East Sussex Pension Fund

Funding update as at 31 March 2025

Background

This schedule is provided to East Sussex County Council as administering authority to the East Sussex Pension Fund (the Fund). Its purpose is to provide an approximate update on the funding position of the Fund as at 31 March 2025. The results in this schedule should be considered alongside the report on the valuation of the Fund as at 31 March 2022. This schedule has been generated from our online monitoring tool **Illuminate: LGPS Monitor**.

The results contained within this schedule are approximate. In particular, the results should not be used by the administering authority to make any significant decisions without our express permission. The schedule may be shared with other interested parties but it does not constitute advice to them. Barnett Waddingham LLP shall not accept liability should the schedule be relied upon for any purpose other than that stated above.

This advice is provided in our capacity as Fund Actuary. This schedule complies with Technical Actuarial Standard 100: General Actuarial Standards (TAS 100) as issued by the Financial Reporting Council (FRC). This is the only TAS that applies to this work.

The Fund participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations). We have taken account of current LGPS Regulations (as amended) as at the date of this report.

Valuation method, process and assumptions

Roll-forward method

To assess the estimated funding position at 31 March 2025, the following calculations have been carried out:

- The value of the Fund's liabilities calculated for the funding valuation at 31 March 2022 have been rolled forward allowing for:
    - Changes in market conditions to 31 March 2025.
    - Cashflows paid to and from the Fund, as provided to 31 March 2025 by the administering authority (estimated thereafter).

- The value of the Fund's assets are based on the latest asset data provided by the administering authority to 31 March 2025, rolled forward and estimated where necessary.

In particular, no allowance for actual member experience since the last valuation has been made (for example, membership movements (e.g. retirements, leavers or deaths). If there have been significant changes to the membership (such as a large number of transfers or deaths) the results of a full valuation could be materially different from this estimate. The data has been checked for reasonableness, including consistency with previous valuation data where relevant, and we are happy that the data is sufficient for the purposes of this advice.

We assess the funding position on a smoothed basis which is an estimate of the average position over a six month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are likely to change up until three months after the reporting date. The smoothed results are indicative of the underlying trend.

We also assess the funding position on an unsmoothed basis where assets are taken at market value and the financial assumptions are taken to be the spot rates at the reporting date (and no smoothing is applied).

Assumptions

The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities, however, is dependent on the assumptions used to value the future benefits payable.

For the purpose of this update it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2022 actuarial valuation, updated where necessary to reflect market conditions. Further details of the derivation of the financial and demographic assumptions can be found in the latest actuarial valuation report and the Funding Strategy Statement, both of which are available on the Fund's website.

A summary of the key financial assumptions used for this funding update are shown below, alongside the corresponding assumptions at the last triennial valuation date.

Key assumptions	31 March 2025	31 March 2022
CPI inflation	2.35% p.a.	2.88% p.a.
Salary increases	3.35% p.a. (CPI plus 1.00% p.a.)	3.88% p.a. (CPI plus 1.00% p.a.)
Discount rate	4.93% p.a. (CPI plus 2.58% p.a.)	4.60% p.a. (CPI plus 1.72% p.a.)

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund and incorporates an explicit prudence allowance consistent with the method adopted for the 31 March 2022 valuation. In particular, the investment strategy in place at the previous actuarial valuation has been used to set the assumption.

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As we see, the real discount rate is more than at the 31 March 2022 valuation, decreasing the value of liabilities used for funding purposes

The ongoing demographic assumptions are as set out in the actuarial valuation report as at 31 March 2022 and the Funding Strategy Statement, both of which are available on the Fund's website.

The following table shows the equivalent unsmoothed financial assumptions at the same dates. These are provided for information, however, please note that the unsmoothed basis has no bearing on the calculation of the ongoing funding position or the contribution rates.

Key assumptions	31 March 2025	31 March 2022
CPI inflation	2.36% p.a.	3.02% p.a.
Salary increases	3.36% p.a. (CPI plus 1.00% p.a.)	4.02% p.a. (CPI plus 1.00% p.a.)
Discount rate	4.98% p.a. (CPI plus 2.62% p.a.)	4.63% p.a. (CPI plus 1.61% p.a.)

Results

The table below shows the approximate updated funding position of the Fund as at 31 March 2025. The results of the previous actuarial valuation are also shown for comparison. Charts showing the full funding level progression and an analysis of change since the last valuation date are included in the appendix to this schedule.

The ongoing assets for the purposes of this update are calculated as a six-month smoothed market value straddling the valuation date.

Ongoing results	31 March 2025	31 March 2022
Liabilities	£4.074bn	£3.760bn
Assets	£5.048bn	£4.619bn
Surplus / (Deficit)	£974m	£859m
Funding level	123.9%	122.8%

The Fund has a funding surplus of £974m at 31 March 2025 relating to a funding level of 123.9%. This compares to a funding surplus of £859m at 31 March 2022, relating to a funding level of 122.8%.

Final comments

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund include longevity risk and financial risks (including inflation and investment risk). There is more detail on this contained within the Fund's Funding Strategy Statement and the latest actuarial valuation report.

The following points should be noted and are shown in the chart in Appendix 2:

Although these results are as at 31 March 2025 they do not incorporate the updated 2025 valuation assumptions, nor do they allow for any membership changes since 31 March 2022.

- Actual investment returns have been lower than assumed over the period (actual circa 6.3% vs 14.5% expected) from 31 March 2022 to 31 March 2025 (using known returns to 31 March 2025). This has resulted in an experience loss of £218m, decreasing the funding level by around 5.1%.

- The discount rate has increased from 4.6% p.a. at 31 March 2022 to 4.9% p.a. at 31 March 2025. This increased the funding level by around 6.4%.

- The long-term expectations for CPI inflation has reduced since the last valuation from 2.9% p.a. to 2.4% p.a. This was anticipated as the CPI inflation assumptions at 31 March 2022 allowed for the known and expected short-term higher inflation. The CPI assumptions of 2.9% p.a. over a 20-year period is broadly consistent with inflation of 10% in year 1, 6% in year 2 and 2.4% thereafter. This reduces the liabilities by around 11.9%.

- CPI increases have been awarded to the appropriate members at 31 March 2023 of 10.1%, 31 March 2024 of 6.7% and 31 March 2025 of 1.7%. This impact can be seen in the graph in Appendix 1. In aggregate the impact is materially higher than the long-term assumption adopted for the last valuation (but see point above) and so this has increased the liabilities and reduced the funding level by around 11.7%.

The funding position at future dates will be dependent on the investment performance of the Fund as well as future market conditions which determine the financial assumptions.

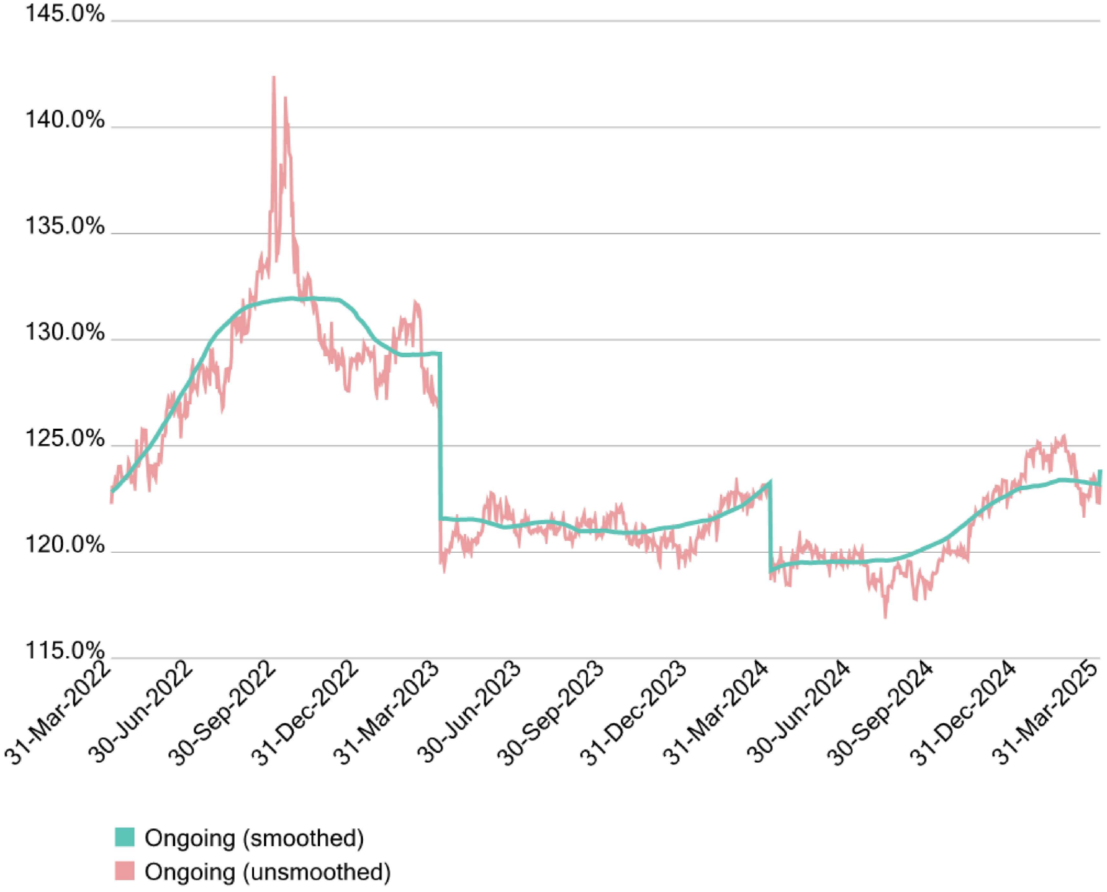
If you have any questions arising from this schedule, please contact the team in the usual way and we will be happy to help.

Barnett Waddingham LLP

Appendix 1 Funding level progression

The chart below illustrates the approximate development of the Fund's ongoing funding levels from 31 March 2022 to 31 March 2025. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are likely to change up until three months after the reporting date.

The chart also illustrates the approximate development of the unsmoothed position over the same time period for comparison.



Appendix 2 Analysis of change

The chart below shows the analysis of the change in the ongoing funding position from 31 March 2022 to 31 March 2025.