

Warwickshire County Council Pension Fund



The 2013 actuarial valuation

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Agenda

- Background to valuation



- The key assumptions



- Where we were and where we are now



- Warwickshire's valuation results



- And finally...



Quiz

1. For how long did Warwickshire's famous son William Shakespeare live?
 - a) 43 years old
 - b) 68 years old
 - c) 52 years old
2. If Shakespeare was born today, how long would we expect him to live?
 - a) 75 years old
 - b) 82 years old
 - c) 97 years old
3. How many employees are in the scheme?
 - a) 9,000
 - b) 15,500
 - c) 22,000

4. ...and how many pensioners?

- a) 7,600
- b) 5,100
- c) 10,700

5. How many children are in receipt of a pension in the scheme?

- a) 125
- b) 75
- c) 45

6. How many participating employers are there in the scheme?

- a) 52
- b) 101
- c) 72

7. What is the average full-time salary of a contributing member?
- a) £18,000
 - b) £25,000
 - c) £20,000
8. What is the largest pension in payment in the scheme?
- a) £97,000
 - b) £61,000
 - c) £47,000
9. What do the initials CARE stand for?
- a) Career Average Retirement Entitlement?
 - b) Compound Accrual Retirement Evaluation
 - c) Career Average Revalued Earnings

10. What was the value of the assets of the Scheme at 30 June 2013?

- a) £1.82bn
- b) £1.36bn
- c) £1.25bn

11. What is the highest point in the area that is covered by the Warwickshire Pension Fund?

Ebrington Hill

12. Who was imprisoned in Warwick Castle in 1469?

- a) King Edward IV
- b) Richard III
- c) William the Conqueror





Background to the valuation





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)



Funding Strategy Statement

➤ Purpose

- establish a clear and transparent fund-specific strategy,
- maintain stable employer contribution rates,
- take a prudent longer-term view of funding.

➤ Consider

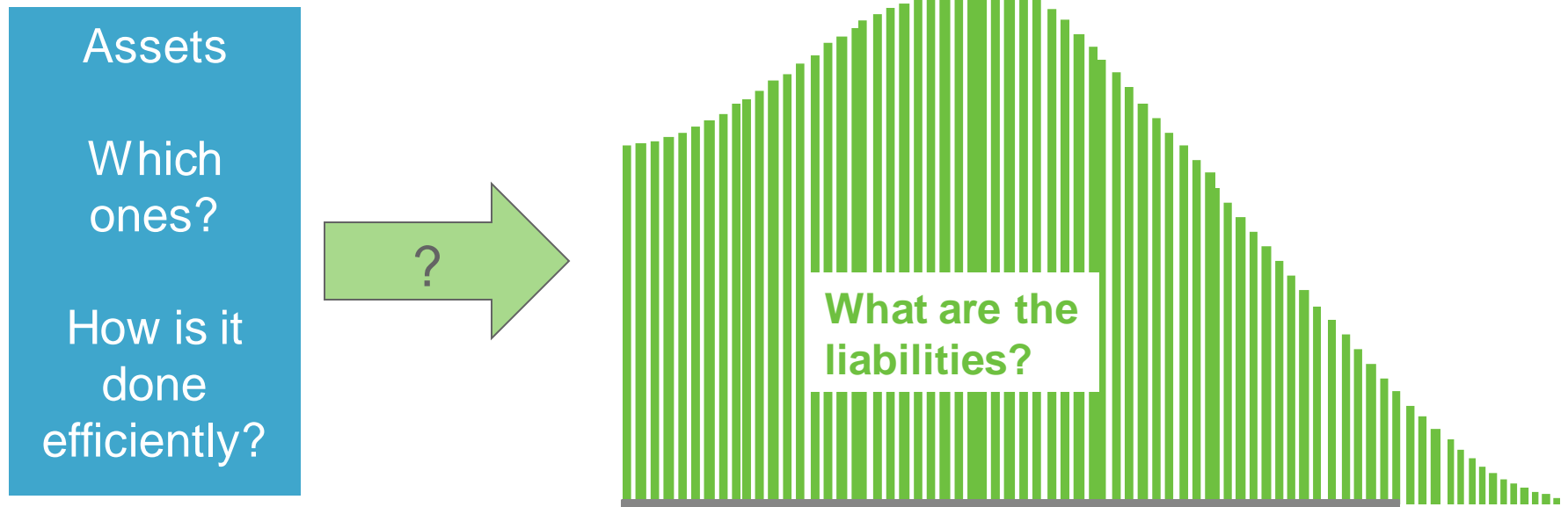
- strength of employer covenant
- funding risks and controls
- inter-valuation monitoring

➤ Links to investment strategy - SIP

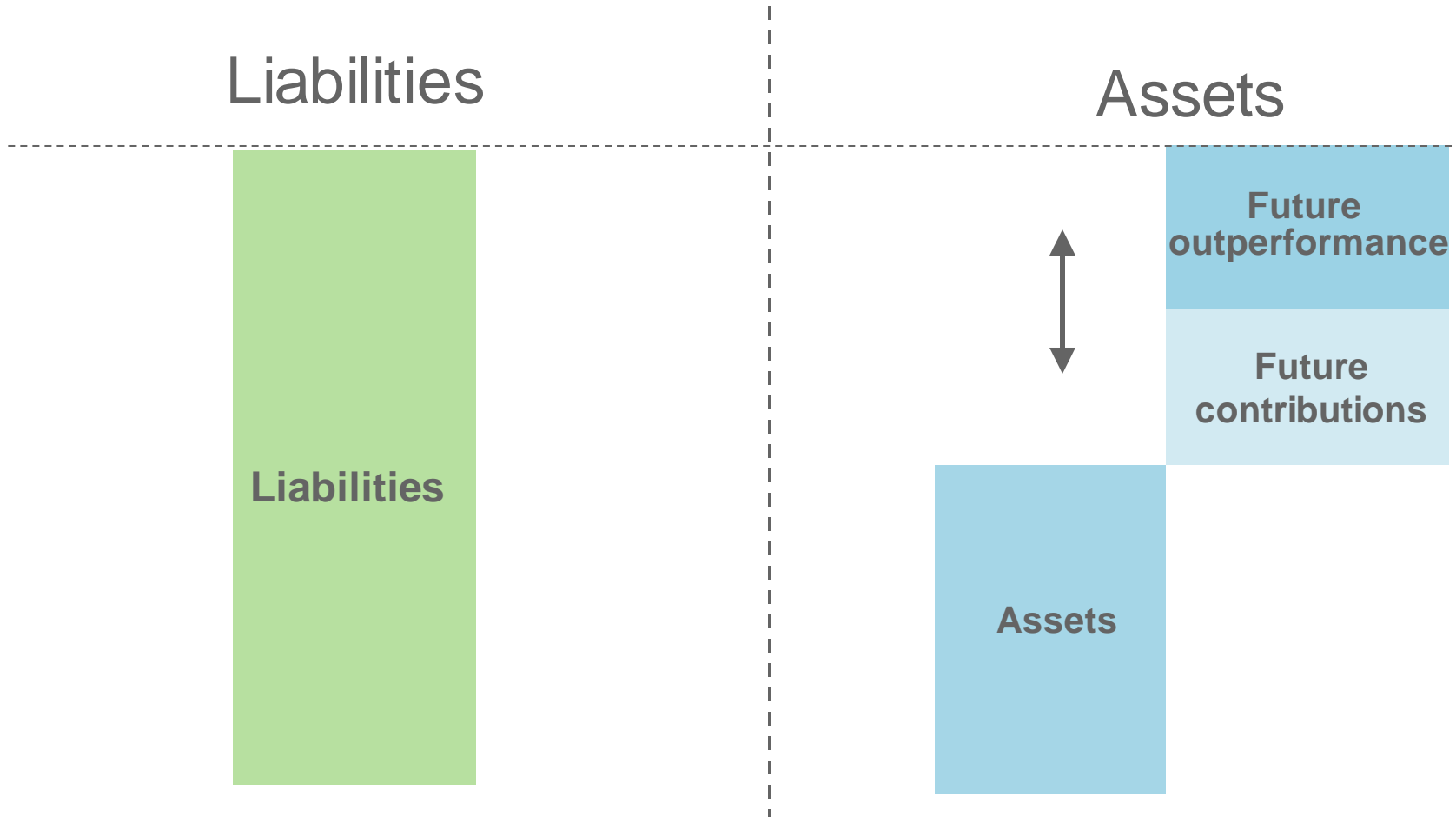


The ultimate objective

- How much money does the Fund need, and how should it be invested, in order to be able to meet the promised benefits?

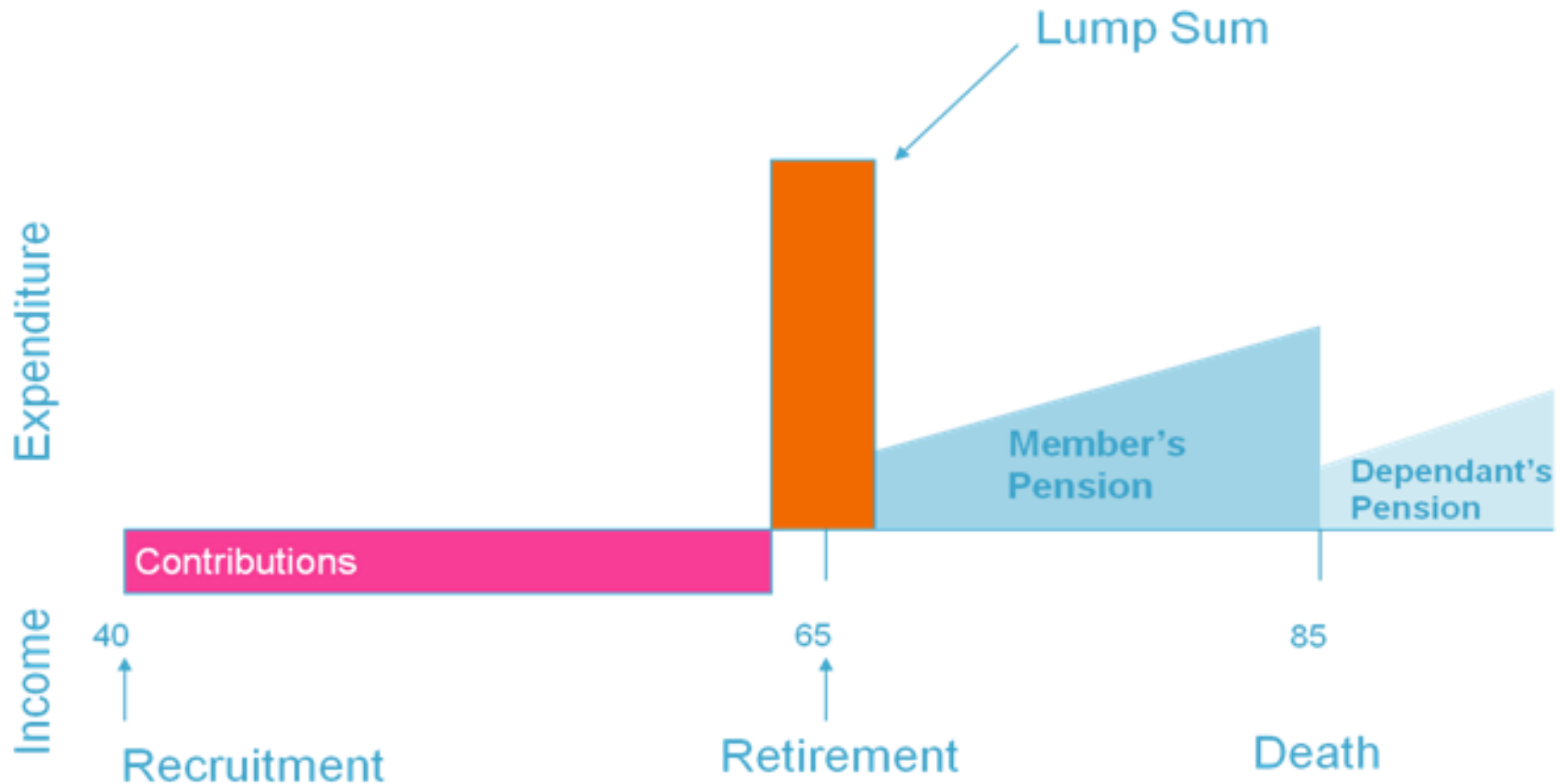


Achieving the objective



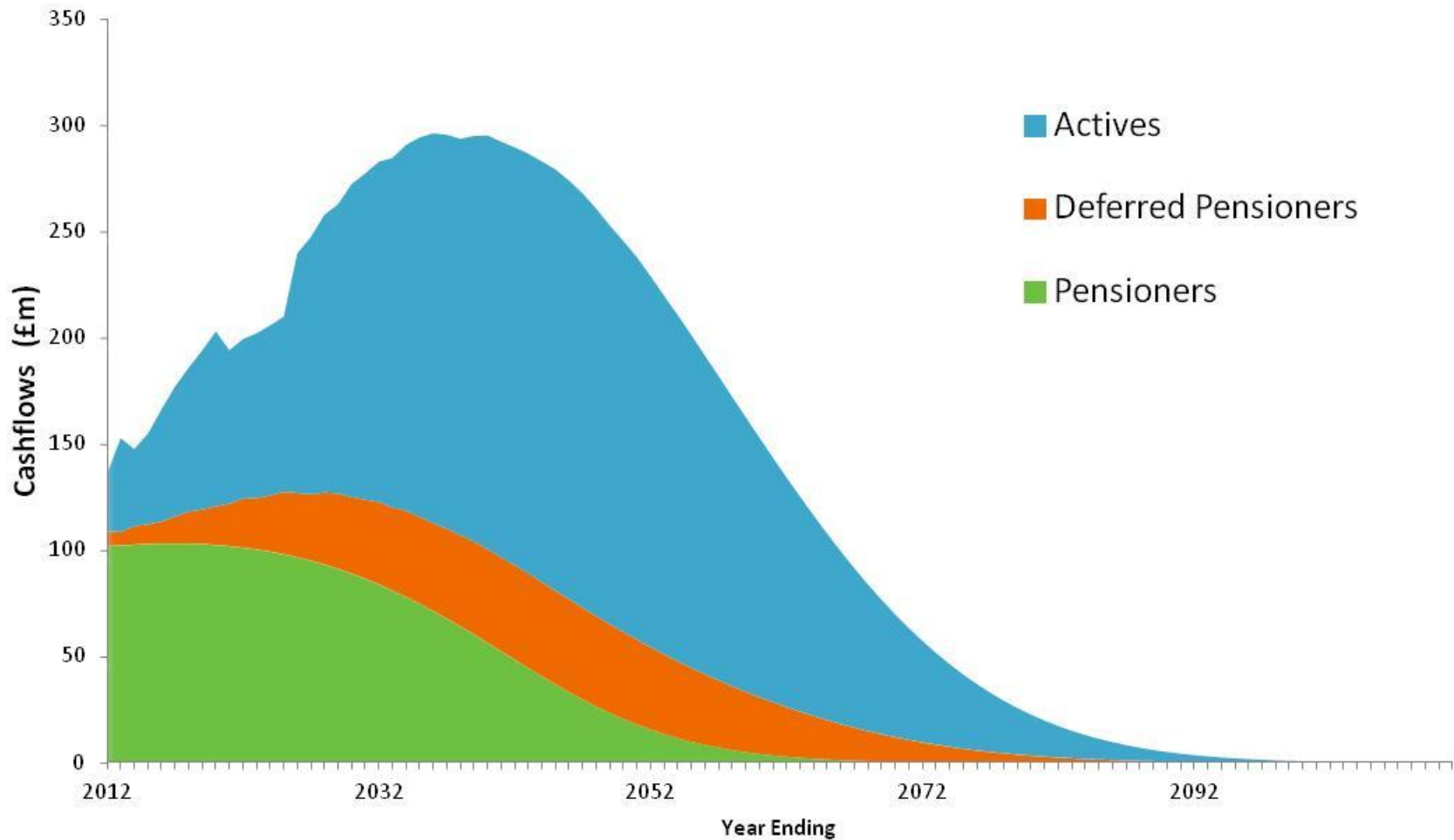


Valuing a single member





What does a pension fund look like?



Source: Sample LGPS Fund (past service only)

Keep the actuary covered...



Funding level = assets ÷ liabilities



The key assumptions





Long term assumptions

➤ Financial (size of benefits)

- Salary increases
- Pension increases
- Discount rate

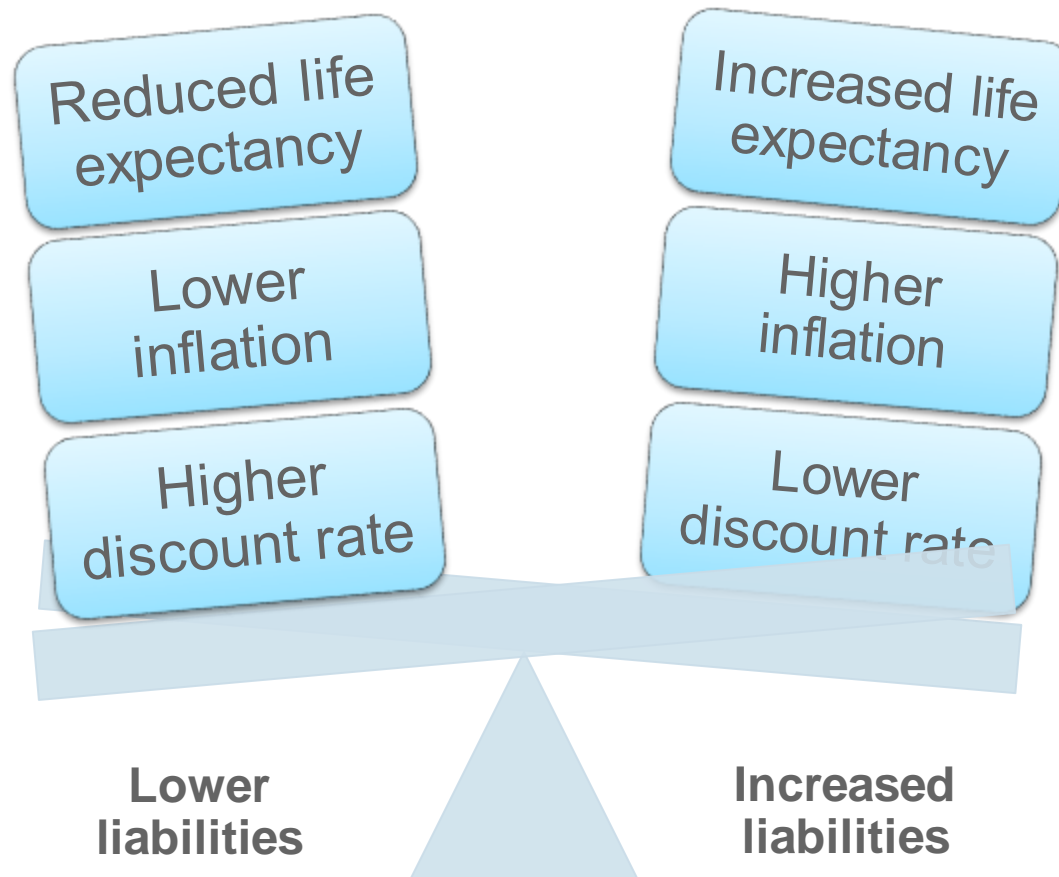


➤ Demographic (timing of benefits)

- Longevity
- Early leavers
- Retirement age
- Dependants



Impact of changes to assumptions



Signs of ageing



SO HOW MANY BOXES DO YOU TICK?

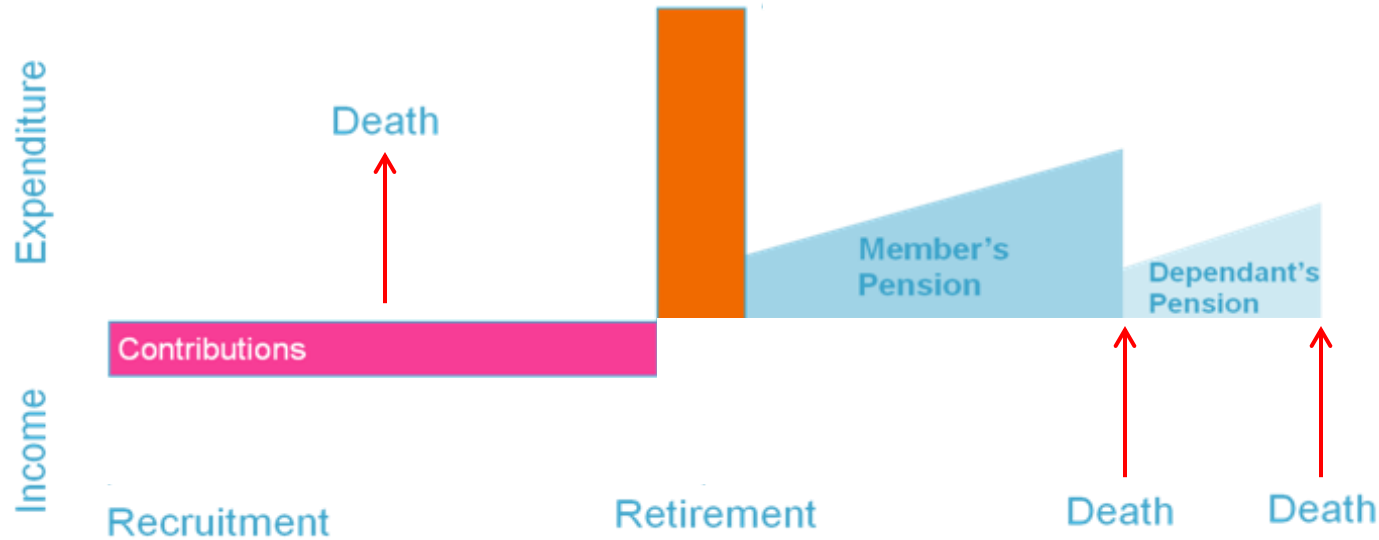
- | | | |
|--|--|--|
| 1. Falling asleep in front of the TV | 13. Developing a fondness for sherry | 19. Moving from Radio One to Radio Two |
| 2. Feeling stiff | 14. Complaining more | 20. Taking a mid-afternoon nap |
| 3. Groaning when you bend down | 15. Joining the Women's Institute | 21. Joining the National Trust |
| 4. Losing your hair | 16. Misplacing glasses / bag / car keys | 22. Becoming a parish councillor |
| 5. Hating noisy pubs | 17. Thinking work colleagues are getting younger | 23. Complaining about the rubbish on television these days |
| 6. Thinking teachers / policemen / doctors look really young | 18. Listening to the Archers | 24. Ears growing bigger |
| 7. Getting more hairy - ears, face, eyebrows, nose etc. | | 25. Preferring a Sunday walk to a lie-in |
| 8. Struggling to use technology | | 26. Being shocked by racy music videos |
| 9. Forgetting names | | 27. Going on a 'no children' cruise |
| 10. Not knowing any songs in the Top Ten | | 28. Taking a keen interest in the garden |
| 11. Choosing clothes and shoes for comfort rather than style | | 29. Enjoy being asked for proof of age |
| 12. Driving slowly | | 30. Knowing your alcohol limit |



Why is longevity important for pension schemes?



- A member dying will affect both:
 - **IF** a benefit is paid i.e. a death benefit or a normal benefit
 - **WHEN** a benefit is paid i.e. when payment starts and/or how long payments continue



Longevity is the most material demographic assumption



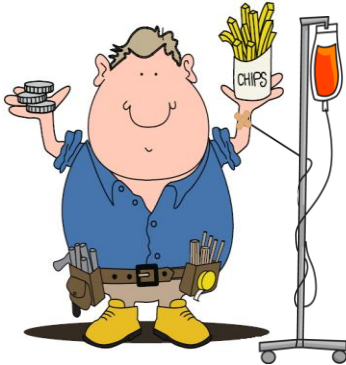
Club Vita

- Market leader in longevity analytics and monitoring
- Pooling data for (>150) occupational pension schemes
- Removes reliance on ad-hoc adjustments to existing tables
- 23 years of historic data



No such thing as a typical member
No such thing as an average scheme or employer

Differences in longevity



Life expectancy from 65: **11.5 years**

- ◆ Unhealthy lifestyle postcode
- ◆ Ill health retirement
- ◆ Low affluence
- ◆ Manual worker

Lifestyle 5 years

Health 2 years

Affluence 3 ½ years

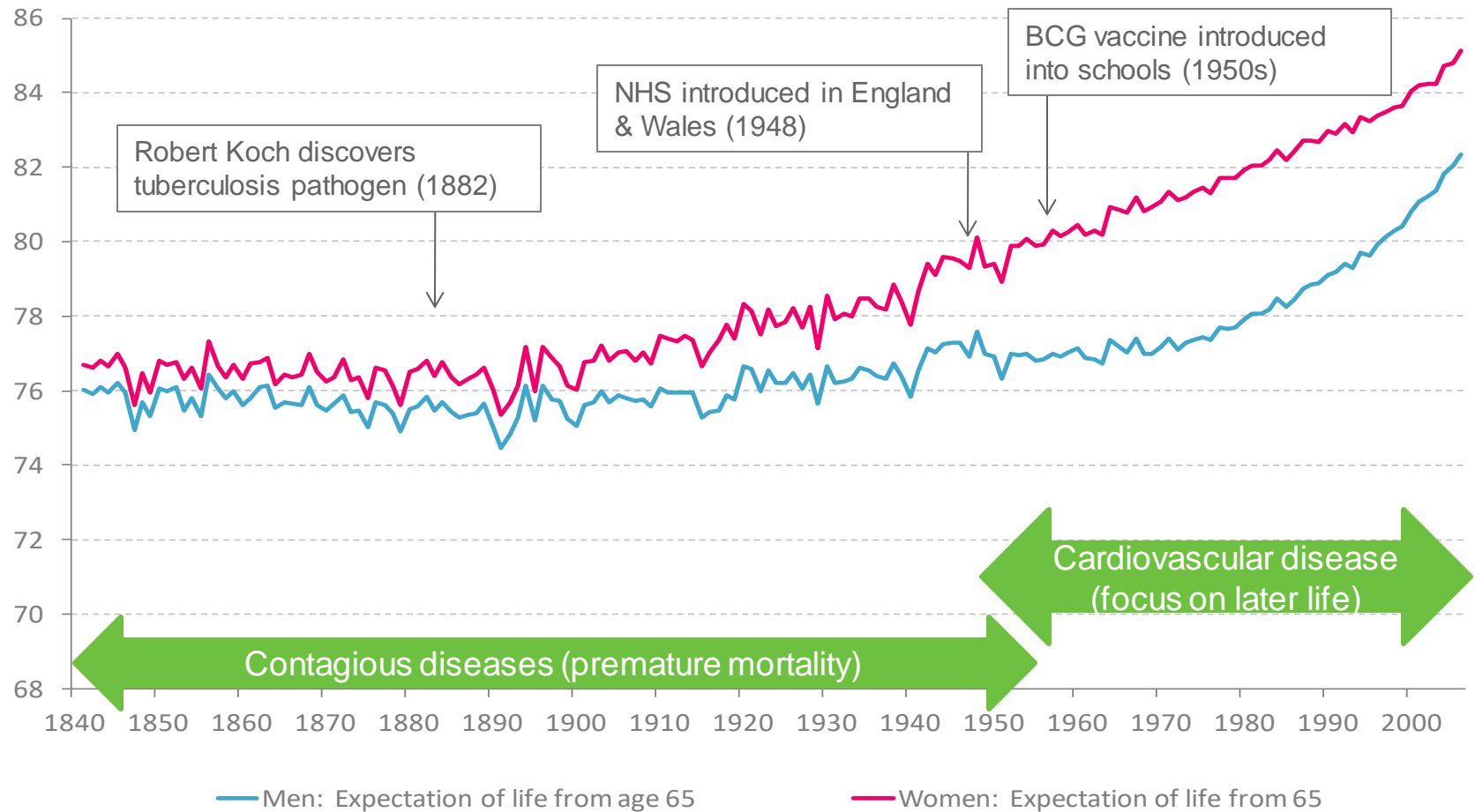
Occupation
<1 year

Life expectancy from 65: **22.4 years**

- ◆ Healthy lifestyle postcode
- ◆ Normal health retirement
- ◆ High affluence
- ◆ Non-manual worker

No such thing as a typical member
No such thing as an average scheme or employer

A shift to longer life

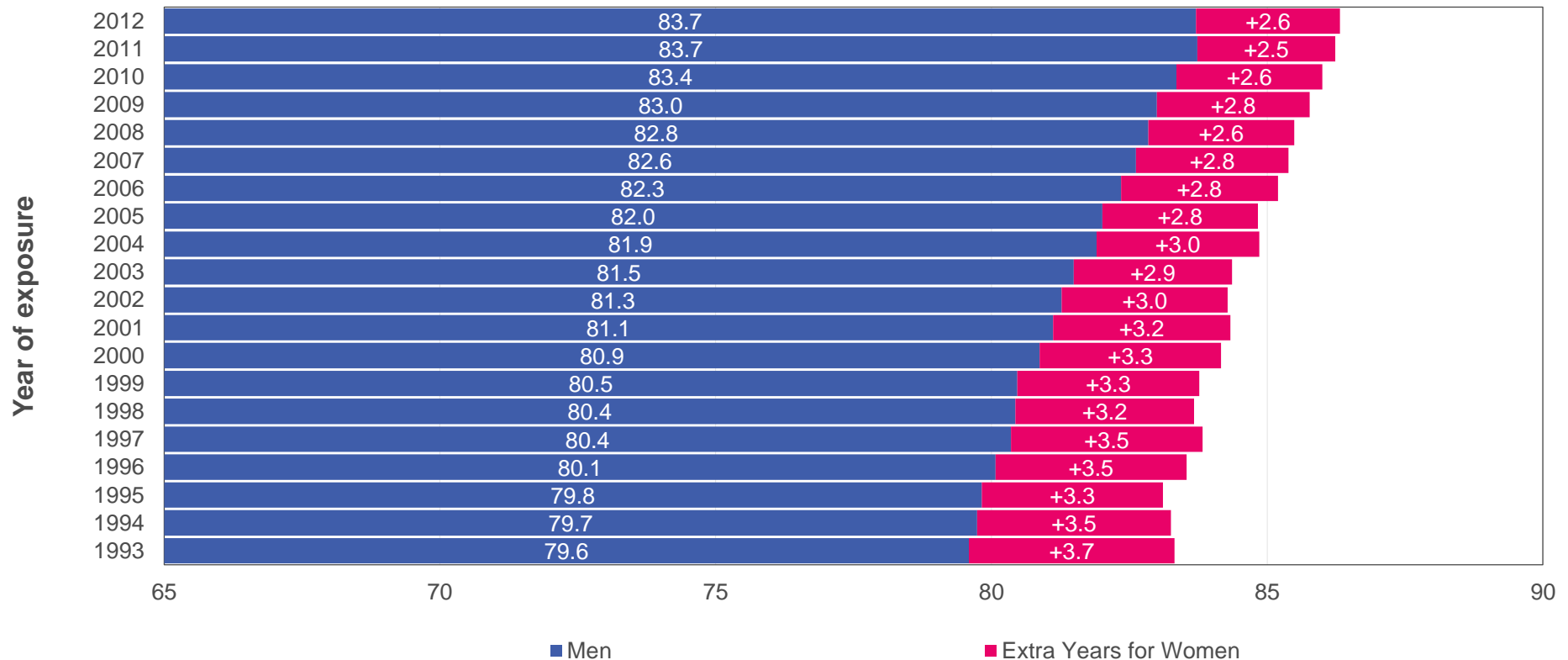


Historic improvements in life expectancy



Period expectations of life derived from calculated crude mortality rates
Expected age at death of a 65 year old, based on crude mortality rates in year of exposure

VitaBank data





**Where we were and where we
are now**



Data



- Proliferation of new employers
 - e.g. academies
- Active payrolls have fallen
 - Pay freeze, early retirements, commissioning
 - Councils have lost actives from schools to academies

Messier than last time around

General economic environment

Greek Parliament passes key reforms

Overall impact on liabilities

Warning that sovereign debt crisis is spreading

No change to RPI

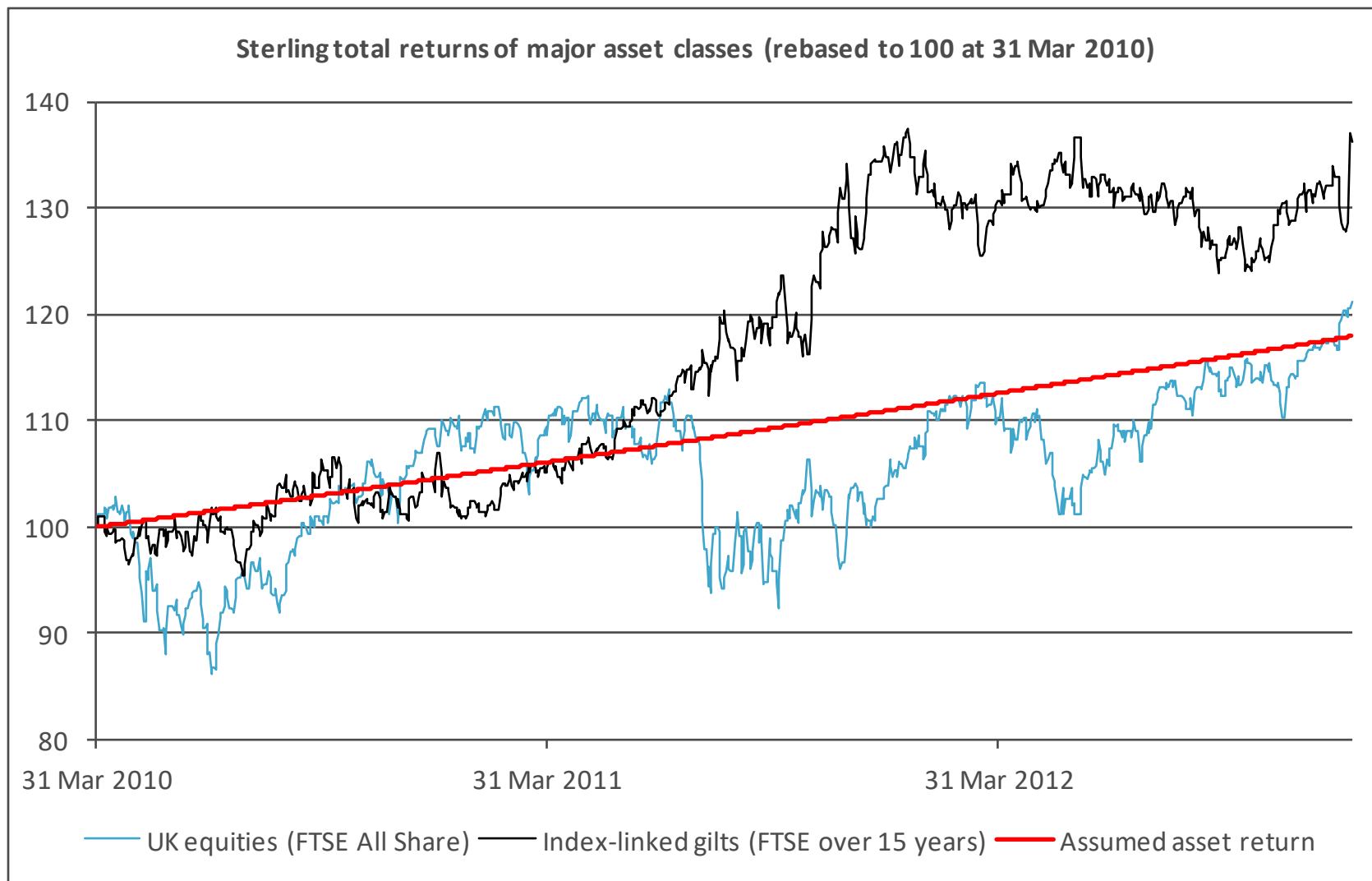
QE2

QE3

— Overall impact on liabilities

Pension schemes are not immune to this

Market movements since 2010





Warwickshire's valuation results



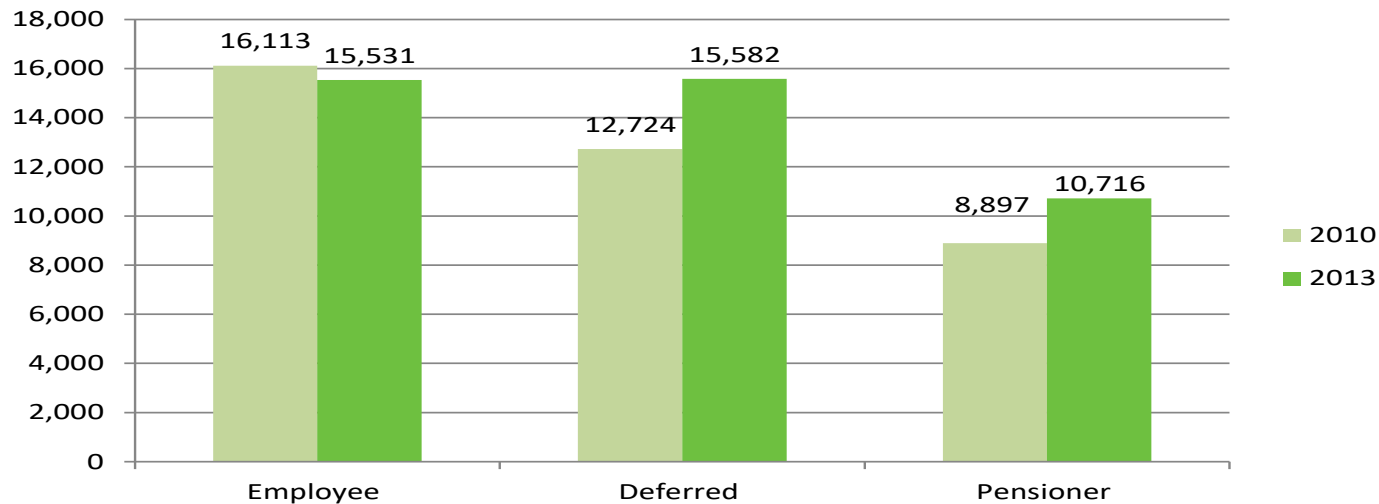
Whole Fund results



	31 March 2010	31 March 2013
Past Service Position	(£m)	(£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%

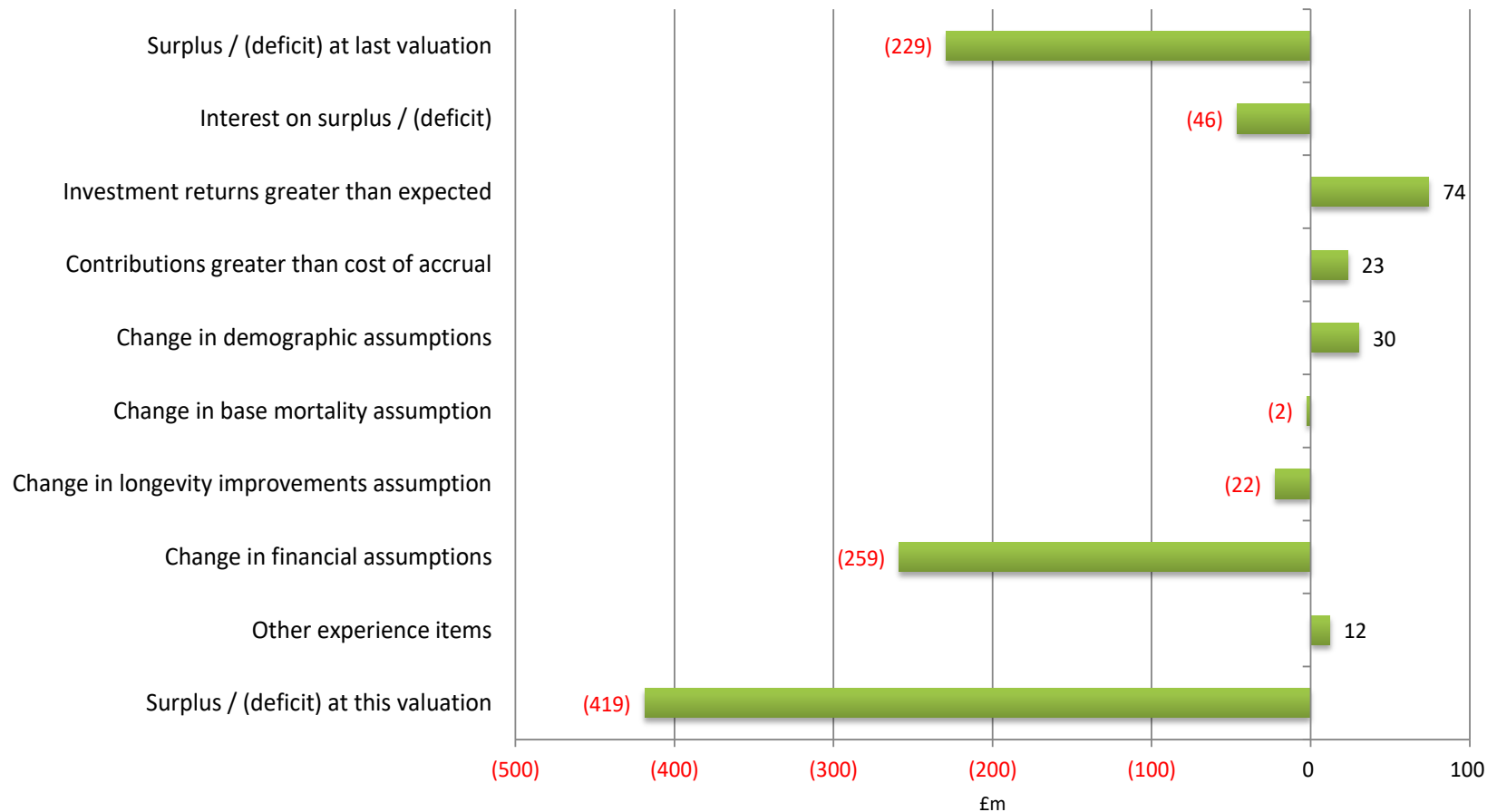
	31 March 2010	31 March 2013
Contribution Rates	(% of pay)	(% of pay)
Employer future service rate (incl. expenses)	12.8%	19.5%
Past Service Adjustment (19 year spread)	4.8%	9.6%
Total employer contribution rate (incl. expenses)	17.6%	29.2%
Employee contribution rate	6.4%	6.1%
Expenses	0.6%	0.6%

Experience since 2010



Assumption/measure	Actual	Expected	Difference	Impact
Asset return				
Over 3 year period	27.2%	20.5%	6.7%	Positive
Annual	8.4%	6.4%	2.0%	
Pre-retirement experience				
Early leavers	4291	1677	156%	Positive
Ill health retirements	98	269	-64%	Positive
Salary increases (p.a.)	2.5%	5.7%	-3.3%	Positive
Post-retirement experience				
Pension increases (p.a.)	3.5%	3.0%	0.5%	Negative
Amount of pension ceasing over 3 year period (£m)	2.88	3.45	-17%	Negative

How has the deficit changed?



Summary: employer deficits mostly up HYMANS ROBERTSON



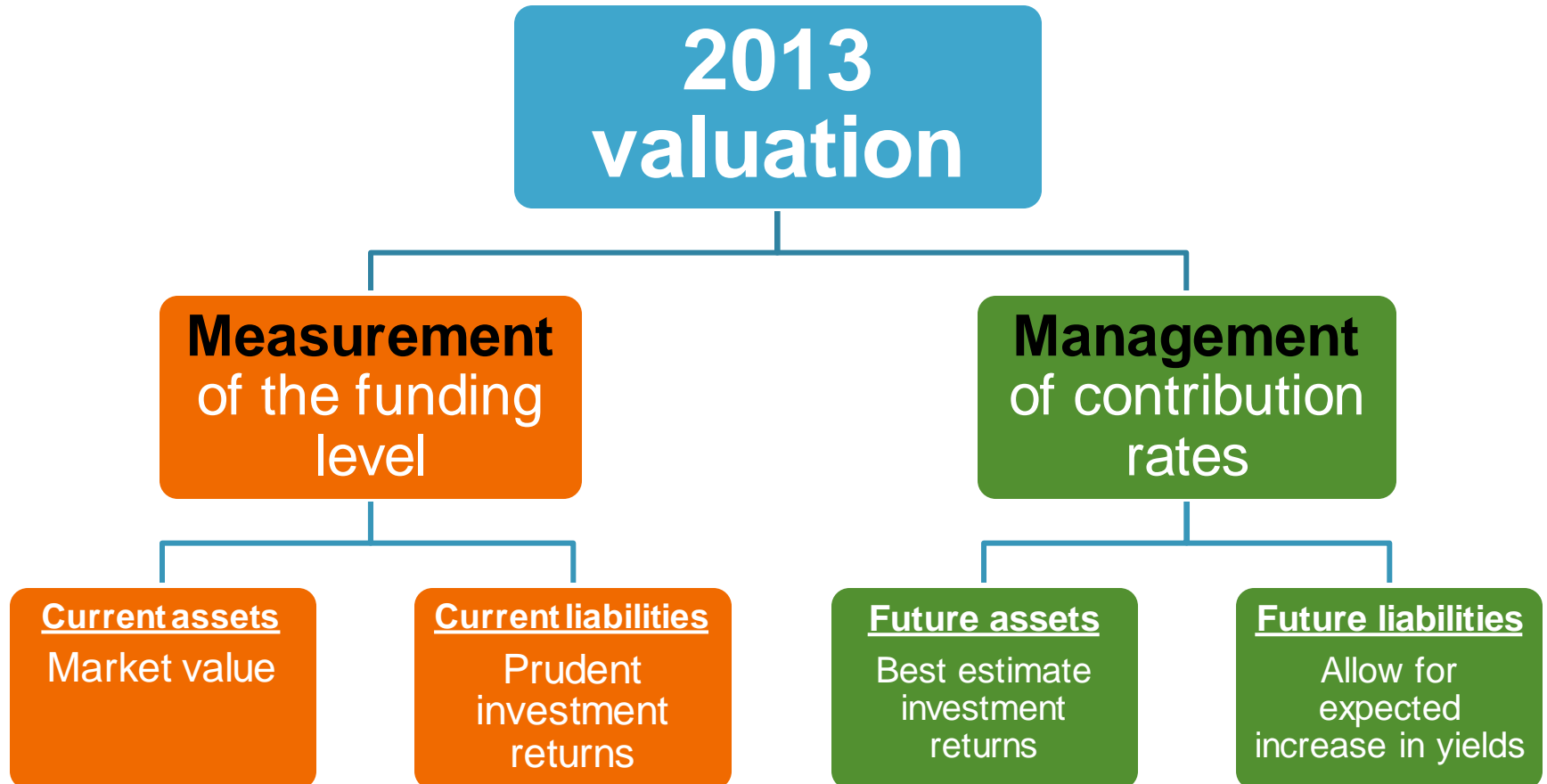
Key driver	Deficit	Contribution rate
Market conditions (net discount rate)	↑	↑
Investment returns	↓	↓
Life expectancy	↑	↑
Member experience	↓	↓
New LGPS 2014	↔	↓
Overall Impact	↑	↑



Fund is managing rate increases



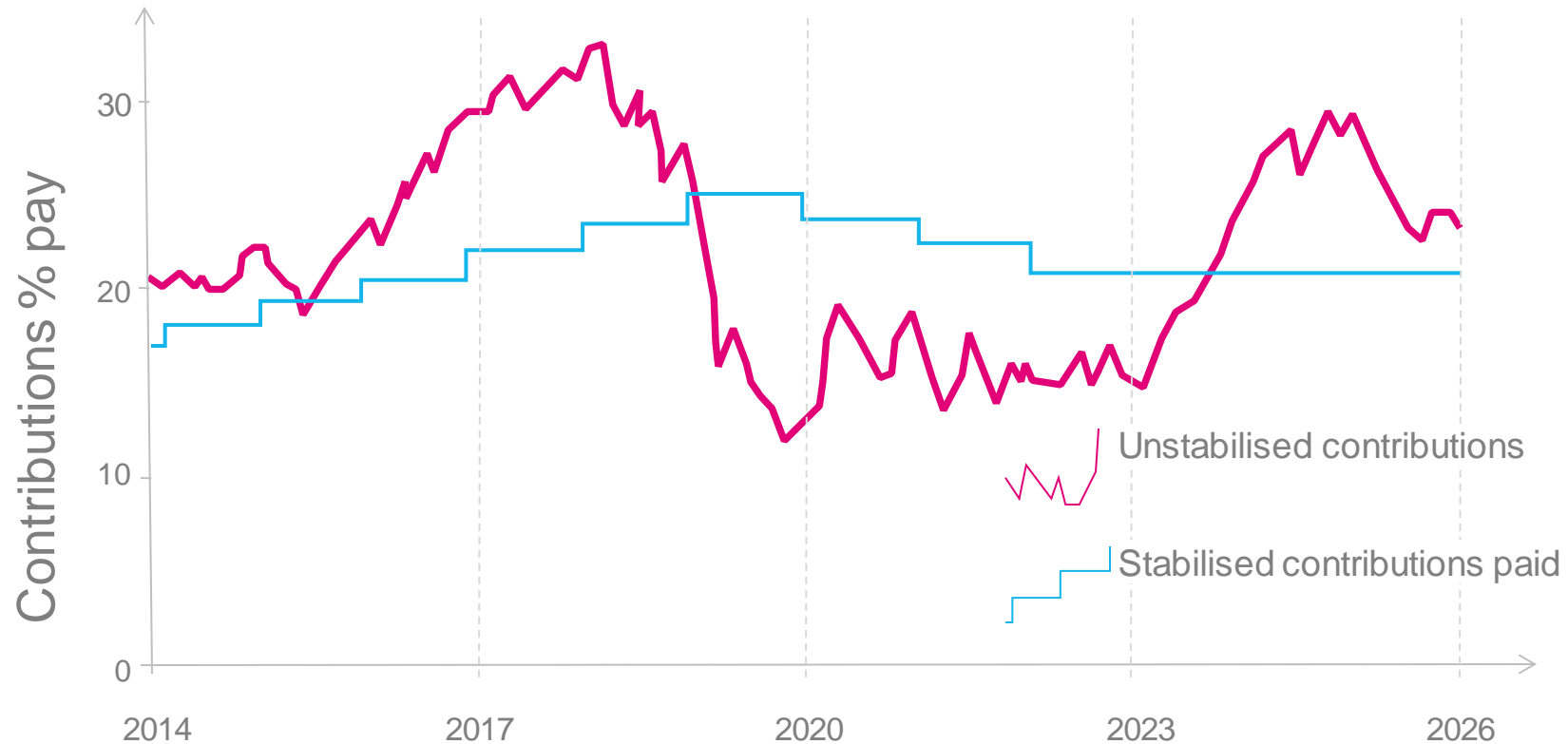
Valuation approach



Risk based approach for long term bodies



Contribution Stability Mechanism



Stabilise contributions for tax raising bodies



Key elements of contribution policy

- Tax raising bodies increase at +0.75% pa
- No Academy pooling (await consultation outcome)
- Closed Community Bodies repay deficit over working lifetime
- Check long term health of non tax raising bodies
- Contractors repay deficit over remaining contract period
- Deficit recovery payable by monetary amounts



And finally...



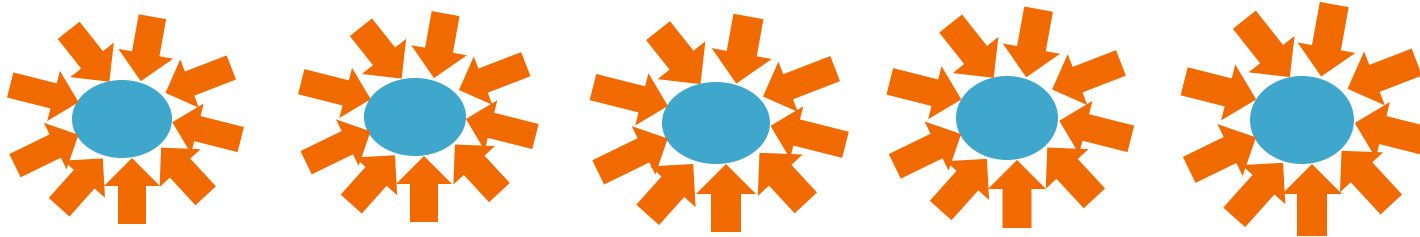


Three structural options

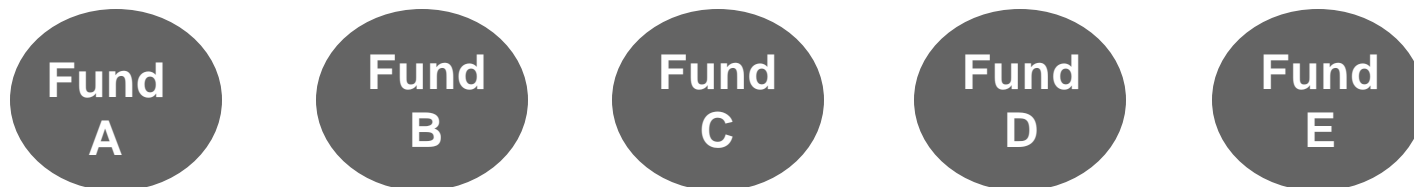
- Option 1: Single asset pool across E&W



- Option 2: Five to ten asset pools across E&W



- Option 3: Five to ten merged funds (asset allocation decisions at merged Fund level)





Thank you

Any questions?