



Warwickshire Pension Fund 2019 valuation

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**This presentation has been prepared for discussion at the Warwickshire Pension Fund Employers Training on 28 November 2019 only.
It should not be used or relied upon for any other purpose.**

What are we going to cover?

1. Valuation introduction
2. Clean Data and its Importance
3. Valuation assumptions – what's changed?
4. Setting employer rates – what's changed?
5. Results – whole fund
6. Results – employer level
7. Next steps

Please ask questions as we go along

Quiz – Countdown

1. A million seconds is equivalent to 12 days. What is equivalent to a billion seconds?
 - a) 11.5 months
 - b) 3 years
 - c) 31 years
2. Of the 51,363,611 5km Park Runs completed, how many have been faster than Eliud Kipchoge's 1h 59m 40s marathon pace?
 - a) 513,000 – 1%
 - b) 51,363 – 0.1%
 - c) 5 – 0.00001%
3. What is the longest recorded flight of a chicken?
 - a) 2 seconds
 - b) 13 seconds
 - c) 5 minutes

Valuation introduction

2019 valuation timeline

Q4 18 – Q2 19

Pre-valuation work:

- Planning
- Committee review assumptions

July/August 2019

Data cleansed and submitted to actuary
Actuarial calculations processed

September 2019

Committee review whole fund results

November 2019

AGM

Individual employer results issued to employers alongside draft FSS

March 2020

Final report signed off by 31 March
Final FSS signed off by Committee

1 April 2020

New employer contributions start to be paid

April - June 2019

Data submitted by employers

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Whole Fund results calculated

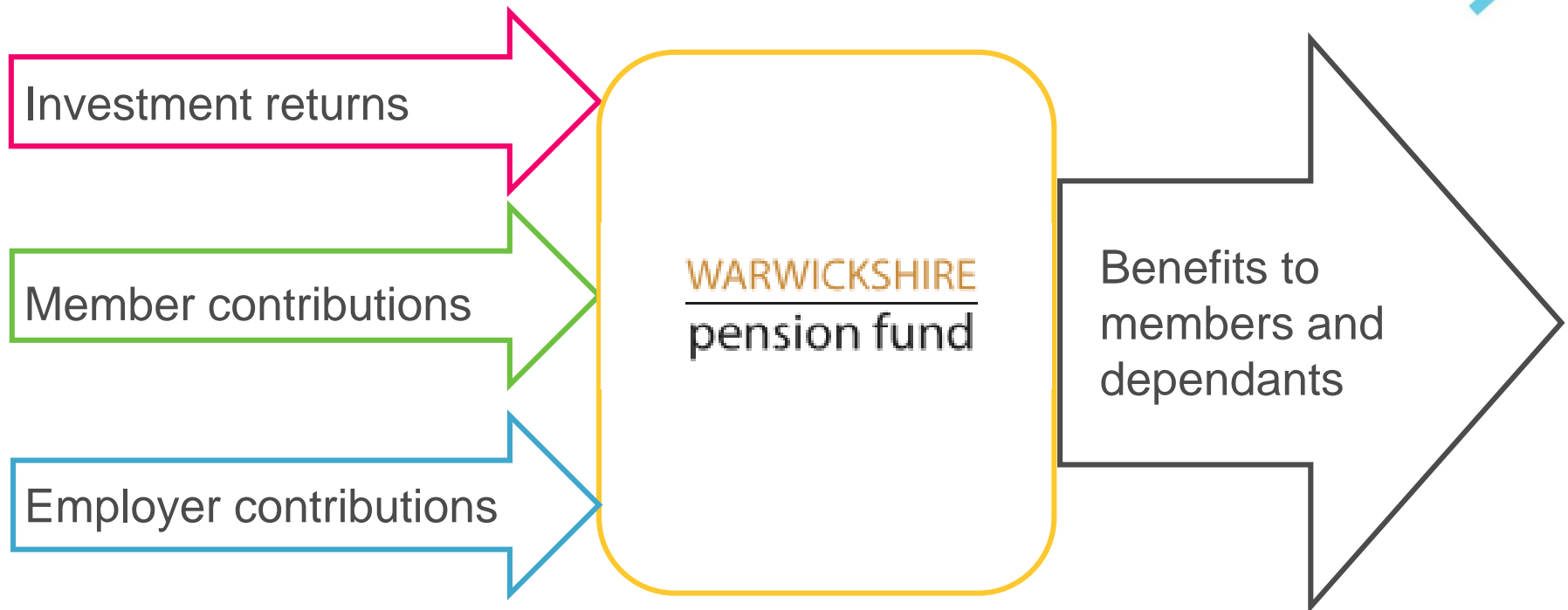
October 2019

Initial individual employer results calculated

December 2019

Pension committee review draft FSS and employer results

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

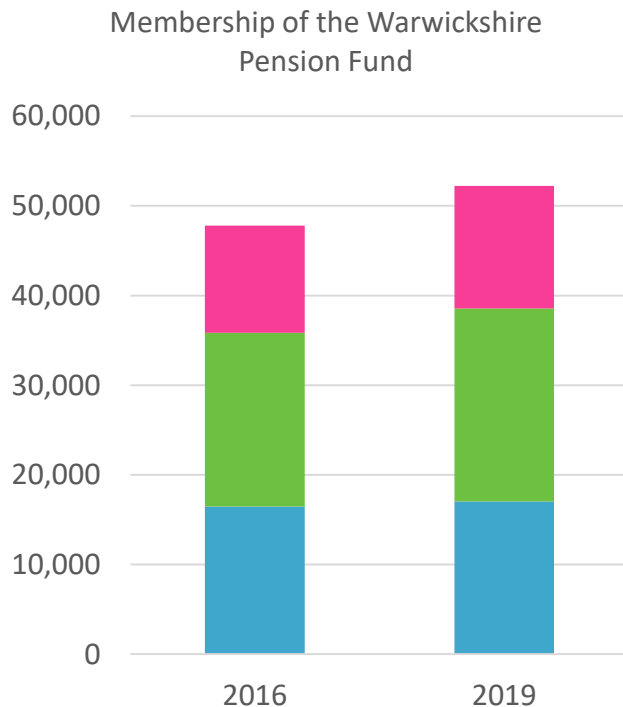


- Review Funding Strategy Statement

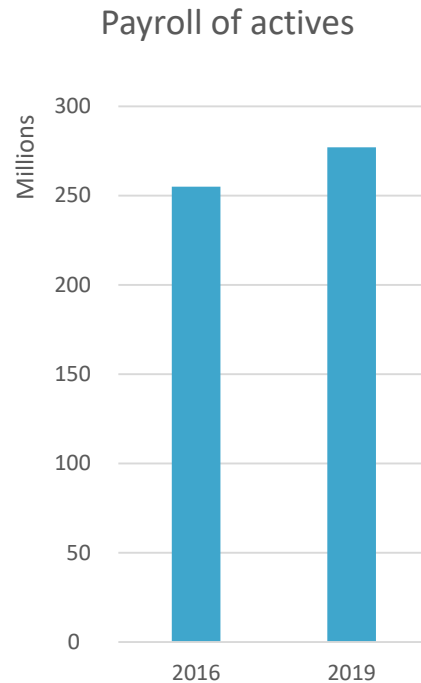


- Part of continual 'health check' on fund solvency

Membership data received and validated



■ Pensioners
■ Deferred Pensioners
■ Actives



■ Deferred pensions ■ Pensions

The fund has continued to grow in size, increased burden on the admin team

Clean data and its importance

What data are we talking about?

Membership data



Liabilities

Cashflow data



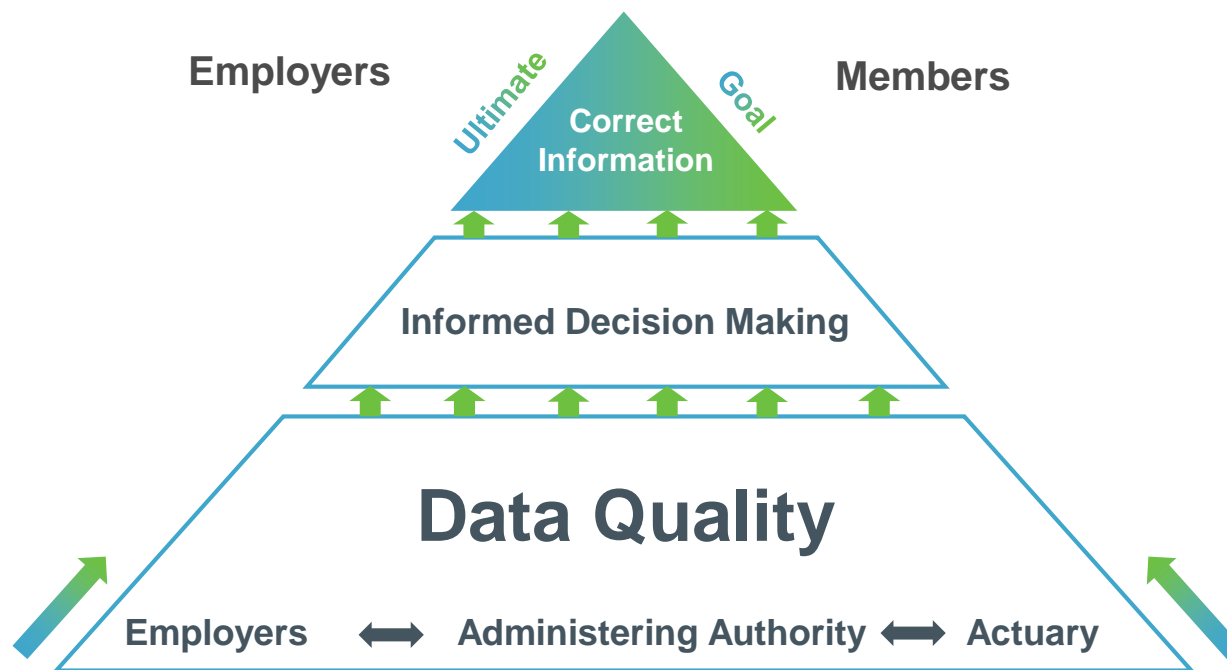
Assets

Employer
circumstances



Funding plan

The importance of clean data



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%!

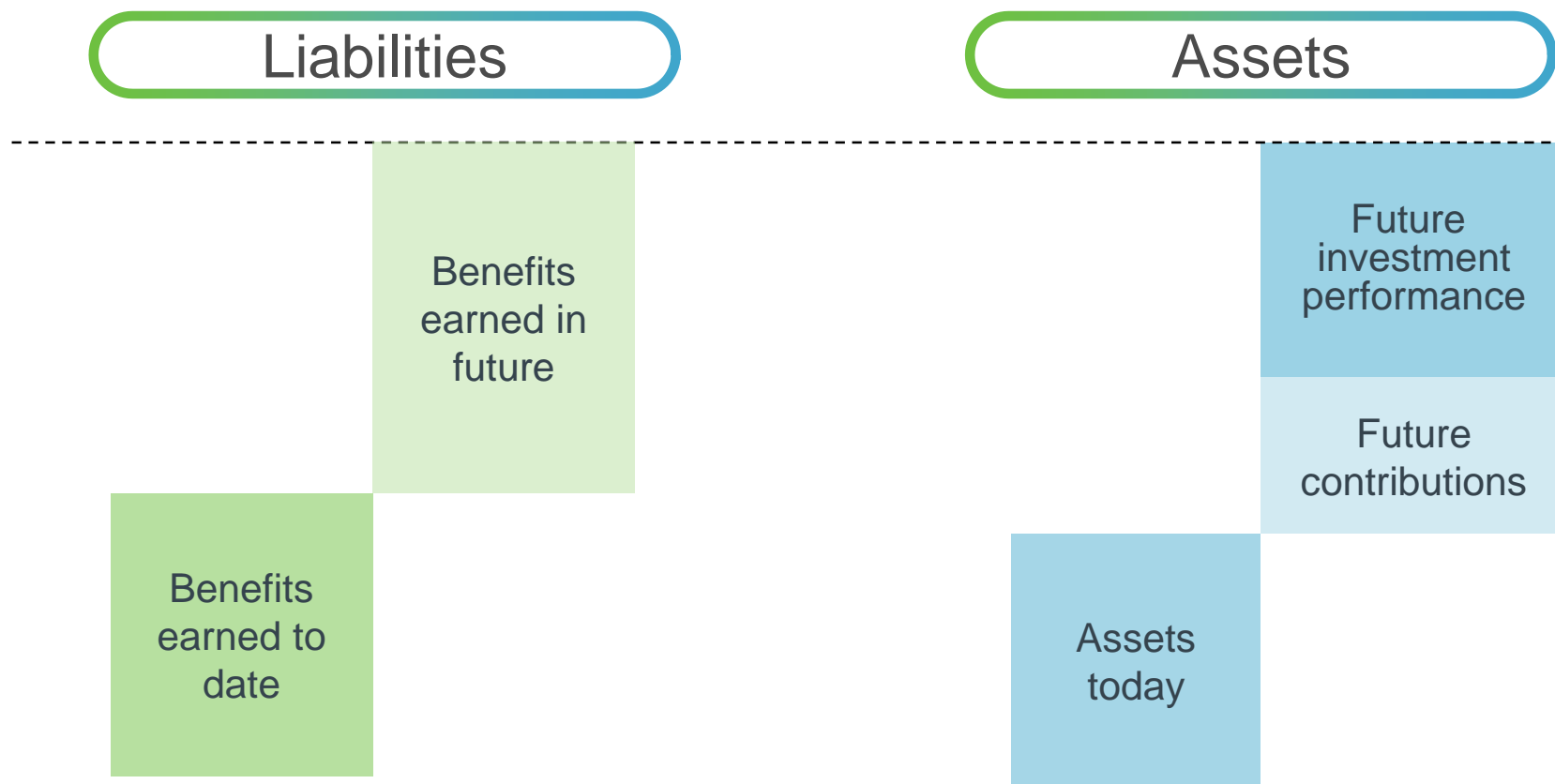
Please note – all figures and calculations contained herein are based on a number of assumptions and are therefore for illustrative purposes only.

Employer engagement is essential



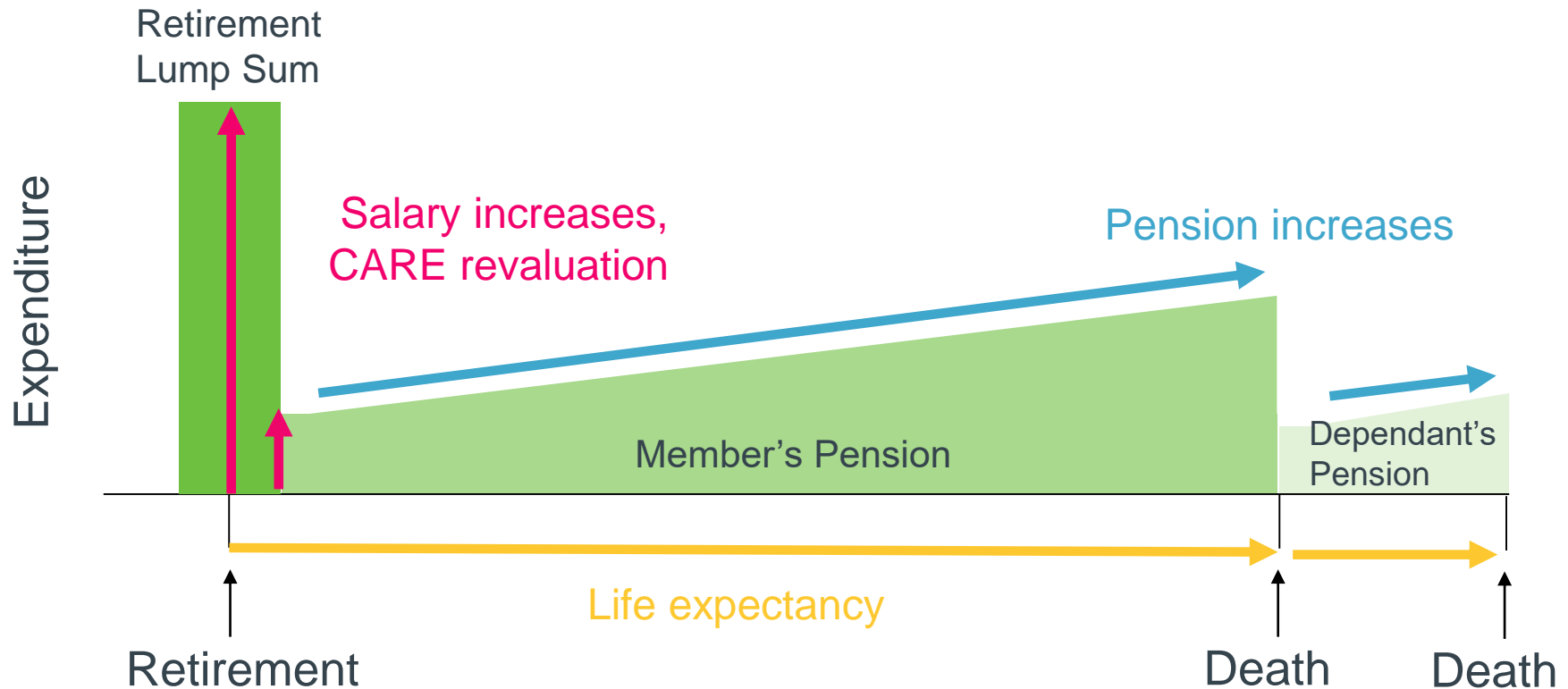
Valuation assumptions – what's changed?

How to fund benefits



The purpose of a valuation is to review each of these sections and set a prudent plan to pay each member's benefits

Why do we need assumptions?



Recap: 2016 funding plan

2016

Benefits
earned in
future

Liabilities
(Benefits
earned to
date)

Future
investment
performance

Future
contributions

Assets today

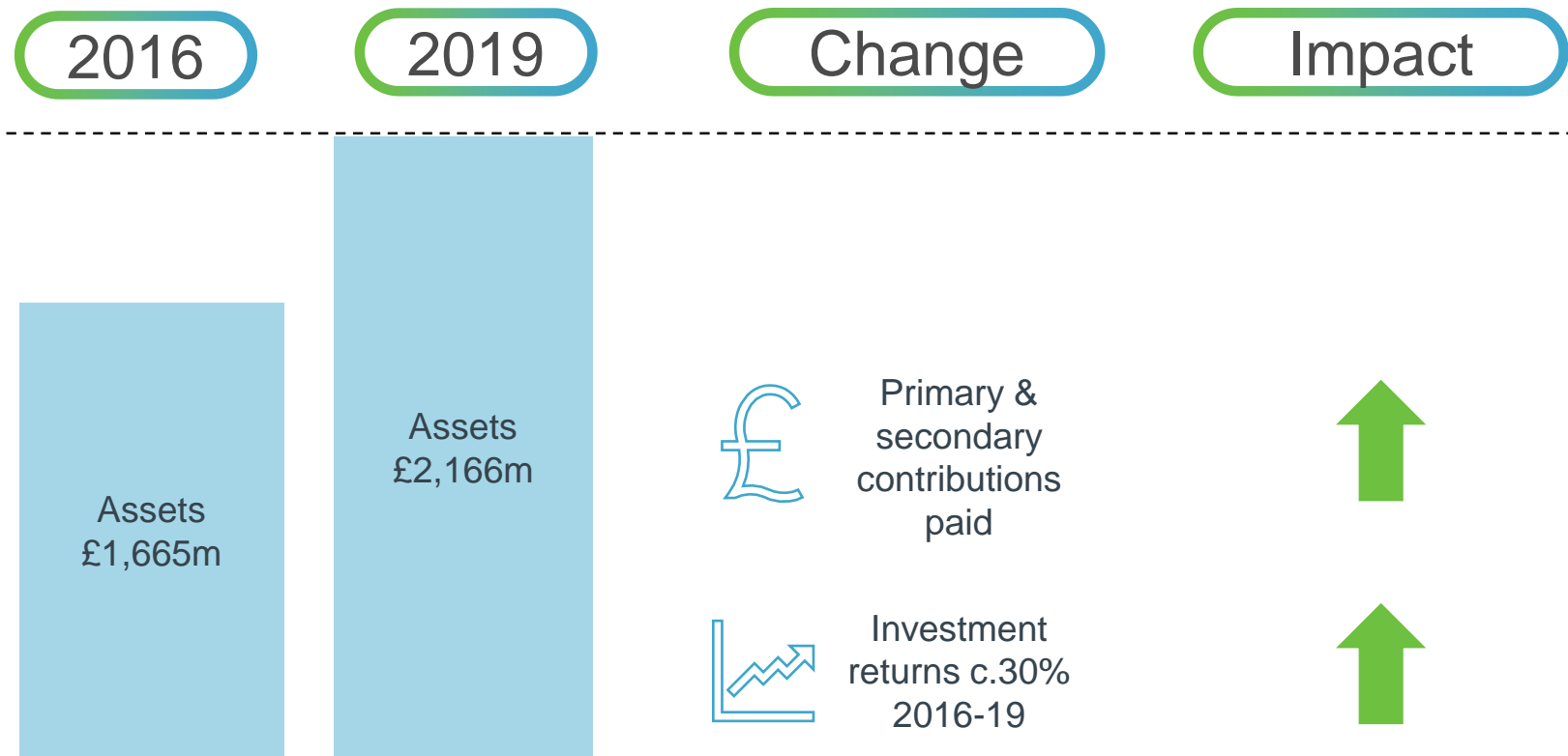
3.8% p.a.

Primary: 20.0% of pay
Secondary: £8,440,000

Funding level 82%

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

What has happened to the Fund's assets between 2016-2019?



What is the outlook for the return on the assets the Fund holds?

2016

2019

Change

Impact

3.8% p.a.

3.7% p.a.

Assets have
increased in price

Price increases
mean assets now
cost more

When assets cost
more, outlook for
returns is lower

What has happened to the benefits you need to fund?

2019

Change

Impact

Benefits
earned in
future



Future pay
increases



Life expectancy



Liabilities
(Benefits
earned to
date)



GMP
indexation



McCloud
judgement





Future pay increases

Then



Budget 2013: Public sector pay rise cap extended

20 March 2013



A 1% pay rise cap for public sector workers will be extended for an extra year to 2015-16, Chancellor George Osborne has announced.

The move comes as some civil servants stage a one-day strike over pay and pensions.

Mr Osborne said that public sector pay would be limited to an average of 1% including in 2015-16.



Now



Public sector workers 'to get above-inflation pay rise'

19 July 2019



Hundreds of thousands of public sector workers are reportedly in line to get a pay rise.

Long-term pay increase assumption up from 0.6% to 0.8% above CPI inflation



Falling life expectancy makes headlines

The Actuary

The magazine of the Institute & Faculty of Actuaries

Falling life expectancy to slash pension scheme liabilities

sky news

A lot of people in the City are getting very excited about death

“...£2bn windfall to the life sector.”

MailOnline

British life expectancy falls by SIX MONTHS for men and women with experts blaming NHS cuts and a rise in dementia, diabetes and obesity

“...pension firms have already begun to cash in on falling life expectancies.”

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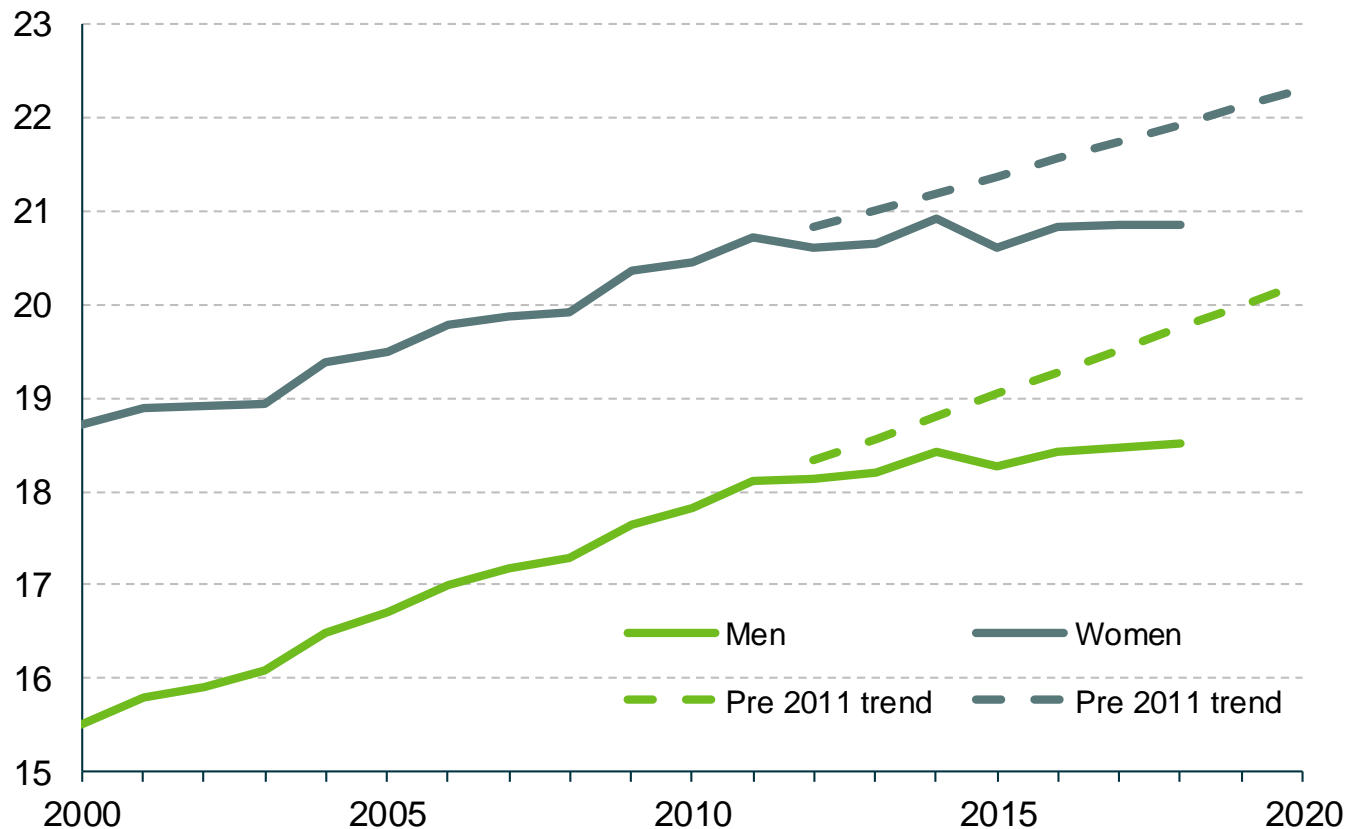
Life Was Short for Longevity Gains

Life expectancy at 65 is falling and that means cash windfalls for insurers



Is it fake news?

Period life expectancy from age 65



True for the general population...



Not the same for everyone



Group	Annualised mortality improvement (age-standardised)		
	2001-2006	2006-2011	2011-2016
General Population	3.0% ($\pm 0.1\%$)	2.6% ($\pm 0.1\%$)	0.9% ($\pm 0.1\%$)
Comfortable	2.0% ($\pm 0.6\%$)	2.6% ($\pm 0.4\%$)	1.5% ($\pm 0.4\%$)
Making-Do	2.9% ($\pm 0.4\%$)	2.9% ($\pm 0.3\%$)	1.1% ($\pm 0.3\%$)
Hard-Pressed	2.6% ($\pm 0.4\%$)	3.1% ($\pm 0.3\%$)	0.7% ($\pm 0.3\%$)

Still improving

Slowing down

Typical LGPS Fund Profile

Lives - male



10-15% of members...

Liabilities - male



...50% of liabilities

Less impact than the headlines suggest



McClouds on the horizon



Apr
2014/5

Reforms to public service pensions following Hutton review – benefits generally made less generous but older members are spared

➡ Members launch legal challenge claiming age discrimination

Jan
2017

➡ Government loses and appeals to Court of Appeal

Dec
2018

Court of Appeal rules against the Government

➡ Government appeals to Supreme Court

June
2019

Supreme Court declines to hear the Government's appeal

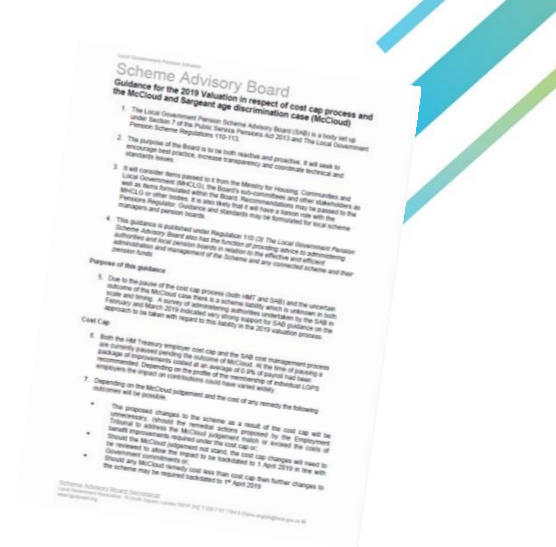
???

Significant uncertainty over public sector
pension benefits (and costs)



Impact on 2019 valuation

- What benefit structure to value?
 - Actuaries should value the current benefits*
- How will the fund manage the risk over benefit structure uncertainty?
 - Increase prudence when setting rates via higher likelihood of meeting the funding target
- Can funds revisit rates after the valuation once the case is resolved?
 - Yes
- What about employers leaving the fund?
 - If you leave the fund before the case is resolved, you may be asked to pay more to cover the potential cost of improved benefits



2019 funding plan

2019

Benefits
earned in
future

Liabilities
(Benefits
earned to
date)

Future
investment
performance

Future
contributions

Assets today

3.7% p.a.

Broadly similar to current levels

Funding level 92%

No significant change to assumptions since the last valuation


“No news is good news!”

Setting employer rates — what's changed?

Recap: how we calculate contributions

2013 and before


What is the funding target? 


How long do we want to give the employer to get to the target? 

What single set of assumptions are we going to use?

2016 onwards

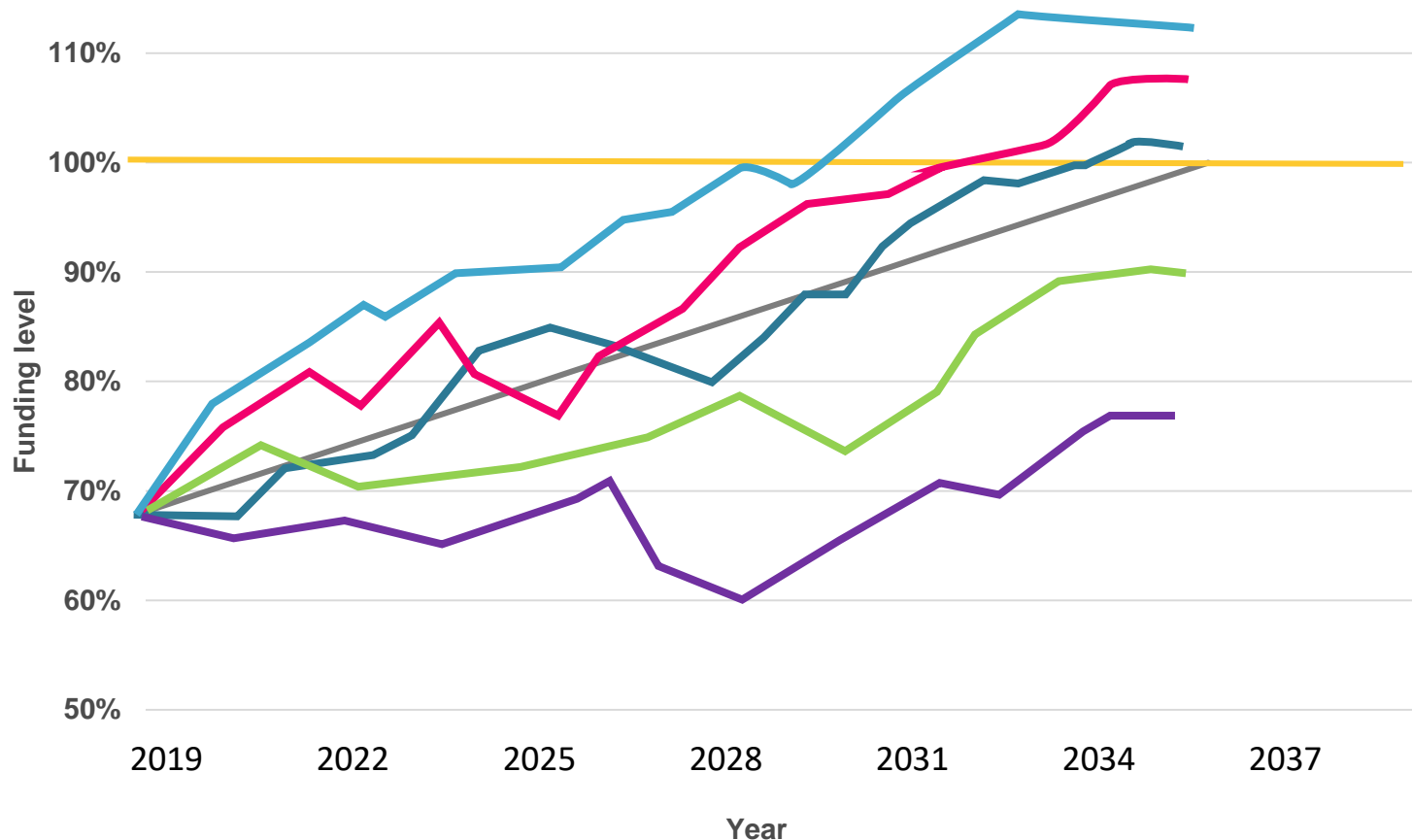
What is the funding target? 

How long do we want to give the employer to get to the target? 

How sure do we want to be that the employer hits the target? 

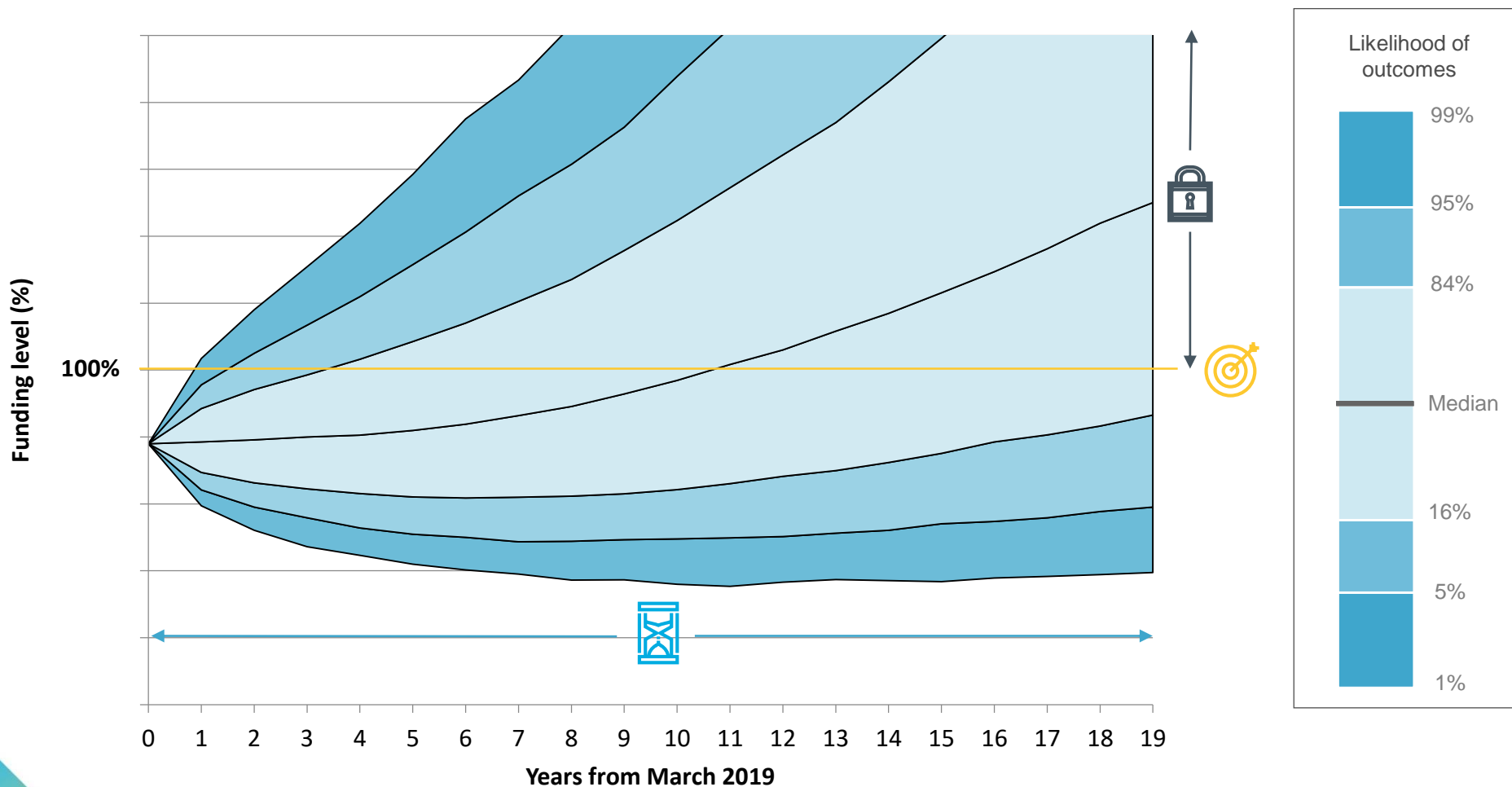
The method for setting contribution rates allows for future uncertainty and helps all stakeholders understand the risk inherent in funding plans

Test contributions under thousands of economic scenarios



Each scenario has different inflation, investment returns, interest rates etc

Combining it all together



Set a contribution rate so that enough outcomes are
'successful'

2016 valuation: funding strategy



Employer type	Funding target	Time horizon	Likelihood of success	Stabilised contributions
Councils and Police	Ongoing	Long	66%	Yes
Academies	Ongoing	Long	66%	No
Colleges	Ongoing	Long	75%	No
Transferee Admission Bodies	Ongoing	Short	66%	No
Community Admission Bodies	Cessation	Medium/Short	75%	No

Ensuring funding strategy is appropriate for each employer group

2019 valuation: funding strategy



Employer type	Funding target	Time horizon	Likelihood of success	Stabilised contributions
Councils and Police	Ongoing	Long	70%	Yes
Academies	Ongoing	Long	70%	No
Colleges	Ongoing	Long	80%	No
Transferee Admission Bodies	Ongoing	Short	70%	No
Community Admission Bodies	Cessation	Medium/Short	80%	No

Higher likelihoods applied to cover emerging risks
at this valuation

Where to find further information



Funding Strategy Statement details the Fund's approach to funding benefits for all employers and managing risks

Results— whole fund

Whole Fund funding position - change

	2016 valuation (£m)	2019 valuation (£m)
Active liabilities	736	809
Deferred pensioner liabilities	409	503
Pensioner liabilities	878	1,033
Total liabilities	2,023	2,346
Assets	1,665	2,166
Surplus/(Deficit)	(358)	(180)
Funding level	82%	92%

Funding level shows a snapshot on one particular day,
but funding pension benefits is a long term game

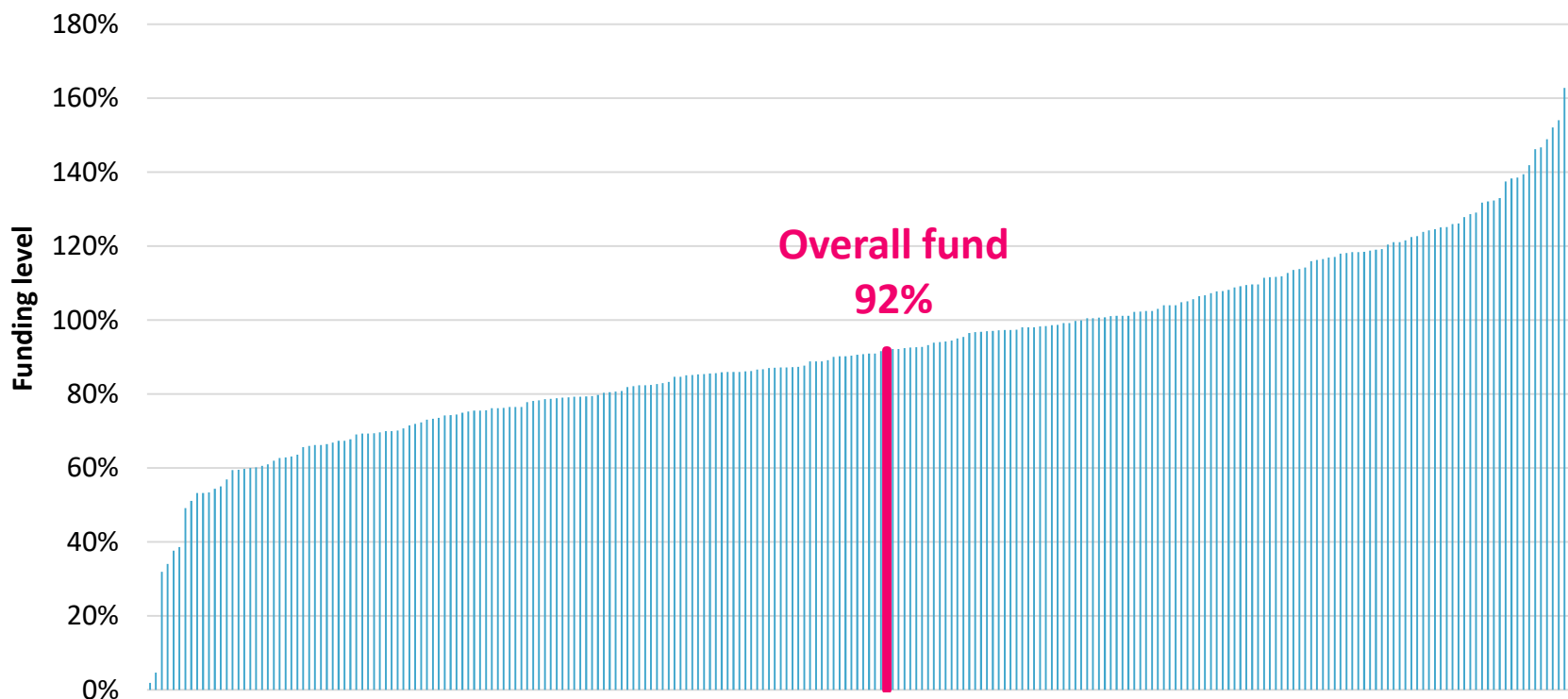
What's changed since 2016?

Change in value (£m)	Assets	Liabilities	Surplus / (Deficit)
Last valuation – 31 March 2016	1,665	2,023	(358)
Cashflows			
Employer contributions paid in	167		167
Employee contributions paid in	51		52
Benefits paid out	(223)	(223)	0
Net transfers into / out of the Fund	7		7
Other cashflows (e.g. expenses)	(6)		(6)
Expected changes in membership			
Interest on benefits already accrued		242	(242)
Accrual of new benefits		251	(251)
Membership experience vs expectations			
Salary increases less than expected		(1)	(1)
Benefit increases less than expected		(0)	0
Early retirement strain & contributions	0	17	(17)
Ill health retirement strain		(9)	9
Early leavers less than expected		(2)	2
Pensions ceasing greater than expected		4	(4)
Commutation less than expected		0	(0)
Impact of GMP equalisation		3	(3)
Other membership experience		(8)	8
Change in market conditions			
Investment returns on the Fund's assets	505		505
Changes in future inflation expectations		67	(67)
Changes in actuarial assumptions			
Change in demographic assumptions		(5)	5
Change in longevity assumptions		(67)	67
Change in salary increase assumption		7	(7)
Change in discount rate		47	(47)
This valuation – 31 March 2019	2,166	2,346	(180)

Results— employer level

Range of employer funding levels

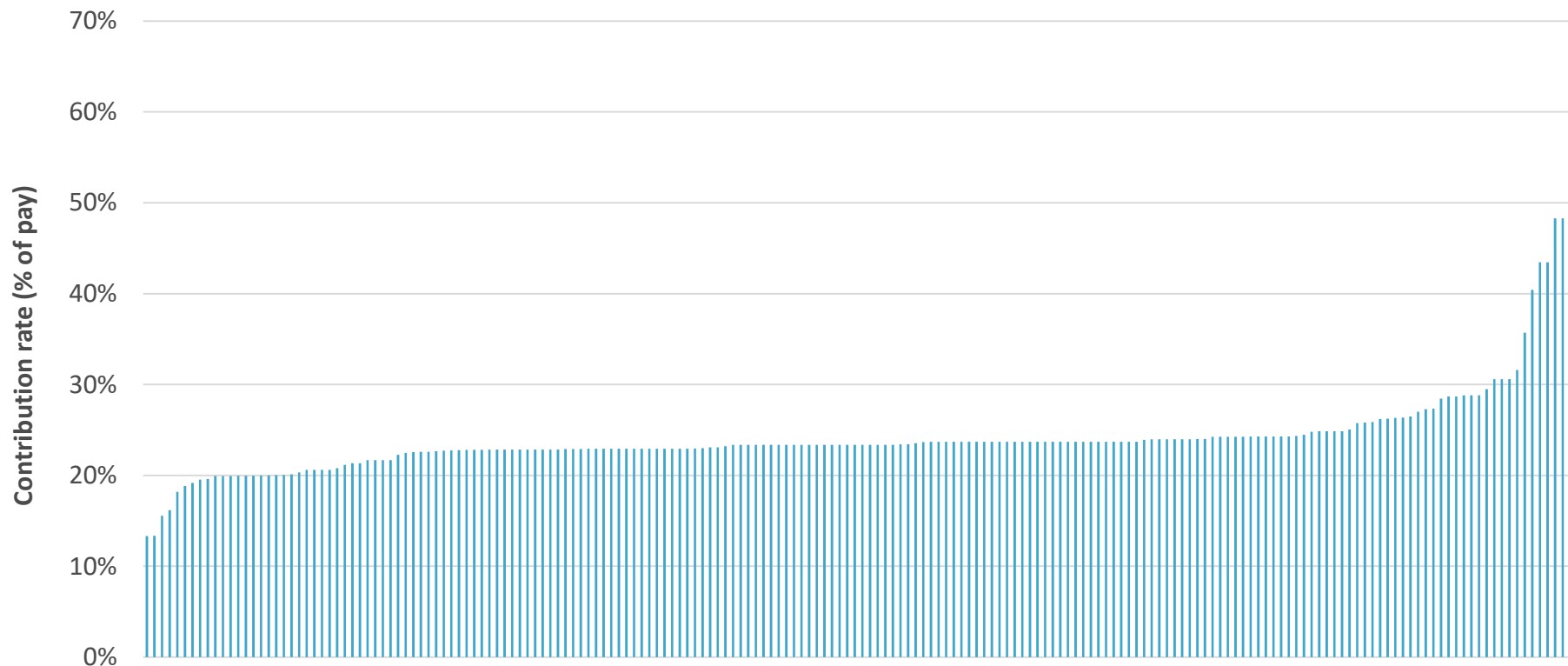
2019 valuation - distribution of employer funding levels



Most employers will see an improved funding level versus 2016, but there is a wide range

Range of employer contribution rates

Distribution of employer contribution rates



Overall, not much change is expected but will vary between employers

Next steps

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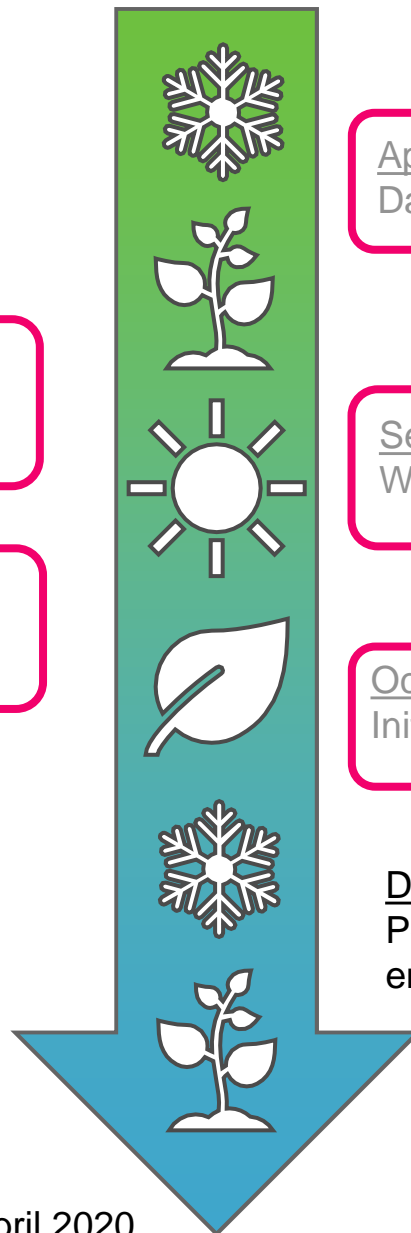
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Thank you



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