



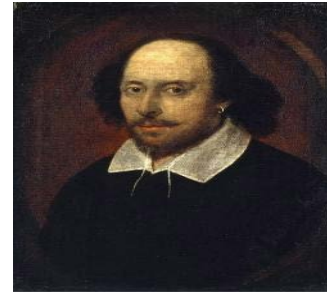
Investment Performance and Actuarial Update

Warwickshire Pension Fund

- Emma Garrett
- Richard Warden
- Steven Tart
- 22 November 2018

Quiz – Strictly Come Pensions

1. In what year was William Shakespeare born?
 - a) 1564
 - b) 1501
 - c) 1589
2. Which famous actor was born in Warwickshire?
 - a) Daniel Radcliffe
 - b) Tom Hardy
 - c) Clive Owen
3. How many calories does the average salsa dancer burn in one hour of dancing?
 - a) 0-200
 - b) 200-400
 - c) 400-600



4. How many pages are there in the draft Withdrawal Agreement of the UK from the EU

- a) 585
- b) 695
- c) 1,033



5. The current employer contribution rate for the unfunded Fire Scheme is 17.6% of pay. What size of increase will arise due to the cost cap and a change to the Government's discount rate?

- a) 4.2% of pay
- b) 8.5% of pay
- c) 12.6% of pay



6. How many participating employers are in the Warwickshire Fund?

- a) 150
- b) 220
- c) 180





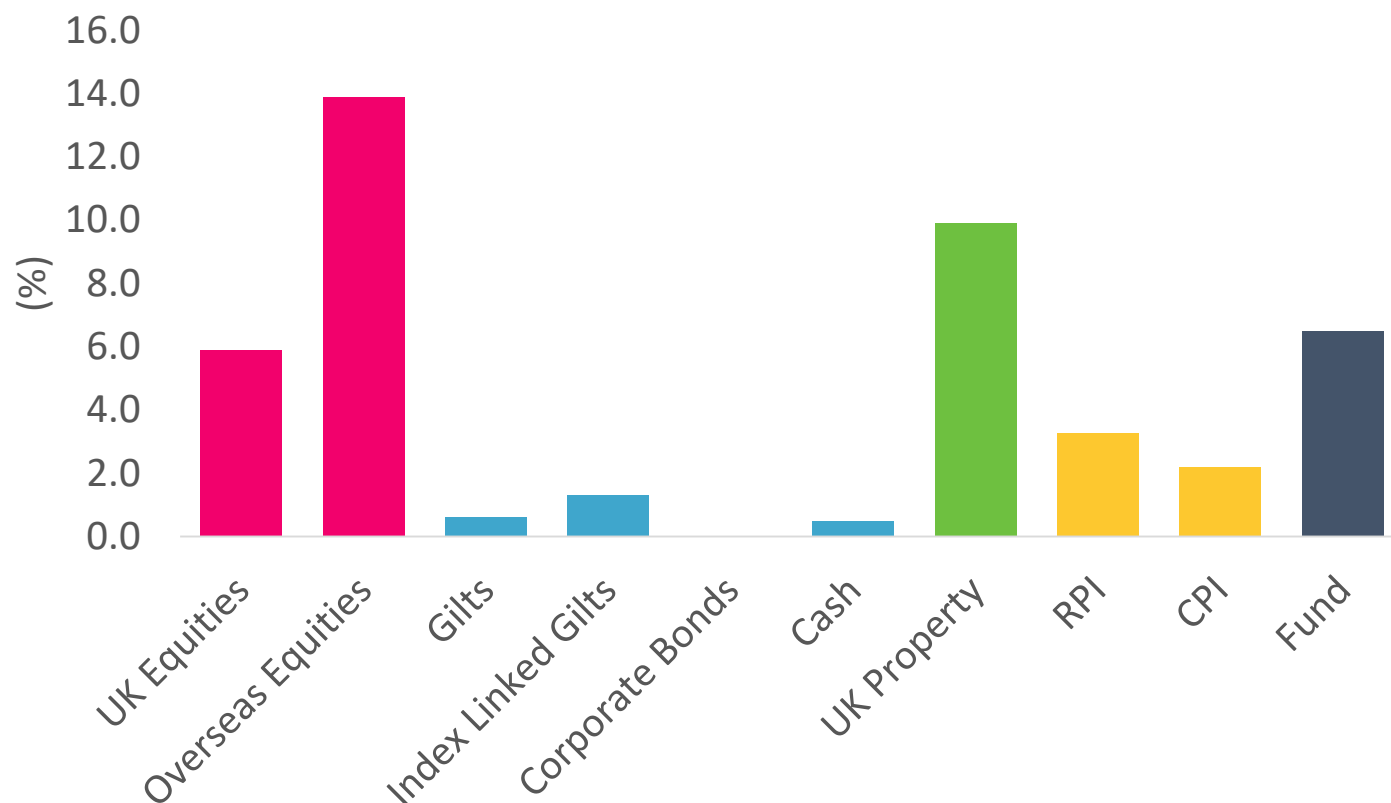
Warwickshire Pension Fund

Investment Performance

Emma Garrett
22 November 2018

Market Returns

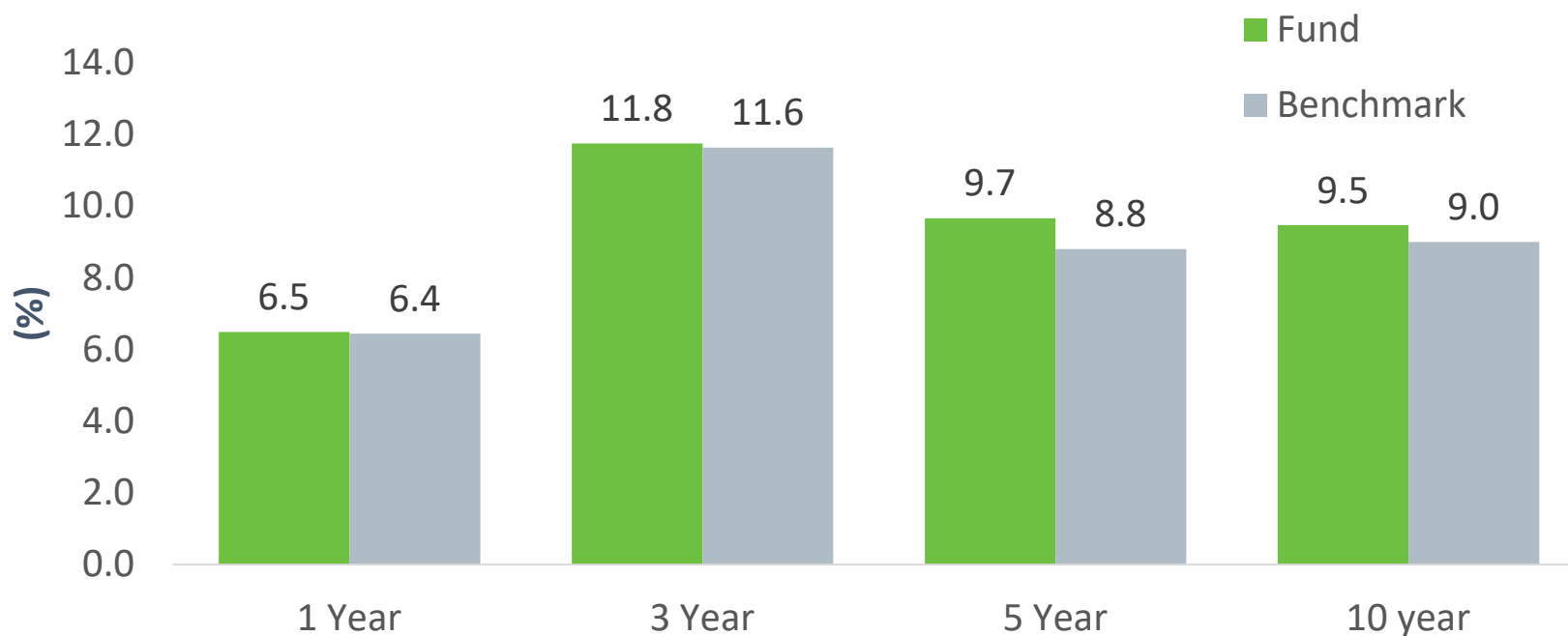
12 month returns to 30 September 2018



Source: Datastream and BNYM

Fund Performance












Annualised Performance to 30 September 2018



- Outperformance over all periods
- Total Fund value - £2.2bn

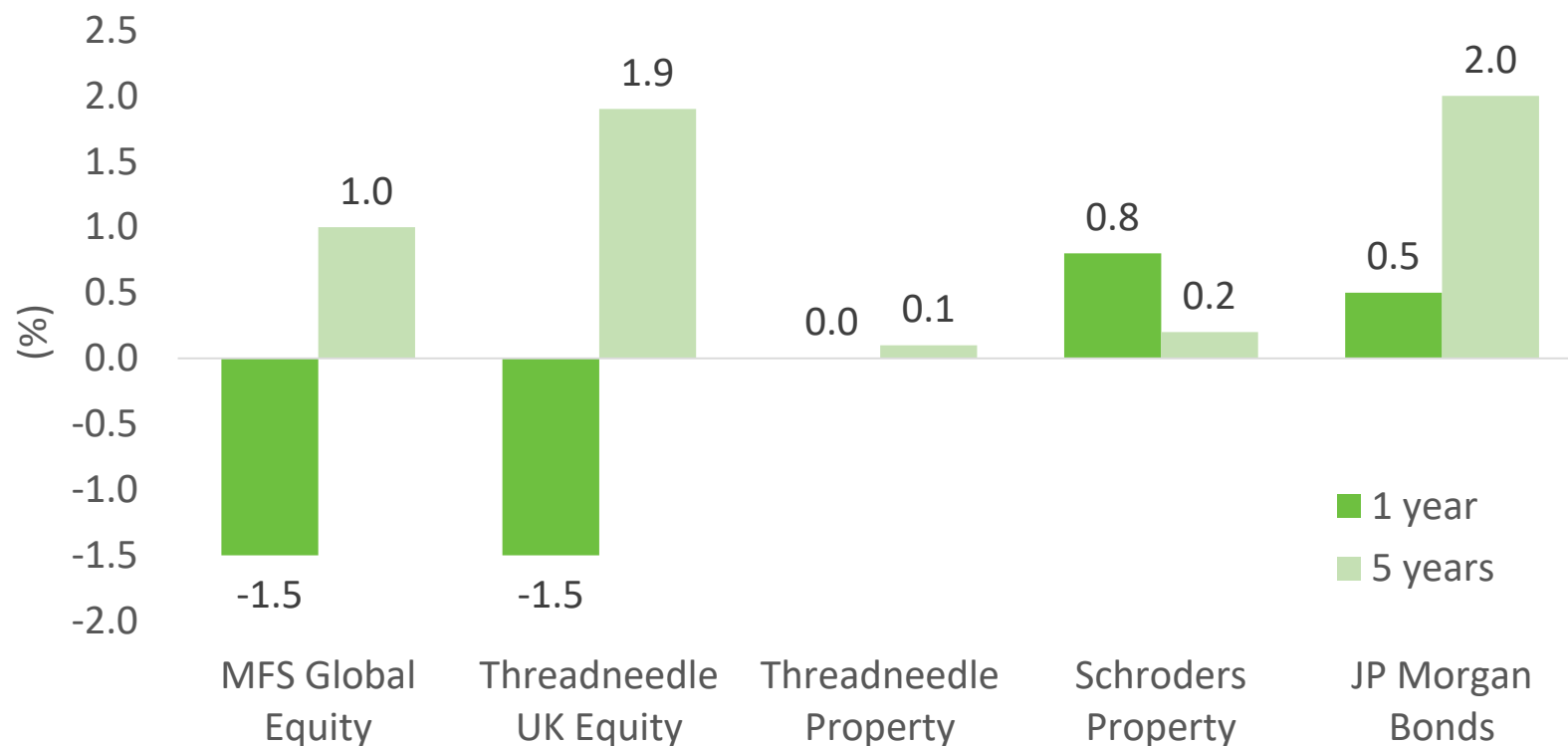
Source: BNYM

The Managers

Asset class	Manager(s)	
Passive Index Tracker		
UK Equities		
Global Equities		
UK Property		
Private Equity		
Absolute Return Fixed Income		
Infrastructure		
Private Debt		

Active Manager Performance

Relative performance – 1 and 5 years to 30 September 2018



Recent activity

- 
- 
- 
- **Q2 2017** - Investment strategy review carried out
 - **Q3 2017** - Removed hedge funds allocation
 - **Q4 2017** – Switched UK Fixed Interest Gilts into Absolute Return Bonds
 - **Q1 2018** - BCPP pool company launched
 - **Q2 2018** - Introduced allocation to Private Debt
 - **Q4 2018** - Reduced UK Equity in favour of Global Equity
 - **Q4 2018** - UK active equities transition to BCPP
 - **H1 2019** - Global active equities due to transition to BCPP

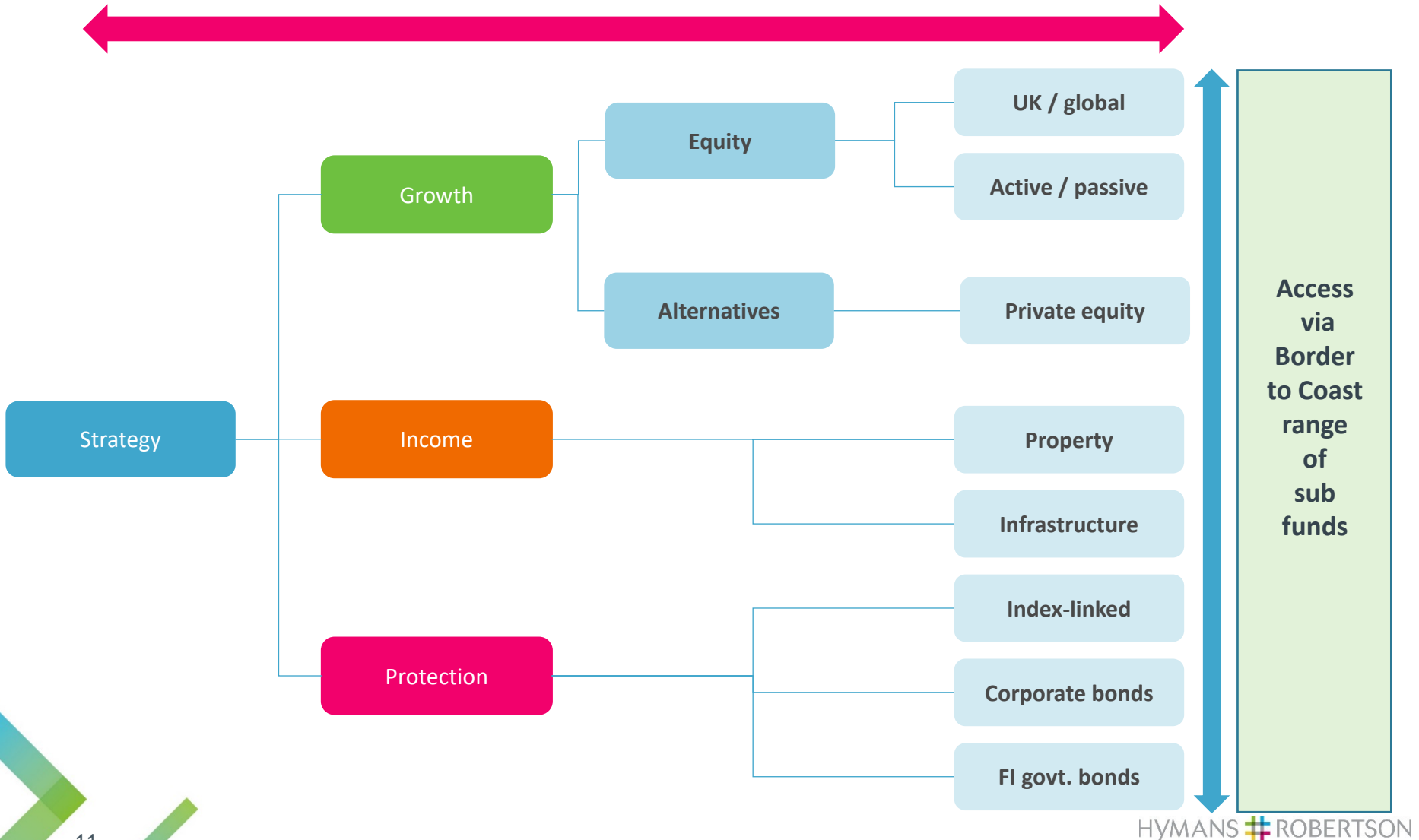
Border to Coast Pensions Partnership (BCPP)



- Progress to date
 - Submission to Government, and approval (2016)
 - Establishment of BCPP company and FCA approval
 - Transfer in and recruitment of staff
 - Discussions with partner funds on requirements
 - Proposals on sub fund range – subject to ongoing discussion
- The first Warwickshire assets are beginning to transfer into the pool
 - Active UK Equities – November 2018

Decision-making under pooling

Pensions Committee



Looking Forward

- Performance of the Fund remains strong
- Retain strong bias towards 'return-seeking' assets
- Transfers of assets into the BCPP pool are now starting
- Strategy changes planned for post pooling
 - Reduce active UK Equity further in favour of Global Equity
 - Target higher yielding bond mandates for the absolute return allocation



Thank you

General risk warning

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Warwickshire Pension Fund

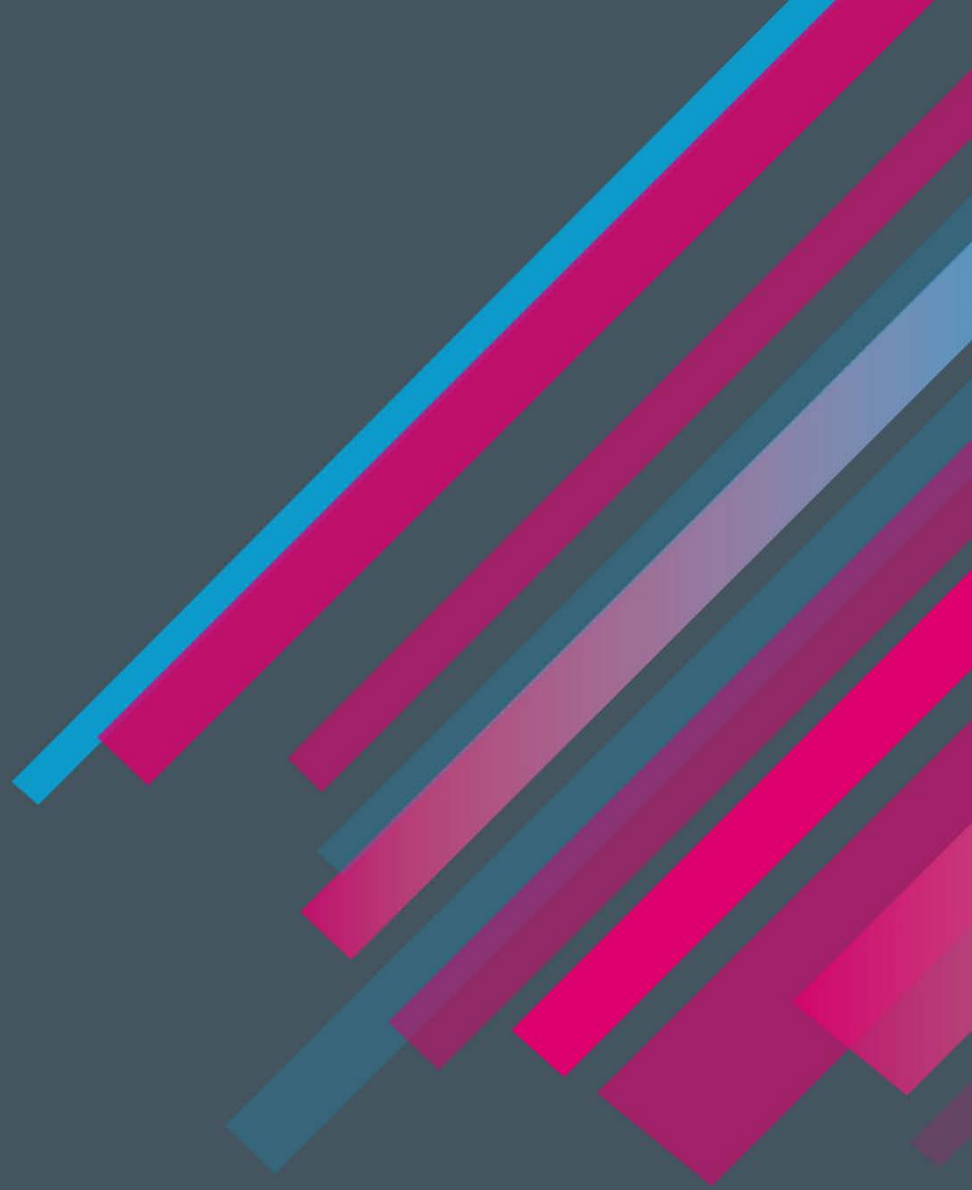
Actuarial Update

Richard Warden
Steven Tart
22 November 2018

Agenda

- What is a valuation?
- Clean data and its importance
- What has happened since the 2016 valuation?
- 2019 valuation planning
- Hot topics

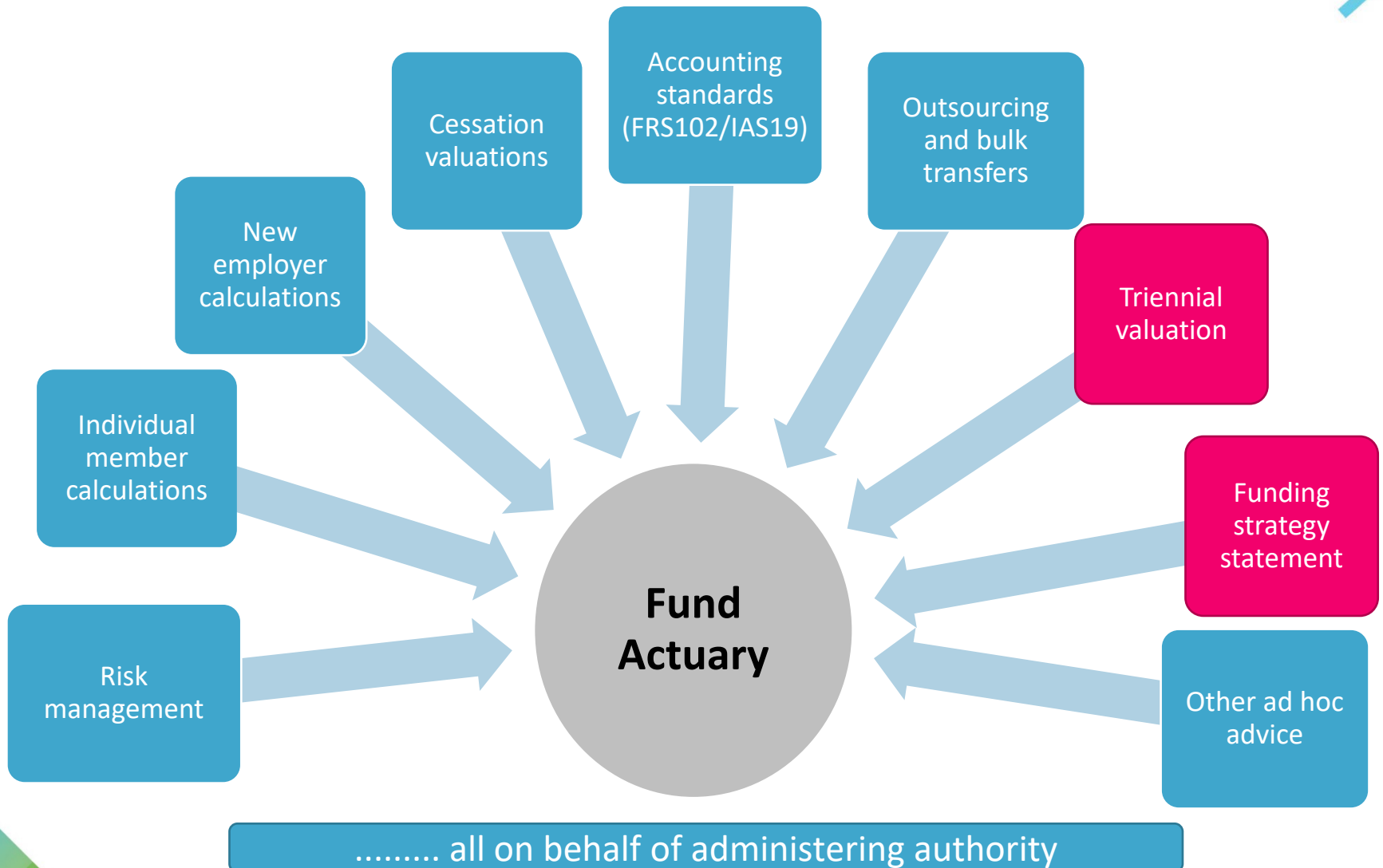
What is a valuation?



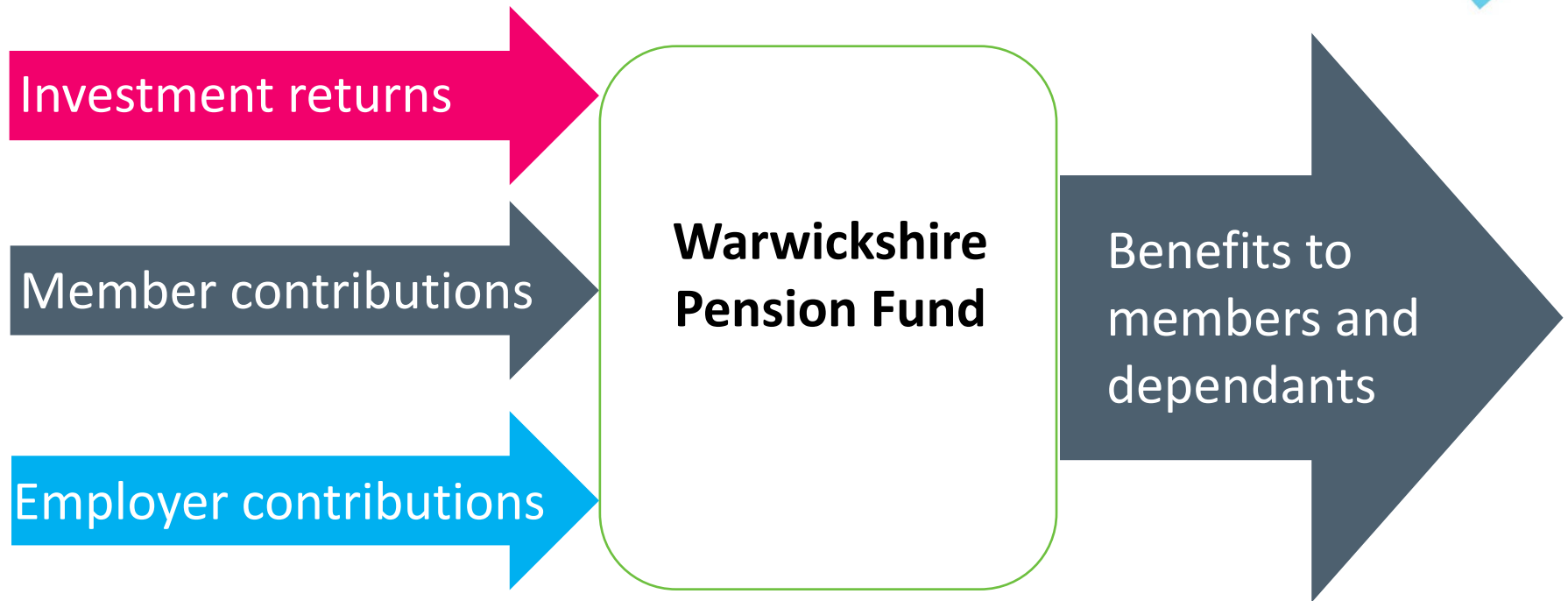
What is an actuary?



The Role of the Fund Actuary



How the Fund works

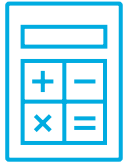


Determined by investment strategy & manager performance

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

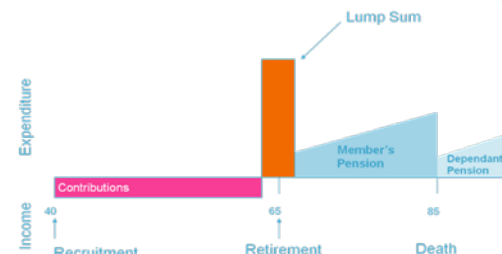
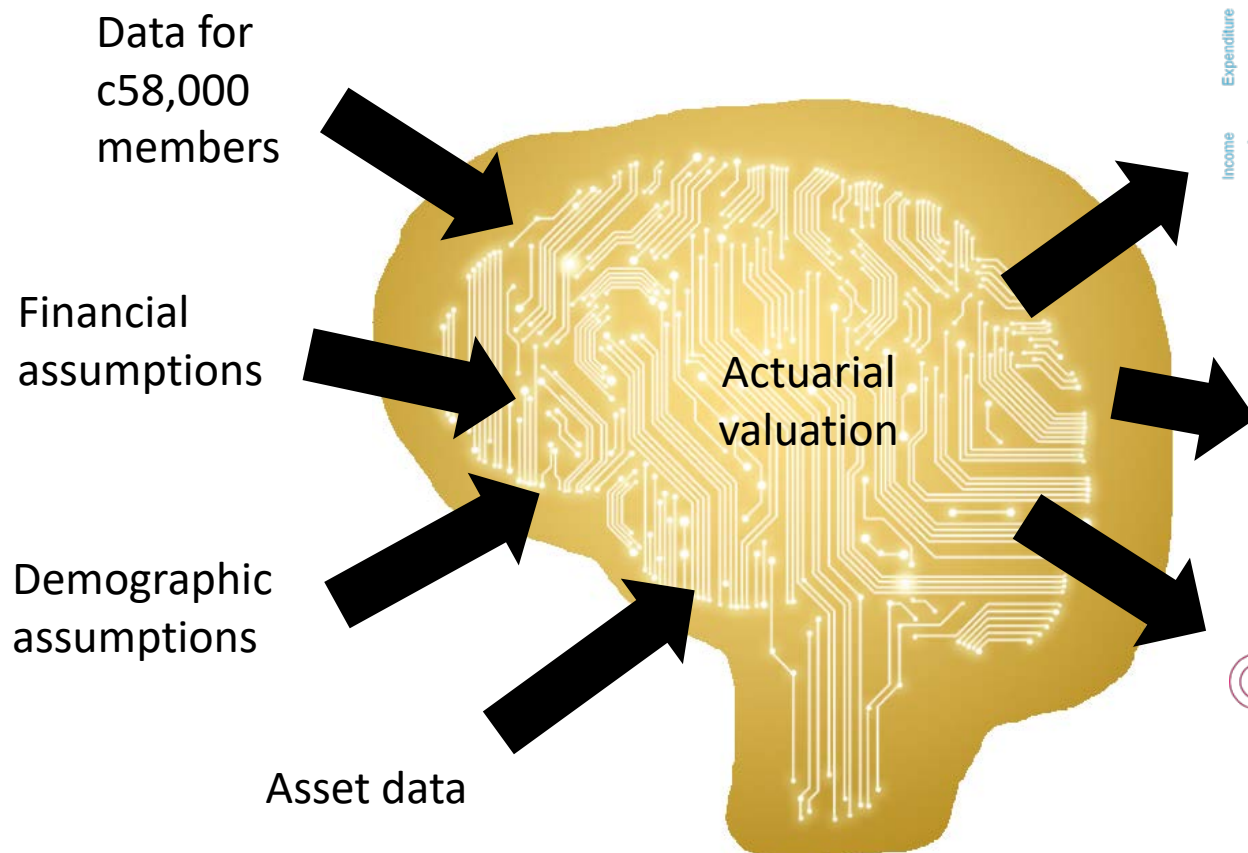


- Review Funding Strategy Statement



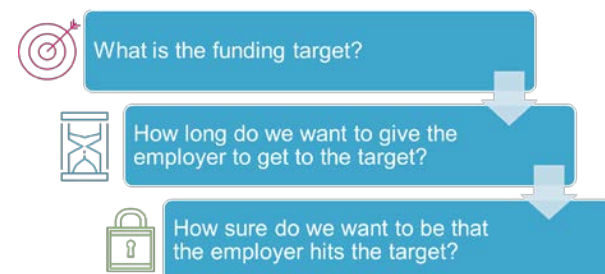
- Part of continual 'health check' on fund solvency

How we do the valuation



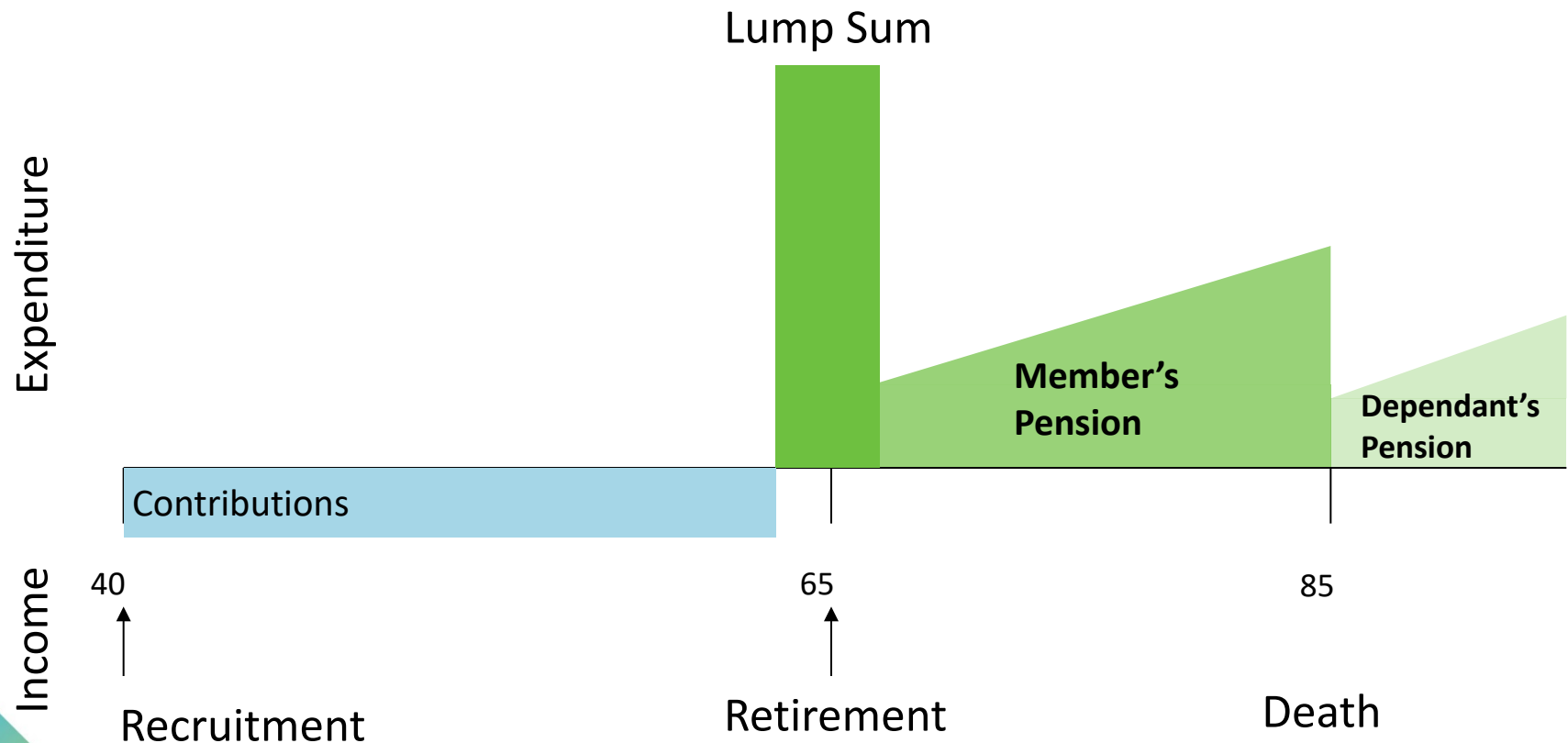
	31 March 2013 (£m)	31 March 2016 (£m)
Past Service Position		
Past Service Liabilities	1,798	2,023
Market Value of Assets	1,379	1,665
Surplus / (Deficit)	(419)	(358)
Funding Level	77%	82%

Total liability estimate

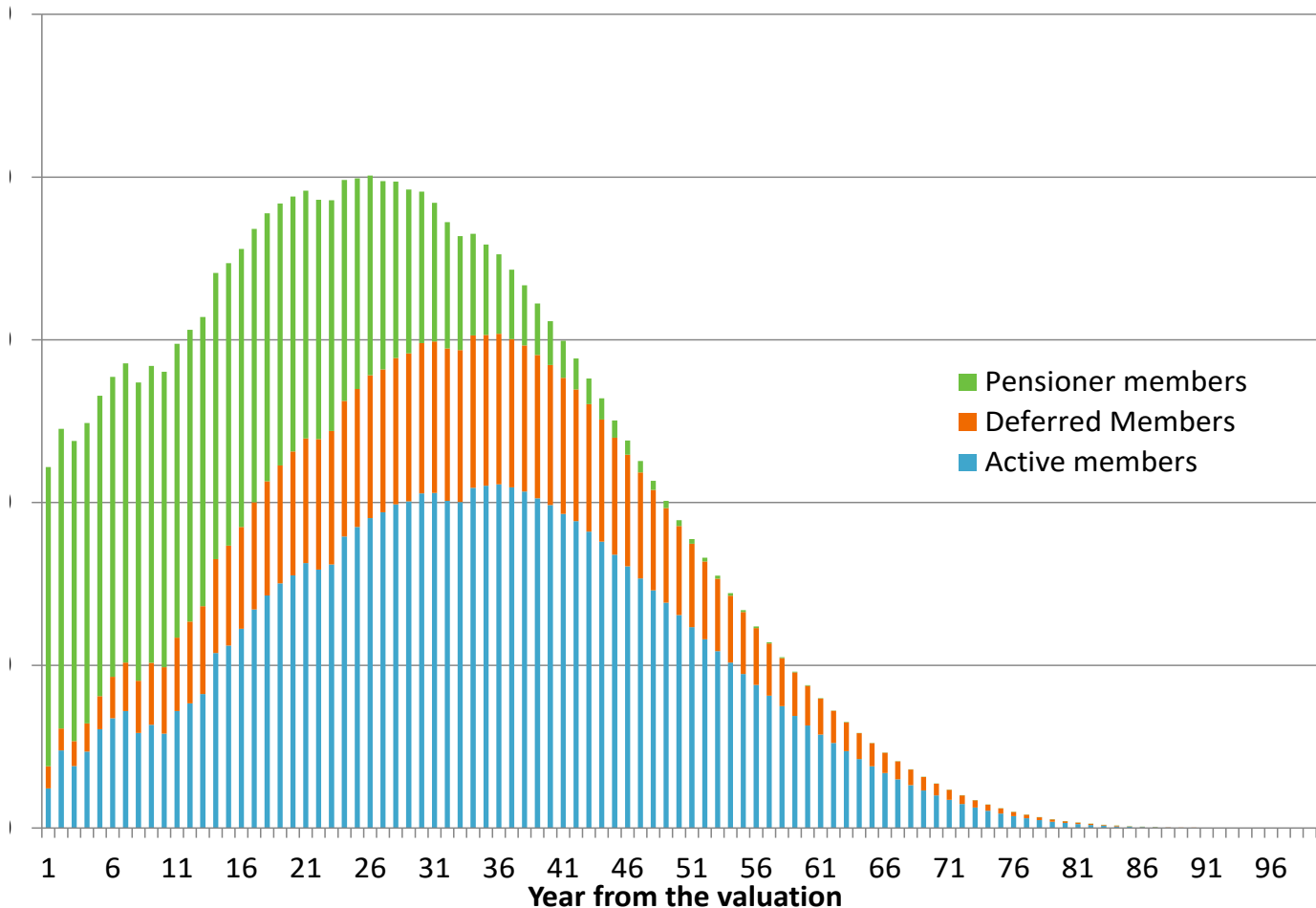


Contribution calculations

Valuation begins at member level



Valuing all members



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

Valuation ‘health check’

Liabilities

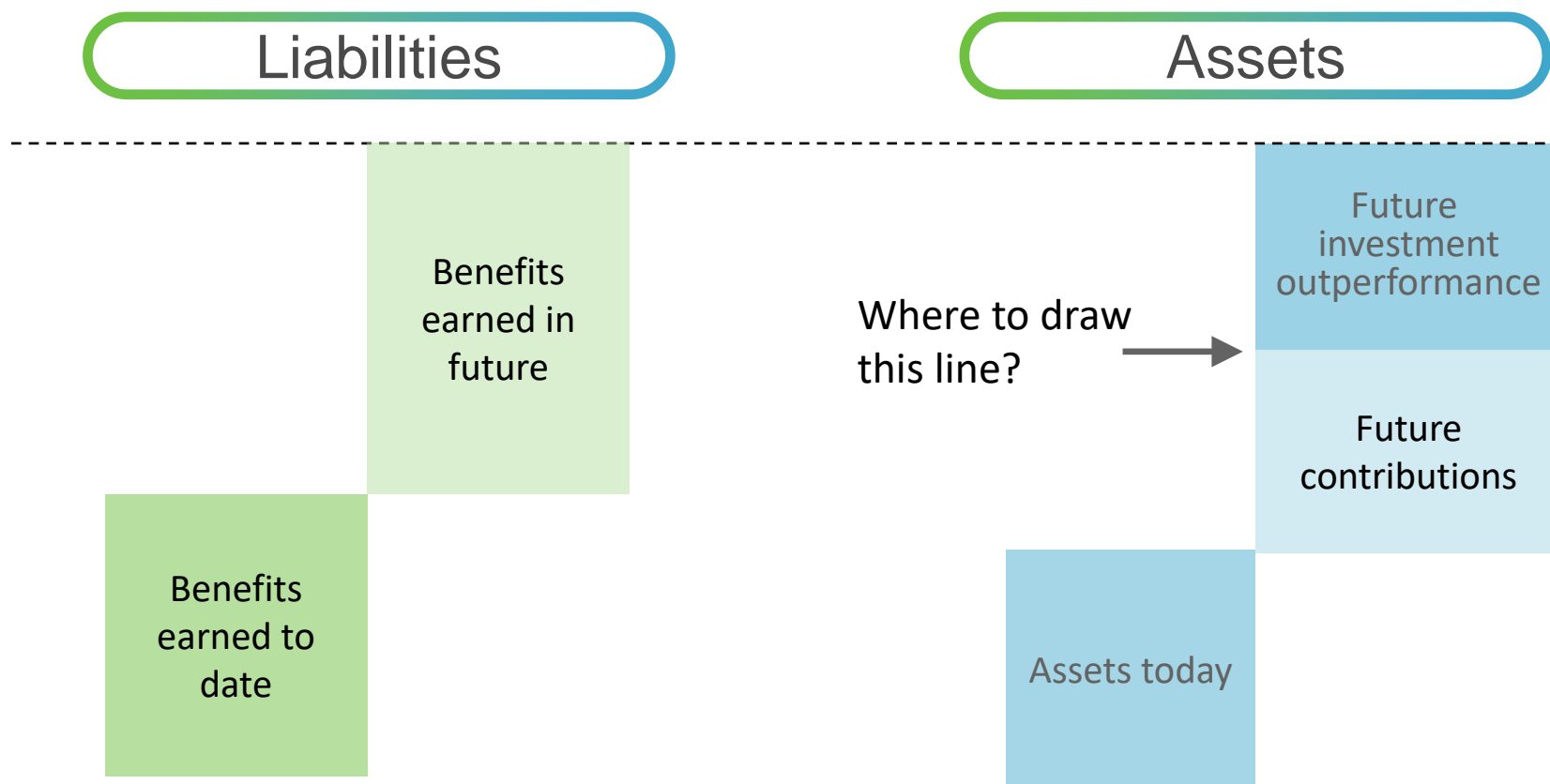
Assets

Benefits
earned to
date

Assets today

Most LGPS funds have not met their funding target for past service
Comparison is commonly referred to as “funding level”

Approach to setting contributions



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

Clean data and its importance



What data are we talking about?

Membership data



Liabilities

Cashflow data



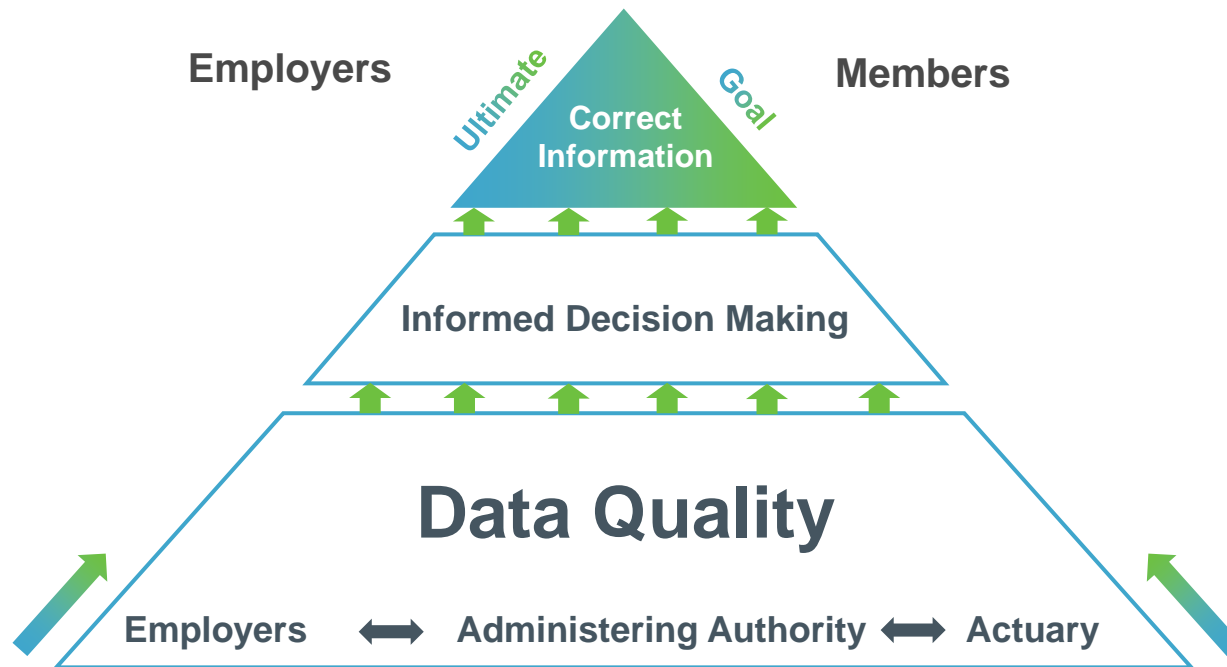
Assets

Employer circumstances







Funding plan

The importance of clean data



Does it really matter?

1. As long as the member data is correct by the time of retirement, that's the main thing? 
2. We can pick up everything once a year 
3. You may end up **paying much higher contributions** than you need to 
4. You may receive your **valuation results much later** in comparison to the rest of the LGPS 



Impact of incorrect data

Pensionable Pay:

Example (Active Member)

Sex	DOB	Start Date	FTE Salary £	Liability £	Annual CARE £
M	01/01/1954	01/01/1998	10,500	50,667	214
M	01/01/1954	01/01/1998	15,000	76,000	306

+50%!

Please note – all figures and calculations contained herein are based on a number of assumptions and are therefore for illustrative purposes only.

Impact of incorrect data

Date of Birth:

Example (Pensioner)

Sex	DOB	Pension £	Liability £
F	01/01/19 ²³	2,000	15,600
F	01/01/19 ³²	2,000	23,500

+51%!

Please note – all figures and calculations contained herein are based on a number of assumptions and are therefore for illustrative purposes only.

Impact of incorrect data Membership:

Example (Active Member)

Sex	DOB	Start date	Liability £
M	01/01/1954	01/01/19 ⁹⁸	33,800
M	01/01/1954	01/01/19 ⁸⁹	76,000

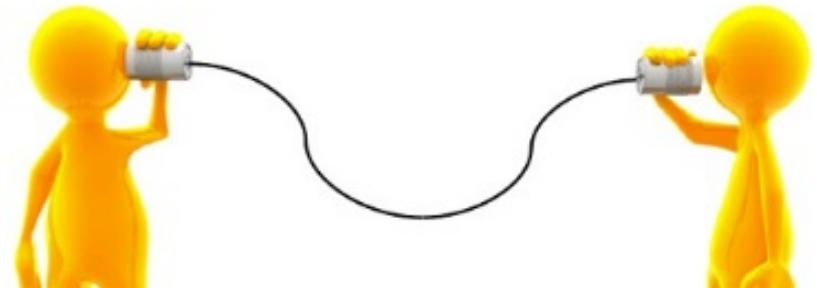
+125%
!

Please note – all figures and calculations contained herein are based on a number of assumptions and are therefore for illustrative purposes only.

Employer engagement is essential



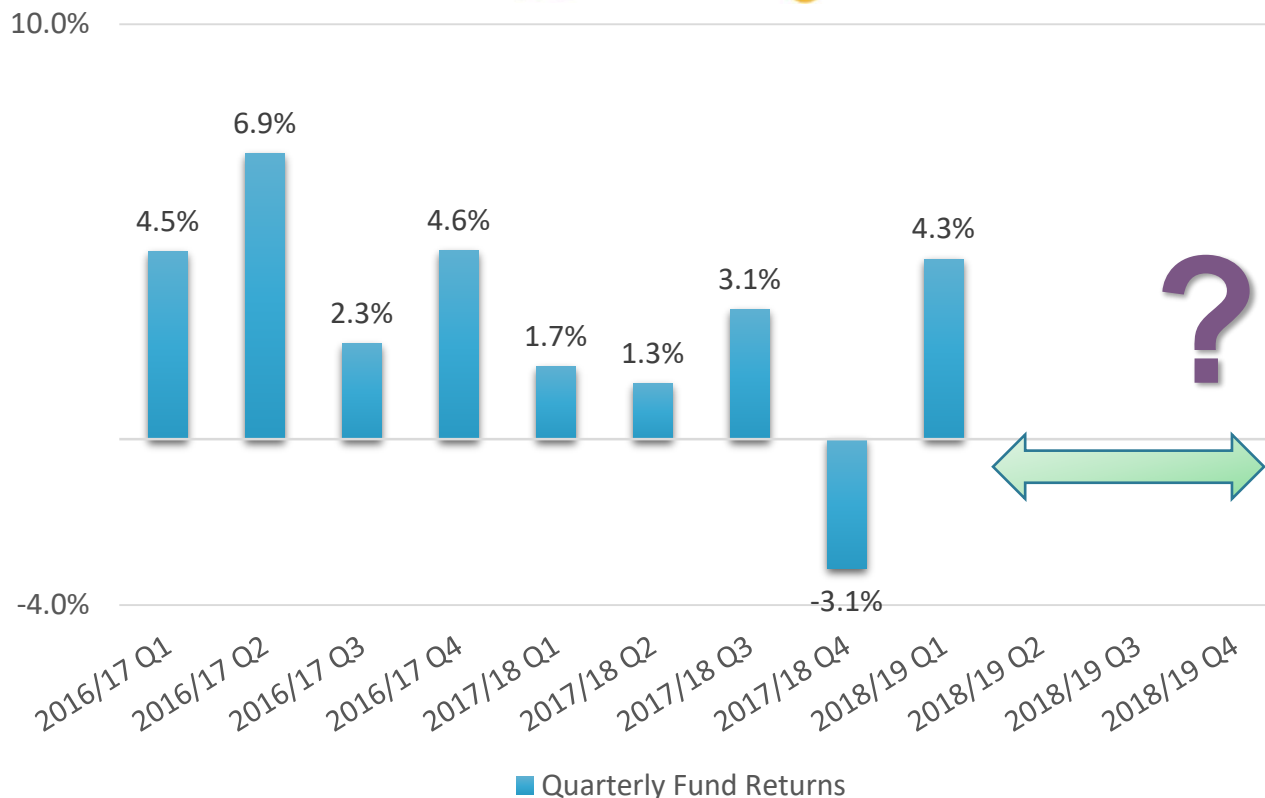
How you can help



What has
happened since
the 2016
valuation?



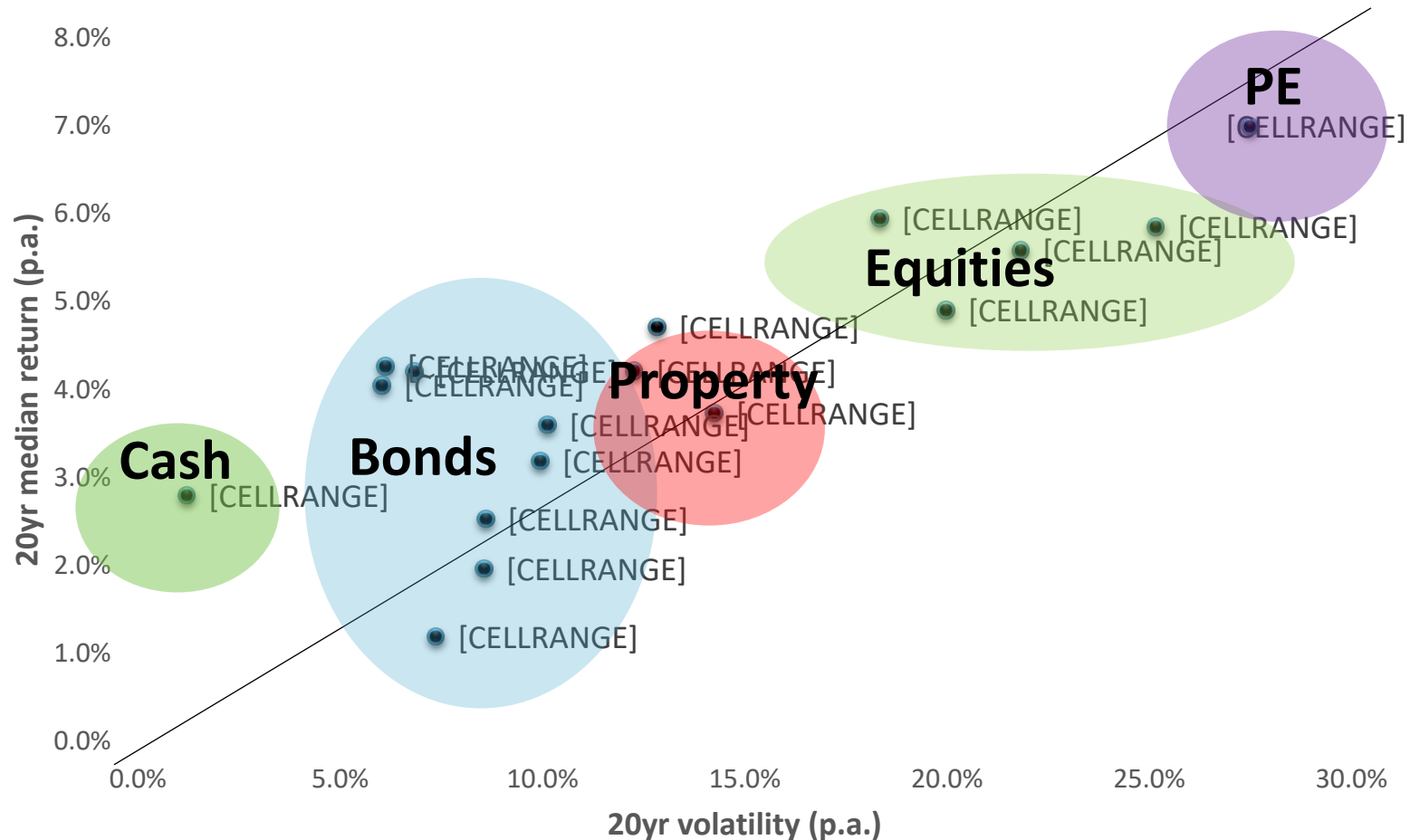
Warwickshire – returns since 2016



Total return of 28% is ahead of 2016 expectations

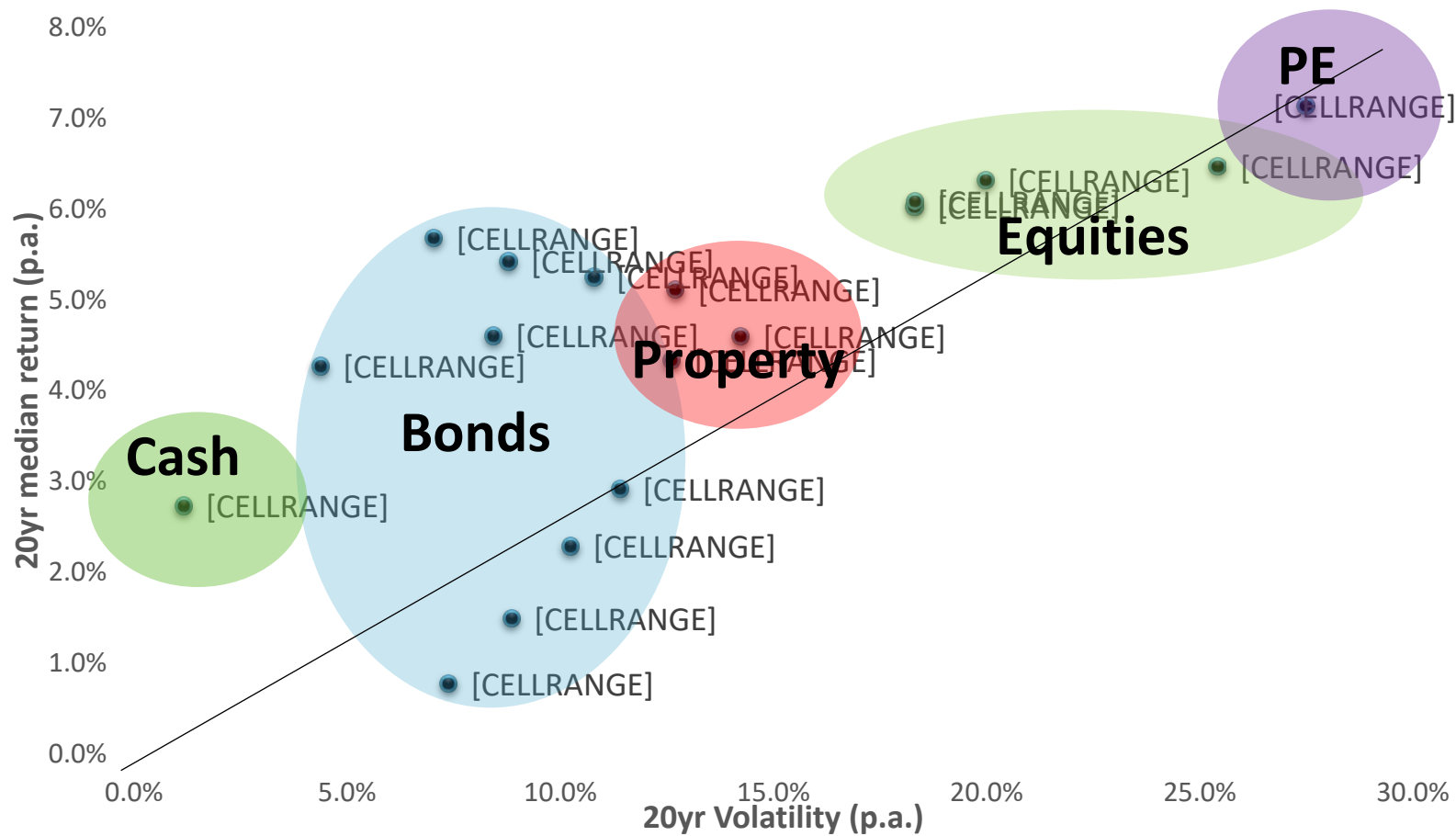
Outlook for investment returns – March 2016

Future investment return vs risk



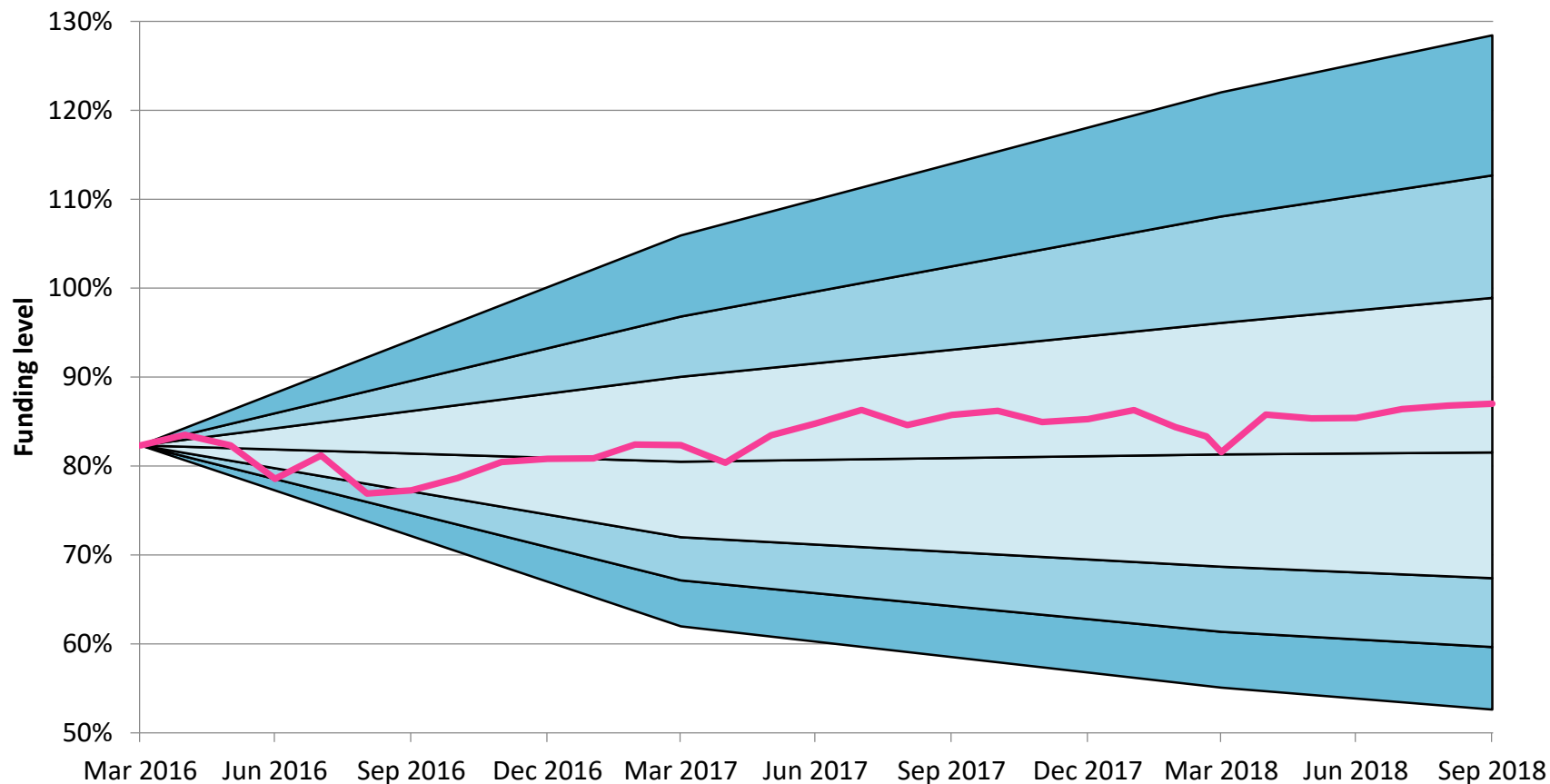
Outlook for investment returns – Sept 2018

Future investment return vs risk



Outlook for future investment returns broadly similar

Funding level (Whole Fund)



Funding level movement is generally in line with expectations

Will we keep living longer?



Health

UK among worst for life expectancy rises

🕒 7 August 2018 | 📰

f 💬 🐦 ✉️ Share

MailOnline

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

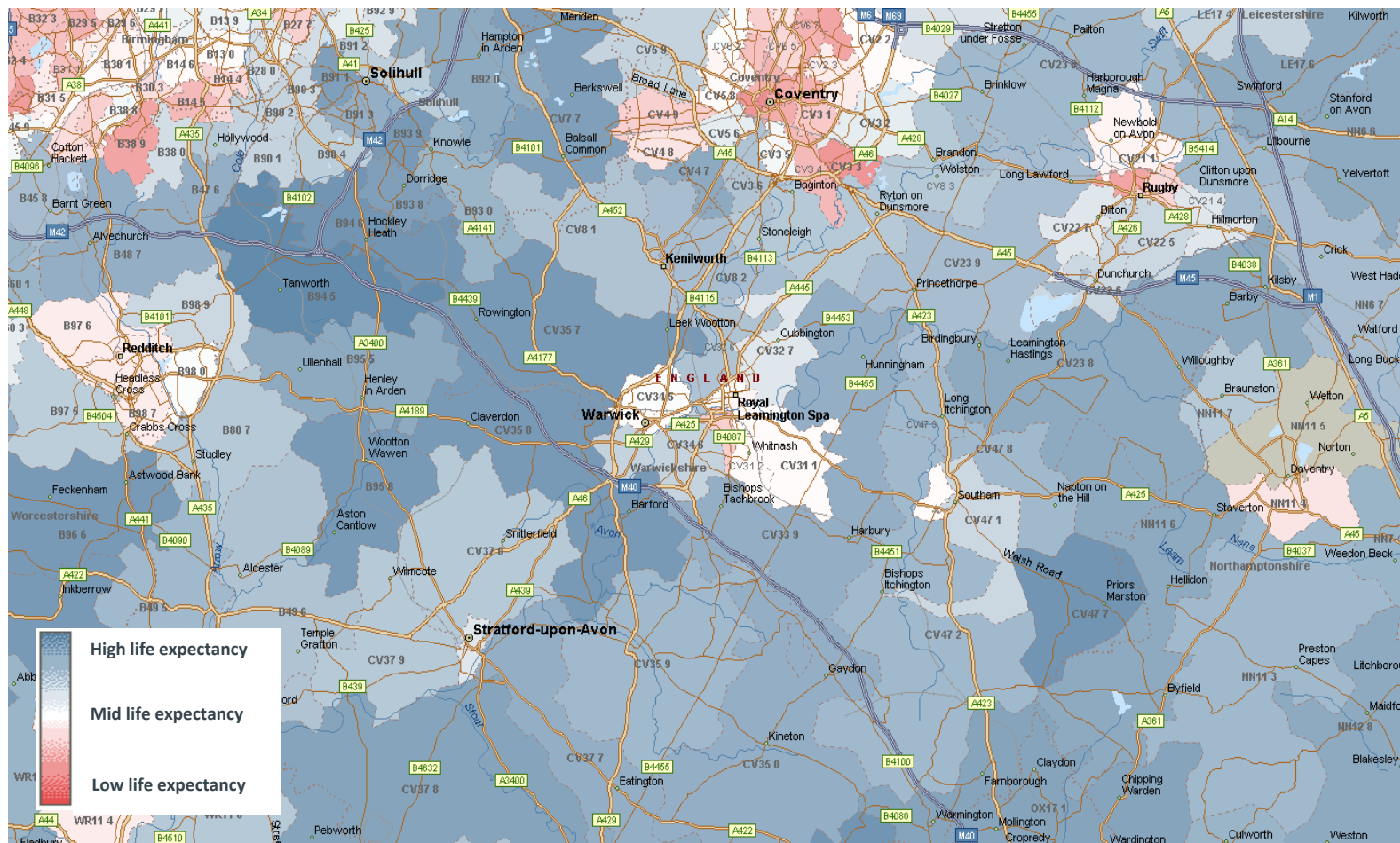
- Improvements in life expectancy in the UK have almost come to a halt since 2010
- Lifespans have lengthened thanks to medical advances and economic changes
- Analysts appeared to challenge the suggestion that government cuts could be responsible

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?

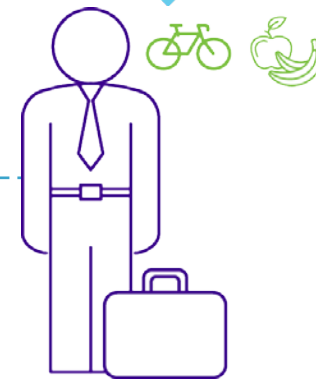
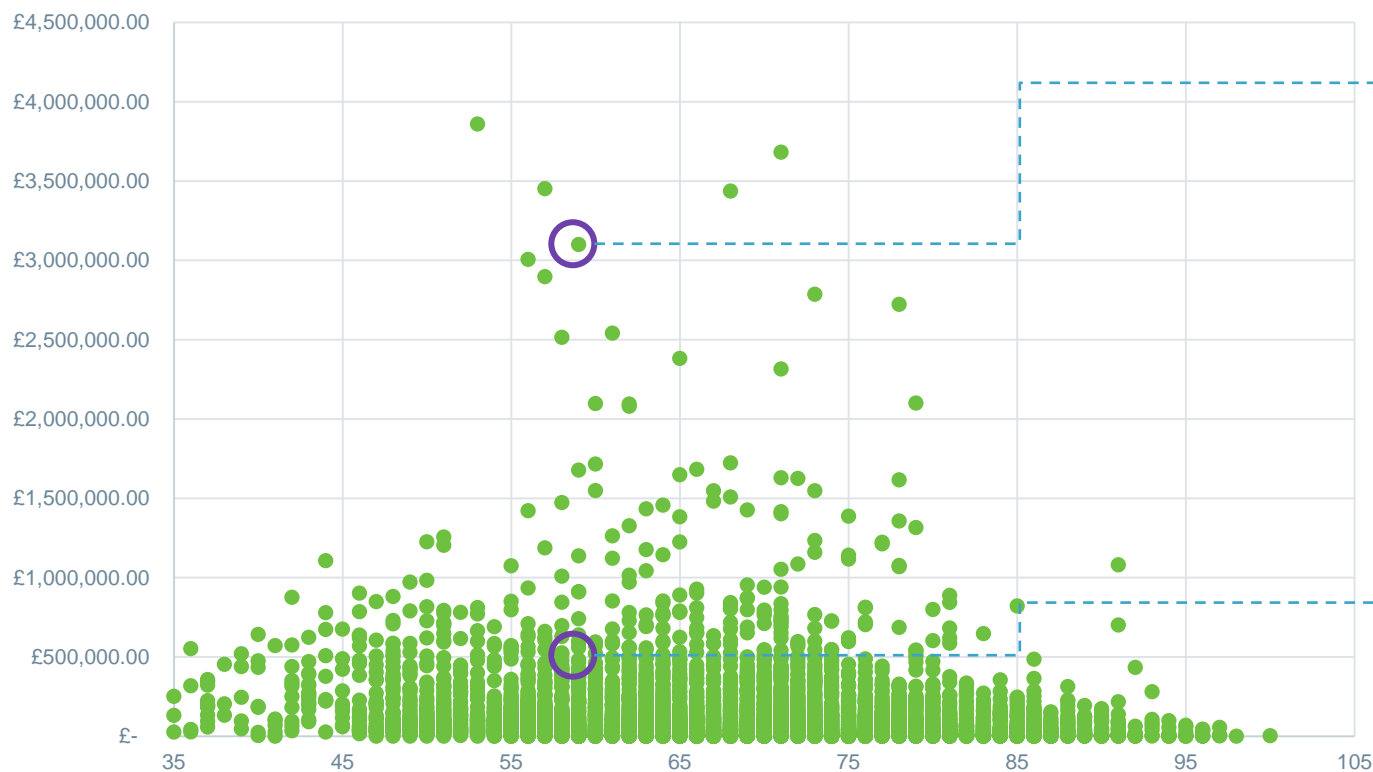
Observed life expectancies in Warwickshire



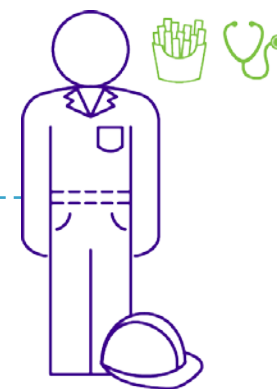
Source: Club Vita research based on VitaBank as at November 2018

One size fits none

Individual member liabilities by age (male)



DAVE



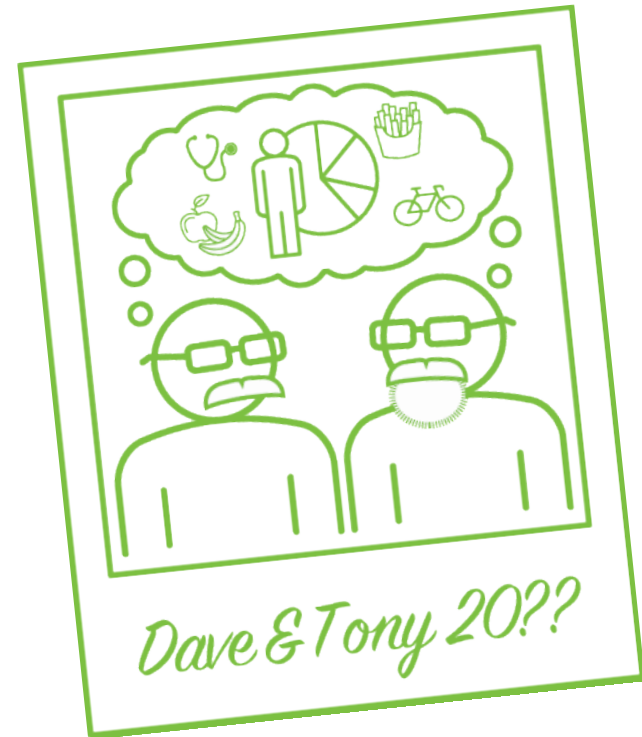
TONY

Two steps to calculate life expectancy



Baseline mortality

Snapshot of current
state of longevity

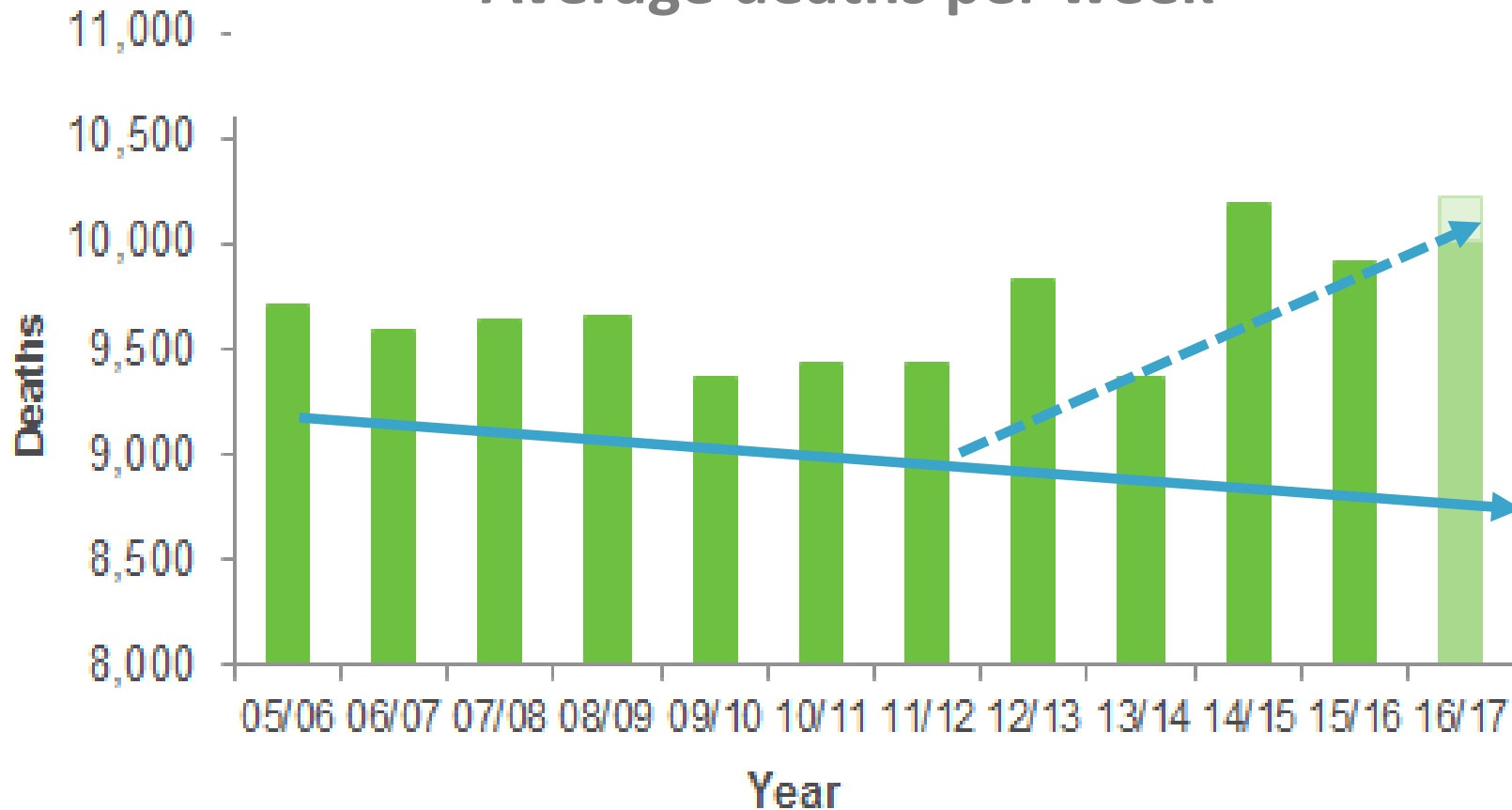


Future trends

How longevity will
change in the future

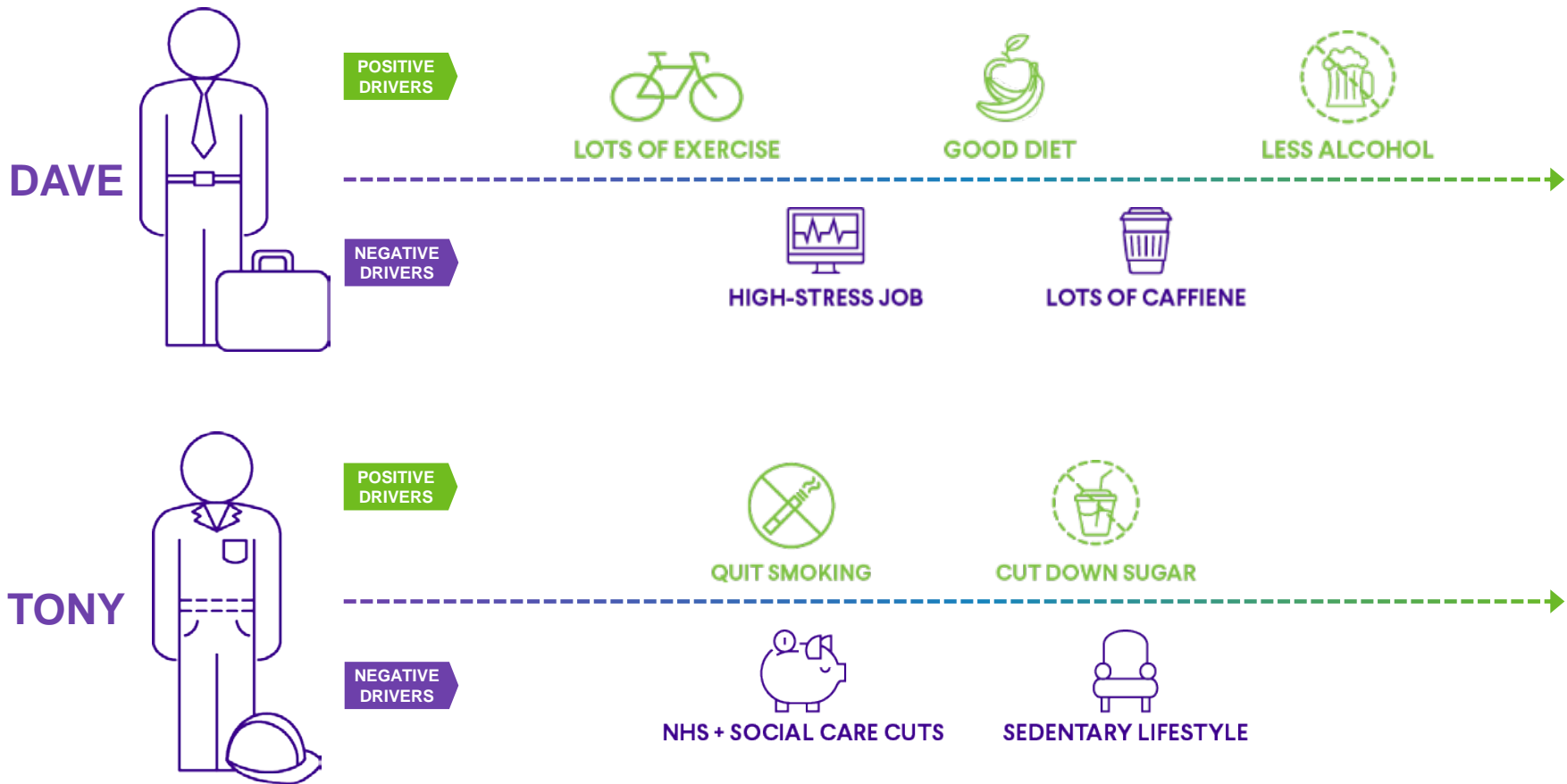
Improvements slowing or just volatility?

Average deaths per week



Austerity, flu, cold winters?

What influences future trends?



VitaSegments trend analysis



Group	Annualised mortality improvement (age-standardised)		
	2000-2005	2005-2010	2010-2015
England & Wales	2.8%	2.8%	1.1%
Club Vita	2.4%	2.8%	1.3%
Comfortable	2.4%	2.1%	2.1%
Making-do	2.2%	3.2%	0.9%
Hard-pressed	2.5%	2.9%	1.0%

Source: PLSA / Club Vita Longevity Trends Report

**Slowdown in life expectancies should reduce liabilities
and employer contributions**

2019 Valuation Planning



2019 valuation timeline

Q4 18 – Q1 19

Pre-valuation work:

- Planning
- Data cleansing
- Long term strategy modelling

June - August 2019

Data cleansed and submitted to actuary

October 2019

Employer results reviewed and funding and investment strategy discussed

December 2019

FSS consultation started

Individual employer results prepared and issued

March 2020

Final valuation report signed off by 31 March



April - June 2019

Data submitted by employers

August – September 2019

Actuarial calculations processed.
Whole Fund results issued

November 2019

Employer AGM

Funding Strategy Statement (FSS) drafted

January - February 2020

Consultation of FSS and employer rates

1 April 2020

New contributions start to be paid.

Hot topics



Hot topics

- National initiatives
 - Cost Cap
 - GAD Section 13
 - Quadrennial Valuations
 - SAB Separation Project
- Other
 - Exit Credits

Impact on 2019 valuation?

What is cost management?



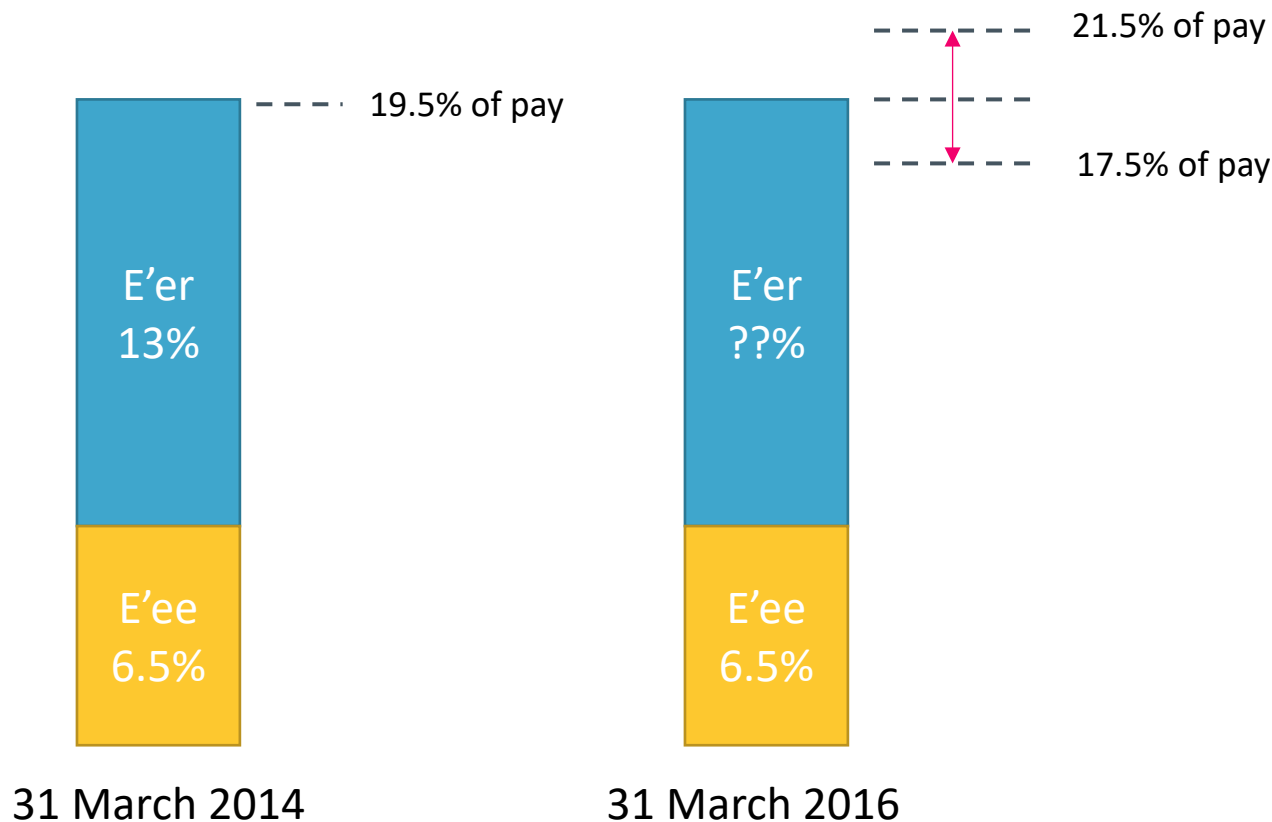
Independent Public Service
Pensions Commission:
Final Report

10 March 2011

Independent
Public Service
Pensions Commission

**Aim is to ensure affordable and sustainable
public sector pensions**

How does cost management work?



Benefits are amended if 2% of pay buffer is breached.

Cost Cap Valuations x 2

1



HM Treasury

- Trigger change if cost +/- 2% of pay
- Excludes actual investment returns, changes in financial assumptions (future salary, inflation), 50/50 uptake
- If breach, changes to benefits to reset cost to middle of range

2



- Similar to above
- Includes uptake of 50/50
- Done before HMT
- Cost has reduced from 19.5% to 19.0%
- Resultant changes to benefits or employee contributions will feed into HMT cost cap

**Changes to benefits or employee contributions are effective
from 1 April 2019**

Cost cap valuation in unfunded schemes

1



HM Treasury

- Trigger change if cost +/- 2% of pay
- Excludes actual investment returns, changes in financial assumptions (future salary, inflation)
- If breach, changes to benefits to reset cost to middle of range
- **Initial results suggest saving of c.3% of pay**
- **Benefit improvement will be implemented**

2



- Similar to above
- Included uptake of 50/50
- Done by...
- Cost has risen to 19.0%
- Resultant changes to benefits - employee contributions will feed into HMT cost cap

Section 13 valuation

“Section 13 provides an independent review (by GAD) of the valuation and employer contribution rates to check that they are appropriate, and requires remedial action to be taken where that review identifies a problem.”

Compliance

- Have valuations been completed in accordance with the Regulations?

Consistency

- Has a Fund's valuation been completed on a basis “not inconsistent” with other Funds ?

Solvency

- Will certified contributions accumulate enough assets to meet liabilities over an “appropriate” period?

Long term cost efficiency

- Are certified rates “enough”?
- Are employers kicking the contribution can down the road?

A high level health check on funding in the LGPS

Overview of 2016 Local Valuations in E&W

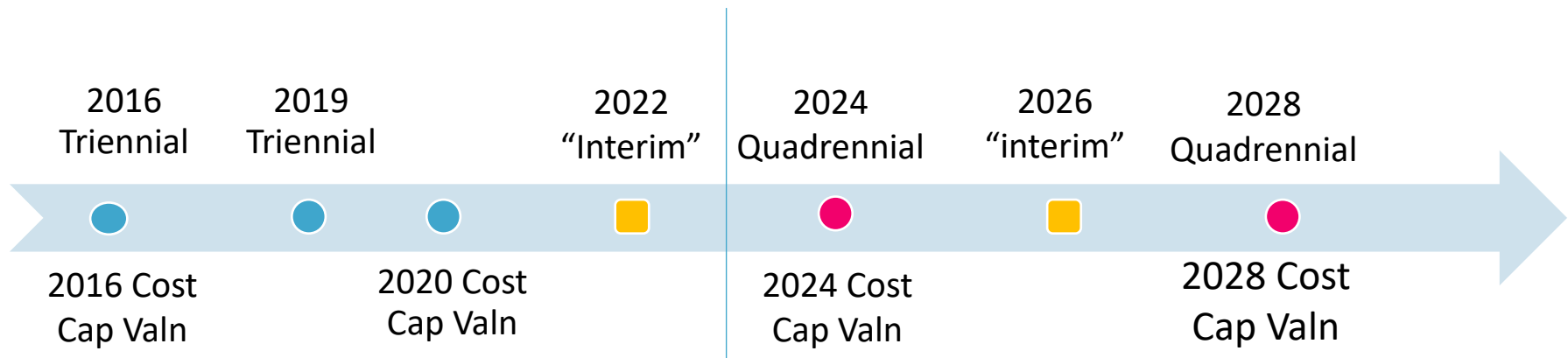
- **Funding levels have improved**
 - 2013 87% => 2016 95% (SAB standardised basis)
 - Mostly due to better than expected asset returns
 - Also reduced life expectancy a factor
- **Actuaries more cautious about economic outlook**
=> for many funds average employer contribution rates have increased

Warwickshire: green flags, ranked 22nd out of 89 funds based on standardised assumptions

Government Actuary's Department www.gov.uk/gad

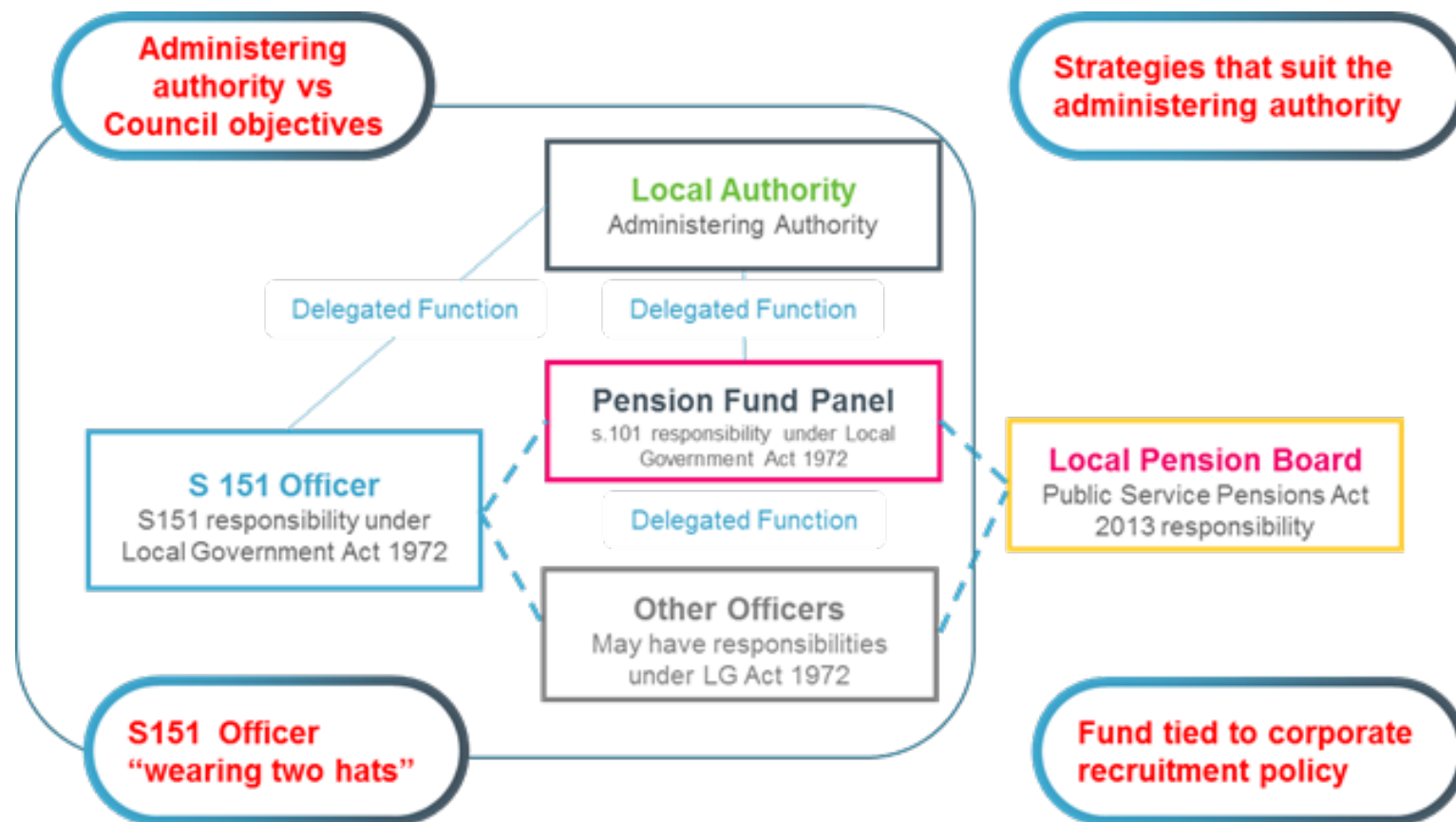
Quadrennial valuations

- Brings LGPS funding valuations into line with public sector cost sharing valuations
- Four years too long for some LGPS employers? May need “interim” valuations



2019 valuation will go ahead

The SAB 'separation project'



Two options currently under review – watch this space!

Exit credits

- Affects all cessations triggered from 14 May 2018
- Ceasing employers entitled to receive any funding surplus via an “exit credit”
- Implications for both funds and employers:
 - no transitional arrangements
 - refund is not taxable
 - is funding risk truly symmetrical?

“Pass-through” is becoming increasingly popular


2019 Valuation - summary

	Impact
Investment outperformance	Helps contain employer costs
Funding levels up	Helps contain employer costs
Longevity improvements	Slowing down for some groups?
Future investment returns	Still low
Cost share valuations	Cost increase for employers?
Quadrennial valuations	But 2019 going ahead

Expect contribution rates to remain fairly steady

Thank you





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