Pensions Committee training: Actuarial valuation

London Borough of Barnet Pension Fund
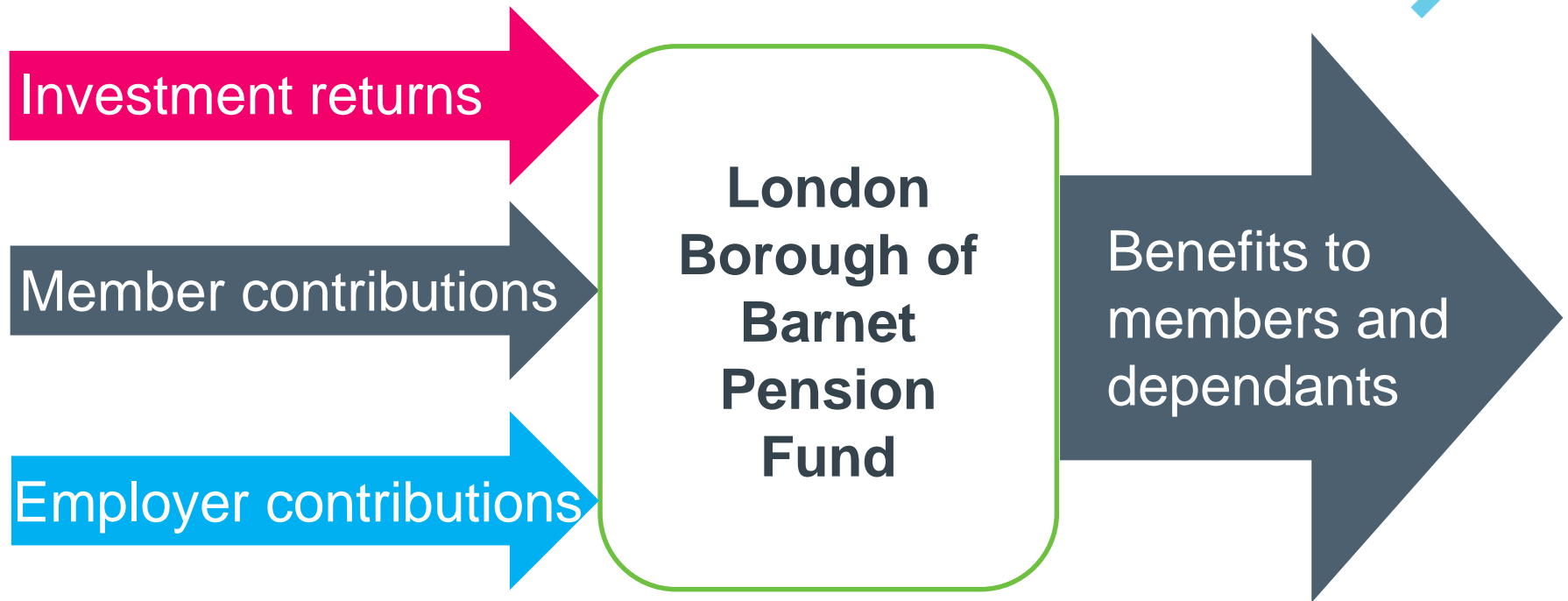
- Gemma Sefton FFA
- 16 October 2018

HYMANS # ROBERTSON

What are we going to cover?

1. Background to a valuation

2. What makes a good valuation

3. Recap of 2016 outcomes

4. Initial timetable for 2019 valuation

5. Key issues ahead of the 2019 valuation

HYMANS ROBERTSON

Background to a valuation

HYMANS ✳ ROBERTSON

How the Fund works

Investment returns →

Member contributions →

Employer contributions →

London Borough of Barnet Pension Fund

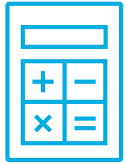Benefits to members and dependants →

Determined by investment strategy & manager performance
Determined by LGPS Regulations
Must meet balance of cost over longer term

Why we do a valuation

- Calculate employer contribution rates

- Compliance with legislation
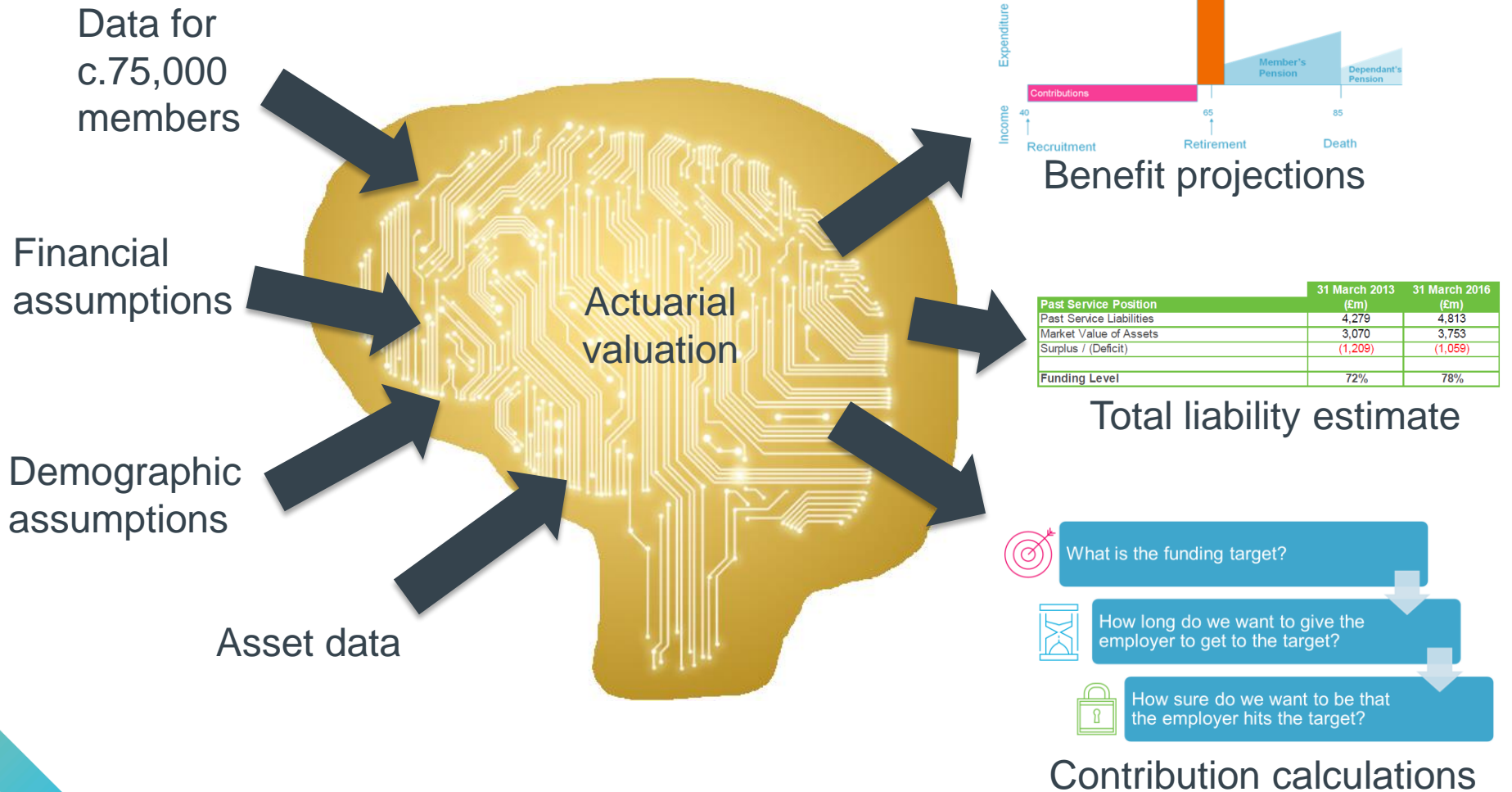
- Analyse actual experience vs assumptions
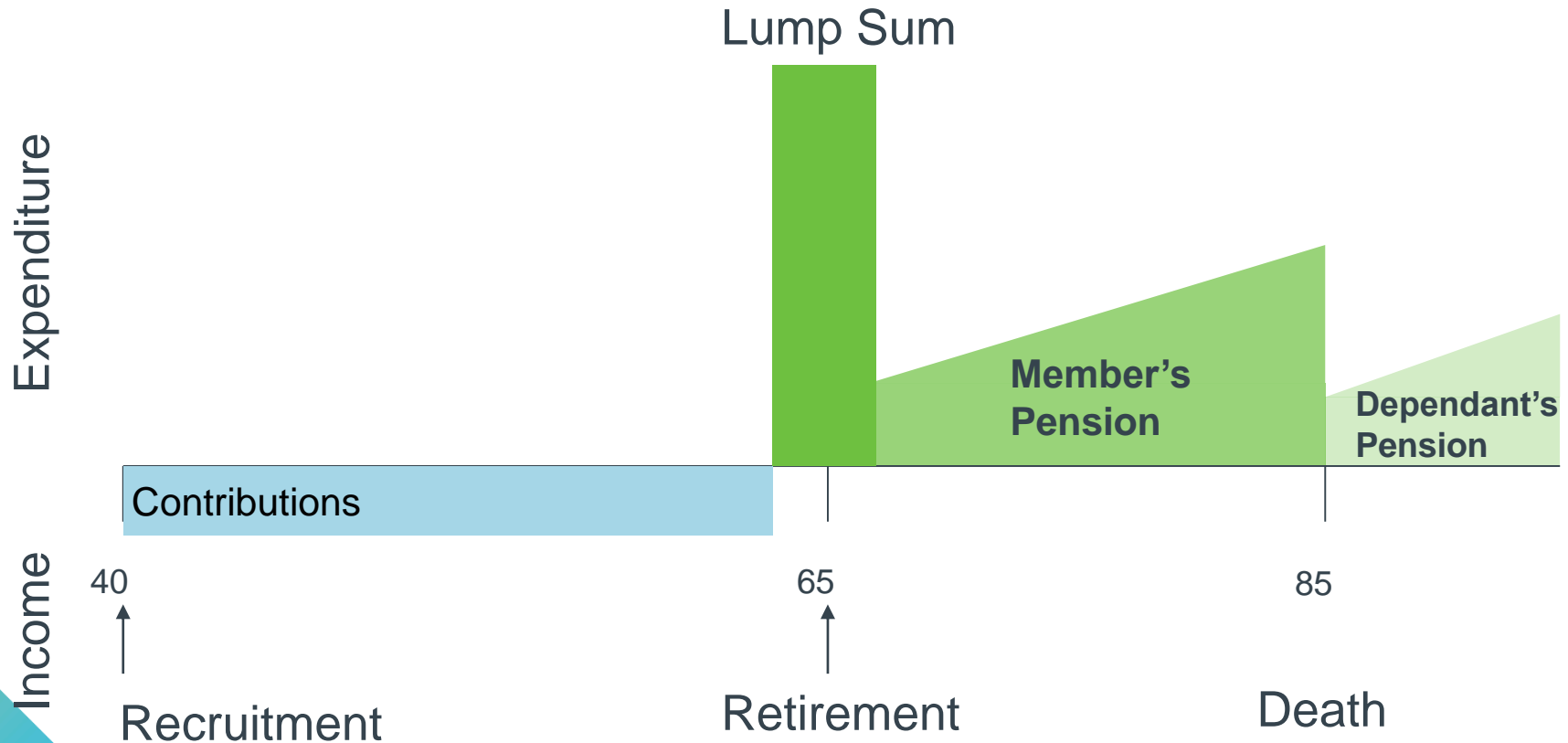
- Review Funding Strategy Statement

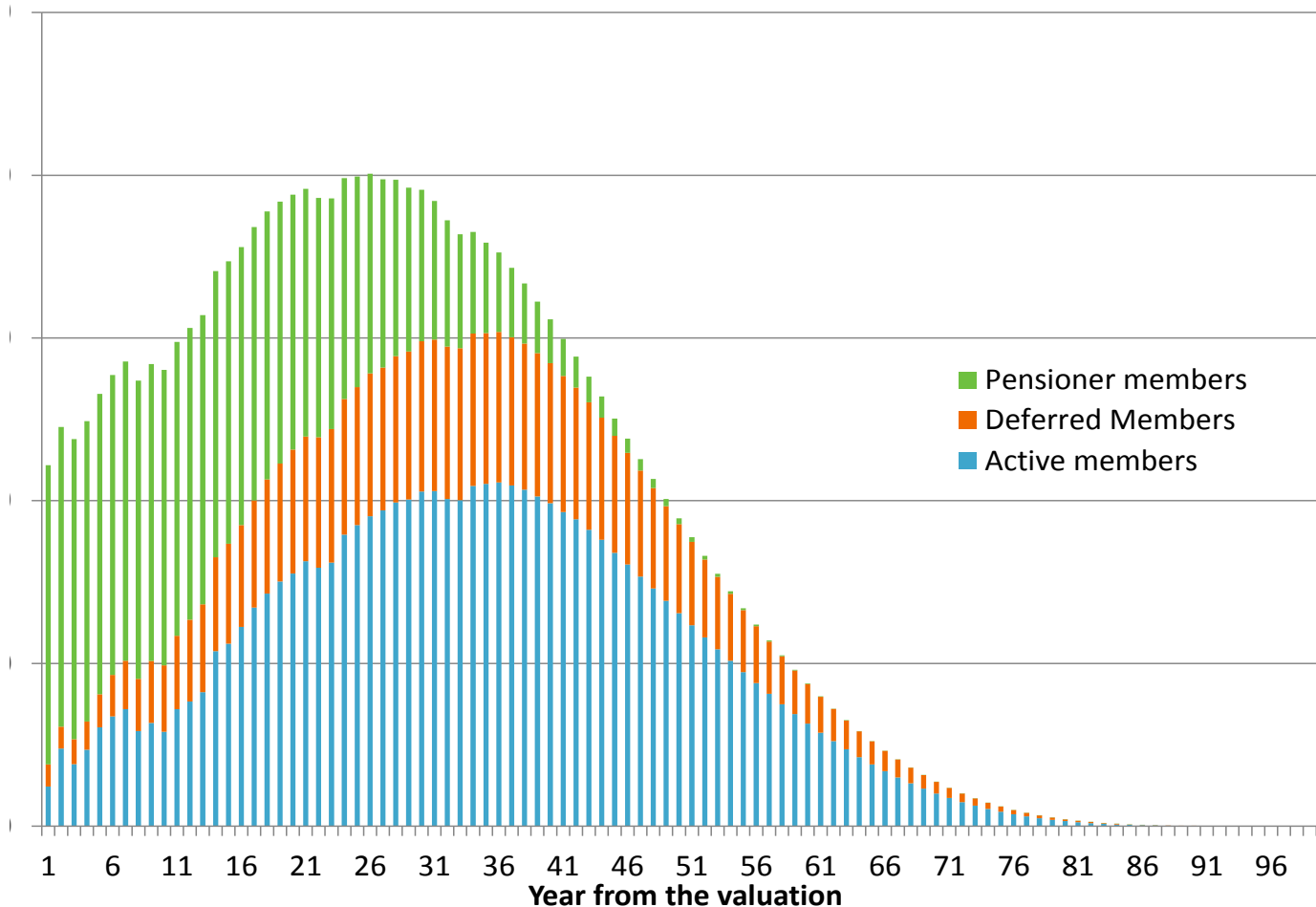- Part of continual 'health check' on fund solvency

HYMANS ROBERTSON

How we do the valuation

Data for
c.75,000
members

Financial
assumptions

Demographic
assumptions

Asset data

Actuarial
valuation

Benefit projections

Past Service Position	31 March 2013 (£m)	31 March 2016 (£m)
Past Service Liabilities	4,279	4,813
Market Value of Assets	3,070	3,753
Surplus / (Deficit)	(1,209)	(1,059)
Funding Level	72%	78%

Total liability estimate

What is the funding target?

How long do we want to give the employer to get to the target?

How sure do we want to be that the employer hits the target?

Contribution calculations

HYMANS ROBERTSON

Benefit projections - individual

Benefit projections – whole Fund

We project future cashflows for every member to build up the picture for the whole fund
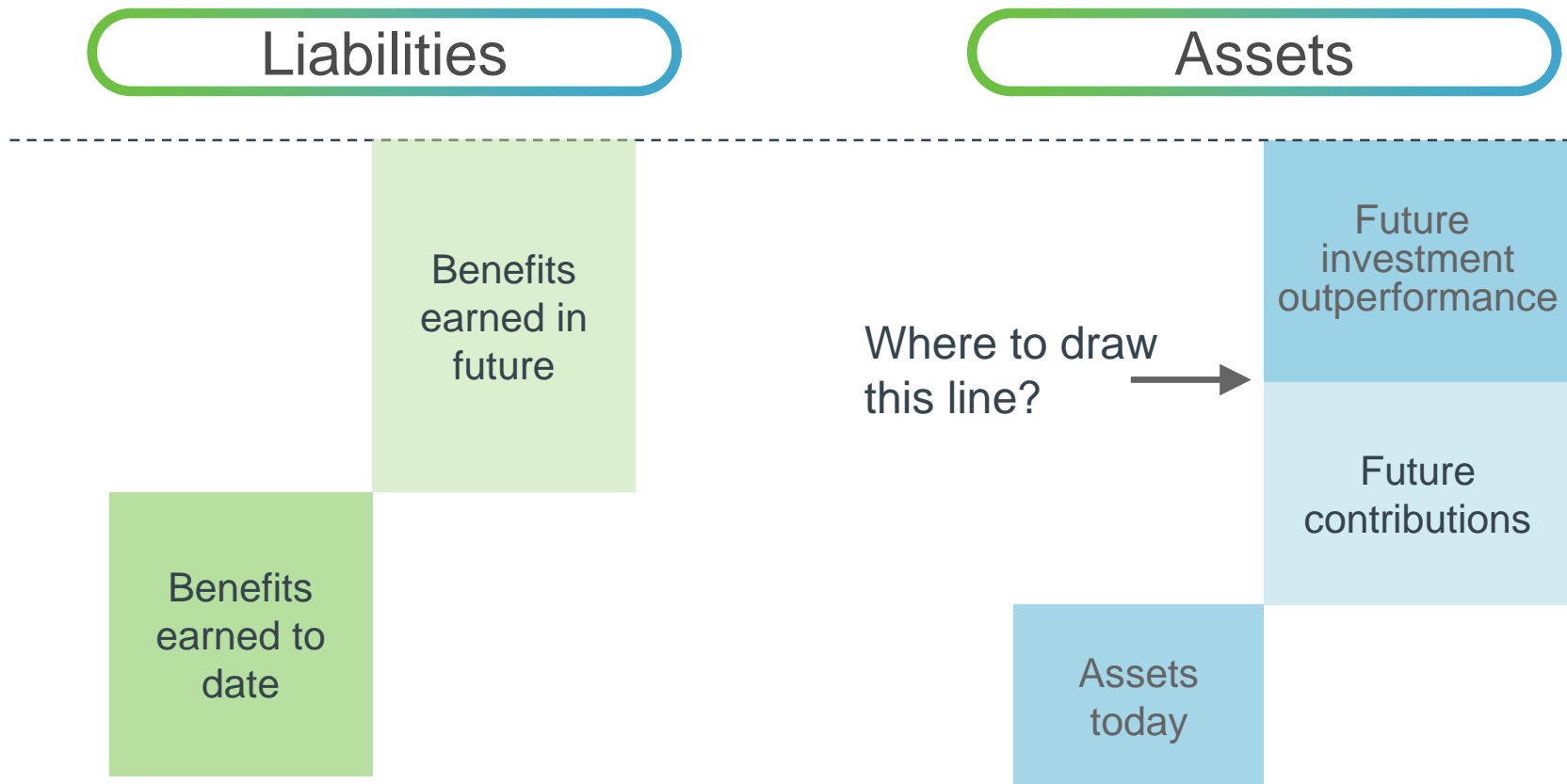
8

HYMANS ROBERTSON

Funding position

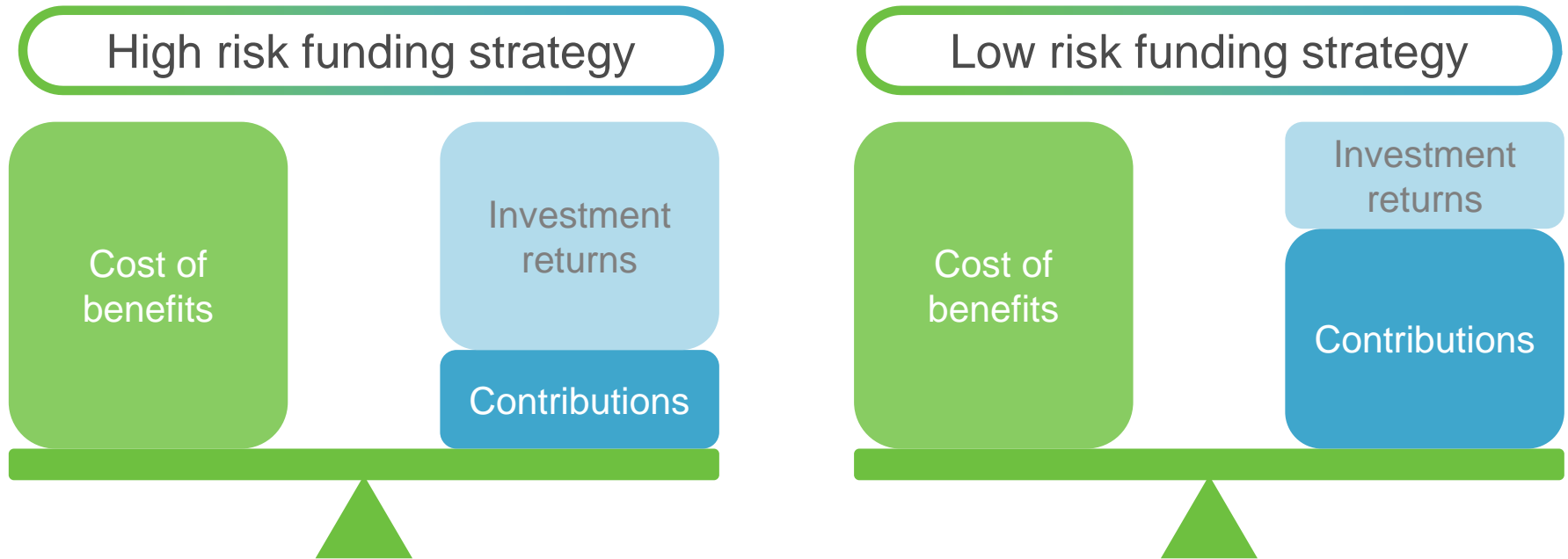Liabilities

Assets

Benefits earned to date

Assets today

Most LGPS funds have not met their funding target for past service

HYMANS ROBERTSON

Contribution calculations

Liabilities

Assets

Benefits earned in future

Benefits earned to date

Where to draw this line? →

Future investment outperformance

Future contributions

Assets today

The key valuation decision is the balance of contributions and investment performance

HYMANS ROBERTSON

The funding strategy is a balancing act

High risk funding strategy

Cost of benefits

Investment returns

Contributions

Low risk funding strategy

Cost of benefits
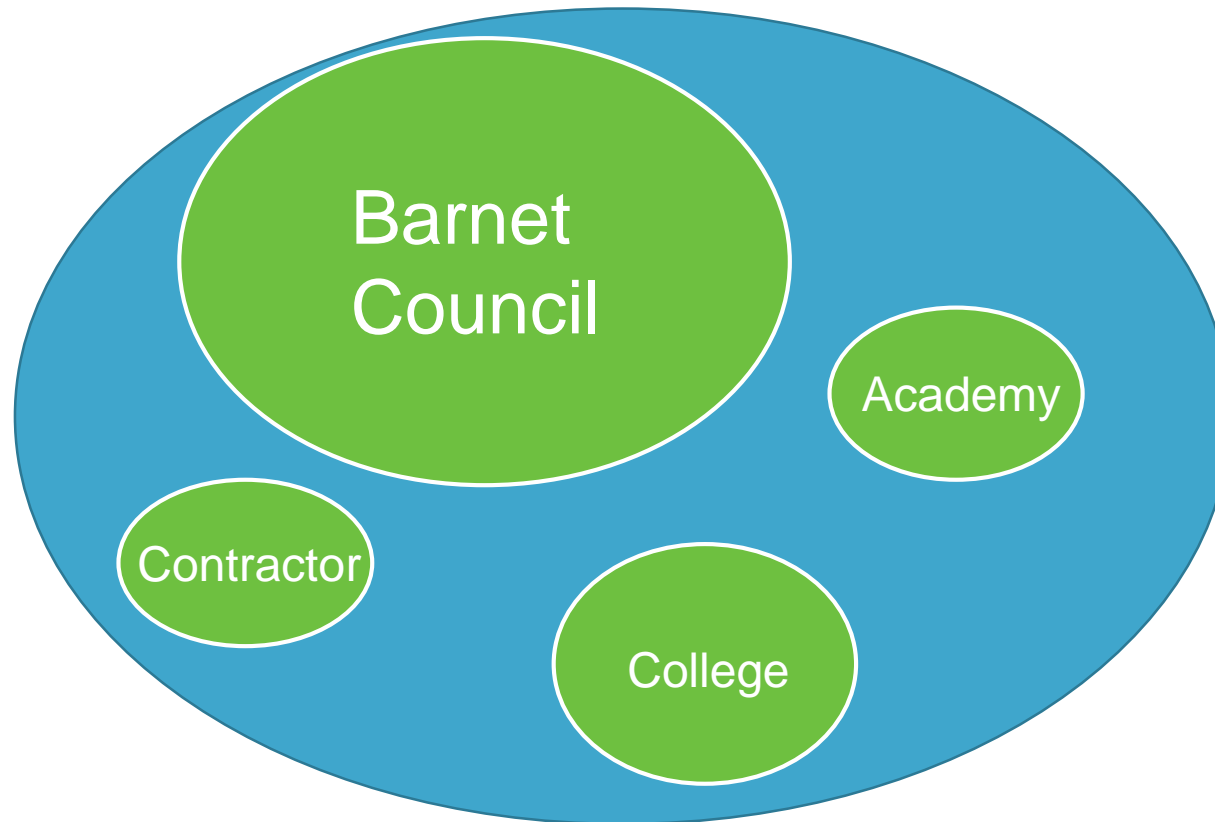
Investment returns

Contributions

The cost of the benefits must be met somehow
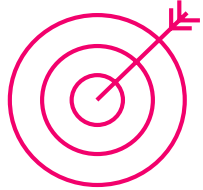
The key decision is the balance between contributions and investment returns

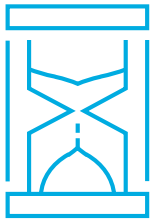How do we set contributions with an appropriate level of risk?

HYMANS ROBERTSON

Each employer tends to its own patch

HYMANS ROBERTSON

Funding strategy – 3 step approach

What is the funding target?

How long do we want to give the employer to get to the target?

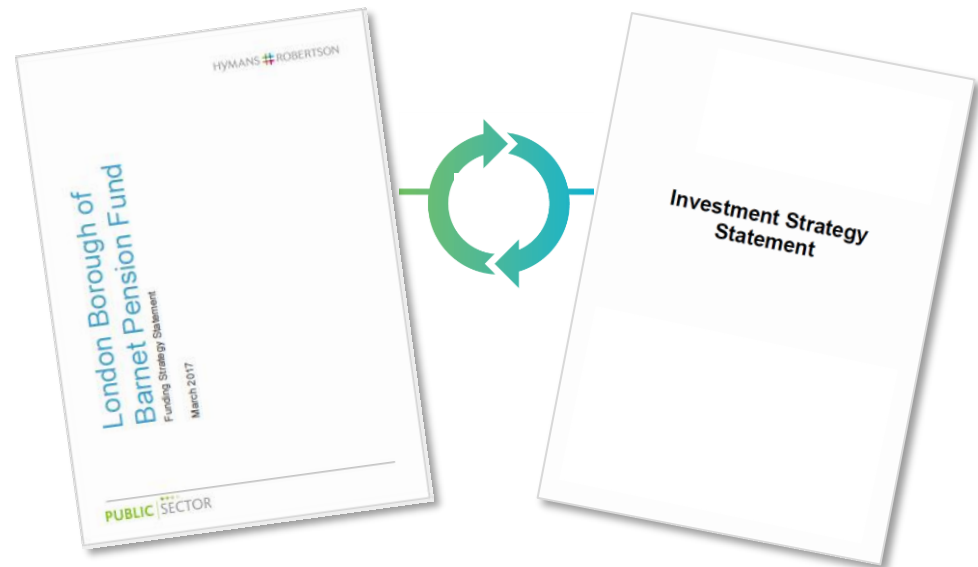How sure do we want to be that the employer hits the target?

HYMANS ROBERTSON

Different approaches for different employers

	Council	Academies	Colleges	"TABs"	"CABs"
🎯	Ongoing	Ongoing	Ongoing	Ongoing	Cessation?
⏳	Long	Long	Long	Short	Short
🔒	Low	Low	Medium	Low	High

Consider employer covenant

HYMANS ROBERTSON

The end result
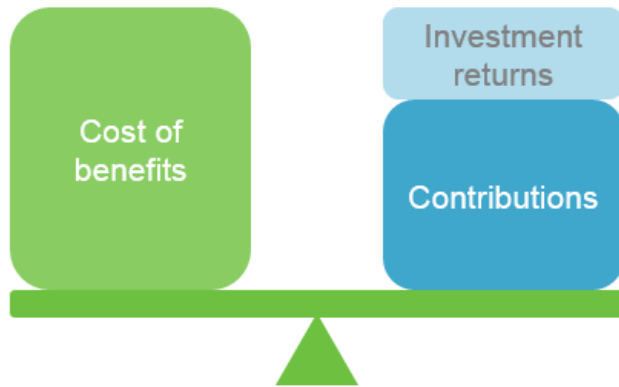
Funding policy formalised in the Funding Strategy Statement and Investment Strategy Statement

HYMANS ROBERTSON

What makes a good valuation?

HYMANS ⁂ ROBERTSON

What makes a good valuation?

Regulatory requirements

Data
- Submit and respond to validations
- Review Employer Database

Assumptions
- Agree assumptions based on Hymans Proposal

Employer Results
- Approve results for contribution purposes

Funding Strategy
- Single funding target
- Generic time horizon
- Single risk parameter

Best Practice

Data
- Data cleanse ahead of valuation
- Consult with actuary on significant issues
- Report back to Employers ahead of results

Assumptions
- Investigate choice of assumptions and make evidence based decisions

Employer Results
- Discuss results and test alternative contribution strategies
- Host employer forums

Funding Strategy
- Review Investment strategy as part of Funding strategy review
- Review time horizons for each type of Employer
- Review and mitigate potential funding risks

2016 valuation outcomes

HYMANS ❖ ROBERTSON

Barnet Fund 2016 valuation

- What data and assumptions were used?

Membership class	Number	Salary / pension
Active members (current employees)	22,300	£324 million p.a.
Deferred members (ex-employees)	33,600	£28 million p.a.
Pensioner members (retired & dependants)	18,200	£65 million p.a.

Assumption	2016 valuation
Discount rate (investment return)	Risk-free rate plus 2.0%
Salary growth	1% pa to 2020, then RPI
Pension increases (CPI)	RPI less 1%

High life expectancy
Mid life expectancy
Low life expectancy

HYMANS ROBERTSON
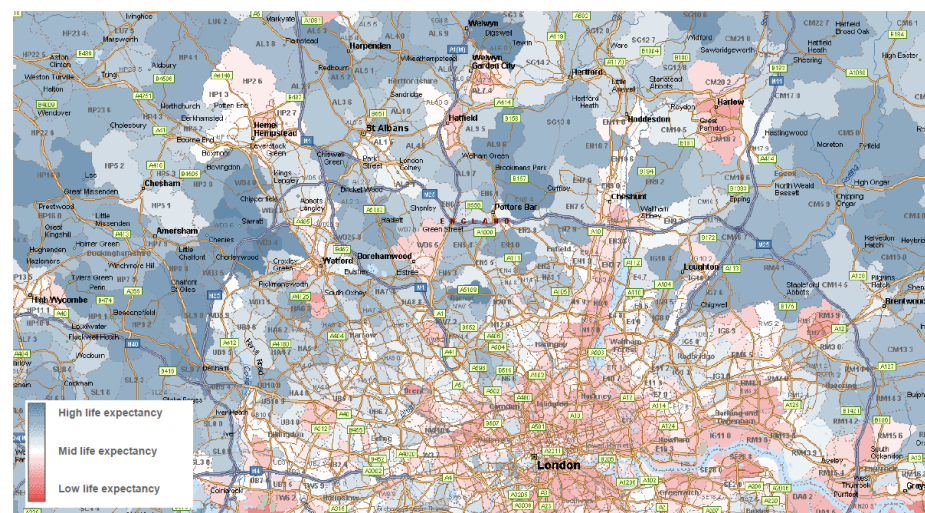
Barnet Fund 2016 valuation

- What was the funding position?

	(£ million)
Active members (current employees)	371
Deferred members (ex-employees)	282
Pensioner members (retired & dependants)	603
Total Liabilities (L)	**1,256**
Total Assets (A)	916
Funding Level (A / L)	73%
Deficit (A less L)	(340)

HYMANS ROBERTSON

How did this compare to other Funds?

"Section 13" Government Actuary report

LB Barnet (published basis)

LB Barnet ("like-for-like")

HYMANS ROBERTSON

Looking forward to 2019

HYMANS ✸ ROBERTSON

The road ahead

Data cleanse

Objective setting

Whole Fund results

Individual employer contribution rates

Sign off results and R & A

Employer liaison

Now | **31 March 2019** | **31 March 2020**

Approach to employer assets

Employer profiles

Funding and Investment Strategy statements review

Asset diversification

GAD section 13

Assumptions

HYMANS ROBERTSON
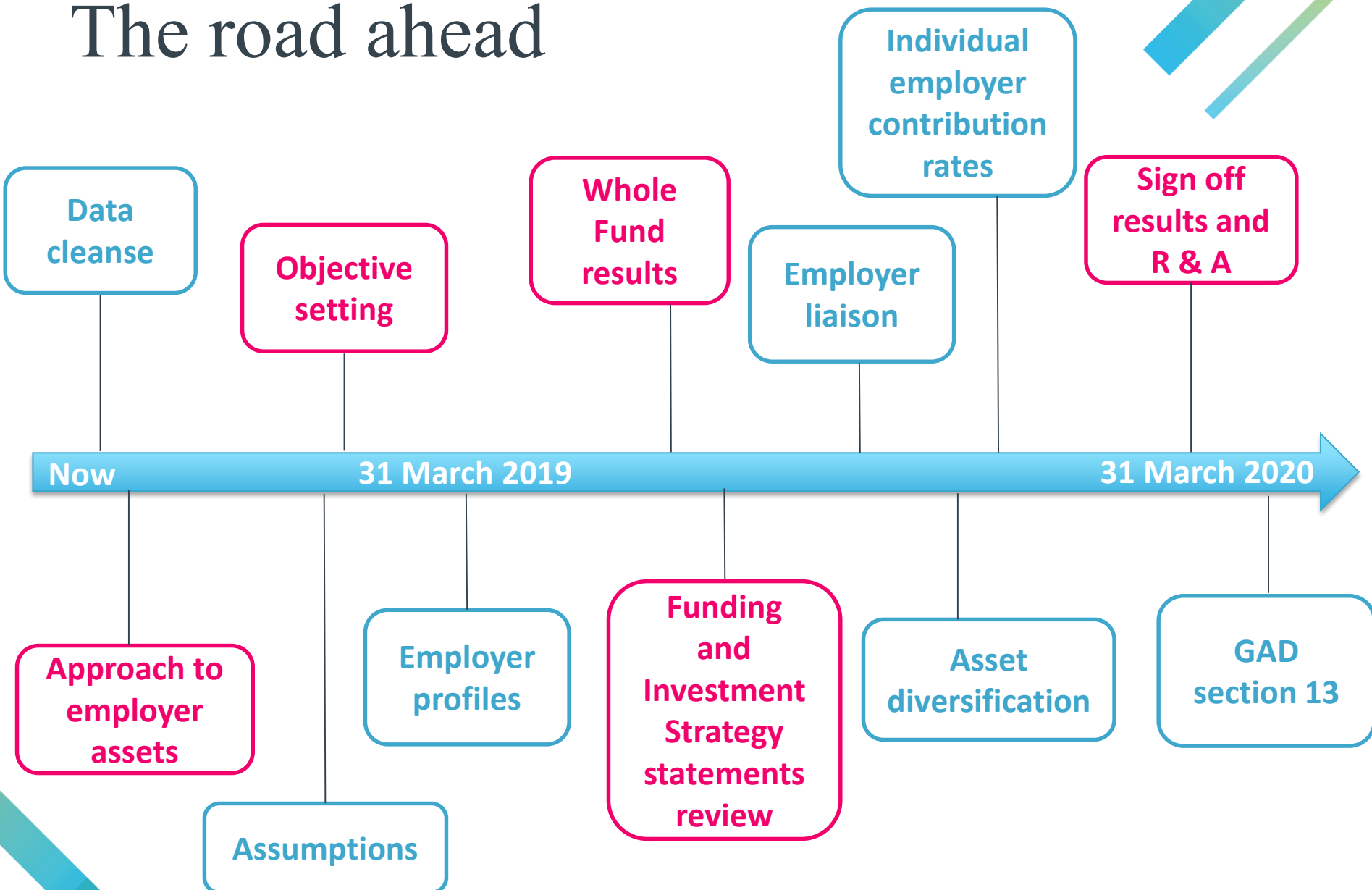
Everything relies on the data…

Data cleanse

Now   **31 March 2019**   **31 March 2020**

HYMANS ROBERTSON

Key issues ahead of 2019

HYMANS ✦ ROBERTSON

Cost management

Unfunded schemes' cost cap valuations
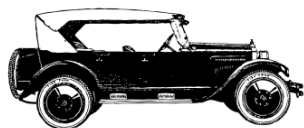
2016   **2020**   **2024**

LGPS cost cap valuations
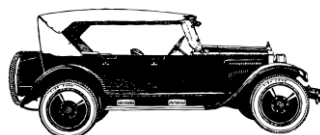
2016

LGPS Funding valuations

2016   **2019**   **2022**   **2025**

Will LGPS funding valuations align?

HYMANS ROBERTSON

Longevity improvements stalling?

BBC ⊙ Peter | News Sport Weather iPlayer TV Rac

NEWS

Home | UK | World | Business | Politics | Tech | Science | Health | Family & Education

Health

UK among worst for life expectancy rises

⊙ 7 August 2018

f · ✉ · Share

Mail Online

Life expectancy of men and women in Britain has STOPPED getting longer, new figures reveal

- Improvements in life expectancy in the UK have almost come to a halt since 2010
- Lifespans have lengthened thanks to medical advances and economic changes
- Analysts appeared to challenge the suggestion that government cuts could be responsible

By STEVE DOUGHTY SOCIAL AFFAIRS CORRESPONDENT FOR THE DAILY MAIL
PUBLISHED: 01:04, 19 June 2018 | UPDATED: 13:10, 19 June 2018

What does this mean for the LGPS?

HYMANS ROBERTSON

LGPS (Amendment) Regulations 2018

- LGPS Amendment regulations came into effect 14 May 2018

- Gives employers ability to access surplus on exit

- Fund must consider funding arrangements for admission bodies

HYMANS ROBERTSON

Better futures aren't down to chance

The material and charts included herewith are provided as background information for illustration purposes only. It is not a definitive analysis of the subjects covered, nor is it specific to circumstances of any person, scheme or organisation. It is not advice and should not be relied upon. It should not be released or otherwise disclosed to any third party without our prior consent. Hymans Robertson LLP accepts no liability for errors or omissions or reliance upon any statement or opinion.

HYMANS ROBERTSON