HYMANS ROBERTSON

Note that the figures in this report are draft, particularly the single funding position figure which is estimated using approximate methods. The final whole fund funding position will be calculated and confirmed during September. However, this will not affect the advice set out in this report and any next steps.

The Highland Council Pension Fund

Actuarial valuation at 31 March 2023

Initial results

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11 September 2023
For and on behalf of Hymans Robertson LLP

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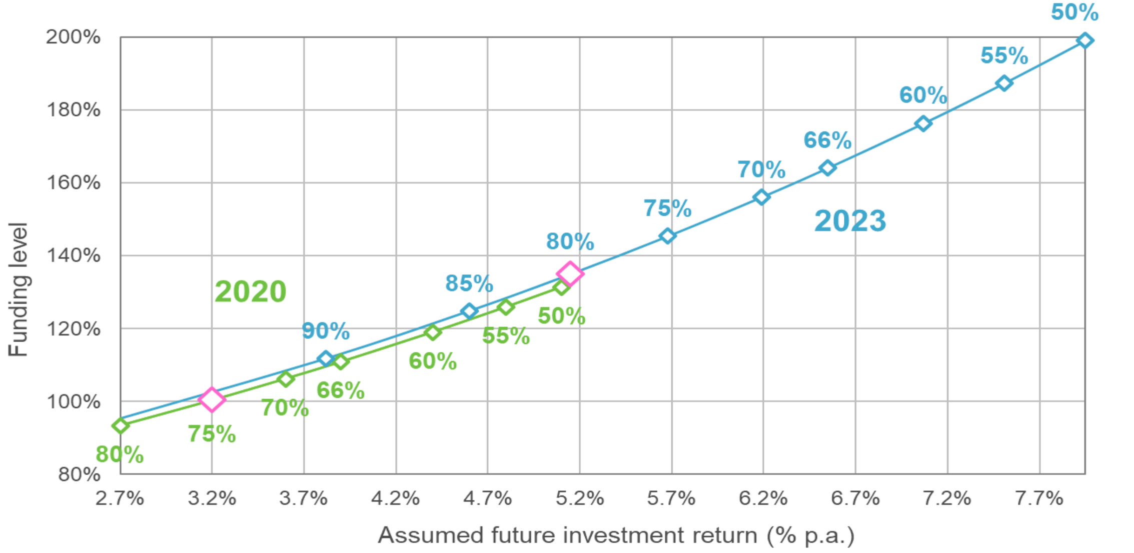
A glossary of technical terms used in this report can be found in Appendix 6

Executive summary

Funding position

- At 31 March 2023, the reported funding position has improved from 100% at the last valuation to 135%.
- The required investment return to be 100% funded has fallen from 3.2% at 2020 to 3.0% pa at 2023.
- The likelihood of the Fund's investment strategy achieving the required return is 93% (compared to 75% at 2020).



The pink diamonds denoted the reported funding level at each valuation

Changes since the last valuation

Factors driving the funding position improvement include:
- better than expected investment returns between 2020 and 2023
- higher assumed future investment returns at 2023 compared to 2020

These have more than offset the increase in short to medium-term inflation expectations and the 10.1% pension increase at April 2023.

The most significant external event since the last valuation was the Covid-19 pandemic. However, the experience analysis shows that mortality experience was broadly as expected.

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early Leavers	3,107	4,804	1,697	+£6m
Ill-health retirements	186	155	-31	+£4m
Salary increases	3.1% pa	6.0% pa	2.9% pa	-£43m
Post-retirement				
Benefit increases	1.7% pa	4.5% pa	2.8% pa	-£152m
Pension ceasing	£4.2m	£4.0m	-£0.2m	-£4m

Valuation process

The valuation process

1. Pre valuation data cleansing
   Q2 2023
2. Assumption setting process
   Q2 2023
3. Contribution rate modelling
   Q2 2023
4. Data provision
   Summer 2023
5. **Whole Fund results**
   Autumn 2023
6. Review of Funding Strategy Statement
   Autumn 2023
7. Employer results
   Q4 2023
8. Employer discussions
   Q1 2024
9. Valuation sign off
   March 2024

Initial results

This report:

- presents the funding position of The Highland Council Pension Fund ("the Fund") on the valuation date of 31 March 2023
- explains why the funding position has changed since the last valuation in 2020
- show the sensitivity of the funding position

There are two main actions:

1. Understand the fund-level funding position, noting this does not directly drive individual employer contribution rates.
2. Identify risks to explore and consider options for management.

Note that the figures in this report are draft, particularly the single funding position figure which is estimated using approximate methods. The final whole fund funding position will be calculated and confirmed during September. However, this will not affect the advice set out in this report and any next steps.

Data and assumptions

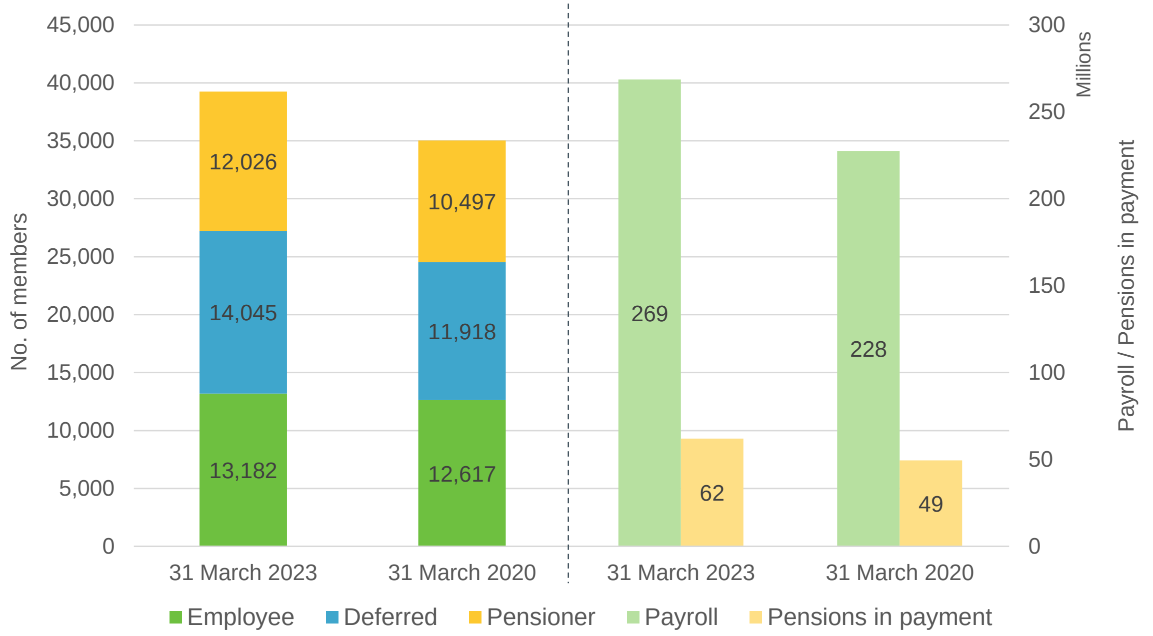
Data

We have used the below data provided by the Administering Authority:

- Membership data uploaded to the DataPortal on 3 August 2023
- Cashflow data uploaded to the DataPortal on 3 August 2023
- Investment data provided over the intervaluation period

Accurate results depend on good data quality. Based on the DataPortal's validations, we believe the membership data is of very good quality and is fit for purpose for these initial results. The data will be reviewed again when we prepare employer-level results at the next valuation stage.

Membership summary



Assumptions

To set and agree assumptions for the valuation, the Administering Authority commissioned an assumption setting paper ("Actuarial valuation at 31 March 2023 – Advice on assumptions"). The assumptions represent the 'best estimate' of future expectations – that means we estimate there is a 50% chance that future events will be better or worse than the assumption. The discount rate is the exception, as it includes the margin of prudence required by the LGPS Regulations.

For the 2023 valuation, after discussions with Officers, we have increased the prudence in the discount rate assumption (the likelihood of the Fund's asset being able to achieve the return has increased from 75% at 2020 to 80% at 2023). This is due to the increased volatility and uncertainty in financial markets in 2023 from rising short-term inflation and higher interest rates.

Financial assumptions

Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2020

Assumption	31 March 2023	Required for	31 March 2020
Discount rate	5.2% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 80% likelihood of returning above the discount rate (compared to a 75% likelihood at the 2019 valuation).	3.2% pa
Benefit increases/CARE revaluation	2.3% pa	To determine the size of future benefit payments.	1.7% pa
Salary increases	3.1% pa	To determine the size of future final-salary linked benefit payments.	2.5% pa

Assumptions

Demographic assumptions

Longevity

Whole fund average life expectancies from age 65, with 2020 comparison.

	31 March 2023	31 March 2020
Male pensioner	20.7 years	21.0 years
Male non-pensioner	21.6 years	22.4 years
Female pensioner	23.5 years	23.5 years
Female non-pensioner	25.1 years	25.5 years

Pensioners are assumed to be aged 65 at the respective valuation date and non-pensioners are assumed to be aged 45.

Further information on these assumptions can be provided upon request.

Other demographic assumptions

Death in service	See sample rates in Appendix 2
Retirements in ill health	See sample rates in Appendix 2
Withdrawals	See sample rates in Appendix 2
Promotional salary increases	See sample rates in Appendix 2
Commutation	65% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	0.5% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 85% for males and 60% for females. The dependant of a male member is assumed to be 2 years younger than him and the dependent of a female member is assumed to be 3.5 years older than her.

Assumptions

Benefit structure

Results are based on our understanding of the benefit structure of the LGPS in Scotland on 31 March 2023 – see www.scotlgpsregs.org. However, there are areas of uncertainty and potential change.

McCloud

Benefits accrued by certain members between 2015 and 2022 may increase following the McCloud case, which ruled that transitional protections introduced in 2015 for older members were discriminatory. We've made an allowance for the cost of these potential improvements, based on the guidance issued by the Scottish Public Pensions Agency on 28 April 2023. We expect minimal impact for most employers.

Cost sharing mechanism

Benefits could change because of the 2020 cost cap valuation; the outcome is currently unknown. We have assumed that there will be no changes required to the benefit structure due to cost cap.

Guaranteed Minimum Pension equalisation and revaluation

We have assumed the Fund will pay all increases on GMP for members with a State Pension retirement date after 5 April 2016, as we did in the 2020 valuation.

Other legal cases

Benefits could change as a result of other legal challenges (eg the Goodwin case affecting partner pensions). Given the lack of information about possible benefit changes and their relatively small impact, we have made no allowance for these changes.

Fund-level results

Projected future benefit payments

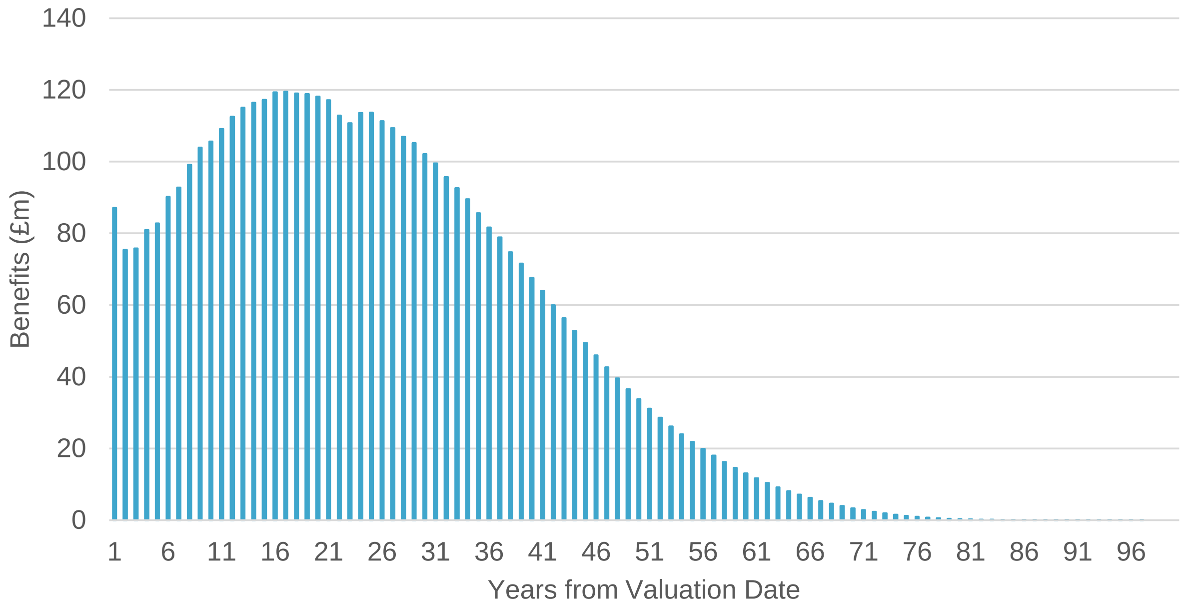
Combining membership data and the assumptions allows us to project future benefit payments for all benefits accrued up to 31 March 2023.

The projection will be different from the last valuation due to:

1. Events between 2020 and 2023 which were different from expectations – reflected in the updated membership data.
2. Estimates of the future which have changed – reflected in the updated assumptions.

The spike in benefit payments in year 1 is due to our assumption on member retirement ages. For any member who is older than their retirement age, we assume that they continue to work for one more year. This ensures that they are included in the primary rate calculation.

After a year, these members are assumed to immediately retire. This causes the spike observed due to the lump sum payments made to these new retirees.



Funding position as at 31 March 2023

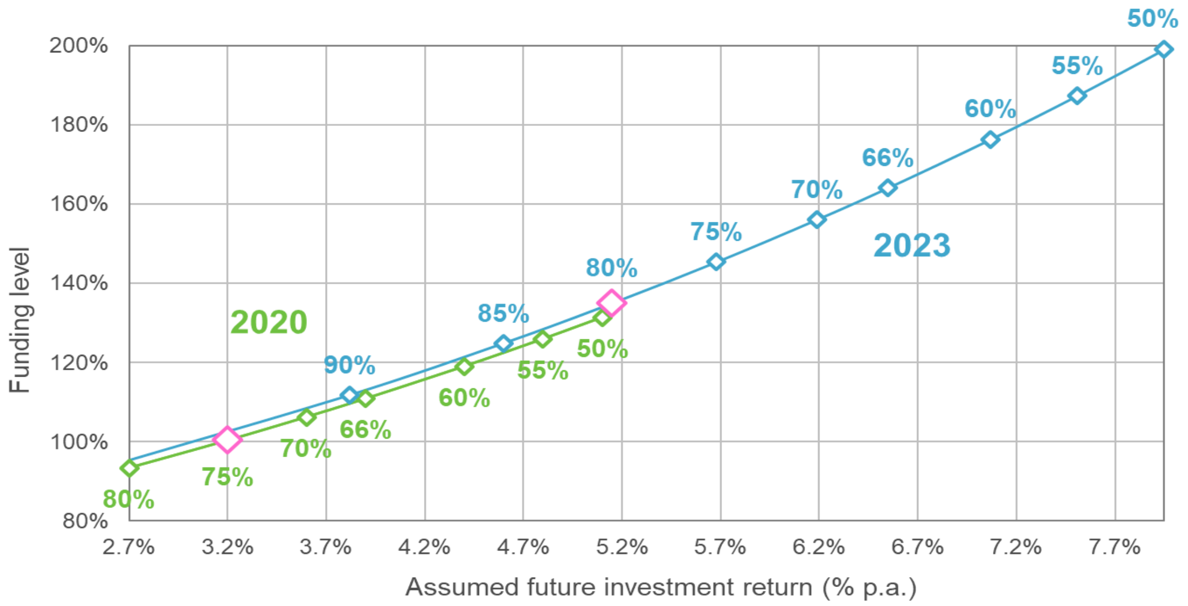
We can place a single value on all the future projected benefit payments for current members, called the liabilities. Comparing the liabilities to the market value of the Fund's assets at the valuation date provides the funding level (assets divided by liabilities).

To calculate the liabilities, we discount the benefit payments with an assumed future investment return (the 'discount rate'). Future investment returns are uncertain, so we calculate the liabilities and funding level across a range of future investment returns.

To help stakeholders better understand funding risk, we also calculate the likelihood of the Fund's investment strategy achieving certain levels of return.

- The funding level is 100% if future investment returns are c.3.0% pa
- The likelihood of the Fund's assets yielding at least this return is around 93%.
- The comparator at 2020 was a return of 3.2% pa which had a likelihood of 75%.
- The funding position at 2023 is stronger than 2020.
- There is a 50% likelihood of an investment return of 8.0% pa. So the best-estimate funding level is 199% at 31 March 2023 (137% at 2020).

Funding level across a range of future investment returns



Figures on each line show the likelihood of the Fund's assets exceeding that return at the valuation date. The pink diamonds denoted the reported funding level at each valuation.

Single funding position as at 31 March 2023

The chart on the previous page provides stakeholders with a better understanding of the funding position. However, we are still required to report a single funding position at 31 March 2023.

To report a single funding level and funding surplus/deficit for the 2023 valuation, a discount rate of 5.2% pa has been used. There is a 80% likelihood associated with a future investment return of 5.2% pa.

This table details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2020 formal valuation are shown for comparison (NB at 2020 the reported position used a discount rate of 3.2% pa which had a 75% associated likelihood).

The funding level and surplus figures provide a high-level snapshot of the funding position on 31 March 2023. There are limitations:

- The liabilities are calculated using a single set of assumptions about the future, so are very sensitive to the choice of assumptions.
- The market value of assets changes daily

Valuation Date	31 March 2023	31 March 2020
Past Service Liabilities	**(£m)**	**(£m)**
Employees	662	782
Deferred Pensioners	271	301
Pensioners	850	803
Total Liabilities	**1,783**	**1,887**
Assets	**2,406**	**1,892**
Surplus/(Deficit)	**623**	**6**
Funding Level	**135%**	**100%**

Important: *the reported funding level does not directly drive employers' contribution rates. Contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and reflect each employer's funding profile and covenant.*

Changes since the last valuation

Events between 2020 and 2023

Financial

	Expected	Actual	Difference	Impact on funding position
Investment returns				
3 year period	9.9%	27.8%	17.9%	+£340m
Annual	3.2% pa	8.5% pa	5.3% pa	

The Fund's expenses (in relation to non-investment activities) over the last 3 years have totalled £5.3m. This figure is equivalent to 0.7% of the Fund's total pensionable pay. This is the same as the last valuation (0.7%). Unless otherwise instructed, we will make allowance for the Fund's expenses by adding an allowance of 0.7% of pay to employer contribution rates from 1 April 2024.

Membership

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early leavers	3,107	4,804	1,697	+£6m
Ill-health retirements	186	155	-31	+£4m
Salary increases	3.1% pa	6.0% pa	2.9% pa	-£43m
Post-retirement				
Benefit increases	1.7% pa	4.5% pa	2.8% pa	-£152m
Pension ceasing	£4.2m	£4.0m	-£0.2m	-£4m

The most significant external event since the last valuation was the Covid-19 pandemic. However, the experience analysis shows that experience was broadly as expected. The impact on the funding position has been small, likely due to the age profile of the excess deaths and the level of pension. Further information on the Fund's mortality experience can be found in the latest Club Vita reports.

Changes since the last valuation

Future expectations

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment returns significantly higher at 2023 than at 2020 due to increases in interest rates. The assumed return is now 5.2% pa vs. 3.2% pa at 2020.	Decrease of £665m
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Increase in future inflation expectations compared to 2020. Figures at 2020 were affected by emergence of Covid-19 pandemic. Further information is set out in Appendix 3.	Increase of £236m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2015	No change in assumed level above CPI inflation since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	Neutral
Current life expectancy	How long we expect people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	Decrease of £2m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Updated model of future improvements to the most recent model available, including allowance for evidence of a slowing down of life expectancy improvements (not in relation to the Covid 19 pandemic).	Decrease of £45m

Reconciling the overall change in funding position

The tables below provide insight into the funding position changes between 31 March 2020 and 31 March 2023. Firstly, the changes we expect to happen, which relate mostly to items on the asset side. Then the impact of actual experience, which mainly affects the liabilities.

Expected development

Change in the surplus/deficit position	Assets	Liabilities	Surplus / (Deficit)
	£m	£m	£m
Last valuation at 31 March 2020	**1,892**	**1,887**	**6**
Cashflows			
Employer contributions paid in	148	0	148
Employee contributions paid in	46	0	46
Benefits paid out	(201)	(201)	0
Net transfers into / out of the Fund	*	*	*
Other cashflows (e.g. Fund expenses)	(9)	0	(9)
Expected changes			
Expected investment returns	189	0	189
Interest on benefits already accrued	0	189	(189)
Accrual of new benefits	0	241	(241)
Expected position at 31 March 2023	**2,065**	**2,116**	**(50)**

* We have insufficient data to accurately value the impact on the liabilities as a result of transfers in/out. This has instead been combined with “Other cashflows”

Impact of actual events

Change in the surplus/deficit position	Assets	Liabilities	Surplus / (Deficit)
	£m	£m	£m
Expected position at 31 March 2023	**2,065**	**2,116**	**(50)**
Events between 2020 and 2023			
Salary increases greater than expected	0	43	(43)
Benefit increases greater than expected	0	152	(152)
Early retirement strain (and contributions)	1	0	1
Ill health retirement strain	0	(4)	4
Early leavers more than expected	0	(6)	6
Pensioner mortality less than expected	0	4	(4)
Other membership experience	0	9	(9)
Higher than expected investment returns	340	0	340
Changes in future expectations			
Investment returns	0	(665)	665
Inflation	**0**	236	(236)
Salary increases	0	0	0
Longevity	0	(46)	46
Other demographic assumptions	0	(56)	56
Actual position at 31 March 2023	**2,406**	**1,783**	**623**

Numbers may not sum due to rounding

Sensitivity and risk analysis

Valuation results depend on actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means it's important to understand their sensitivity and risk levels.

Financial assumptions

How results vary with the assumed future investment return is set out on page 14. Future inflation is currently very uncertain, the impact of varying levels is set out below.

CPI Assumption	Surplus/ (Deficit)	Funding Level
% pa	**(£m)**	**%**
2.1%	665	138%
2.3%	623	135%
2.5%	579	132%

Regulatory, Administration and Governance risks

Potential risks include changes in central government legislation which may affect the future cost of the LGPS; failures in administration processes leading to incorrect data; and inaccuracies in actuarial calculations. These risks should be included in the Fund's risk register and monitored and managed as part of its ongoing risk management framework.

Demographic assumptions

The main demographic risk is that people live longer than expected. The table below shows the impact of longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results).

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
% pa	**(£m)**	**%**
1.5%	623	135%
1.75%	615	134%

Climate change risk

Results may materially change due to the impact of climate change, because of transition and physical risks. We have not quantified the risk exposure here as the Fund has carried out this analysis when considering its funding and investment strategy via an in-depth asset-liability modelling exercise.

Changes since 31 March 2023

Appendix 4 sets out how the funding position has broadly evolved since 31 March 2023.

Initial employer results

Capturing the diversity in funding calculations

Whole-fund level results give a useful overview of the Fund's health but are not the valuation's most important output.

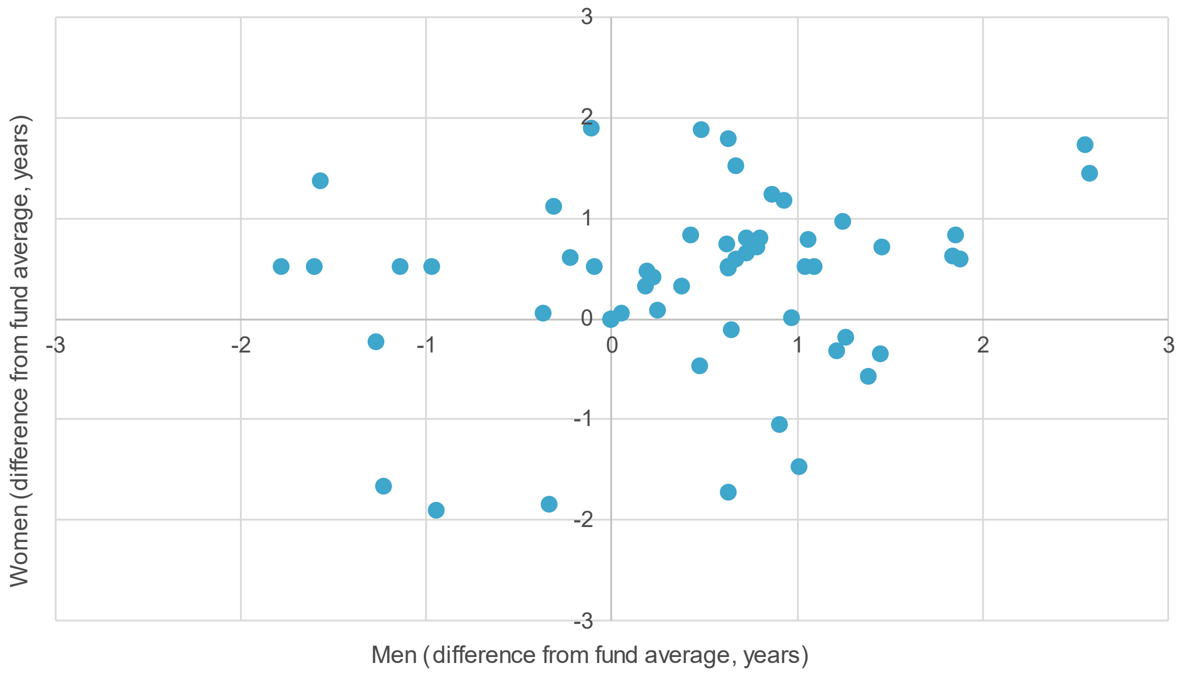
In reality, the Fund is funded at individual employer level. Each employer is responsible for funding the benefits earned by their current and ex-staff. As at 31 March 2023 there are around 81 individual employers in the Fund.

The next stage of the valuation is to prepare funding positions and review contribution rates for each individual employer in the Fund. There is a significant range and diversity of employers, so we will work with the Fund to make sure the funding strategy recognises this diversity and is flexible enough to cater for employers' differences.

Employer diversity is not restricted to type and size – even for smaller employers, there are significant differences in funding positions and contribution rates. This may be due to previous decisions, for example early retirement experience, pay awards, level of contributions paid, or because the membership varies.

Life expectancy is a good example of the diversity of membership. Studies show it can vary between members due to factors like socio-economic status and retirement health. Using Club Vita to set a baseline life expectancy assumption captures this individual member variation. That means the liabilities and contribution rates better reflect the Fund's, and each employer's, membership.

Difference in average life expectancy (from fund average) at employer level



Most employers are grouped around a central cluster; outliers will have a relatively larger proportion of members in higher/lower socio-economic groups.

Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

Individual employer funding levels

The Fund is composed of around 81 employers, each of which has its own funding position and contribution plan. The Fund's overall funding position is the combination of all these employers' results.

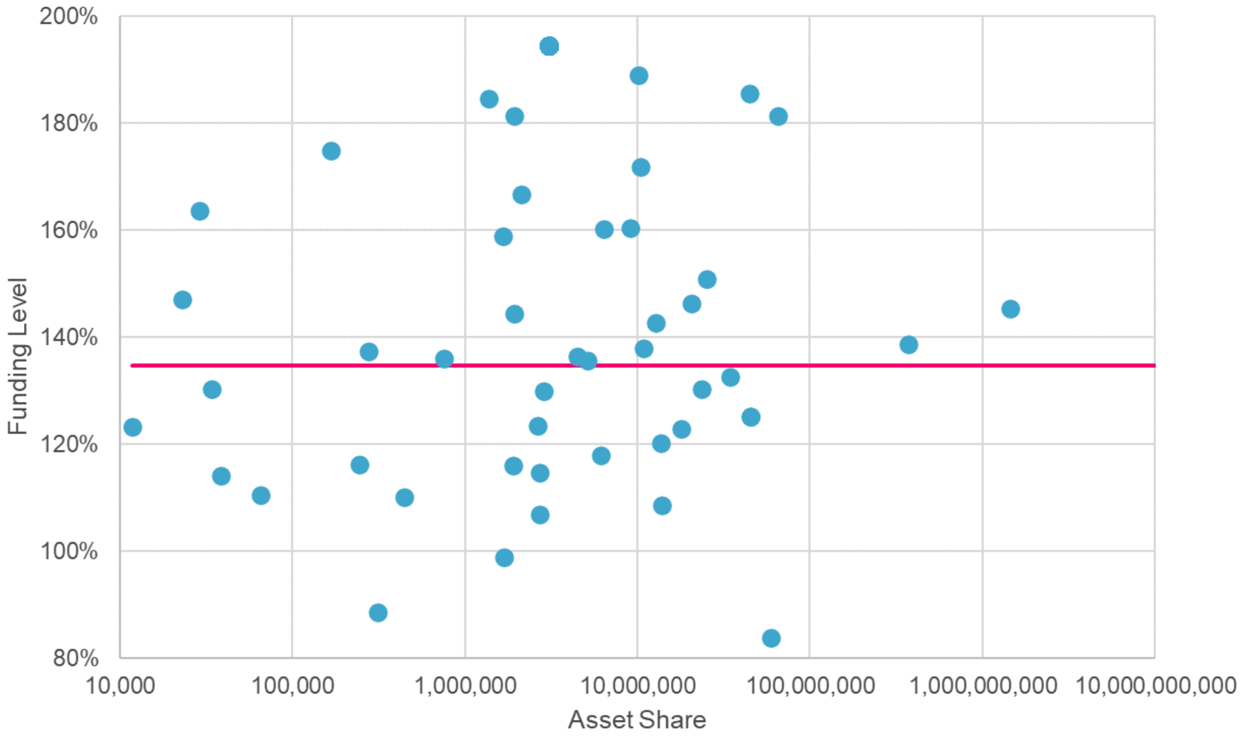
This chart shows the range of employer funding positions for a sample of the Fund's employers. Each dot represents an employer and shows:

- The employer's share of the Fund assets, horizontal scale (NB this is a logarithmic scale, to accommodate the great range in size of employer from smallest to largest).
- The employer's funding level on 31 March 2023, vertical scale.

The red line is the Fund's overall funding level and shows that it does **not** relate to the average of the employer results. Instead, the whole Fund position is driven by the largest employers (right-hand side of the chart).

This shows the importance of considering individual employer results as well as the whole Fund position.

Employer funding level vs asset share



Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

Decisions and next steps

Decisions and next steps

1. Discuss funding risks and agree any further exploration or consideration.

2. Confirm that no changes are needed to valuation data or assumptions.

3. Prepare finalised whole fund results and individual employer valuation results for discussion with Officers.

Appendices

APPENDIX 1

Deriving future investment return likelihoods

To derive the distribution of future investment returns and obtain associated likelihoods, we use the Fund's long-term investment strategy and our Economic Scenario Service (ESS) model. The ESS uses statistical models to generate a future distribution of year-on-year returns for each asset class, eg UK equities. The ESS reflects correlations between asset classes and wider economic variables (eg inflation). In the short-term (first few years), the models are fitted with current financial market expectations. Over the longer-term, models are built around our views of fundamental economic parameters, for example equity risk premium, credit-spreads and long-term inflation.

ESS individual asset class return distributions at 31 March 2023

Time period	Percentile	Asset class annualised total returns											Inflation/Yields		
		Cash	Developed World ex UK Equity	Private equity	Infrastructure equity	IL Gilts (Medium)	FI Gilts (Medium)	Diversified Growth Fund (Low Beta)	Corporate Debt BBB (Medium)	Multi Asset Credit	Private Lending	Property	Inflation (CPI)	17 year real yield (CPI)	17 year yield
10 years	16th	2.5%	1.1%	0.5%	2.4%	0.8%	2.4%	3.2%	2.8%	4.0%	4.8%	1.2%	0.9%	-0.3%	2.7%
	50th	3.6%	7.3%	11.4%	7.8%	2.8%	3.7%	5.1%	4.7%	5.9%	7.6%	6.2%	2.5%	0.9%	4.1%
	84th	4.7%	13.6%	22.3%	13.2%	5.1%	4.9%	7.0%	6.4%	7.7%	10.3%	11.5%	4.1%	2.2%	5.9%
20 years	16th	2.3%	2.8%	3.7%	3.9%	1.0%	3.3%	3.4%	3.8%	4.7%	5.7%	2.7%	0.7%	-0.5%	1.4%
	50th	3.7%	7.4%	11.4%	7.9%	2.7%	4.1%	5.2%	5.1%	6.3%	7.8%	6.4%	2.3%	1.3%	3.4%
	84th	5.4%	12.2%	19.2%	12.0%	4.5%	4.8%	7.2%	6.3%	7.9%	9.8%	10.3%	3.9%	2.9%	5.9%
40 years	16th	1.8%	3.7%	5.4%	4.5%	1.0%	2.9%	3.2%	3.6%	4.5%	5.7%	3.2%	0.6%	-0.6%	1.2%
	50th	3.5%	7.2%	11.0%	7.7%	2.7%	3.7%	5.0%	4.8%	6.1%	7.6%	6.2%	2.0%	1.3%	3.3%
	84th	5.7%	10.9%	16.8%	11.1%	4.6%	4.9%	7.3%	6.3%	8.1%	9.7%	9.5%	3.5%	3.2%	6.1%
	Volatility (5yr)	2%	18%	30%	15%	7%	5%	5%	7%	6%	9%	15%	3%	-	-

APPENDIX 1

Deriving future investment return likelihoods

The table below sets out the long-term strategic asset allocation for the Fund that we have used to derive the future expected investment returns.

Fund's long-term investment strategy

% allocation	Main Strategy
Overseas equities	56%
Private equity	5%
Infrastructure equity	5%
Total growth assets	**66%**
Index-linked gilts	1%
Fixed interest gilts	4%
DGF Low Beta	5%
BBB Credit	4%
Total protection assets	**14%**
Multi-asset credit	3%
Private lending	7%
Property	10%
Total income generating assets	**20%**
Total	**100%**

APPENDIX 2

Sample rates for demographic assumptions

Males

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.21	390.20	578.87	0	0	0	0
25	117	0.21	257.74	382.37	0.11	0.02	0.13	0.02
30	131	0.26	182.82	271.22	0.21	0.03	0.23	0.03
35	144	0.30	142.82	211.87	0.41	0.14	0.46	0.15
40	154	0.51	114.92	170.49	0.62	0.26	0.69	0.24
45	164	0.86	67.17	139.50	0.99	0.51	1.09	0.49
50	174	1.37	52.03	108.06	1.86	1.31	2.59	1.45
55	179	2.15	49.98	103.80	5.83	4.52	4.67	3.11
60	184	3.86	44.51	92.45	9.91	6.97	3.87	2.65
65	185	6.44	0	0	18.92	13.49	0	0

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.11	308.39	406.55	0	0	0	0
25	117	0.11	207.45	273.48	0.16	0.13	0.09	0.10
30	131	0.16	173.85	229.19	0.21	0.18	0.12	0.13
35	144	0.27	107.10	197.67	0.41	0.34	0.24	0.25
40	154	0.44	89.08	164.40	0.61	0.51	0.36	0.37
45	164	0.71	73.33	135.34	0.82	0.68	0.48	0.50
50	174	1.04	55.88	103.12	1.50	1.23	1.11	1.13
55	179	1.37	52.27	96.47	5.47	4.43	2.32	2.35
60	184	1.75	42.03	77.56	11.52	9.30	2.38	2.40
65	185	2.25	0	0	20.73	16.76	0	0

APPENDIX 3

Inflation expectations

Current inflation remains above the Bank of England target (2% pa) and recent norms. It is likely this will mean a higher 2024 pension increase (based on September 2023 CPI inflation).

Current expectations are that inflation pressures will be short-term and move back to normal in the longer term. The inflation assumption we have used reflects this pattern and allows for the current higher inflation environment – see the blue line on the chart.

The assumption noted in this report is an average of the blue line over the approximate duration of the Fund's liabilities.

Increased uncertainty and risk

There is a lot of uncertainty around both the level of future short-term inflation and how long the period of higher inflation will last. We will continue to work with the Fund to monitor actual and future expected inflation as more information emerges.

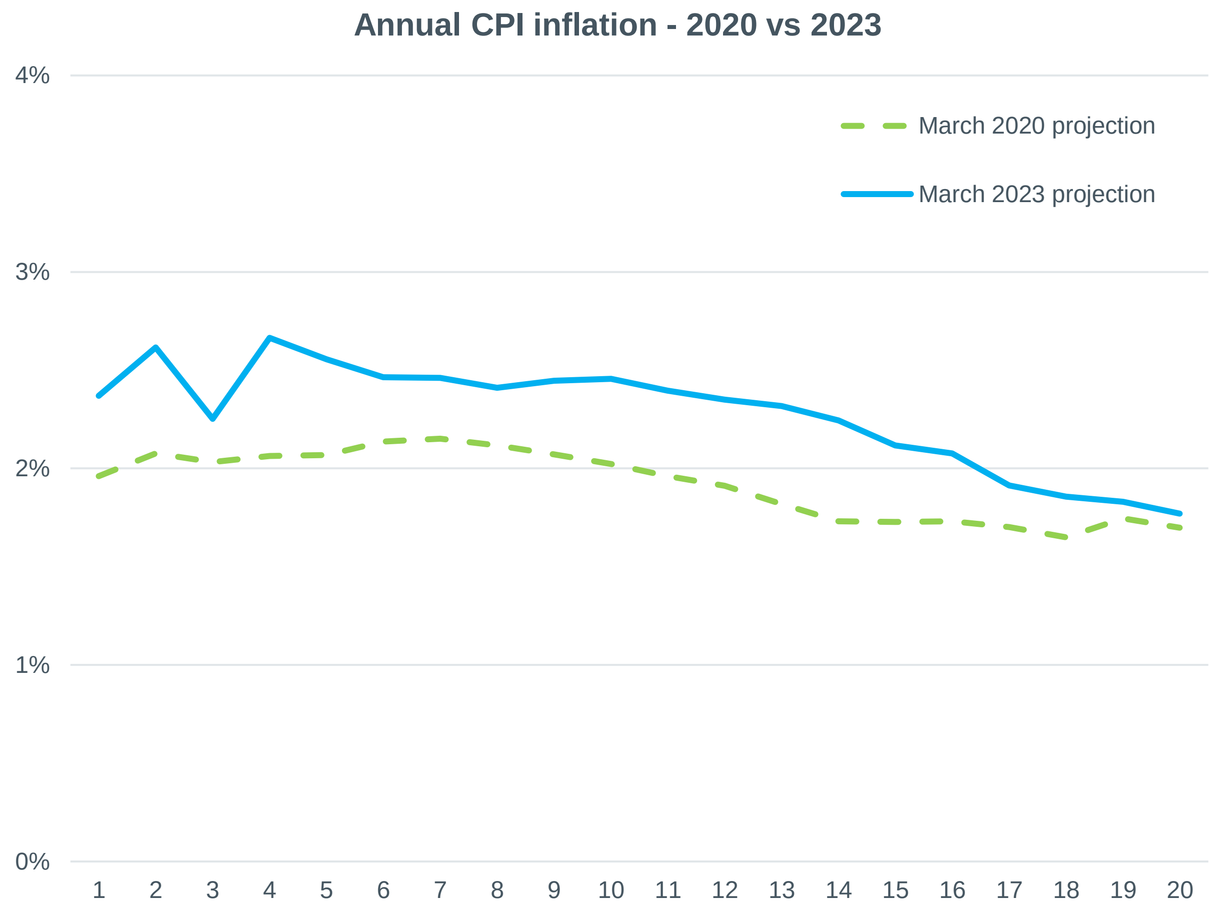


Chart shows median expected annual CPI inflation from ESS model.

APPENDIX 4

Events since 31 March 2023

Post valuation events
Since 31 March 2023, there has been continuing volatility in the financial markets and short-term inflation expectations, in addition to rises in interest rates by central banks. These events affect the value of the Fund's assets and liabilities.

- The Fund's investment return since 31 March 2023 is estimated to be between +2% to +4%, likely leading to a small increase in the value of assets.
- Liability valuations are likely to be slightly lower now than at 31 March 2023 due to further rises in expected future investment returns (and after an approximate short-term allowance of c3% for the current higher inflation environment).

As an open scheme, with a strong covenant, the Fund takes a long-term view when considering the funding impact of such events. For employers who have a very short time horizon, recent volatility may be more immediately impactful, and the Fund should engage with these employers as appropriate.

The estimated single funding position, using an approximate roll-forward approach, as at 31 July 2023 is shown below.

Valuation Date	31 July 2023	31 March 2023
Past Service Liabilities	**(£m)**	**(£m)**
Employees	653	662
Deferred Pensioners	265	271
Pensioners	847	850
Total Liabilities	**1,765**	**1,783**
Assets	**2,490**	**2,406**
Surplus/(Deficit)	**725**	**623**
Funding Level	**141%**	**135%**

Important: *the reported funding level does not directly drive employers' contribution rates. Contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and reflect each employer's funding profile and covenant.*

APPENDIX 5

Reliances and limitations

We have been commissioned by The Highland Council ("the Administering Authority") to carry out a full actuarial valuation of The Highland Council Pension Fund ("the Fund") as at 31 March 2023 as required under Regulation 60 of the Local Government Pension Scheme Regulations (Scotland) 2018 ("the Regulations").

This paper is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of:

- presenting the current funding position using a range of actuarial assumptions
- explaining why the funding position has changed since the previous valuation in 2020
- showing the sensitivity of the funding position.

It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

This information can be used by the Administering Authority to support the development of the funding strategy and to identify and understand areas of potential risk that it may wish to explore or mitigate during the valuation process.

Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100; and
- TAS300.

Note that this report does not comply with paragraphs 12 (b) or (c) of TAS 300, regarding future projections of funding level and its volatility. The figures in this report provide a notification of the whole Fund funding position, rather than individual employer positions. Therefore, we do not believe the exclusion of the information under these paragraphs is material.

APPENDIX 6

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts who Hymans Robertson partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors e.g. retirement age, promotional salary scales etc. Demographic assumptions typically determine the timing of benefit payments.
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns. At the valuation the discount rate is used to calculate the value of remaining benefit payments at the end of a given time horizon (e.g. 20 years). It is expressed as a prudent margin above the risk-free rate.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns, interest rates etc

APPENDIX 6

Glossary

Term	Explanation
Funding position	The extent to which the assets held by the fund at 31 March 2023 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different ‘basket’ of goods and mathematical formulas.
Liabilities	An employer’s liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically, we assume that death rates will fall, and life expectancies will improve over time, continuing the long-running trend.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire but are no longer earning new benefits.