

# London Borough of Barnet Pension Fund

Pensions Committee: planning for 2022 valuation

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# Agenda



Actuarial valuation: refresher



Outlook for 2022



Wider environment








Timetable

# Actuarial valuation: refresher



# 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

The triennial valuation is a key risk management exercise for the Fund

# Outputs of the valuation

Liabilities

Assets

Benefits earned in future

Future investment returns

Future contributions

## Contribution rates

To pay for both future benefits and any shortfall in relation to accrued benefits  
Strike a balance between investment returns and contribution rates

Benefits earned to date





Assets today

## Funding level

Comparison of 'assets today' vs. 'benefits earned to date'  
Balance sheet snapshot of Fund at valuation date

# Different employers have different objectives



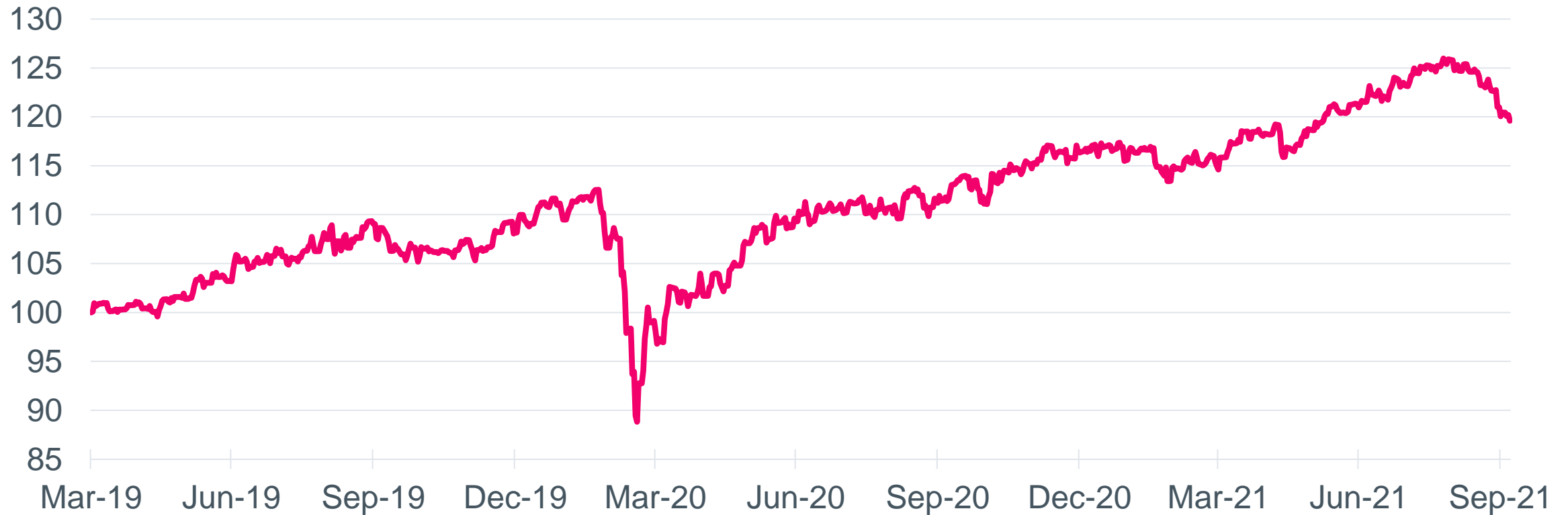
Employer type	Funding Target Basis used	Time horizon	Contribution rates	Likelihood of achieving target
Councils 	Ongoing	Long	Stabilised	70%
Academies 	Ongoing	Long	Risk based	70%
University / Colleges 	Ongoing	Long	Risk based	75%
Contractors 	Exit	Fixed, typically short	Risk based	70%

# Outlook for 2022



# Very strong asset returns

Asset value progression (31 March 2019 = 100)



Improvement in past service funding positions

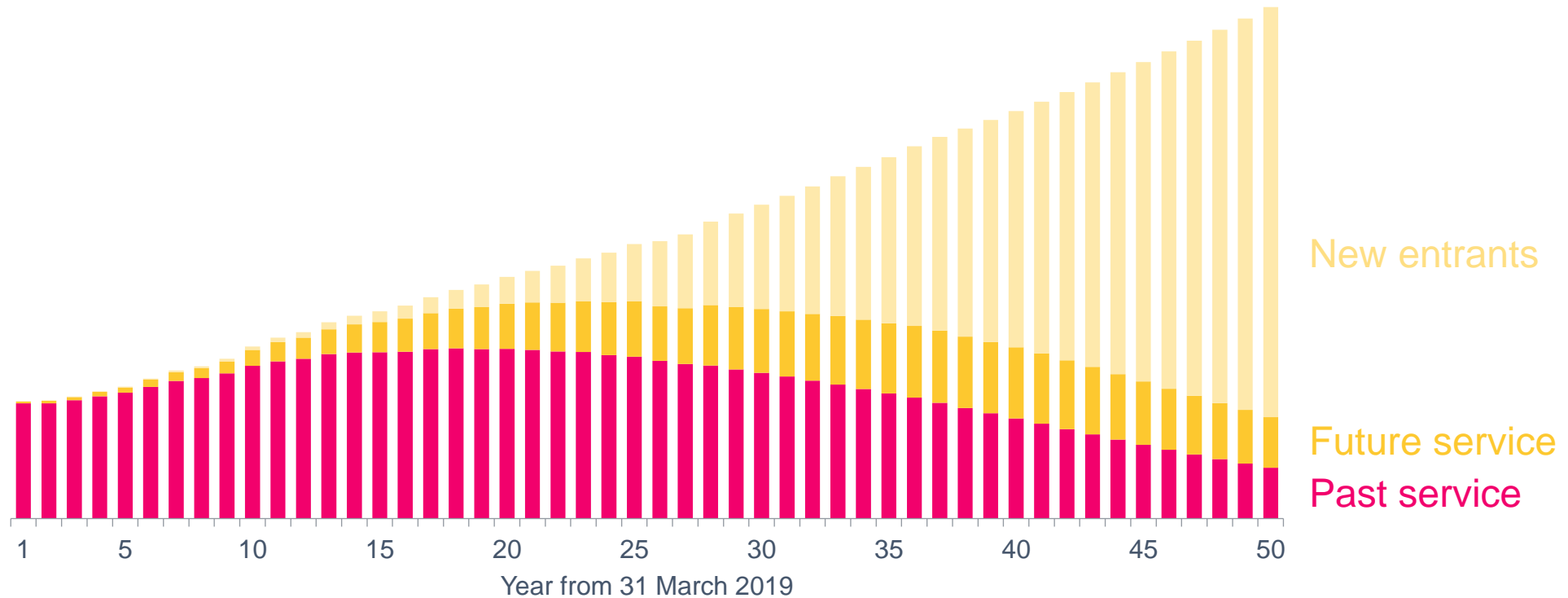


# But don't forget about the future

Projected benefit payments from 2019 valuation

Many employers will be “fully-funded” (or better)

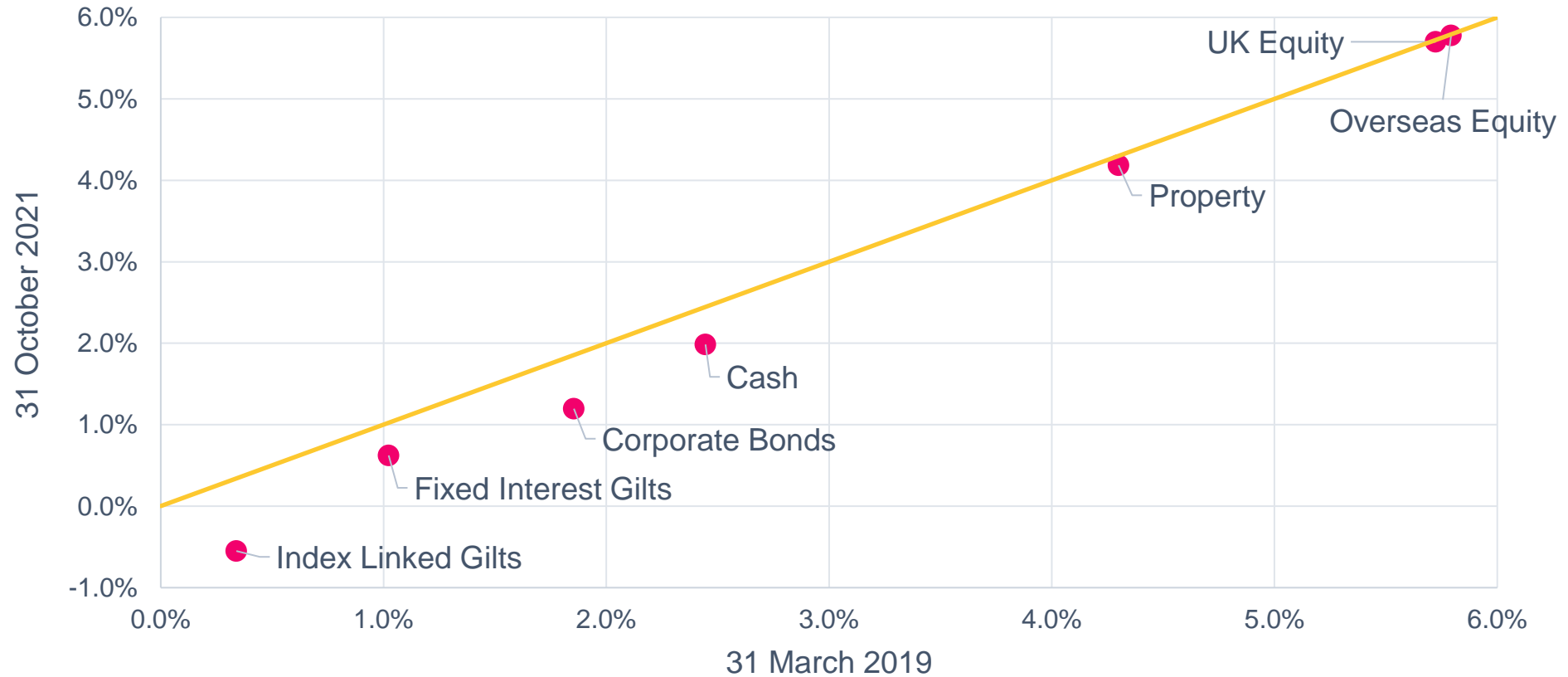
– but this refers to past service only



Past service is only a small part of the long term objective

# Future investment return expectations

Annualised Median 20 year returns – 31 March 2019 vs. 31 October 2021



Lower expected long-term returns increases the cost of benefits

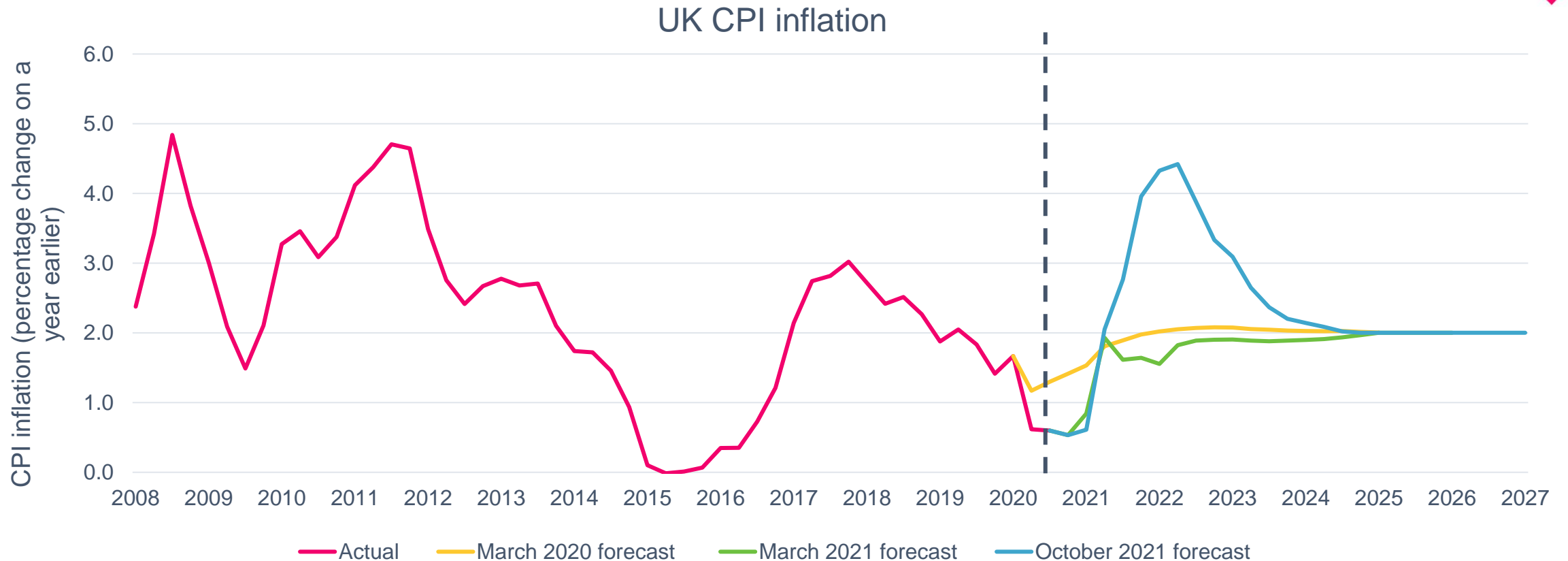
# Your assumption for future investment returns

	31 March 2019	31 October 2021	31 October 2021
Outlook	Valuation position	Based on equivalent return at 31 March 2019	Based on equivalent likelihood at 31 March 2019
Assumed future investment return	4.4%	4.4%	4.2%
Likelihood of achieving this return*	75%	73%	75%

\* likelihood of the Fund's portfolio achieving these returns over the next 20 years

The outlook for future investment returns is slightly lower

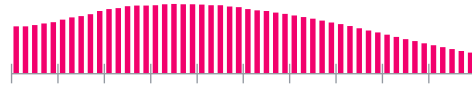
# Concerns about inflation



Increase in risk of upward pressure on inflation (benefit increases)

# Current outlook for 2022 valuation

Funding position +  
secondary contributions



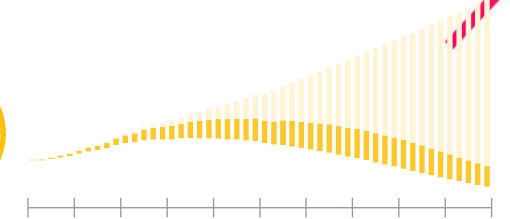
Change  
from 2019

Assets

Liabilities

Likely see an improvement in funding  
position and lower secondary contributions...

Primary contributions



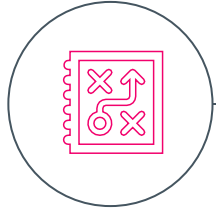
Assets

Liabilities

...but primary rates don't benefit from asset  
performance and may see upward pressure

The net impact on contribution rates will vary by employer

# Areas to explore at 2022



## Improved past service funding positions

Does this require any change in funding strategy?



## Investment strategy groupings

Are any changes needed to the investment strategy an employer/employer group participates in?



## Impact of Covid-19

Does the current risk management framework need any changes?

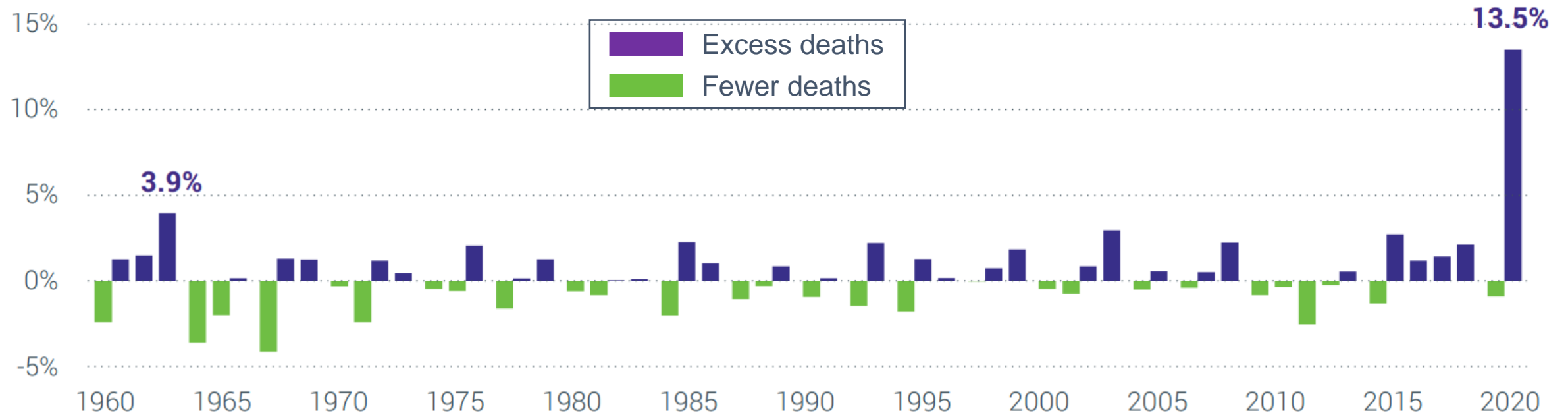
**Actuarial approach: no change thus continuing with risk based approach**

Wider environment



# COVID-19: Immediate impact on mortality

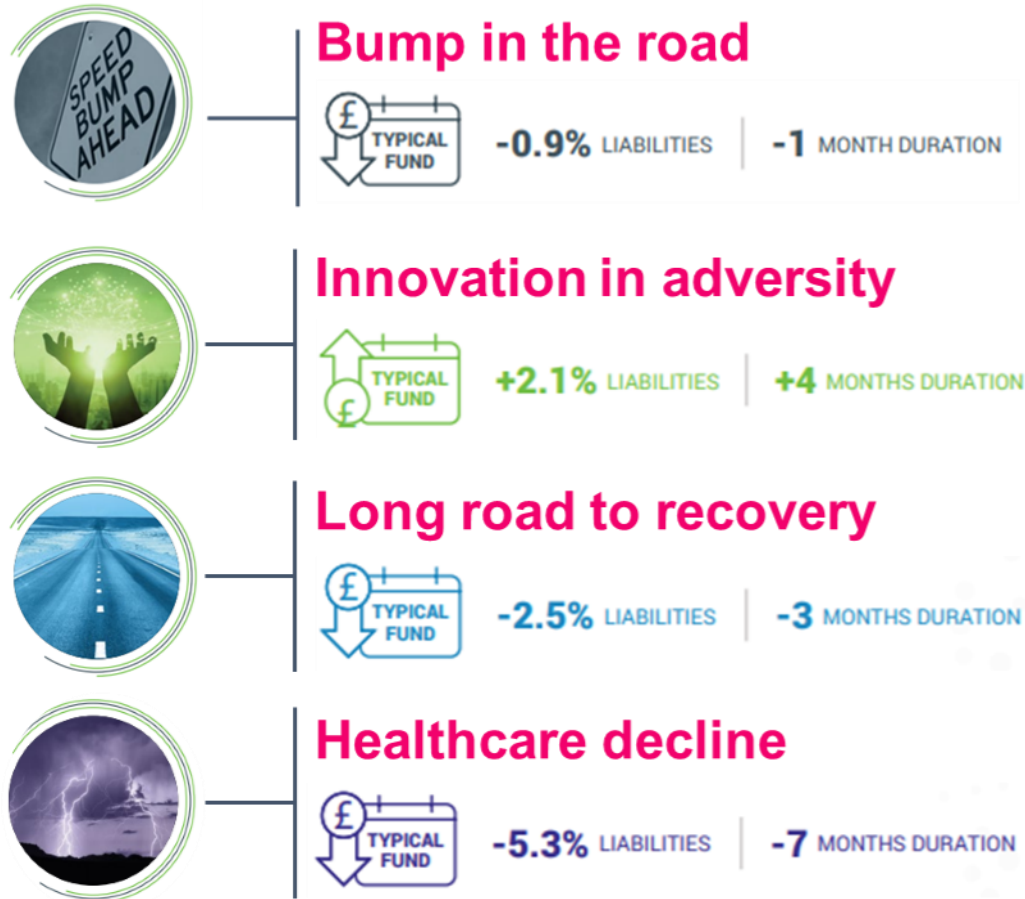
## ENGLAND & WALES: EXCESS DEATHS VERSUS UNDERLYING TREND



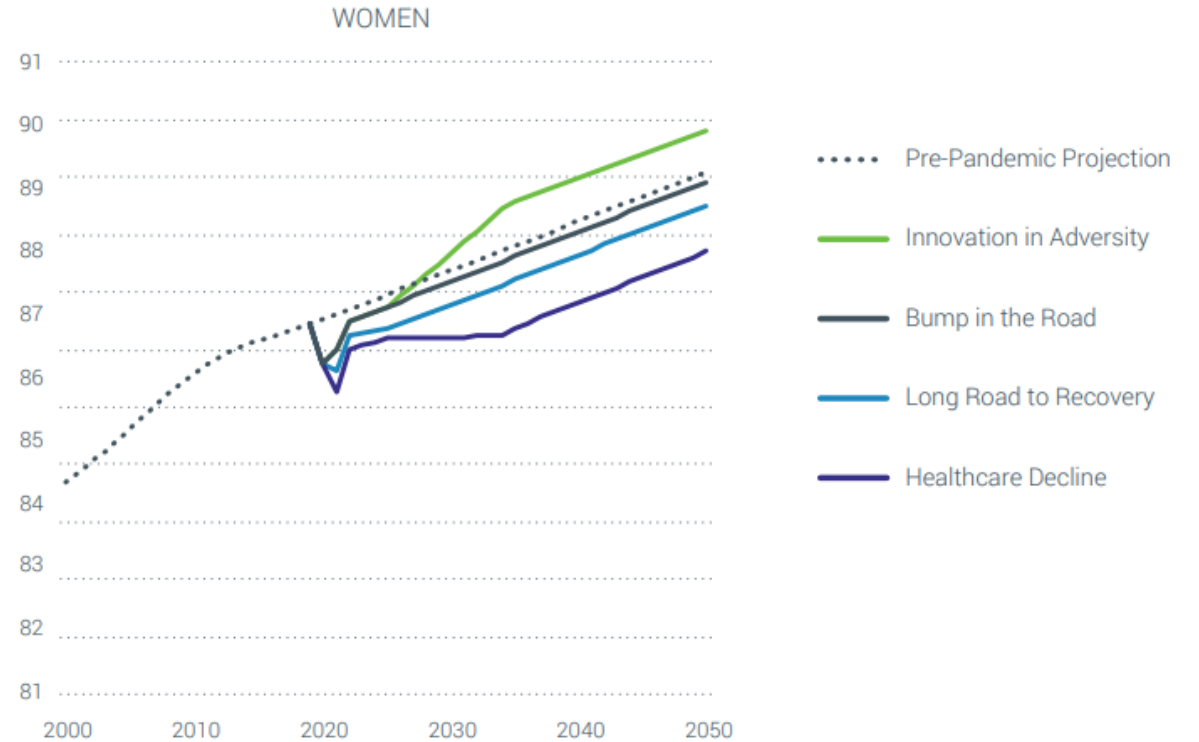
Excess deaths expected to have relatively small impact (<1%) on liabilities



# Longer term impact on pension funding?



Life expectancy from age 65



A consideration to take into account when setting assumptions at 2022

# Climate change: impact on funding



## Green revolution

Concerted policy action starting now



## Delayed transition

Delayed reaction and stronger measures needed when it does happen



## Head in the sand

No or little policy action for many years

Scenario	Impact on financial markets				Impact on life expectancy	
	Years 1-5	Years 6-10	Years 11-15	Years 16-20	50 year old	65 year old
Green revolution	Very high	Moderate	Moderate	None	+2 years	+1 year
Delayed transition	None	Very high	High	None	-1.5 years	-0.5 years
Head in the sand	None	None	High	Very high	-4.5 years	-1.5 years

Explore the impact of climate change on funding strategy at 2022

Data



# Cleansing data ahead of the 2022 valuation

## Membership Data

- Data at received as at 31 March 2021
- Critical errors flagged to the Fund and the administrator
- We have had discussions with the Fund and the administrator to understand and resolve the critical errors and review the warnings

## Next Steps

- Investigate the membership data further for range errors and comparison errors to the last valuation
- Carry out individual employer level reconciliation on membership movements
- Reconcile employer database information with membership data and fund accounts
- We will also carry out data checks regarding issues that arose from the last valuation to ensure these have been resolved.

# Thank you

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