2013 Valuation: Academies

Valuation Results Briefing

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- 6 March 2014

PUBLIC SECTOR

Agenda

- Pension basics
- Background to the valuation
- Assumptions
- Valuation results

Pension basics

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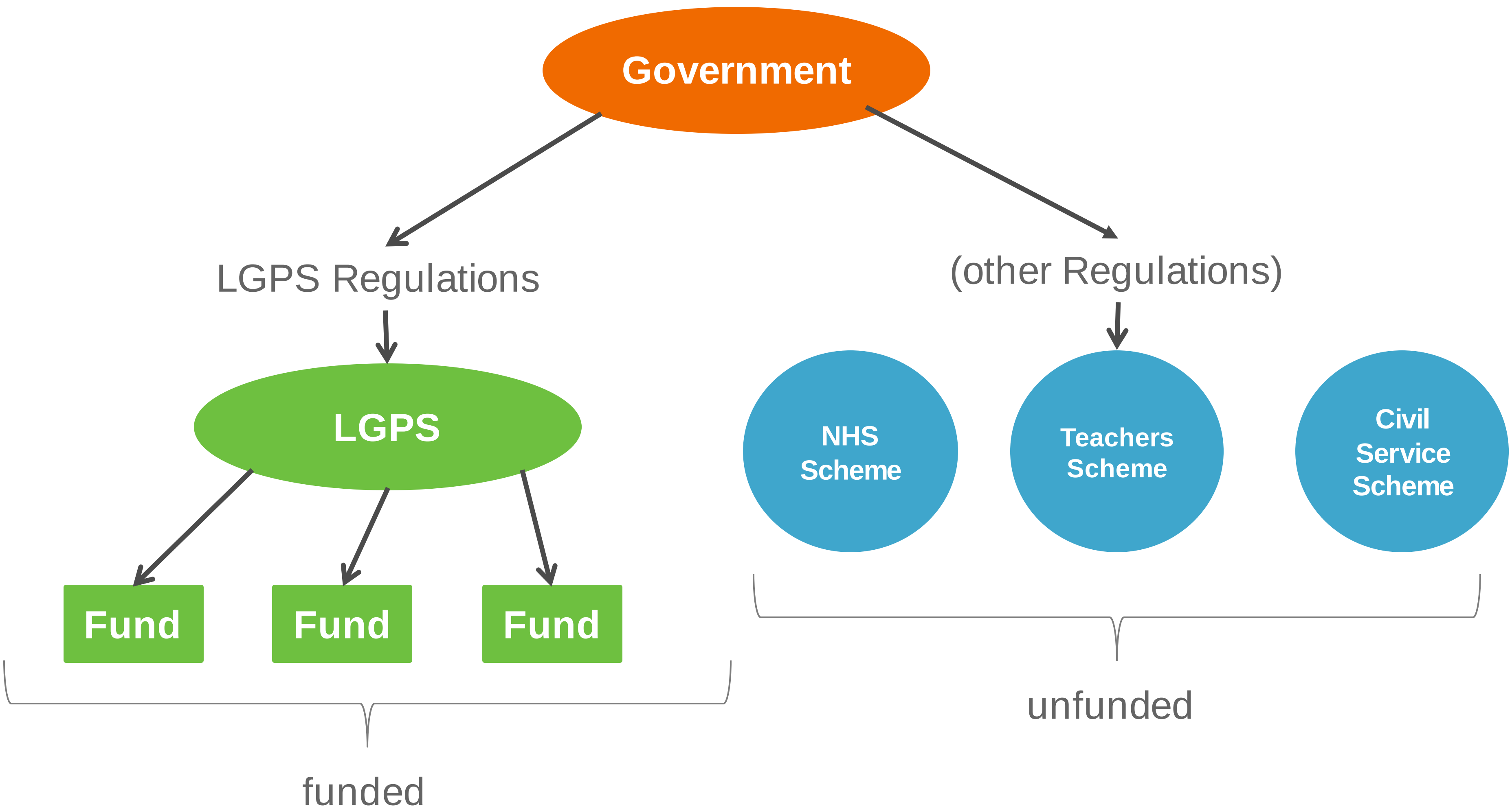
Pensions background



Teachers Pension Scheme

Academy

Contributions

Set by Government Actuary's Department (GAD)

Contributions

Benefits

Government (nothing else for Academy to do)

... But LGPS is a different animal ...

Local Government Pension Scheme

Administering Authority

Academy

Contributions

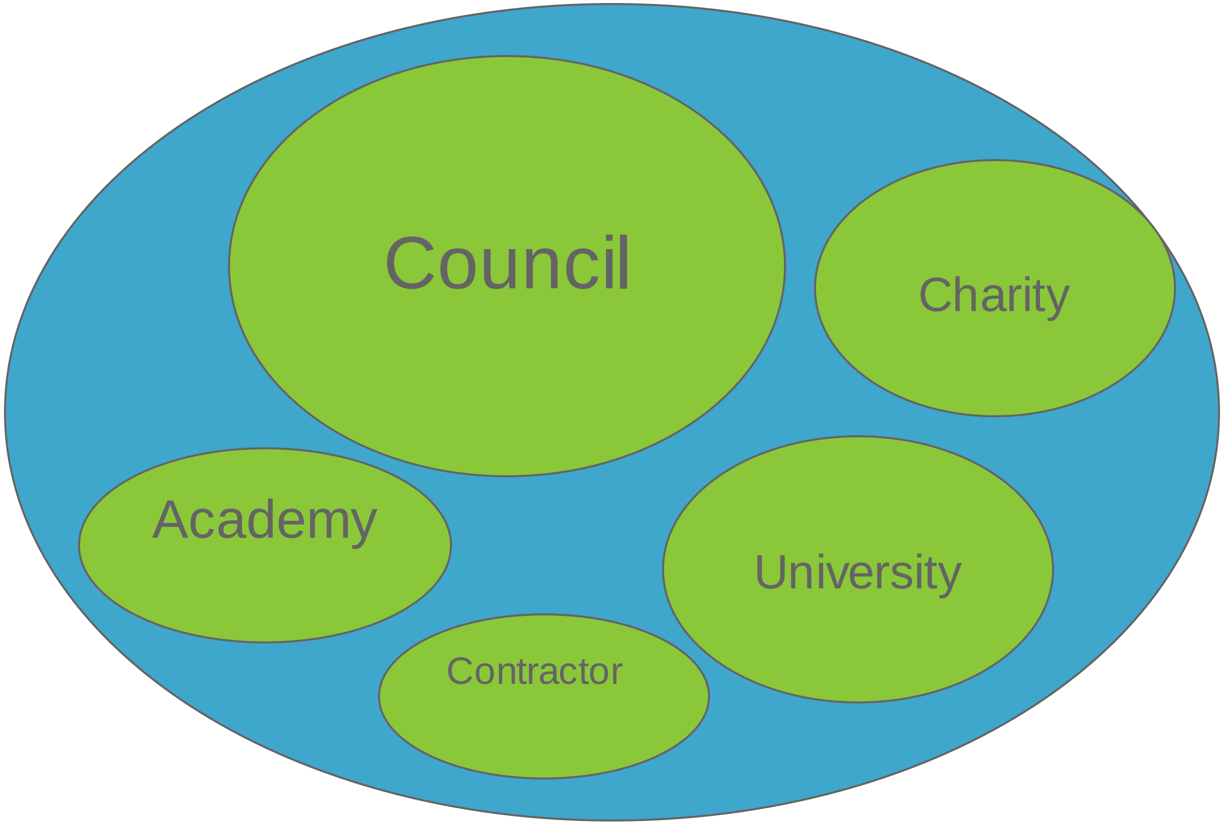
Set by Fund Actuary

Contributions

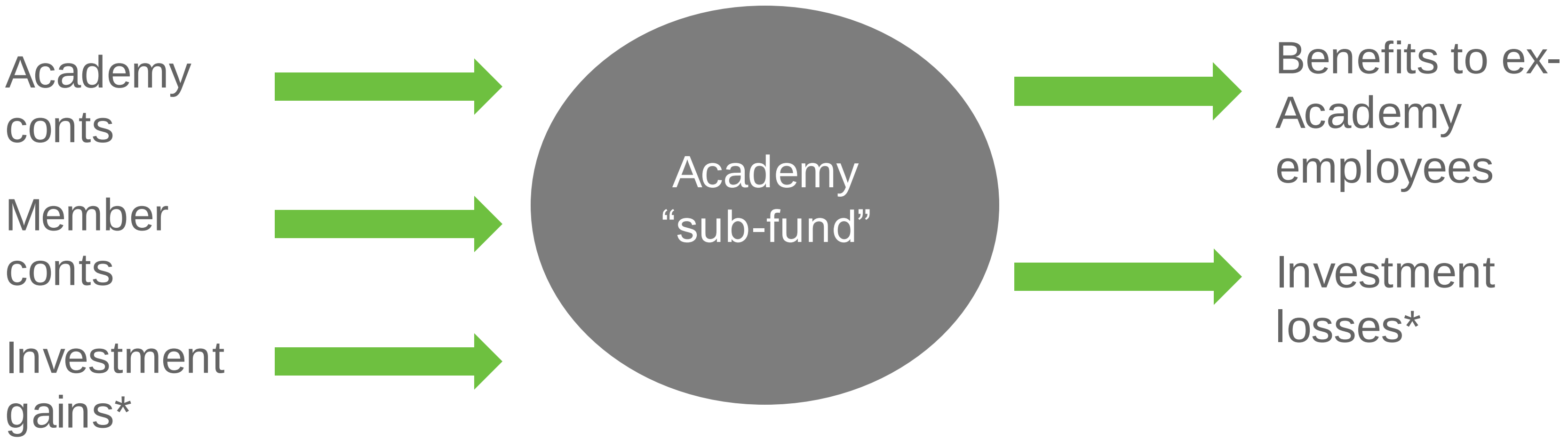
Benefits

Pension Fund

A LGPS fund is one big pot of assets…



..but each employer's share of assets is individually tracked

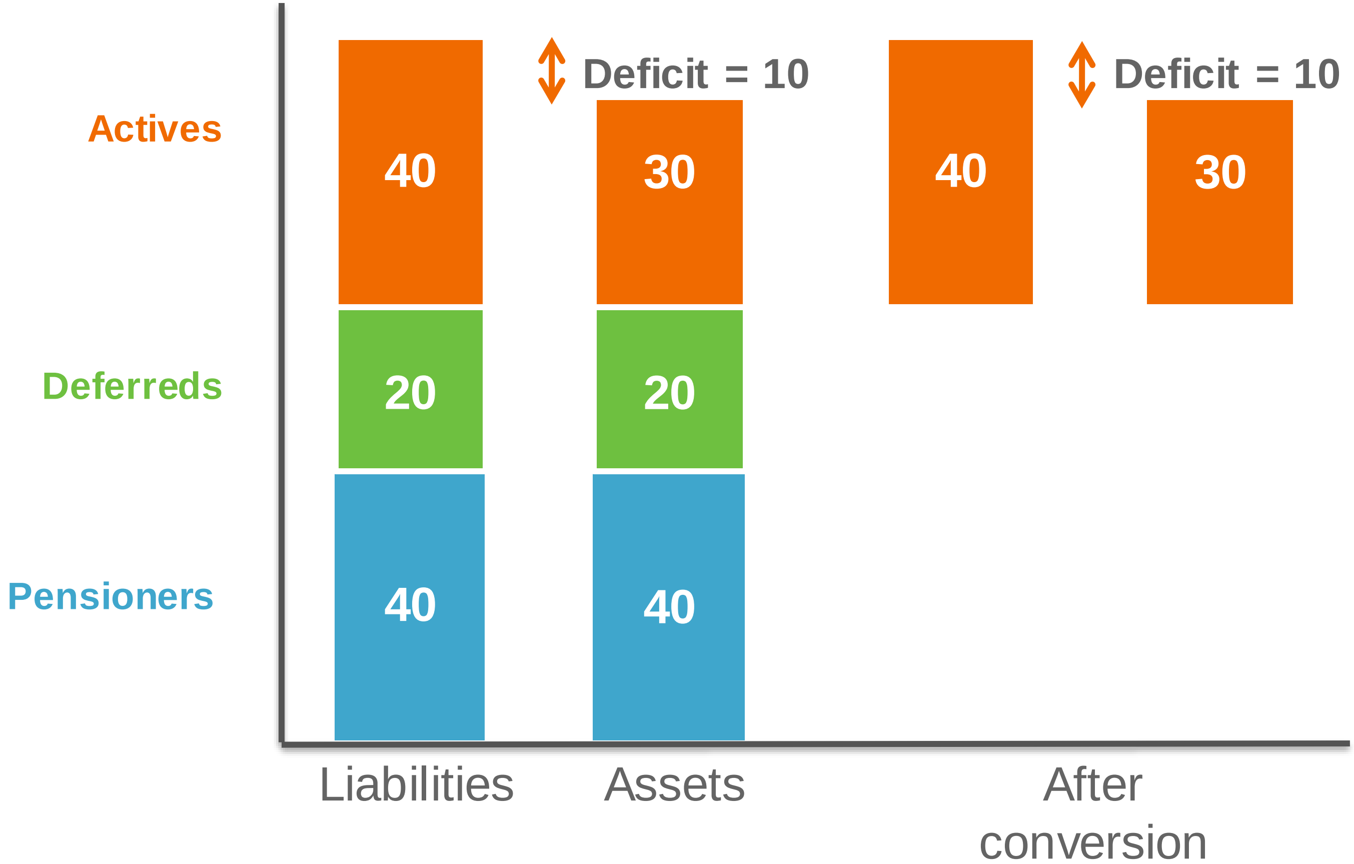


Avoids cross subsidies between employers

* Actual amounts will vary depending on period since joining the Fund

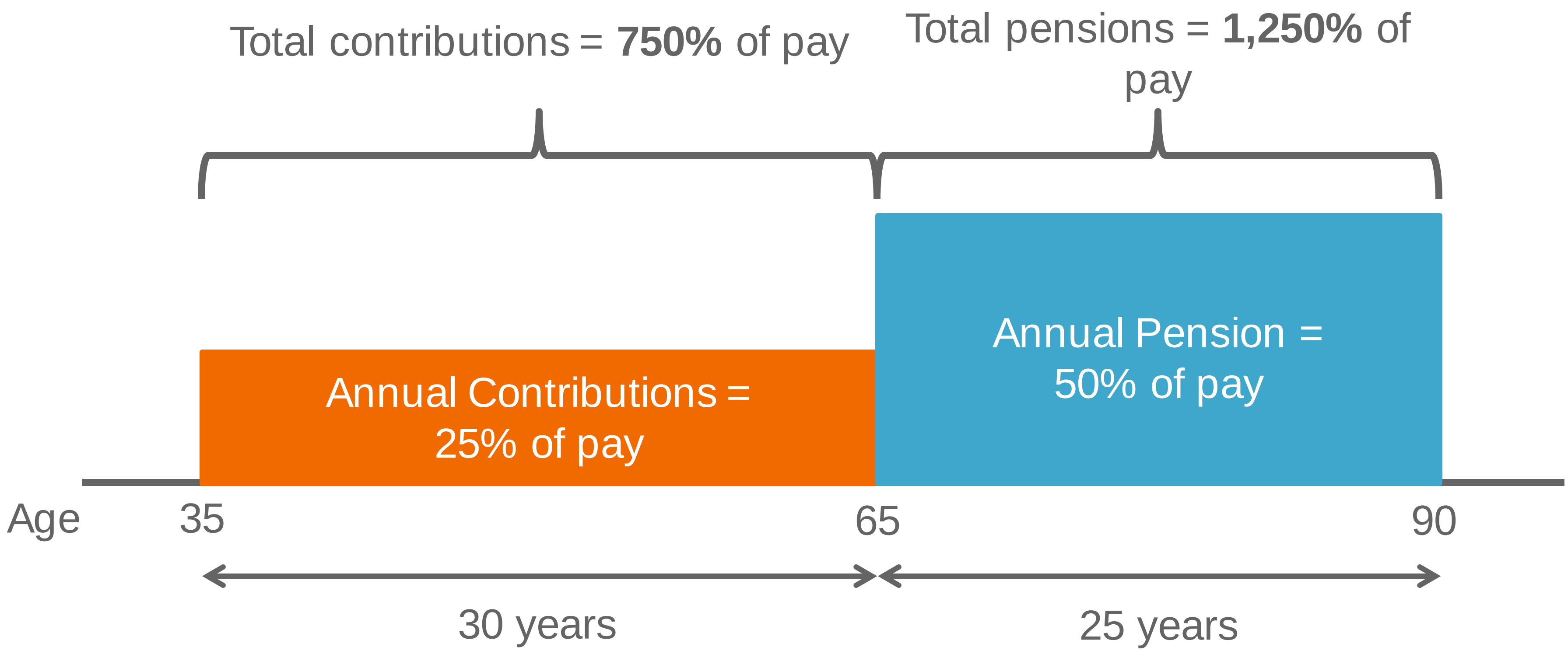
Q: Why do we start with an historic funding deficit?

A: It is set to be fair to all Fund employers.



Deficit unchanged after conversion

Meeting the benefit promise



Investment returns fill the 'gap'

Employer contribution rates

Expressed as a % of pay

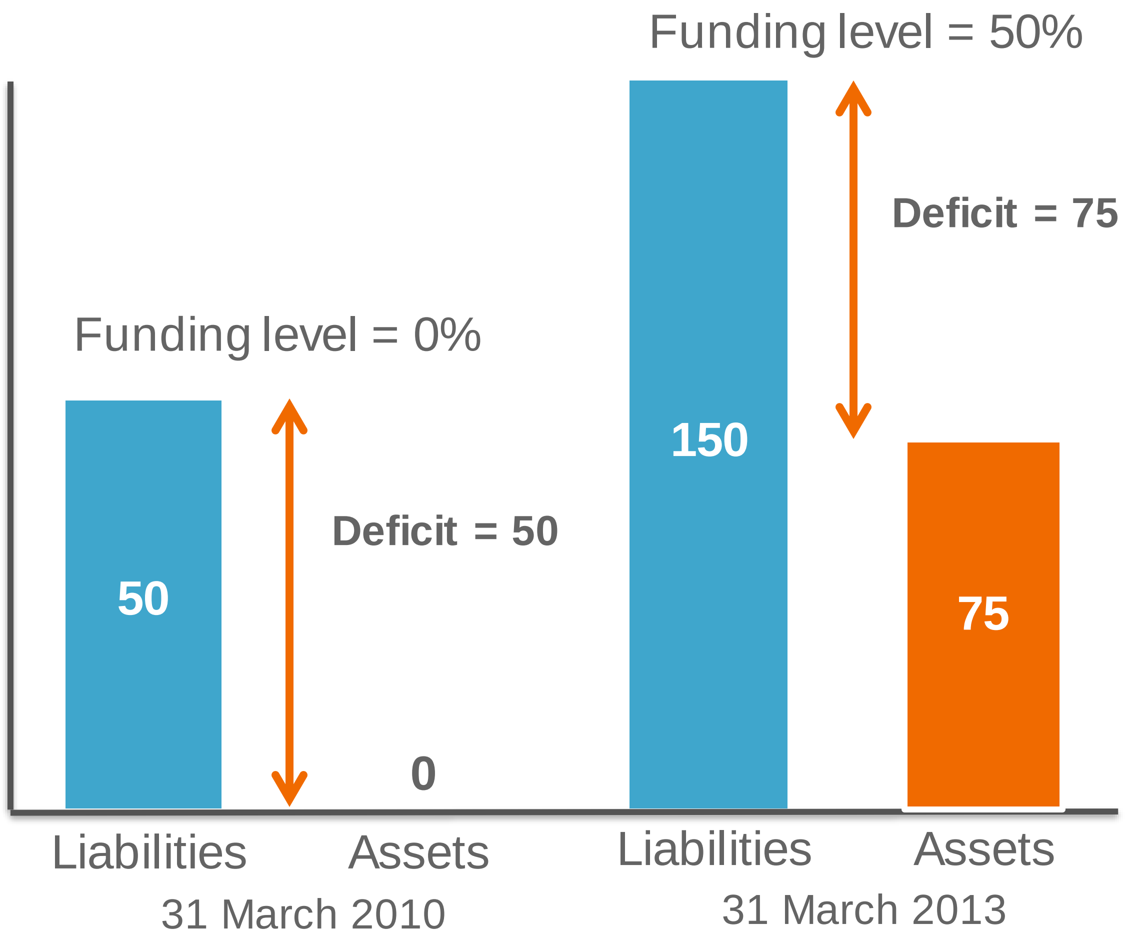
Future Service Rate

+

Deficit Recovery

Monetary amount in most cases

Funding level in isolation can be misleading



Focus on the deficit amount instead of the funding level

Background to the 2013 valuation

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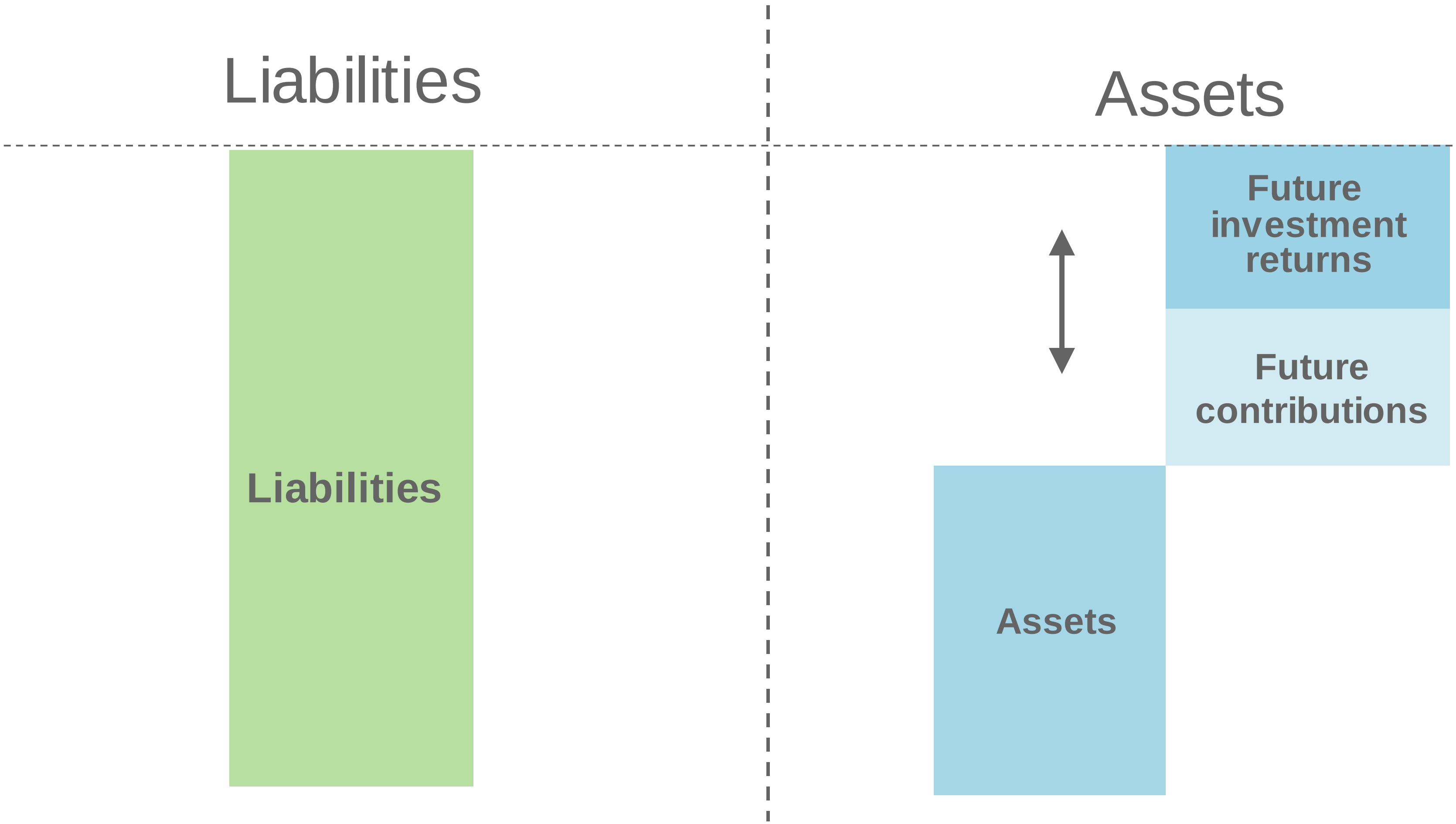
Why do we do a valuation?

- Compliance with legislation
- Recommend contribution rates
  - Common rate
  - Individual employer rates
- Determine money needed to meet accrued liabilities
- Calculate solvency ("funding level")
- Monitor experience vs. assumptions
- Manage risks to Fund and employers

Review the Funding Strategy Statement (FSS)

Achieving the objective



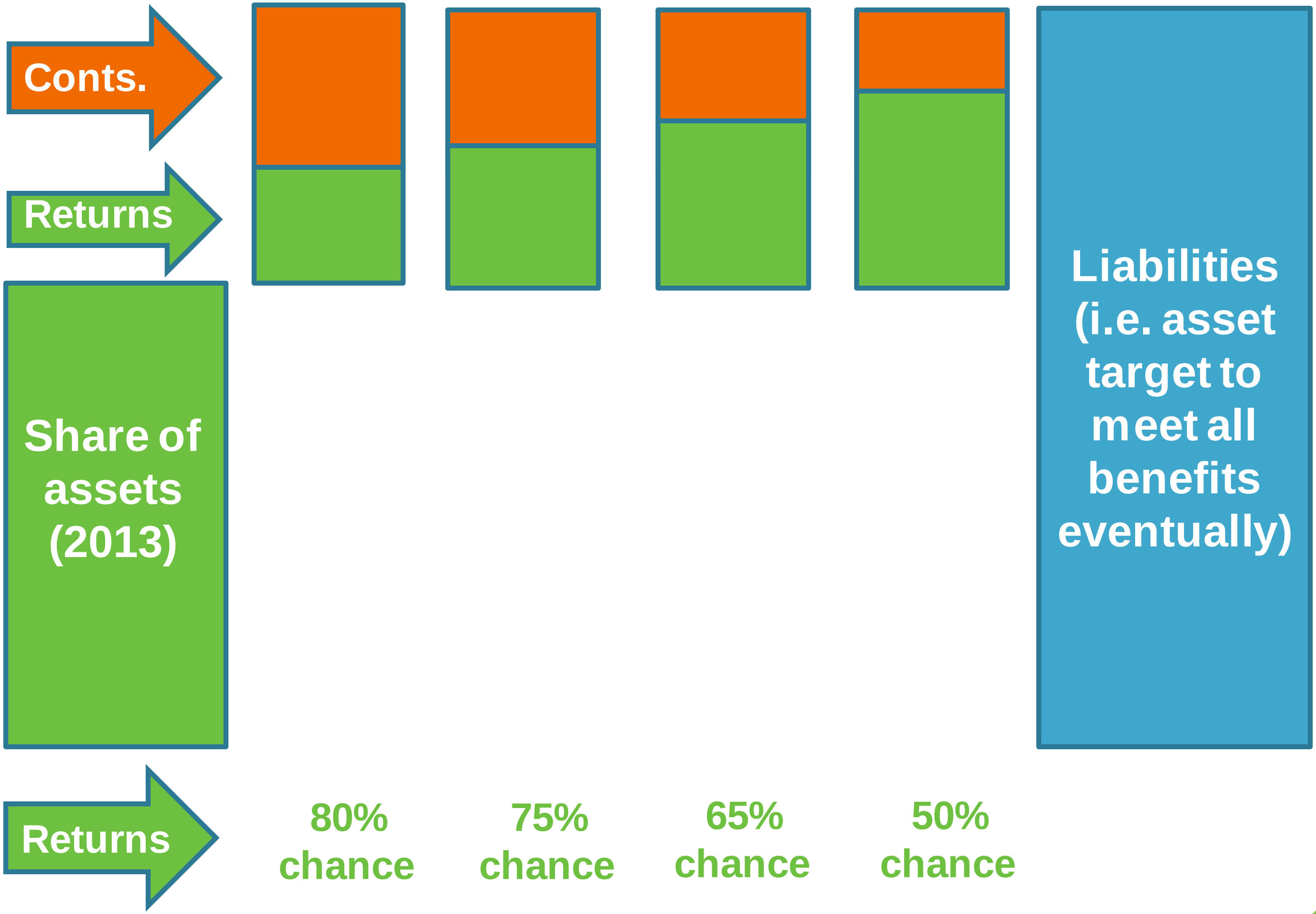
Assumptions

Long term assumptions

- Financial (size of benefits)
  - Salary increases
  - Pension increases
  - Discount rate

- Demographic (timing of benefits)
  - Longevity
  - Early leavers
  - Retirement age
  - Dependants

Prudent expectation of investment returns



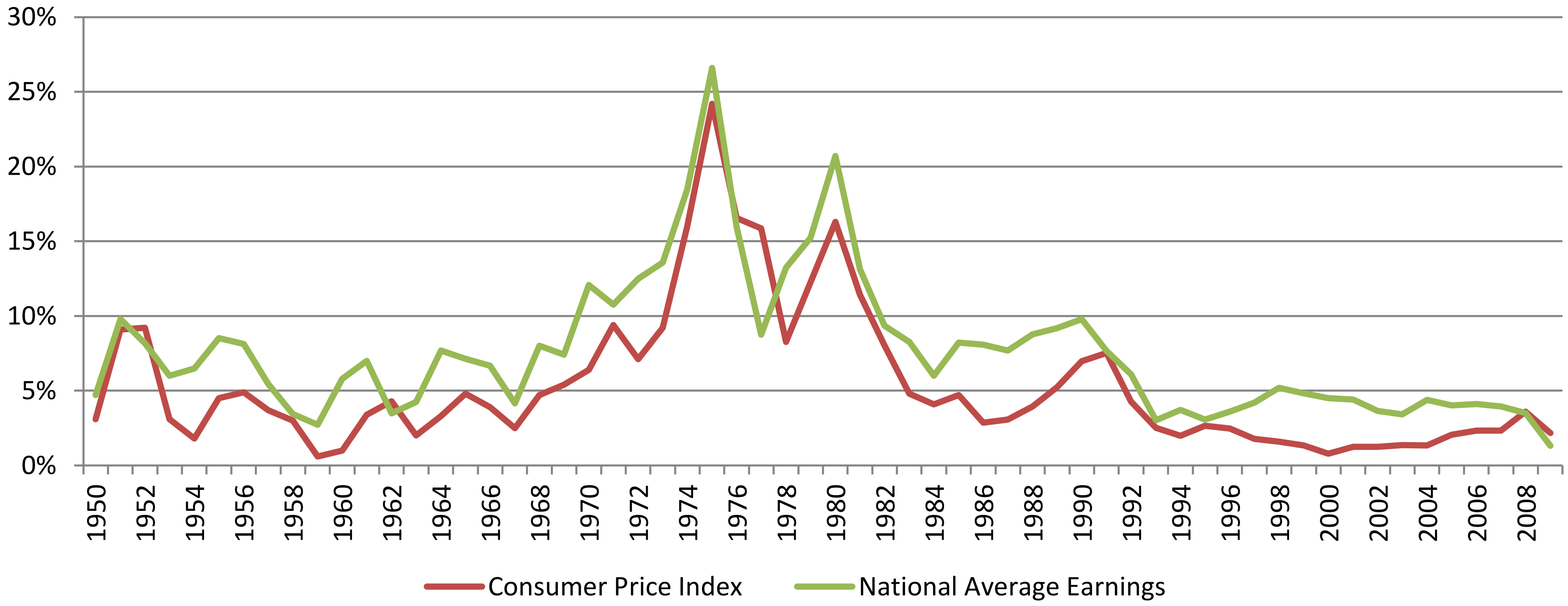
Pension Increases

- Pension increases measured against CPI
- There is no consistent measure of future CPI
- But there is for RPI

2013 Valuation CPI = RPI - 0.8%

Long term salary increases

- NAE vs CPI from 1950

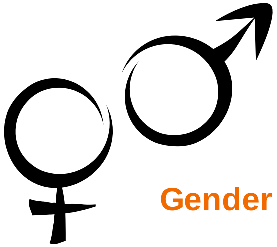


- 2010: RPI + 1.5%, 2013: RPI + 1%

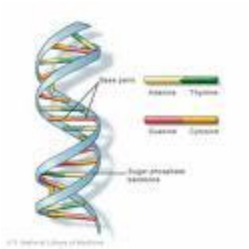
Source: BoE, The UK recession in context — what do three centuries of data tell us?

What affects mortality/longevity?

Age



Gender

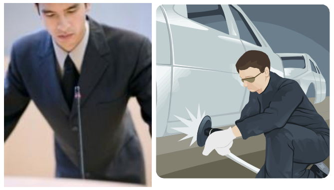


Genetics

Health

Fitness

Wealth



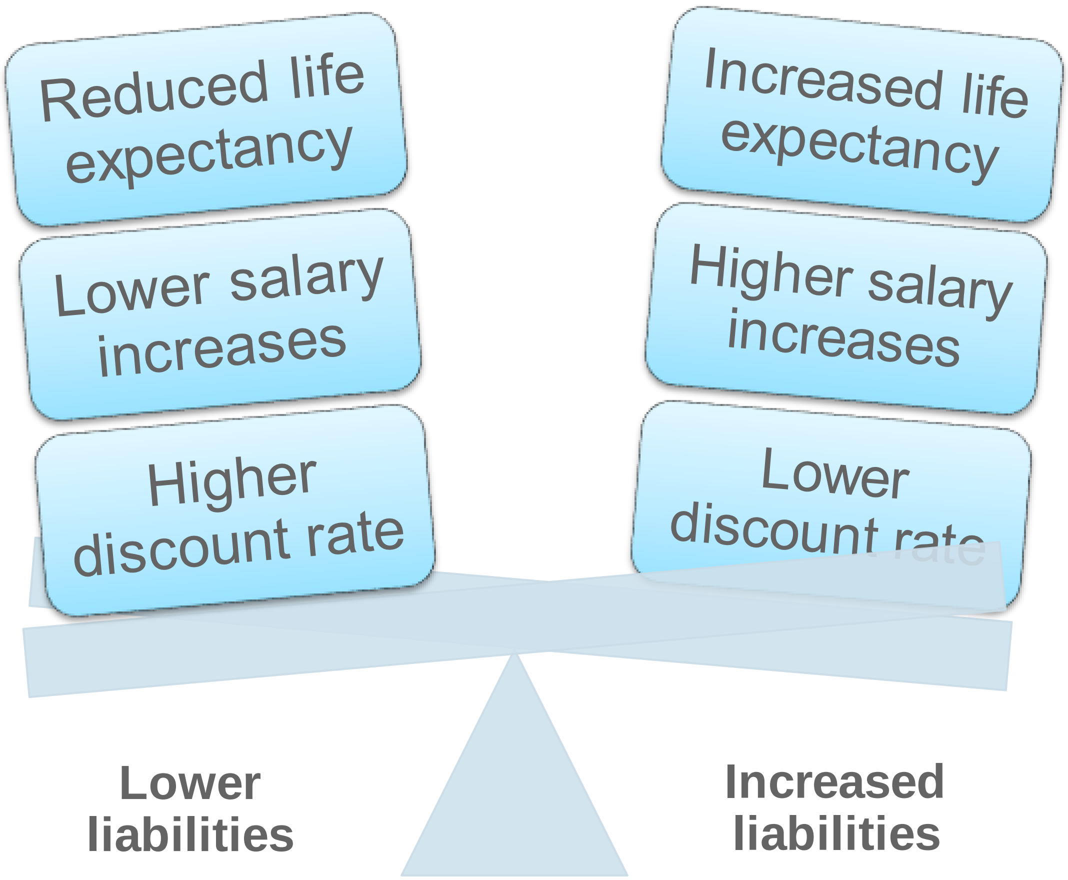
Blue or white collar?

Marital status

Where you live

Smoker?

Balancing assumptions



Balancing reality against prudence

Valuation vs Accounting

	Formal Valuation	FRS17
Purpose?	Health check + setting contribution rates	Accounting only
Frequency	Triennial	Annual
Prescribed assumptions?	Not prescribed	Partly prescribed
Who sets the assumptions?	The Fund	Employer
Level of prudence?	Prudent	Best estimate

Valuation results

Summary: deficits mostly up

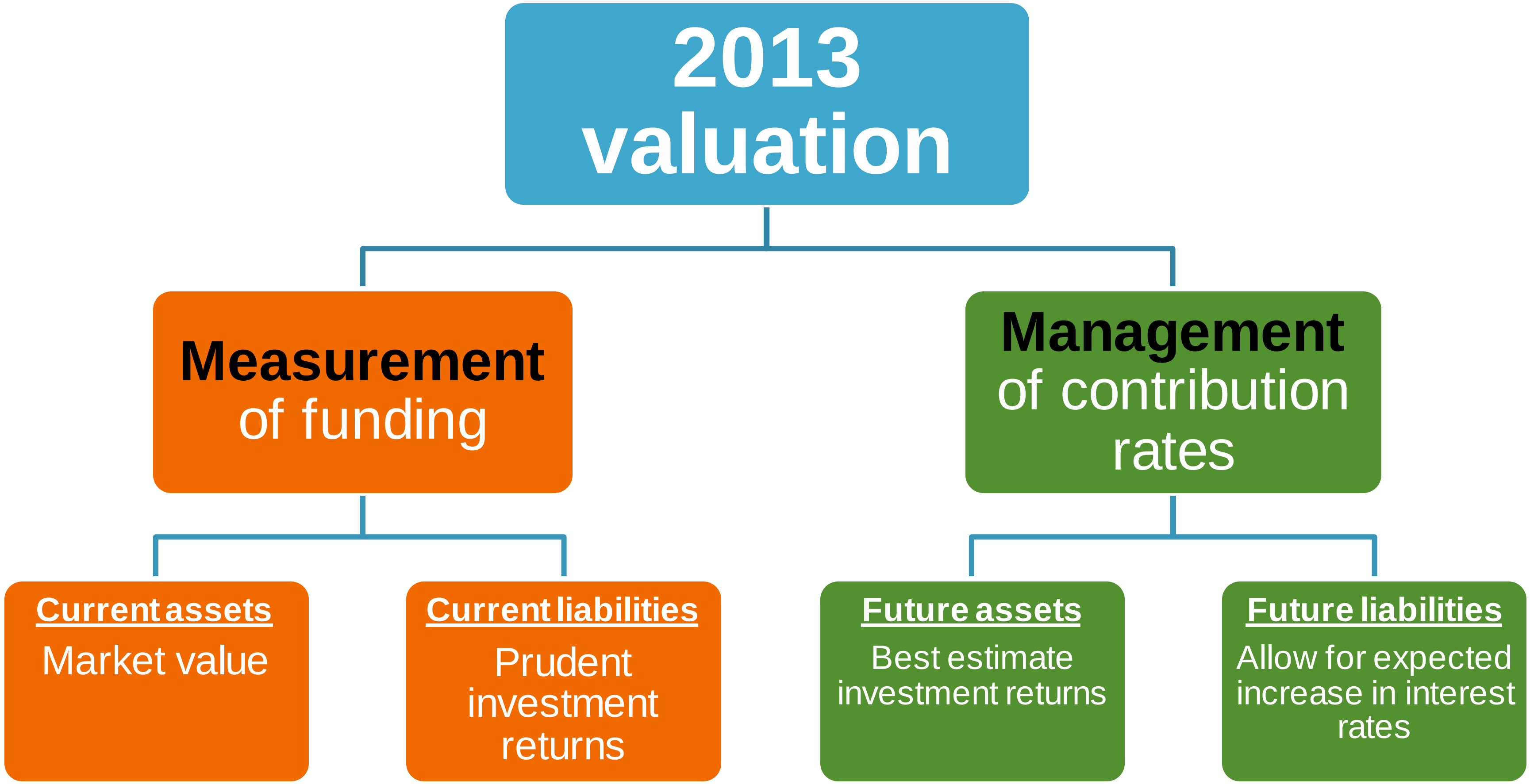
Key driver	Deficit	Contribution rate	
Market conditions (net discount rate)	↑	↑	☹
Investment returns	↓	↓	☺
Life expectancy	↑	↑	☹
Member experience	↓	↓	☺
New LGPS 2014	↔	↓	☺
Overall Impact	↑	↑	☹

Whole Fund results

Past Service Position	31 March 2010 (£m)	31 March 2013 (£m)
Past Service Liabilities	1,328	1,798
Market Value of Assets	1,099	1,379
Surplus / (Deficit)	(229)	(419)
Funding Level	**82.8%**	**76.7%**

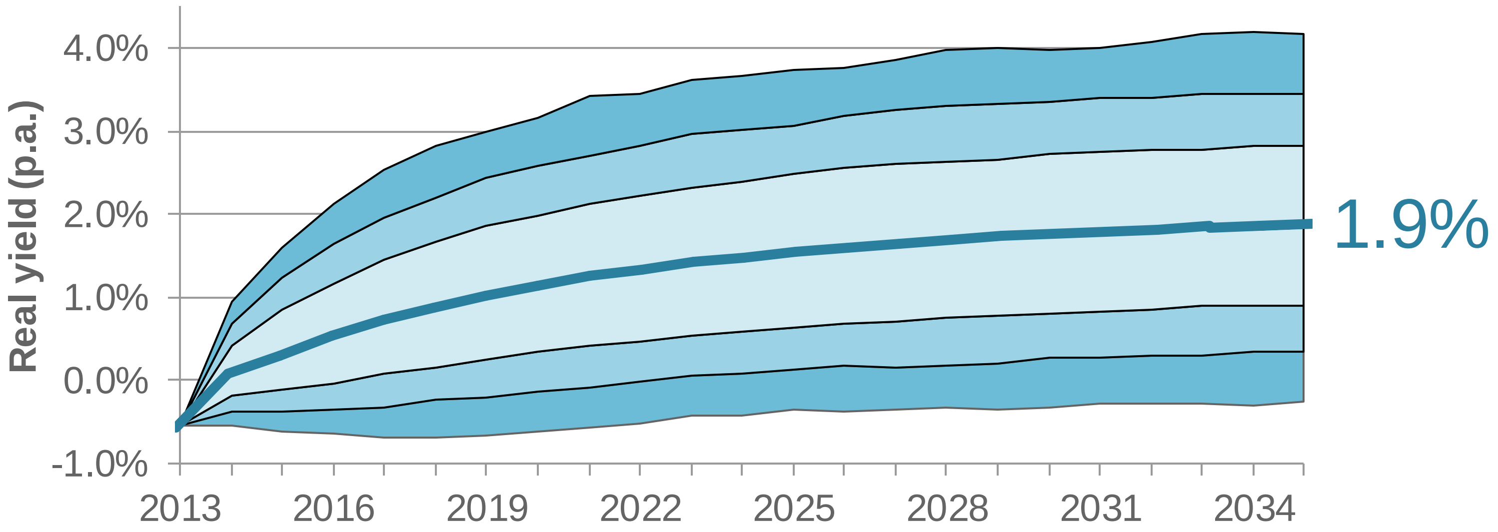
Contribution Rates	31 March 2010 (% of pay)	31 March 2013 (% of pay)
Employer future service rate (incl. expenses)	12.8%	19.5%
Past Service Adjustment (19 year spread)	4.8%	9.6%
Total employer contribution rate (incl. expenses)	17.6%	29.2%
Employee contribution rate	6.4%	6.1%
Expenses	0.6%	0.6%

Valuation approach



Risk based approach for long term bodies (incl. academies)

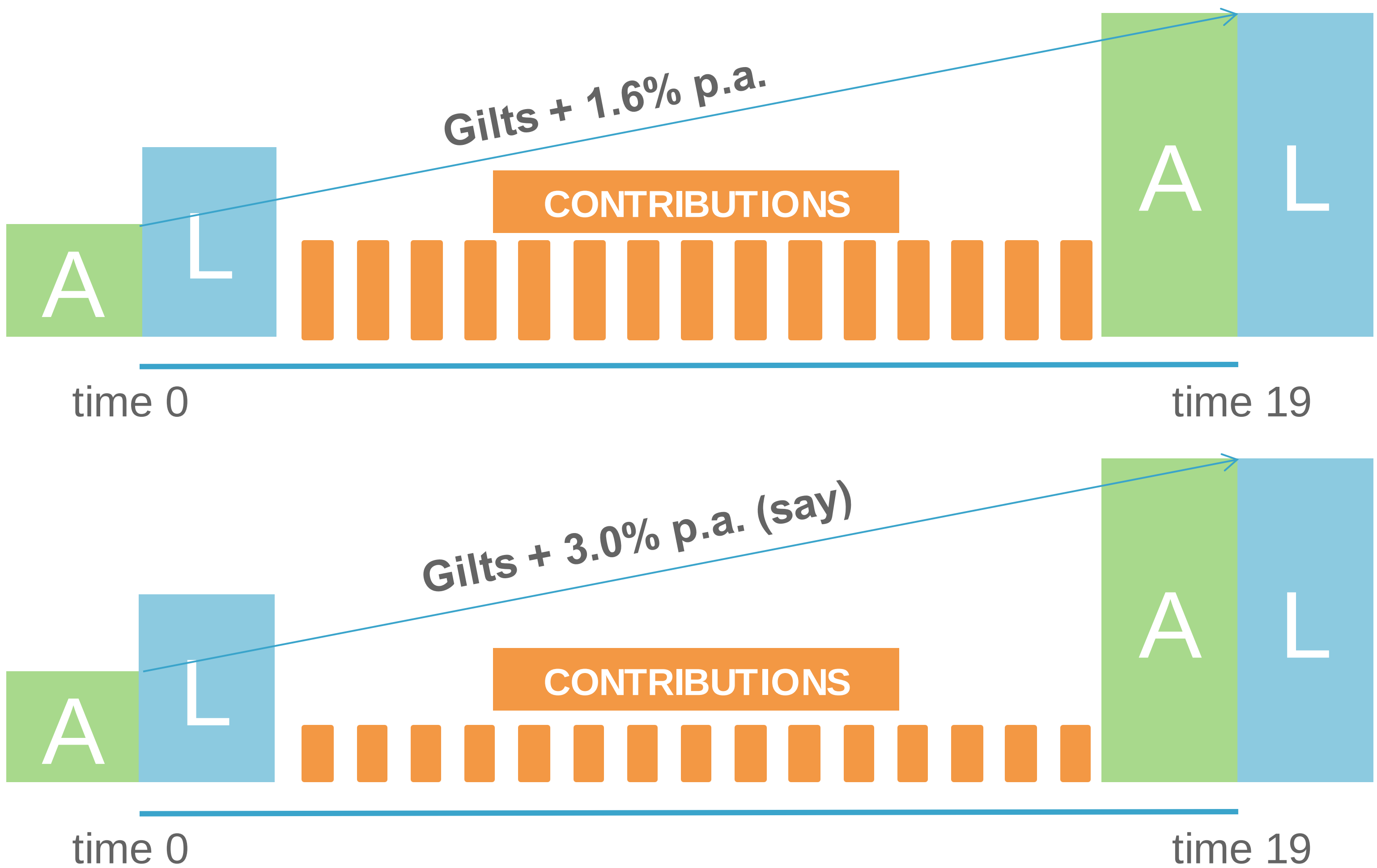
Allowing for expected increase in interest rates



- Recognise that interest rates are currently very low
- Allow for interest rates to rise in the future

Higher interest rates = lower cost of benefits

Best estimate investment returns



Higher investment income = less contributions required

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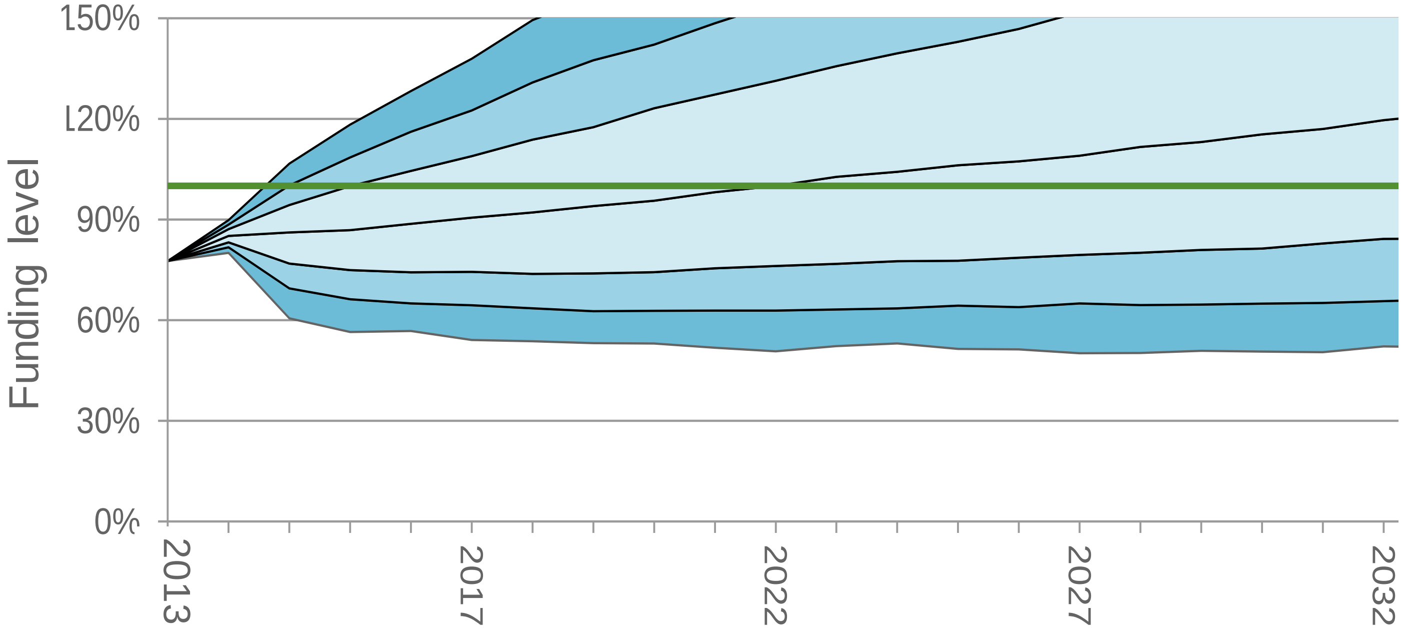
Risk based approach to contribution rates

- Q: What contribution rate should be paid to have a 70% chance of achieving 100% funding in 19 years time?
- A:



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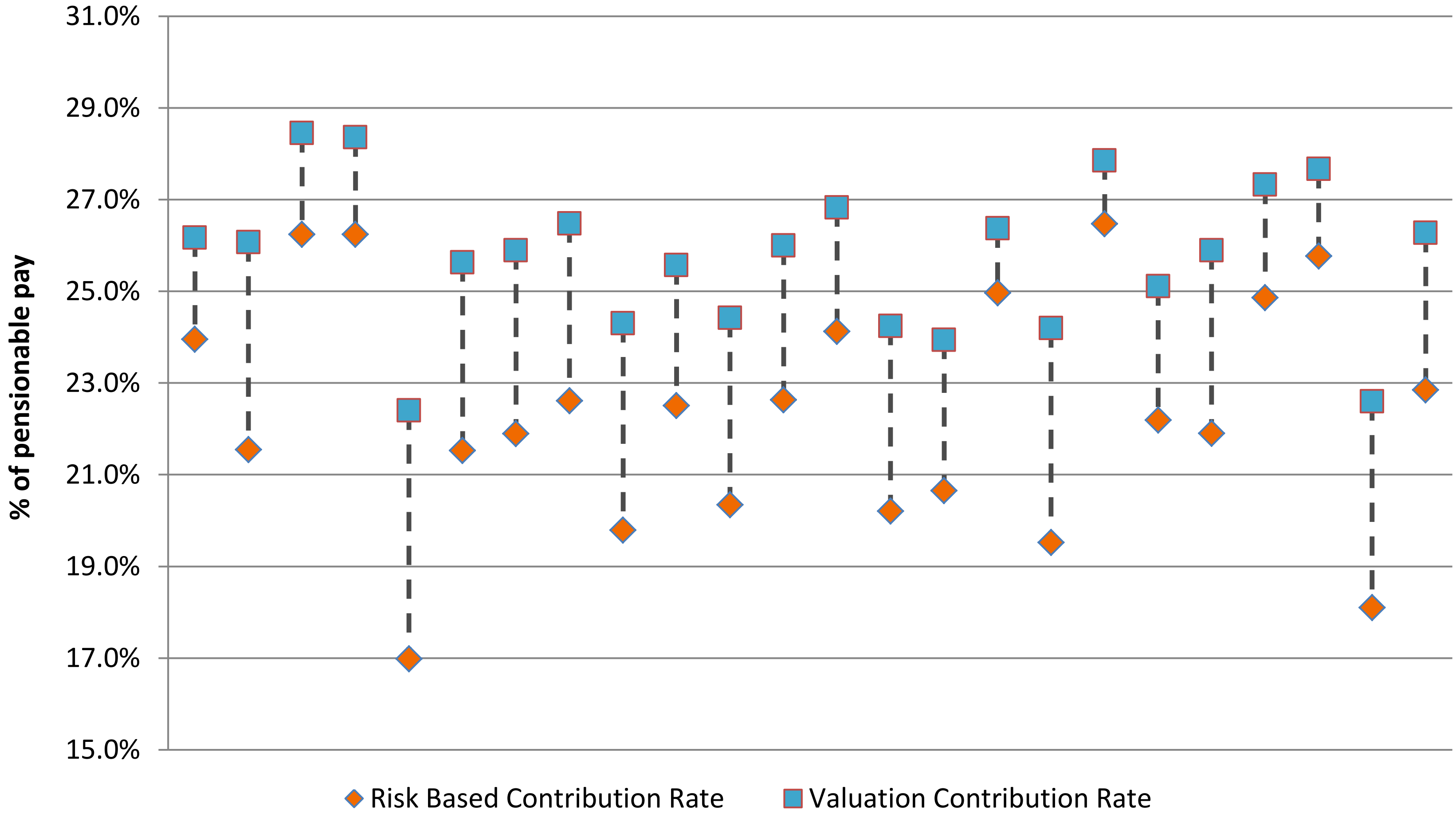
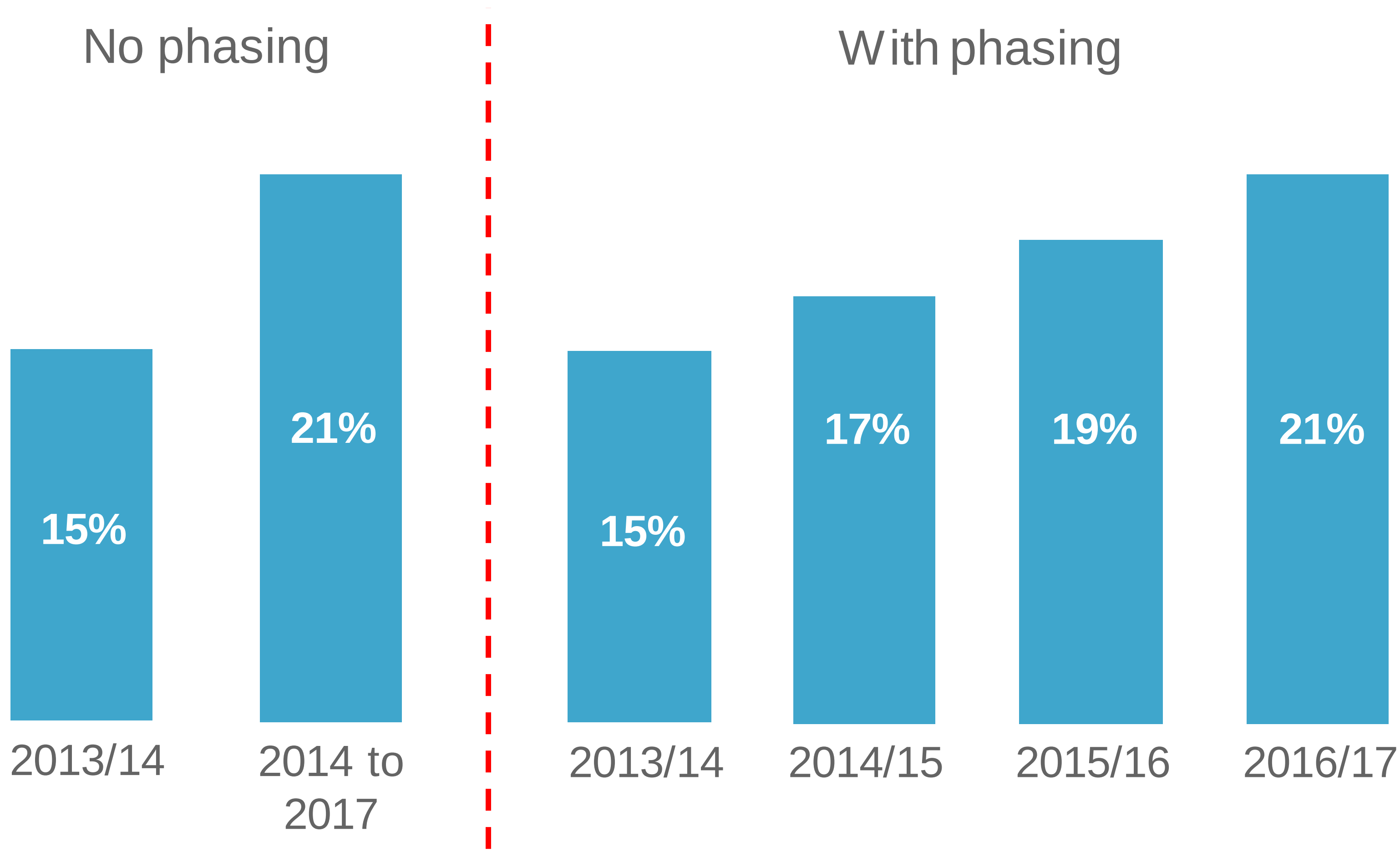
Academy contribution rates



Average reduction of 3.3% of pay

Phasing



Gradual increase in rates over next 3 years

Comparison with WCC

	2014/15	2015/16	2016/17
Academy average	19.7%	20.9%	22.0%
WCC	16.8%	17.5%	18.3%

- Similar approach taken for both WCC and academies when setting contribution rates
  - Risk based approach
  - 19 year recovery period
- Difference in rates reflect the higher risk academies pose to the Fund and different membership profiles
- WCC has tax raising powers to fund unanticipated pension costs

CLG consultation

- Some funds were not treating academies fairly (in the eyes of DfE/DCLG)
- Consultation launched investigating the issue of academies in the LGPS
- Various options being considered e.g. pooling
- Deadline for responses has passed
- Current feeling that no guidance will be issued

Thank you

Any questions?