Northern Ireland Charities Pension Scheme

Summary of the 2022 Valuation Results

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Introduction

This summary provides confirmation of the final outcome of the 30 September 2022 actuarial valuation following the consultation exercise undertaken with participating employers.

What is a valuation?

An actuarial valuation of the Northern Ireland Charities Pension Scheme ("the Scheme") is undertaken every three years to determine the funding position of the Scheme, in which we compare the value of members' benefits already earned (the liabilities) against the value of the assets held.

It is also used to inform decisions on the Scheme's investment strategy.

The Trustee seeks advice from the Scheme Actuary to decide the approach and actuarial assumptions used.

Where a funding deficit is identified as part of the valuation process, the Trustee must put in a place a Recovery Plan. This sets out the contributions payable by employers to remove the deficit over time.

Any contributions needed are recorded in a Schedule of Contributions, which also set out how the expenses of running the Scheme will be met.

Scheme Funding Position

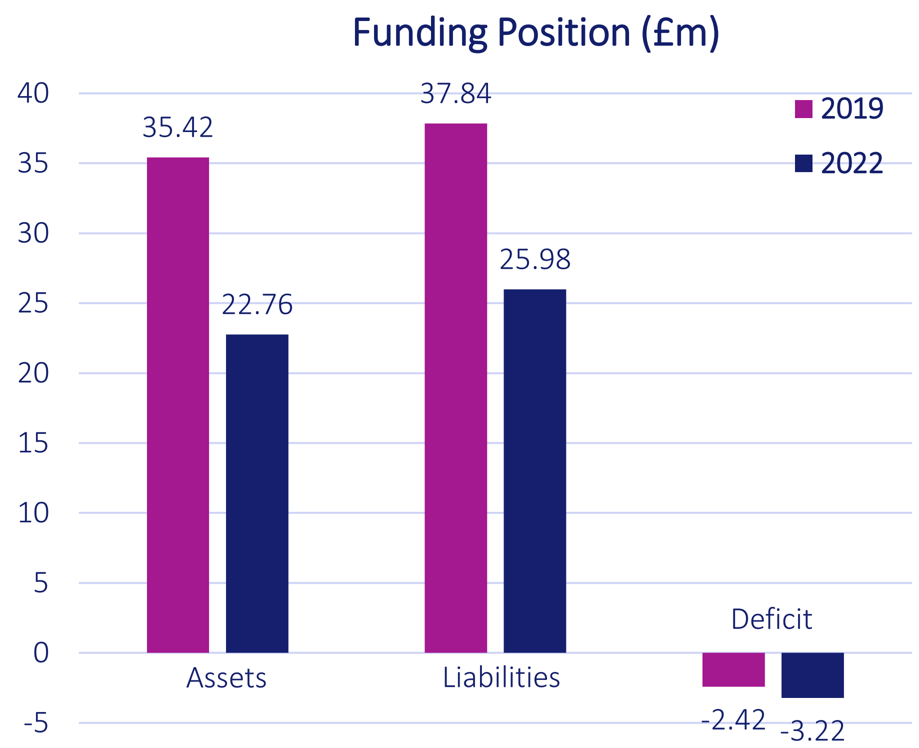
2019 and 2022 Comparison

The Technical Provisions basis is used for calculating the Scheme's ongoing funding position. The Scheme liabilities are compared to the value of the assets to establish whether the Scheme is in surplus or deficit, and if a Recovery Plan is needed

The chart shows the funding position at 2022 compared to the last valuation in 2019.

The 2019 funding level was **94%**; the 2022 funding level was **88%** - both on the Technical Provisions basis.

The contributing factors to the change in funding position are shown on the next page.



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Changes in funding position since the 2019 valuation

The expected return on the assets has offset the interest on the liabilities.

Contributions net of expenses have improved the position by circa £1m.

A key point to note is the significant impact of the 'Change in market conditions' and the 'Lower investment returns than assumed' at the 2019 valuation.

Both the assets and liabilities have fallen significantly over the valuation period due to the significant market movements and the large rise in gilt yields since the 2019 valuation.

The hedging (LDI) strategy has stabilised the funding position with the change in liabilities broadly offset by the change in asset value.

Actual membership movements (deaths, retirements, transfers out) have increased the liabilities by circa £0.35m

Changes to the 2022 valuation assumptions have also been made to allow for the Government's RPI reforms, which have increased the liabilities by circa £1.67m, but offset slightly by circa £0.2m due to the updated mortality assumption .

Recovery Plan

The recovery plan is the schedule of payments which are expected to restore the Scheme to full funding on the agreed funding target by a given date.

The Trustee needs to set a realistic level of deficit contributions that is affordable to the majority of the employers and results in an acceptable Recovery Plan length.

To maintain the current Recovery Plan end date (February 2028) would require deficit contributions to increase to £675k per year from 1 April 2024. The Trustee acknowledges this would be unaffordable to the majority of employers

Given the deficit of £3.22m as at 30 September 2022, the Trustee will increase deficit contributions from 1 April 2024, as shown in the table below:

From	Deficit Requirement
1 October 2022 to 31 March 2024	£163,617 p.a
1 April 2024 to 30 April 2031	£245,773 p.a
1 May 2031 to 30 June 2037*	£95,154 p.a

* Affected employers only – as per affordability appeal process

Deficit contributions have been allocated to each employer following a detailed affordability analysis performed by the Trustee.

The affordability analysis was based on a range of factors including but not limited to: proxy free cash flows, liquidity, available assets, insolvency risk and other employer specific circumstances.

Due to the current situation regarding the funding of charities in Northern Ireland, the individual employer's financial strength will continue to be closely monitored by the Trustee.

Should the financial circumstances of individual employers change, the Trustee will review their affordability and may seek to increase contributions should this be appropriate.

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Scheme Expenses

Employers currently pay an allowance of £88k per annum towards the expenses of running the scheme. Expenses include member administration costs, the costs of external advice, support for employers and also includes an allowance to cover the Pension Protection Fund (PPF) levy.

TPT has recently carried out an in-depth review of administration costs and service provision. Our costs were last reviewed in 2018 and TPT was keen to make sure that the services provided continue to meet employer requirements and continue to represent good value for money.

At this review there is an increase in TPT's costs, which reflects the challenging inflationary environment, plus new governance and regulatory requirements affecting the running of pension schemes. The expenses, agreed for the Scheme as a whole, as part of the 2022 valuation reflect this increase, as set out opposite.

- With effect from 1 April 2024:

  £137,000 per annum, increasing to £166,000 from 1 October 2024 and increasing at each 1 October by 3% p.a. with the first such increase on 1 October 2025.

Scheme expenses are payable via monthly lump sums.

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Investment Strategy

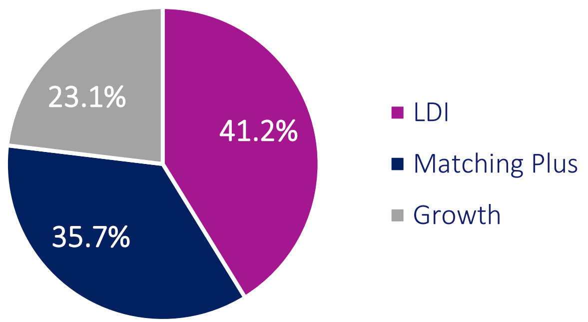
The investment strategy aims to have sufficient Scheme assets to pay benefits in full as they fall due over the long term.

The strategy targets an Expected Return of Gilts + 1.29% p.a.

The discount rate used in the valuation to place a value on the current liabilities, allowing for prudence, is Gilts + 0.50% p.a.

The assets are invested in a mix of Growth Assets, Liability Driven Investment (LDI) and investments in TPT's Matching Plus Portfolio (MPP).

The chart below shows the current allocation at 30 September 2022.



Liability Driven Investment (LDI)
Funds that combine physical bonds (cash, gilts and corporate bonds) with derivative instruments called Swaps.
These investments aim to protect against (or hedge) the interest rate and inflation risks within the Scheme.

Matching Plus Portfolio (MPP)
Based on an investment philosophy that aims to generate the cash-flows required to pay pension benefits.
By generating returns with greater certainty and reducing risk, the MPP aims to maximize the probability of meeting liability cash-flows. This means that cash-flows from the assets can be used to pay out members' benefits when they fall due, without the need to liquidate assets.

Growth
Funds designed to target a return to grow scheme assets.
Investment involves taking risks to target the desired return.
Many different types of growth asset are available to pension schemes and involve taking different types of risk to seek that return

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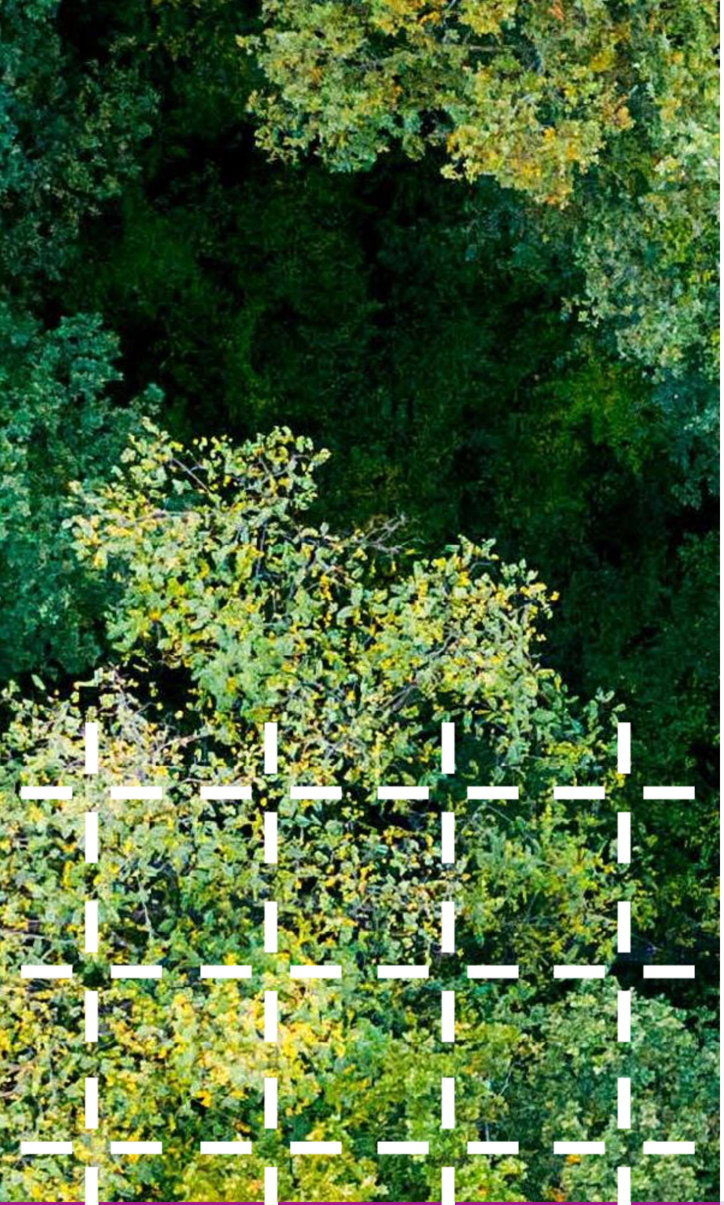

Further Information

The covering email issued to all participating employers in NICPS includes specific details of the contribution towards the deficit contributions and Scheme expenses payable from 1 April 2024.

If you would like some further information, or to discuss the content of this document in more detail, please contact our Client Relations Team.

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