

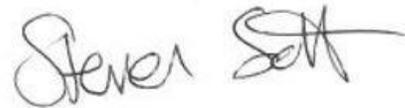
London Borough of Barnet Pension Fund

Actuarial valuation at 31 March 2022

Advice on assumptions



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30 May 2022



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For and on behalf of Hymans Robertson LLP



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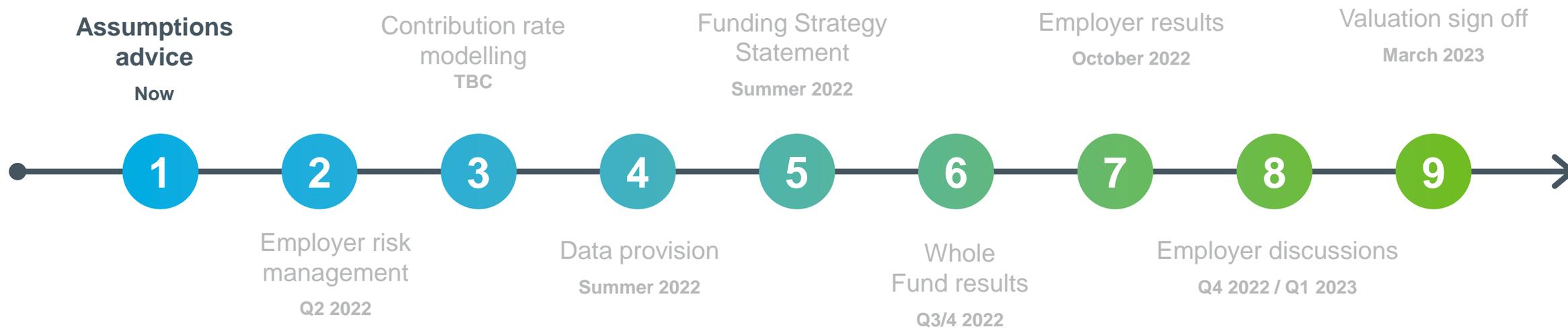
A glossary of technical terms used in this report can be found in Appendix 5

Summary of recommendations

Assumption	Recommended approach	Comments
Future investment return assumption	Based on Hymans Robertson ESS model updated to latest market calibration	Long term asset class return expectations are generally similar to 2019.
Discount rate (ongoing participation)	Can be retained at the level of 2.0% above the risk-free rate at the same level of prudence (79%)	No significant change in environment to suggest an increase or decrease in prudence levels.
CPI inflation (benefit increases / CARE revaluation)	Based on Hymans Robertson ESS model	Long term inflation expectations are slightly higher (c.0.2-0.3% p.a.) than 2019 due to current economic outlook and the effect of significant increases in short term inflation expectations.
Salary increases	1% above CPI inflation (was 0.7% at 2019)	2022 proposed assumption in line with 2019 long-term salary increase expectations. However, at 2019, allowance was made for short-term expected pay restraint. Given recent increases in National Living Wage and reduced impact on pension liabilities from short-term pay expectations, recommend that no allowance is made for any short-term pay restraint.
Baseline longevity	Based on Club Vita analysis updated to reflect non-Covid related experience	Longevity assumptions are tailored to the Fund's experience and membership
Future improvements in longevity	Updated to CMI 2021 model with no weight on 2020/21 data with long term improvement of 1.5% pa	Latest version of CMI model is best practice but avoid projections being affected by short-term Covid-19 experience
Demographic assumptions (excluding longevity)	Adopt Hymans proposed demographic assumptions	Based on LGPS wide experience – full information will be provide in the final valuation report

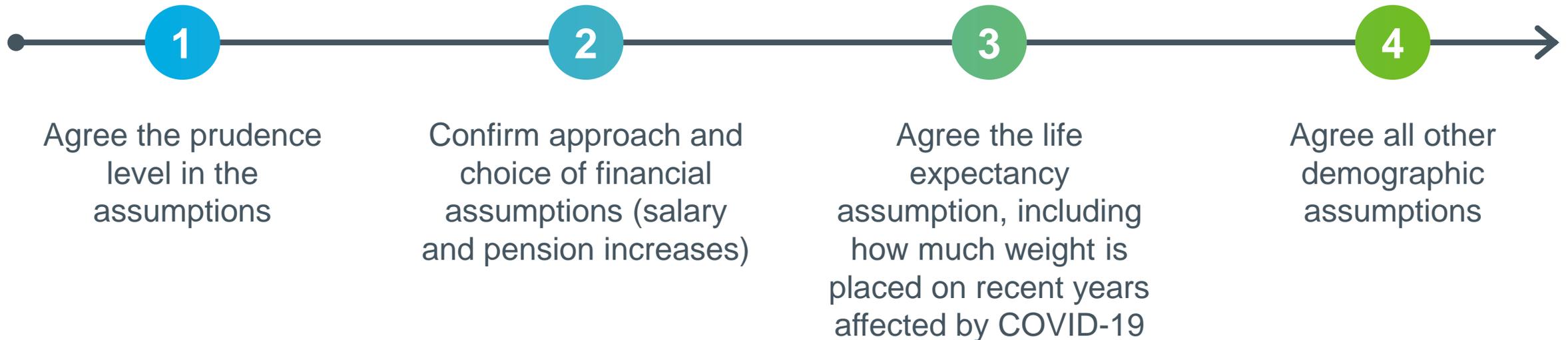
The valuation process

The valuation process



Assumptions advice

It's now time to set assumptions for the 2022 formal valuation, after taking advice from us as your Fund Actuary. As part of this process you need to make four main decisions:



Why and how we set assumptions

Assumptions matter – projecting future benefit payments and assets

To determine the level of employer contributions we carry out two projections.

The **benefit projection** estimates the future payments that will be made to members, allowing for future pension increases, death and other events.

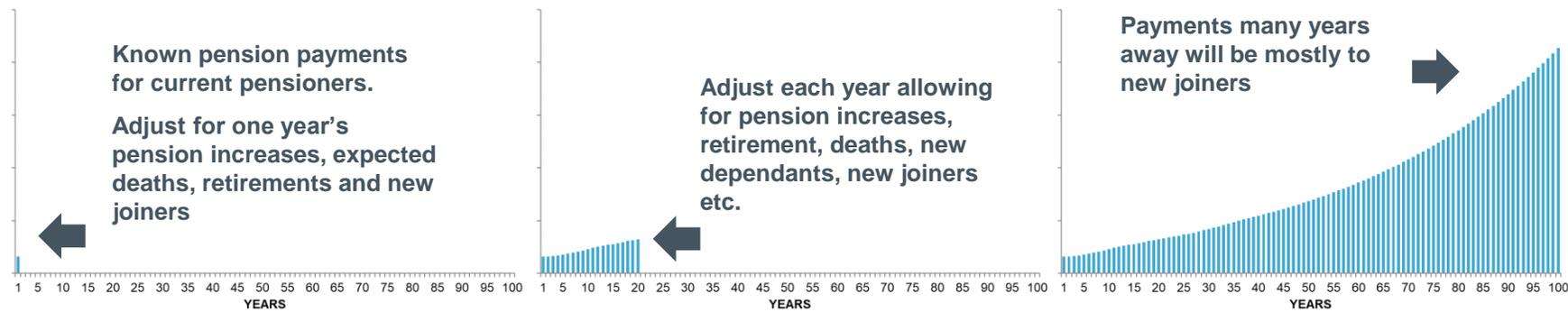
The **asset projection** takes into account future investment returns, contributions and benefits paid to members.

The contribution rates are set so at the funding time horizon, there are enough assets to meet future benefit payments in a sufficiently high number of future economic scenarios – the funding objective.

Because we can't see into the future, the projections mean working with uncertainty and require assumptions.

We review assumptions regularly to make sure they're relevant to the financial, demographic and regulatory environment.

Illustration: how we project benefit payments



Two types of assumptions:

1

Financial assumptions (like inflation) affect the amount of payments and asset values.

2

Demographic assumptions (like how long members live) affect the timing of payments.

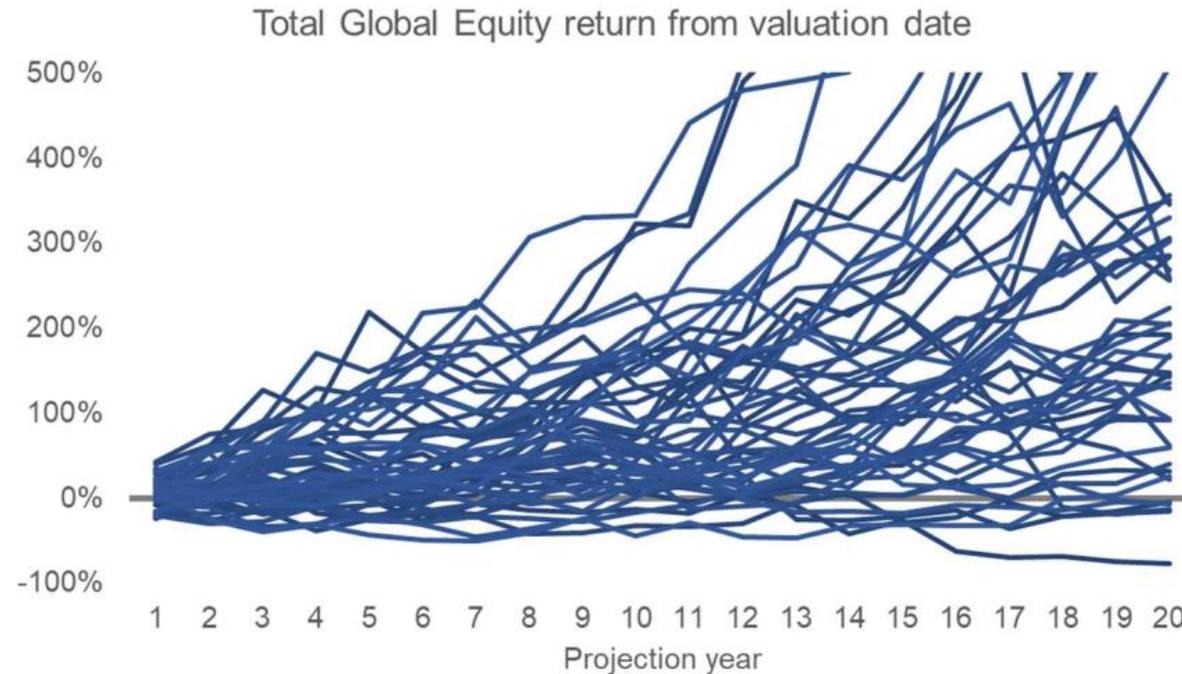
Assumptions and our valuation approach

We use a “**risk-based**” approach to calculating the benefit and asset projections.

Under this approach, we use an economic scenario generator (Hymans Robertson’s proprietary generator is called the Economic Scenario Service – ESS) to produce 5,000 different simulations of future economic conditions and associated assumptions.

The assumptions in each scenario vary by year i.e. they are not ‘flat’, so they are a better representation of reality than a single, linear assumption.

The chart shows a sample of the 5,000 simulations for future cumulative total returns on global equities over the next 20 years.



This approach allows the generation of a distribution of future benefit and asset projections so all stakeholders in the Fund can better understand risk.

What assumptions are needed

Assumption	Description	Required for
Financial assumptions		
Future investment return	Projected annual returns and volatility on asset classes invested by the Fund e.g. UK equities, property etc.	Asset projection – to project employers’ asset shares to the end of the funding time horizon
Discount rate	Annual rate of future investment return that will be earned on the Fund’s assets after the end of the funding time horizon	Funding objective – to place a present value at the end of the funding time horizon of the future benefit payments
CPI inflation (benefit increases / CARE revaluation)	Future Consumer Price Index inflation	Benefit projection – to determine the size of future benefit payments (LGPS benefits are index-linked to CPI inflation)
Salary increases	Future inflationary salary awards	Benefit projection – to determine the size of future benefit payments (the pre-2014 final salary benefits are linked to salary) Asset projections – to determine future payroll values (and hence contribution income)
Demographic assumptions		
Baseline longevity	How long we expect members to live based on current observed death rates	Benefit projection – to determine how long each member’s benefits are paid for
Future improvements in longevity	How death rates are expected to change in the future (historically life expectancy has improved over time)	Benefit projection – to determine how long each member’s benefits are paid for
Other demographic events	Events such as retirement age, rate of ill health retirement, level of commutation and 50:50 take up	Benefit projection – to determine the size and timing of future benefit payments

How we review and set assumptions

Our approach

1. **Look at the assumptions from the last valuation**
2. **Review evidence and consider the landscape:**
 - Changes in financial/economic conditions
 - Regulation and guidance
 - Population and general pension scheme statistics
 - Fund specific data and experience, especially members' demographic characteristics
 - Future trends
 - Assessment of employers' financial strength
 - Investment strategy
 - Fund views – and employer views in some cases (e.g. salary increases)
3. **Propose, discuss and agree changes to set new assumptions**

Acknowledging uncertainty

There is no certainty about how the future may evolve and it is important to acknowledge this uncertainty during the valuation. Understanding the impact of the future deviating from the assumptions on funding levels and contribution rates is an important aspect of how the Fund manages risk.

Ways of understanding the impact:

- **Stress testing** – measures immediate changes in assumptions by testing alternatives at valuation date. We will stress test the longevity assumptions as part of the valuation.
- **Risk-based modelling** – risk-based approach involves projecting a wide range of possible future outcomes. There is no single figure for an assumption – instead, we work with a future range. We use a “risk-based” approach to calculate the benefit and asset projections and set the underlying financial assumptions.
- **Scenario projection** – considers future projections across different scenarios, bringing together relevant factors for a better understanding of overall impact. We will use different climate change scenarios at the valuation to help you understand this risk.

Most assumptions are a best estimate, set objectively without margins for adverse experience. A prudent discount rate assumption meets the requirement (from LGPS guidance) for a ‘prudent’ valuation.

Other factors affecting assumptions at the 2022 valuation

Climate change

Climate change will affect many aspects of the Fund's assets and liabilities, for example the return on its assets, the inflation used to revalue benefits and the longevity of its members. The uncertainty around future climate pathways and their impact means that it is impossible to factor climate change considerations meaningfully into every assumption described in this paper.

We will however consider climate change scenarios when setting the long-term longevity improvements assumption, and the Fund will consider climate risk in its funding strategy by testing the resilience of the strategy in three climate scenarios.

Possible benefit changes

McCloud

Benefits accrued by certain members between 2014 and 2022 may be increased in future following the outcome of the McCloud case, which ruled that transitional protections introduced in 2014 to older members were discriminatory. We will make an allowance for the cost of these potential improvements in the 2022 valuation, based on the assumptions agreed here (in particular the salary increase and withdrawal assumptions). The impact is expected to be minimal for the majority of employers.

Cost sharing mechanism

Benefits could also change as a result of the 2016 and 2020 "cost cap" valuations, neither of whose outcome has been completely confirmed. If new assumptions are necessary to value any potential changes we will agree these separately.

Guaranteed Minimum Pension equalisation and revaluation

As per our approach for the 2019 valuation, we will assume that the Fund will fund all increases on GMP for members with a State Pension retirement date after 5 April 2016.

Other legal cases

Benefits could change as a result of other legal challenges (e.g. the "Goodwin" case affecting partner pensions), but at present we do not believe any additional assumptions are needed to value these.

Financial assumptions

Financial assumptions

Approach to setting financial assumptions

1. Hymans' proprietary economic model, the Economic Scenario Service (ESS), is used to generate 5,000 different simulations of the future
2. ESS generates a range of future benefit and asset projections so stakeholders can better understand risk (hence "risk-based" approach)
3. Projections allow for different levels of inflation and returns across all asset classes
4. No single assumption for future investment returns or inflation

Comparison with 2019

Here are how some of the main ESS assumptions have changed since 2019. Full details are in Appendix 1

Assumption	31 March 2019	31 March 2022
CPI inflation	2.2%	2.7%
Global equity returns	5.8%	6.2%
Index-linked gilt returns	0.3%	0.1%
Corporate bond returns	1.9%	1.5%

Figures are median annualised values over years 0-20. ILGs and Corporate Bonds are medium duration, the latter is A rated.

The outlook for inflation is worse compared to 2019, however the outlook for return seeking assets has improved.

Key decision

A discount rate is needed to place a prudent value on the benefit payments due after the funding time horizon. This value determines each employer's funding objective. The level of prudence is a key funding decision.

The discount rate is set relative to risk-free rates so that it varies according to the economic conditions in each of the 5,000 projections.

Investment return and discount rate assumptions

<p>2019 approach</p>	<ul style="list-style-type: none"> • Investment return assumptions: Risk-based approach to generate future investment returns, based on Fund’s investment strategy • Future discount rate assumption: Assumed future investment returns are generated for each asset class from the ESS and combined into an overall portfolio return • At 2019, the future discount rate was set at 2.0% p.a. above the risk-free rate.
<p>Considerations</p>	<p>Maintaining the same discount rate assumption</p> <ul style="list-style-type: none"> • The prudence level is the likelihood of the Fund’s investment strategy achieving the desired excess return over years 20-40 • At 2019, there was a 79% prudence level associated with a future discount rate based on the risk free rate plus 2.0% p.a. • As at 31 March 2022, the same future discount rate assumption is still associated with an prudence level of 79%. <p>Change in level of prudence</p> <ul style="list-style-type: none"> • A lower level of prudence could be justified, e.g. a future discount rate assumption of 2.4% in excess of the risk free rate is associated with a prudence level of 75%. • A review of the level of prudence at the 2022 valuation should consider the possibility of changes in investment strategy in the short to medium term. • More information on the probabilities associated with different investment return assumptions is provided in the following page.

RECOMMENDATION:

Continue to use the ESS to generate future investment returns

Retain future discount rate assumption of 2.0% p.a. above risk-free rate (ongoing participation)

IMPACTS:

The money you are aiming to hold to meet benefit payments and the target for investment return

SIGNIFICANCE:

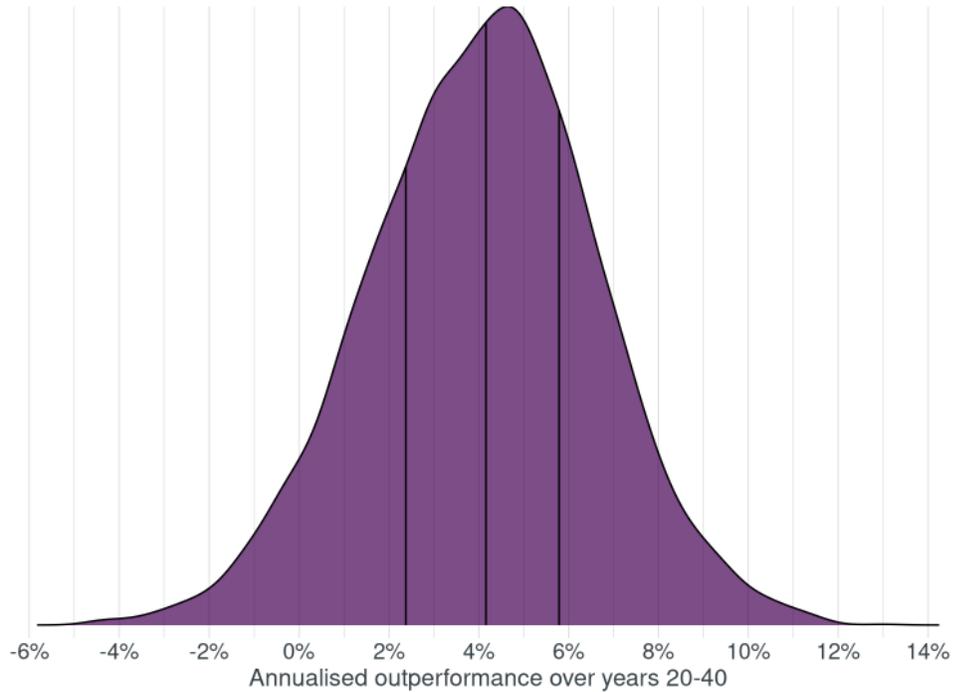
No change to proposed future discount rate assumption (risk free plus 2.0%)



The investment strategy used in our analysis is set out in Appendix 2

Range of future investment returns (above risk free rate)

Annualised return percentiles over the period 20 to 40 years relative to cash:



Likelihood	Margin above risk free rate pa
95%	-0.2%
90%	0.8%
85%	1.4%
80%	1.9%
79%	2.0%
75%	2.4%
70%	2.8%
65%	3.1%
60%	3.5%
55%	3.8%
50% (Best Estimate)	4.2%

Benefit revaluation and pension increases

2019 approach	Benefit projections were assumed to be in line with CPI projections from the ESS model
What's changed since the previous valuation?	Increased inflation expectations, perhaps due to a combination of government actions during the Covid-19 pandemic, Brexit-related supply pressures and/or energy & food related supply pressures arising from the conflict in Ukraine.
Proposed approach for the 2022 valuation	No change in approach, but use updated ESS calibration reflecting current market outlook in the short-medium term. The ESS calibration allows for anticipated short term increases in CPI.

RECOMMENDATION:
CPI inflation will be derived from the updated calibration of the ESS model

IMPACTS:

The increase applied to benefits each year

SIGNIFICANCE:

Increase in assumed future inflation will increase inflation linked liabilities

Salary increases

<p>2019 assumption</p>	<p>CPI + 0.7% pa, plus a promotional salary scale We will only consider the inflationary element here</p>
<p>2019 approach</p>	<p>At the 2019 valuation, the assumption for ‘inflationary’ increases was based on an underlying assumption of short-term pay restraint (2.0% to 2023) followed by long-term increases in line with CPI inflation + 1.0%. After allowing for the expected run-off of the Fund’s final salary (pre-2014) linked benefits, this gave an assumption of CPI + 0.7%.</p>
<p>Things to consider</p>	<p>Run off of final salary liabilities: it is expected that this will be more gradual than at previous valuations and therefore the impact of any short-term pay restraint is negated McCloud remedy: many members’ benefits earned between 2014 and 2022 will retain a link to final salary, further negating the impact of any short-term pay restraint Impact of Covid-19 on budgets: the impact of the pandemic on public and private sector finances may mean lower future salary increases National living wage increases: recent years have seen an above inflation rise in the National Living Wage (NLW) and an increasing number of employers adopting this as their minimum wage. Although the NLW is aimed at the lowest paid, these recent increases will put pressure on salary rates across the whole workforce as employers may feel the need to keep the increments between staff consistent to adequately reward those with more responsibility or experience.</p>

RECOMMENDATION:
No allowance made for short-term restraint with no change from 2019 long-term assumption
CPI+ 1.0% pa (plus a promotional salary scale)

IMPACTS:
The benefits paid to members with service earned prior to 31 March 2014

Payroll projections used for contribution modelling

The estimated cost of the McCloud remedy

SIGNIFICANCE:
Less significant than in previous valuations

Reporting the funding level

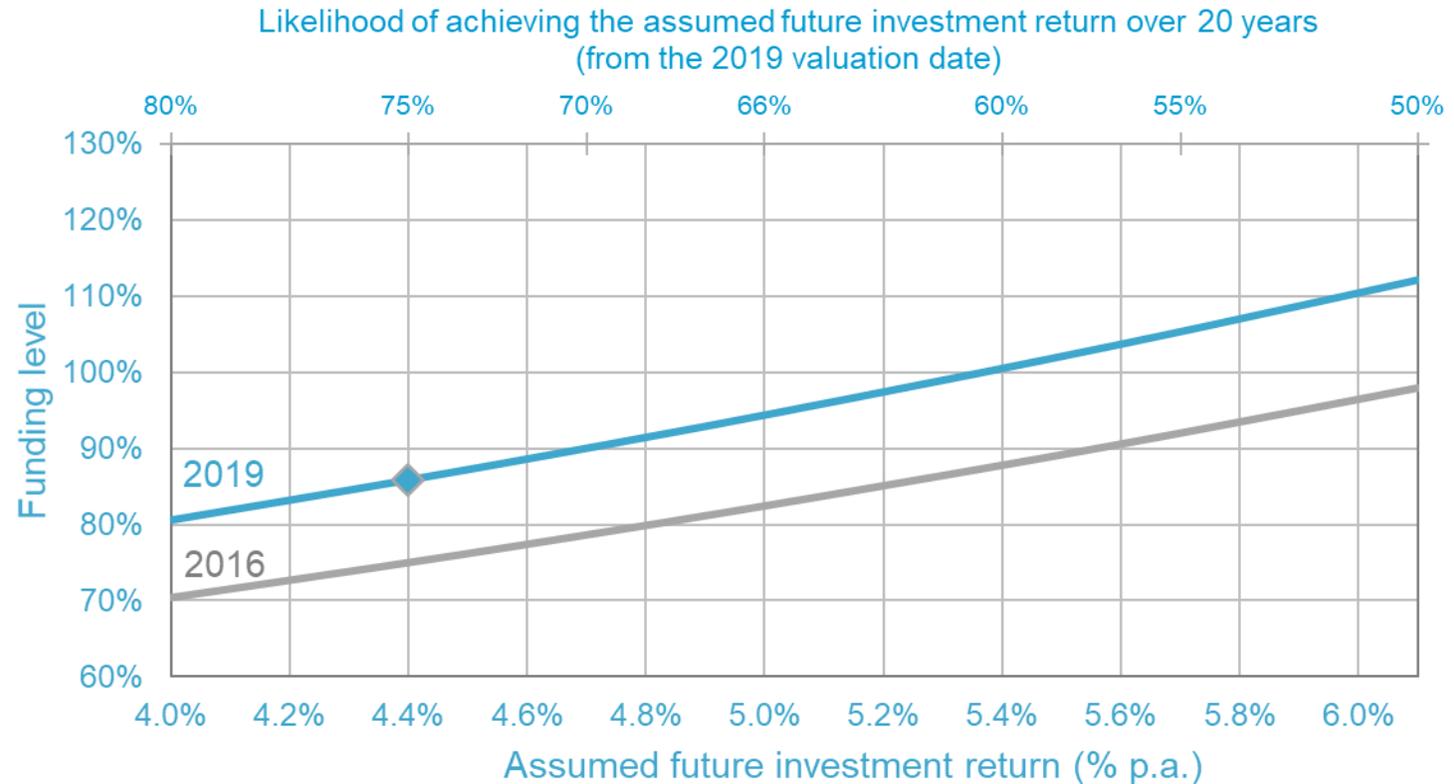
As well as setting contributions, a key output of the valuation is a measurement of past service liabilities at the valuation date itself to determine the funding level.

To report a funding level, we need to use a single value for each assumption (compared to the risk-based approach used for contribution rate setting).

To ensure consistency between the reported funding level and employer contribution rates, we still use the ESS to derive the assumptions used to report the funding level. These assumptions are summary statistics of the 5,000 individual simulations used to project forward assets and benefit payments when setting contributions.

At the 2019 valuation, we showed how the funding level at the valuation date varied with the choice of future investment return and the likelihood of the Fund’s assets yielding at least a given investment return (based on the ESS simulations).

This was all detailed in this chart. A similar chart will be shown in your 2022 valuation preliminary results report.



Assumptions for reporting the funding level

<p>2019 approach</p>	<p>Funding level was reported using an assumed investment return assumption of 4.4%, which had an associated prudence level of 75% Pension increases were based on market-implied RPI inflation minus 1% p.a.</p>
<p>Proposed approach for the 2022 valuation</p>	<p>In general the approach is the same as already discussed, except that instead of 5,000 projections we choose a single value from those projections as follows:</p> <p>Assumed investment return Use the same approach as in 2019 with the same prudence level as used for the discount rate, i.e. 75%. This gives an assumed investment return of 4.6%. For information, the likelihood of achieving returns of at least 4.4% over the next 20 years (ie the same assumption that applied at the 2019 valuation) is 77%.</p> <p>Pension increases Use the median projected CPI inflation from the ESS over the next 20 years (equivalent to 2.7% p.a. as at 31 March 2022). This is an increase from 2019 (and is due to the factors outlined on page 16).</p> <p>Salary increases Assume salary increases of 1.0% p.a. above median projected CPI as mentioned above</p>

RECOMMENDATION:
Use prudence level of 75% for the assumed investment return, and assume pension increases in line with the median projected CPI inflation from the ESS

IMPACTS:

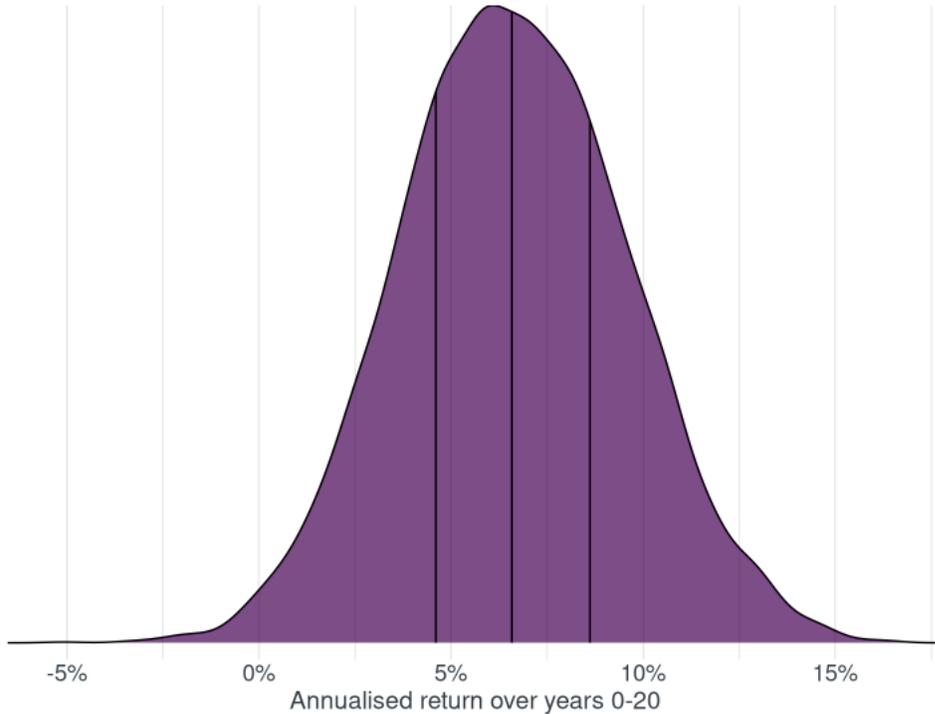
Reported funding level.
Does not affect contributions.

SIGNIFICANCE:

For reporting and tracking the funding level only

Range of future investment returns (for reporting the funding level)

Annualised return percentiles over the period 0 to 20 years:



Likelihood	Return pa
95%	1.9%
90%	2.9%
85%	3.6%
80%	4.1%
75%	4.6%
70%	5.0%
65%	5.4%
60%	5.8%
55%	6.1%
50% (Best Estimate)	6.6%

Longevity assumptions

Breaking it down



Your longevity assumptions

How long you expect to pay a pension to each member and their dependants.



Baseline

- A snapshot of how long people currently live
- Measured **objectively** based on recent mortality data
- Use Club Vita analytics for a **tailored best estimate** based on members' characteristics
- Reflects that people with certain characteristics tend to live longer (women, non-ill-health retirees, higher affluence, non-manual workers)



Future improvements

- How life expectancy increases over time
- Shorter-term expectations reflecting recent trends
- Longer-term expectations reflecting historical trends **plus** evidence that improvements may be higher or lower than historical trend
- **Subjective** – wide range of possible outcomes

Evidence based baseline + informed future judgement

Baseline

2019 approach	Club Vita tables tailored to fit each individual member of the Fund
What's changed since the previous valuation?	Current assumptions capture the unique mix of people in your scheme using experience across the Club Vita database of similar individuals to identify a baseline longevity assumption for each member. But new evidence on longevity emerges yearly. Since your last valuation more data has been gathered and VitaCurves have been updated.
Proposed approach for the 2022 valuation	Adopt the latest member-specific Club Vita base tables – a consistent approach that captures a more up-to-date experience. We will make an appropriate adjustment to recent data to avoid the assumption being skewed by excess deaths due to Covid-19 in 2020 and 2021
Other comments...	The Covid-19 pandemic has unfortunately resulted in increased morbidity and death since 2020. It is likely that we will see higher than expected death experience since the 2019 valuation. This will result in a decrease in liabilities as the Fund will be paying out less pension than expected. However, our initial estimates for a typical LGPS fund suggest that the reduction in liabilities due to the higher number of deaths will only be a decrease of 0.1-0.2%

RECOMMENDATION:
Latest member-specific Club Vita mortality base tables, adjusted to avoid being skewed by Covid-19.

IMPACTS:

How long you expect to pay a pension to each member and their dependants.

SIGNIFICANCE:

Small change in base table to reflect up-to-date experience

Future improvements - recent experience snapshot

- Lower improvements in longevity at population over recent years, however more affluent pensioners have not seen the same level of slowdown. Adopting starting rates based on population-level data risks understating current rates of improvement for your members.
- COVID-19 meant 2020 death rates were significantly higher at population level than previous years.
- The immediate impact from actual experience over the period to a Fund's valuation date will be accounted for in the valuation data. However, for most schemes this impact is relatively low.
- There is uncertainty over how the Covid-19 pandemic will impact the course of future longevity improvements in the medium to longer term.
- This uncertainty means schemes should be wary of weakening mortality assumptions materially from those adopted previously.

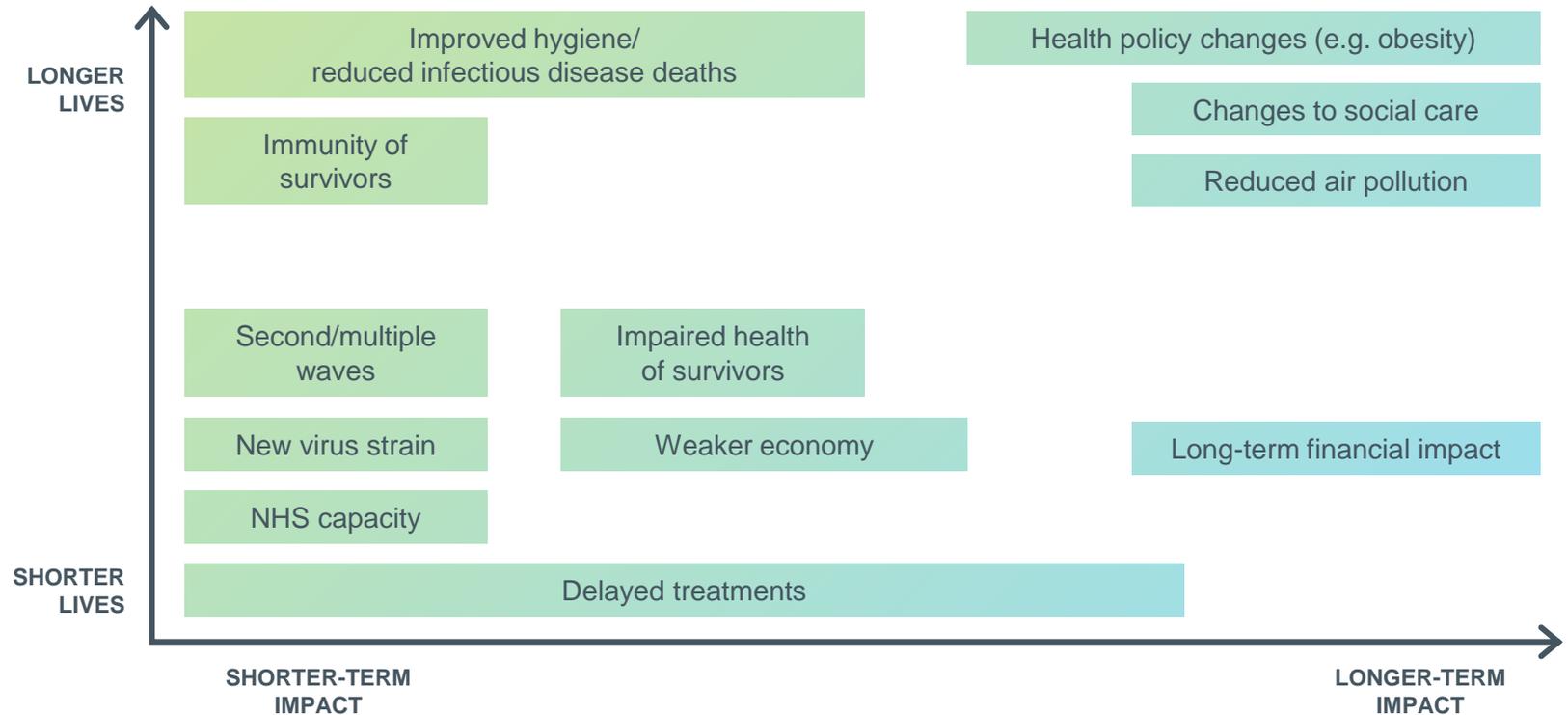
Headline rate of improvement (England & Wales)



Source: Annual improvement in standardised mortality rate, based on data from ONS for England & Wales, as published by the CMI alongside CMI_2020

Future improvements - future COVID-19 impact

- No consensus on the pandemic’s impact on mortality for pension schemes.
- CMI model now allows 2020 and 2021 data to be treated differently (or ignored), reflecting that it is an exceptional period not necessarily indicative of a future mortality rate trend.
- Most funds unlikely to make an explicit allowance at this time



Too early to judge future impact – points to no explicit allowance

Future improvements

2019 approach

The starting point is the Actuarial Profession's CMI model, which is updated annually with the latest observed mortality data. At the 2019 valuation we used CMI_2018 with default smoothing parameters, an initial addition of 0.25% for females/0.5% for males and long-term rate of improvement of 1.25% pa.

Use the latest available CMI model (CMI_2021) with the parameters adjusted as follows:

Weight placed on 2020 and 2021 experience (W parameters)

Given that both 2020 and 2021 have been significantly affected by the Covid-19 pandemic, **we would recommend that no weight is placed on data from these years**. This will avoid overstating the impact of the pandemic on long-term rates of improvements, as we have little evidence of the long-term effects at this stage.

Adjustment to observed data to reflect scheme membership (A parameter)

The A parameter allows users to adjust the starting point for the projections in the model to reflect the difference between the population-wide data used in the model and the Fund's own membership. Based on analysis carried out by Club Vita, we recommend using an A parameter of 0.25%.

Long-term improvement rate (LTR parameter)

Club Vita analysis suggests a reasonable long-term trend of 1.5% annual improvements in longevity. The strength of this recommendation has increased since the previous valuation and the arguments to keep it at 1.25% (e.g. the LGPS mechanisms which supposedly mitigate longevity risk like the Cost Cap) have weakened, so we now recommend using 1.5%.

Proposed approach for the 2022 valuation

RECOMMENDATION:

Latest available CMI model with an A parameter of 0.25%, long-term rate of improvement of 1.5% pa and no weight given to 2020 data.

IMPACTS:

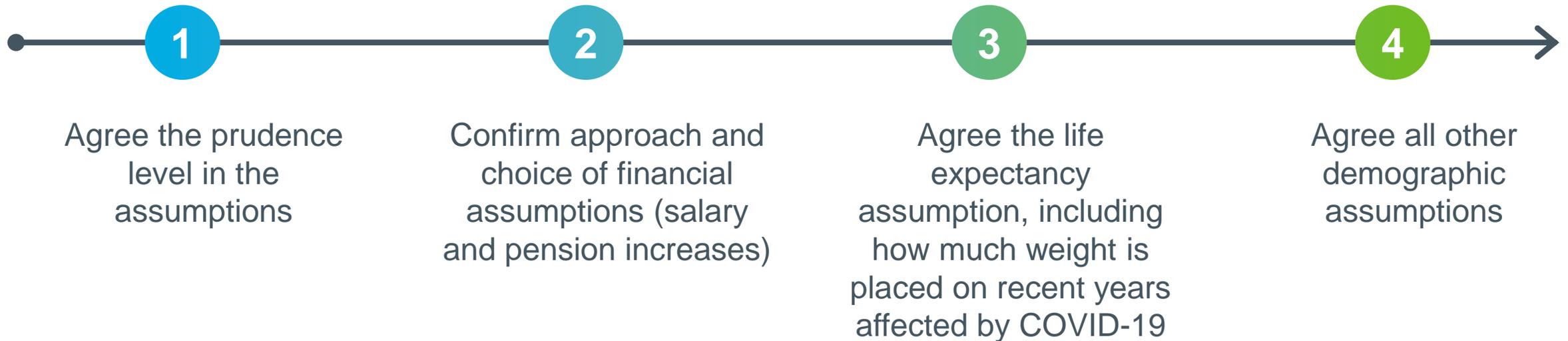
How long you expect to pay a pension to each of member and their dependants.

SIGNIFICANCE:

Increase liabilities by 1-2% vs 2019 assumption

Decisions and next steps

Decisions for today



The valuation process



Appendices

APPENDIX 1

Economic Scenario Service (ESS)

The ESS uses statistical models to generate a future distribution of year-on-year returns for each asset class e.g. UK equities. This approach is also used to generate future levels of inflation (both realised and expected). The ESS is also designed to reflect the correlations between different asset classes and wider economic variables (e.g. inflation).

In the short-term (first few years), the models in the ESS are fitted with current financial market expectations. Over the longer-term, the models are built around our long-term views of fundamental economic parameters e.g. equity risk premium, credit-spreads, long-term inflation etc.

The ESS is calibrated every month with updated current market expectations (a minor calibration). Every so often (annually at most), the ESS is updated to reflect any changes in the fundamental economic parameters as a result of change in macro-level long-term expectations (a major calibration). The following table shows the calibration at 31 March 2022.

	Annualised total returns																	Inflation (RPI)	Inflation (CPI)	17 year real yield (CPI)	17 year yield
	Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Unlisted Infrastructure Equity	Multi Asset Credit (sub inv grade)	Asset Backed Securities (AA rated) GBP	Asset Backed Securities (BBB rated) GBP	Direct Lending (private debt) GBP Hedged	CorpShort A	CorpMedium A	CorpShort BBB	CorpMedium BBB					
10 years	16th %ile	0.8%	-1.9%	-0.3%	-0.7%	-1.2%	-0.6%	-2.5%	0.7%	1.7%	1.1%	1.3%	2.7%	1.4%	-0.1%	1.3%	0.0%	2.4%	1.6%	-1.7%	1.1%
	50th %ile	1.8%	0.2%	1.1%	5.6%	9.4%	4.4%	5.8%	5.9%	3.5%	2.3%	2.9%	6.0%	2.4%	1.6%	2.7%	1.9%	4.1%	3.3%	-0.5%	2.5%
	84th %ile	2.9%	2.4%	2.4%	11.7%	20.1%	9.5%	14.4%	11.2%	5.2%	3.6%	4.5%	9.2%	3.4%	3.2%	3.9%	3.6%	5.7%	4.9%	0.7%	4.3%
20 years	16th %ile	1.0%	-1.5%	0.7%	1.5%	2.4%	1.4%	0.1%	2.6%	2.8%	1.5%	1.9%	4.3%	2.0%	1.1%	2.2%	1.3%	1.6%	1.2%	-0.7%	1.3%
	50th %ile	2.4%	0.1%	1.5%	6.1%	10.0%	5.0%	6.3%	6.5%	4.4%	3.0%	3.5%	6.8%	3.2%	2.1%	3.5%	2.5%	3.1%	2.7%	1.1%	3.2%
	84th %ile	4.0%	1.9%	2.2%	10.8%	17.6%	8.9%	12.8%	10.6%	6.0%	4.7%	5.4%	9.2%	4.6%	3.2%	5.0%	3.6%	4.7%	4.3%	2.7%	5.7%
40 years	16th %ile	1.2%	-0.3%	1.5%	3.1%	4.7%	2.6%	2.1%	3.9%	3.6%	1.8%	2.3%	5.5%	2.4%	2.0%	2.6%	2.3%	1.1%	0.9%	-0.6%	1.1%
	50th %ile	2.9%	1.2%	2.3%	6.5%	10.3%	5.5%	6.8%	7.0%	5.3%	3.5%	4.0%	7.7%	3.9%	3.1%	4.2%	3.4%	2.4%	2.2%	1.3%	3.3%
	84th %ile	4.9%	3.1%	3.5%	10.2%	16.1%	8.8%	11.7%	10.3%	7.1%	5.6%	6.3%	10.0%	5.8%	4.4%	6.2%	4.9%	3.9%	3.7%	3.2%	6.1%
	Volatility (Disp) (5 yr)	2%	7%	6%	19%	30%	15%	26%	15%	6%	3%	4%	10%	3%	7%	4%	7%	3%	3%		

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 40 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -2.2% (1.9%) to 1.3% (3.3%)

APPENDIX 2

The Fund's asset allocation

The table sets out the long-term strategic asset allocation we have used for the analysis of the future expected investment returns for the Fund and the subsequent discount rate recommendations.

This asset allocation was provided by the Fund's Investment Consultants at Hymans Robertson.

Asset class	Allocation
Global Equities	40.0%
Emerging Market Equities	5.0%
Property	6.0%
Private Equity	5.0%
Infrastructure Equity	8.0%
Corporate bonds	10.0%
Asset backed securities	6.0%
Private lending	13.0%
MAC	7.0%
Total	100.0%

APPENDIX 3

Additional detail on longevity assumptions

Longevity improvements – initial addition (A parameter)

The CMI model is based on England & Wales population mortality data. Evidence suggests that most members of an occupational pension scheme (e.g. the LGPS) have experienced higher improvements in life expectancy than the general population in recent years. The A parameter allows users to adjust the starting point for the projections in the model to reflect this differing experience.

To help set this parameter, Club Vita have undertaken some analysis to calculate mortality improvement rates split by socio-economic group. The results are shown in the table along with the England & Wales rates within the core CMI_2021 model.

This analysis is consistent with similar analysis performed by the CMI, which found higher longevity improvements in less deprived population groups (IMD deciles 8-10). These results are also shown in the table for comparison.

	Annualised mortality improvement (2013 – 2018)	
	Men	Women
England & Wales (core CMI)	0.9%	0.6%
Club Vita ‘Comfortable’	+0.3% vs. E&W	+0.5% vs. E&W
Club Vita ‘Making-Do’	+0.5% vs. E&W	+0.5% vs. E&W
Club Vita ‘Hard-Pressed’	-0.2% vs. E&W	+0.7% vs. E&W
CMI analysis IMD deciles 8-10 (more affluent)	+0.1% vs E&W	+0.4% vs E&W

Both analyses show that in recent years, more affluent individuals have enjoyed higher than average improvements in life expectancy. It is these individuals that also tend to dominate the liabilities of the Fund.

The majority of the Fund’s liabilities relate to those members in the making-do and hard-pressed groups, corresponding roughly to IMD deciles 8-10. Based on the figures above, we recommend using the A parameter to adjust the starting point in the CMI model by 0.25%.

APPENDIX 3

Additional detail on longevity assumptions

Longevity improvements – long-term rate (LTR)

Life expectancy has improved consistently since at least the turn of the 20th century thanks to many factors such as better public health, improved medical treatments, better diet and lower rates of smoking.

We need to consider how (or if) the improvements we have seen in recent years will continue into the long-term. As a starting point, the recent trend (which is arguably the most informative for us) suggests a long-term rate of between 1.25% and 1.5% p.a..

The table on the right summarises possible future drivers of change in the long-term rate of improvement compared to this level.

Slide 26 also included factors specific to Covid-19, and Club Vita have also considered [Covid-19](#) and [Climate Change](#) in detail.

Higher future improvements	Lower future improvements
Stronger government intervention – e.g. to reduce alcohol or red meat consumption	Less scope for future ‘gentrification’ – i.e. the change in affluence levels of pensioners can’t keep increasing at the rate it has done
Medical innovation – as we have seen with the development of new Covid-19 vaccines. Could also include “super drugs” that tackle multiple diseases at once	Smoking – the benefit from widespread quitting has already happened and can’t happen again
Anti-ageing treatments and regenerative medicine – could become a reality	Obesity – rates may increase leading to poorer health in retirement
Climate change – could lead in the UK at least to milder climates and fewer cold-weather deaths	Super-bugs – antibiotic-resistant diseases could make routine medical procedures and treatments untenable
	Climate change – could lead to resource scarcity, higher food prices, less availability of fresh food, etc

APPENDIX 4

Reliances and limitations

This paper is addressed to London Borough of Barnet as Administering Authority to the London Borough of Barnet Pension Fund. It has been prepared in our capacity as actuaries to the Fund and is solely for the purpose of discussing the assumptions for the 2022 formal valuation and setting out our recommendations. 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).

The assumptions in this document are for the Fund's ongoing employers. Different assumptions may be used for some employers (e.g. more prudent assumed investment return or more prudent longevity improvements assumptions) in particular circumstances. If required, these will be discussed and agreed as part of the 2022 valuation process and will be set out in the Funding Strategy Statement.

The following Technical Actuarial Standards are applicable in relation to this advice, and have been complied with where material and to a proportionate degree: TAS100; and TAS300.

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
Inflation	The term for that prices in general tend to increase over time. It can be measured in different ways, with different measures using a different “basket” of goods and using different mathematical formulae.
Liability/ies	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 connected to that employer. The 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 given 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.
RPI inflation	The annual rate of change of the Retail Prices Index. RPI is no longer linked to any LGPS benefits. It still has many legacy uses, notably to determine the payments to holders of index-linked government bonds.
Time horizon (or Horizon)	The period over which we require each employer in the Fund to reach full funding. The Time Horizon is typically long (up to 20 years) for employers who we expect to be in the Fund for the long-term (e.g. local authorities and academy schools) and shorter for employers who are expected to leave (e.g. contractors or employers who don’t admit new staff to the LGPS).
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.