy Statement

Employer Results

A decorative graphic consisting of several overlapping, semi-transparent blue arrows of varying shades, all pointing towards the right side of the slide. The arrows are layered, with some appearing in front of others, creating a sense of depth and movement.

# 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 href="#">A. Purpose of the Fund and the FSS</a>	
<a href="#">B. Key funding principles</a>	
<a href="#">C. 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 <b>exiting</b> 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

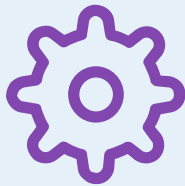
The updated draft FSS includes new sections and Fund policies brought into the document.

# 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**

3

Questions

Employer Results

The background of the slide is a solid dark blue. It features several overlapping, semi-transparent light blue arrows that point generally upwards and to the right. A wide, curved band of a slightly different shade of blue sweeps across the lower-left portion of the slide. The text 'Questions' is in white, and 'Employer Results' is in a light blue color matching the arrows.



Mercer Limited is authorised and regulated by the Financial Conduct Authority. Registered in England and Wales No. 984275. Registered Office: 1 Tower Place West, Tower Place, London EC3R 5BU

# Employer Results



A business of Marsh McLennan

Copyright © 2025 Mercer Limited. All rights reserved.