



# CPN Scottish Pensions Workshop

## Actuarial Update

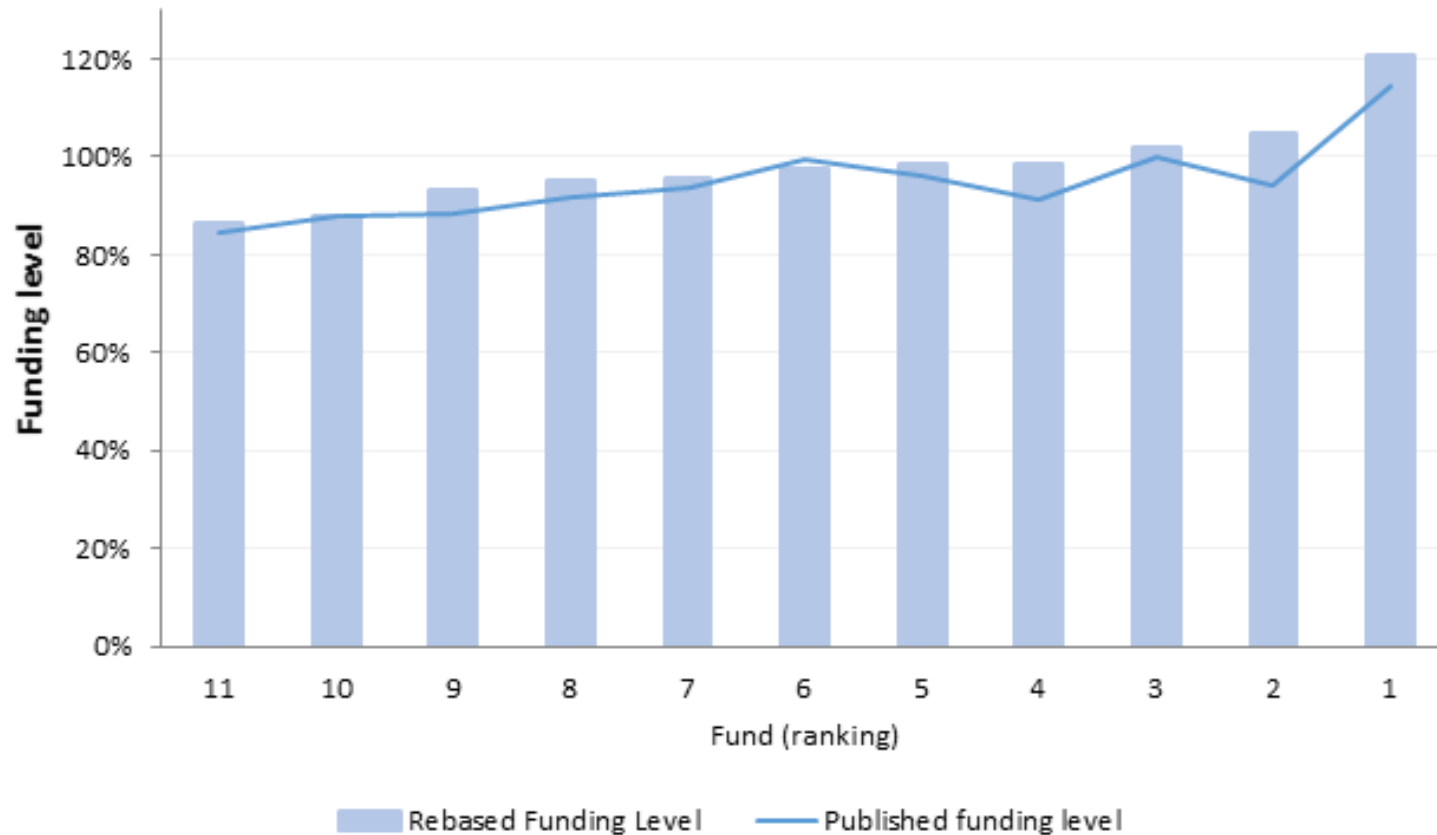
- Richard Warden FFA
- Robert Bilton FFA
- 14 September 2016

# Agenda

- Recap of the Scottish 2014 valuations
  - Where we were
  - What's happened since 2014
- Emerging themes from E&W 2016 valuations
- Pressures on employers
- Increase in scrutiny

# Recap of the 2014 valuations

# 2014 Scottish valuation results

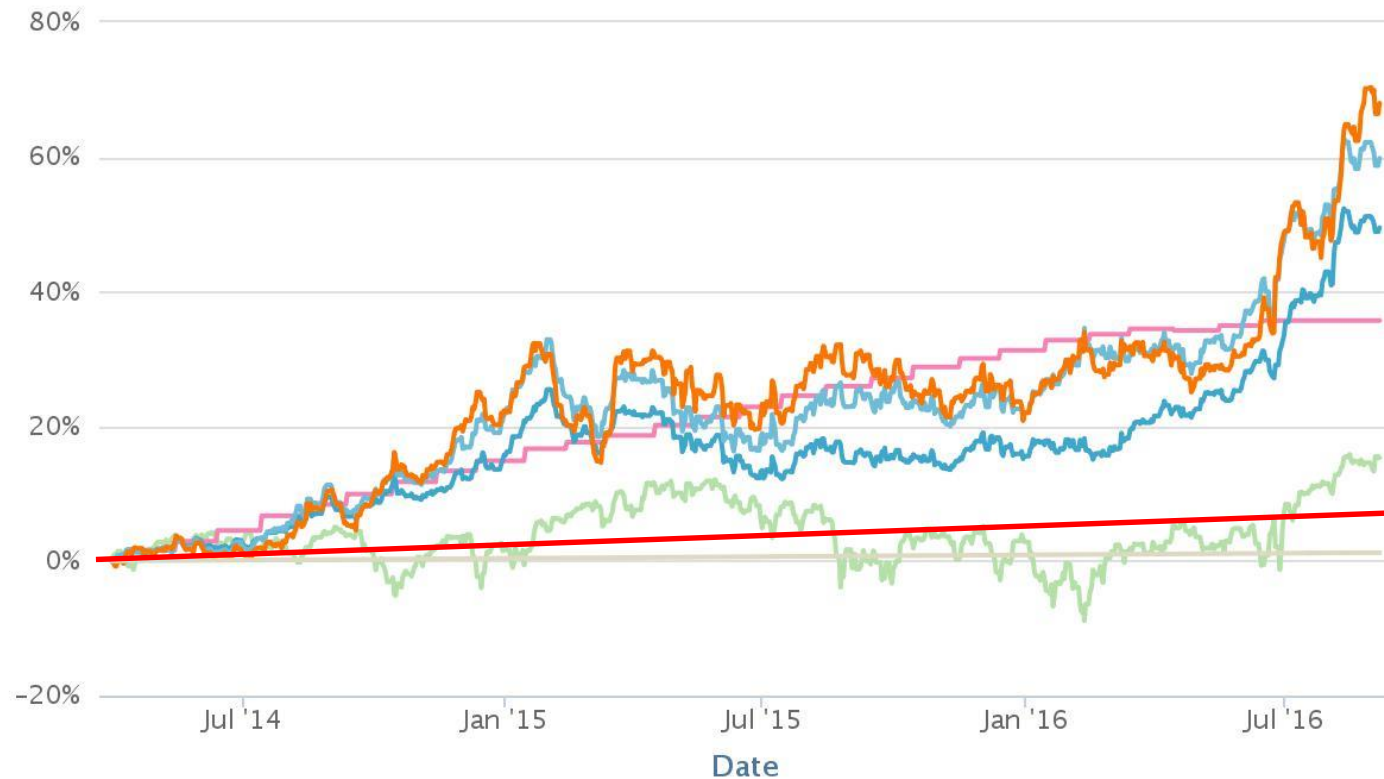


# What's happened since 31 March 2014?



Source: Hymans Robertson, sample Scottish LGPS fund

# Strong asset returns since 2014

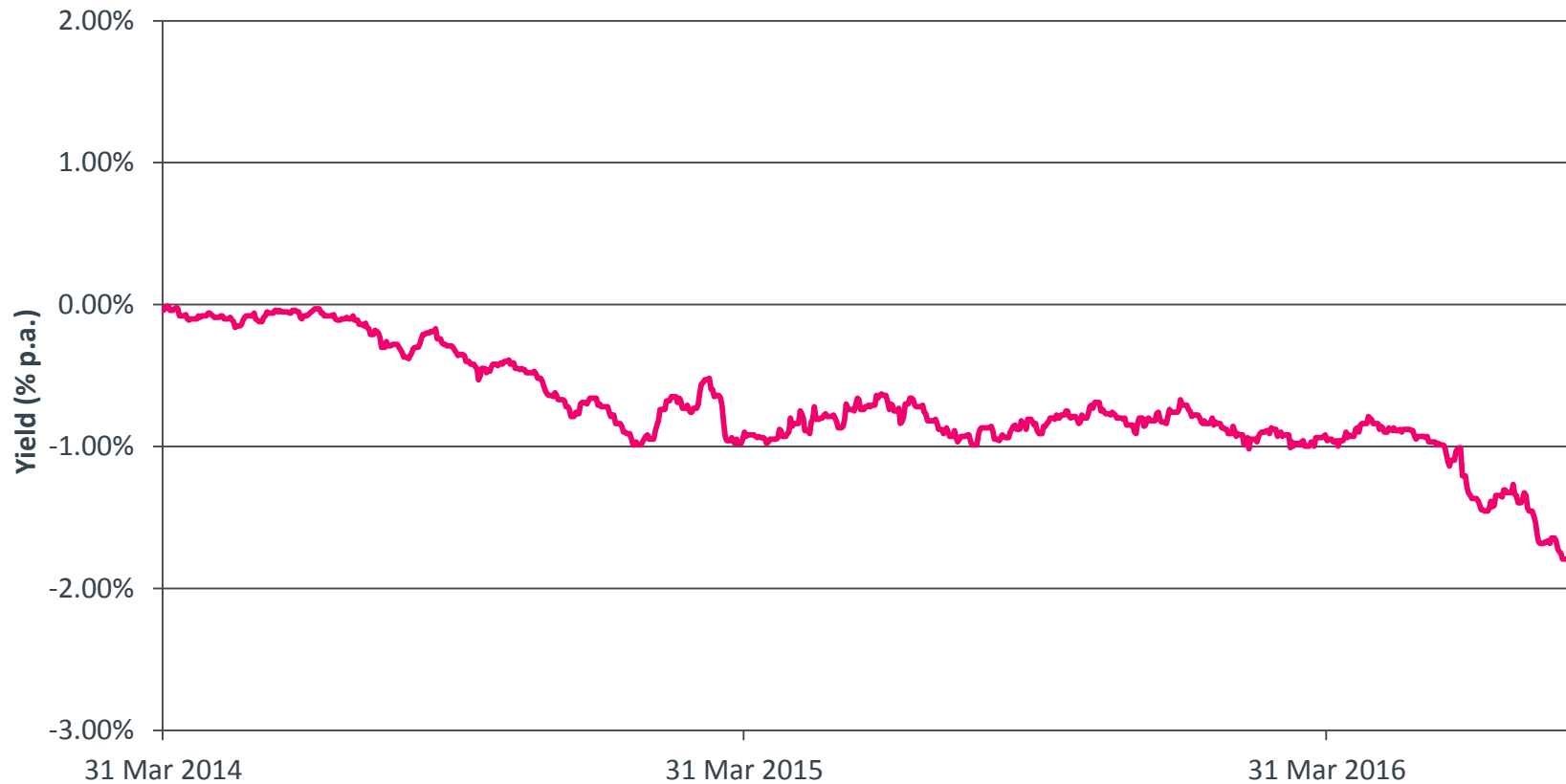


UK Equities Property Corporate bonds Fixed interest gilts Index-linked gilts  
Cash

Source: Bloomberg

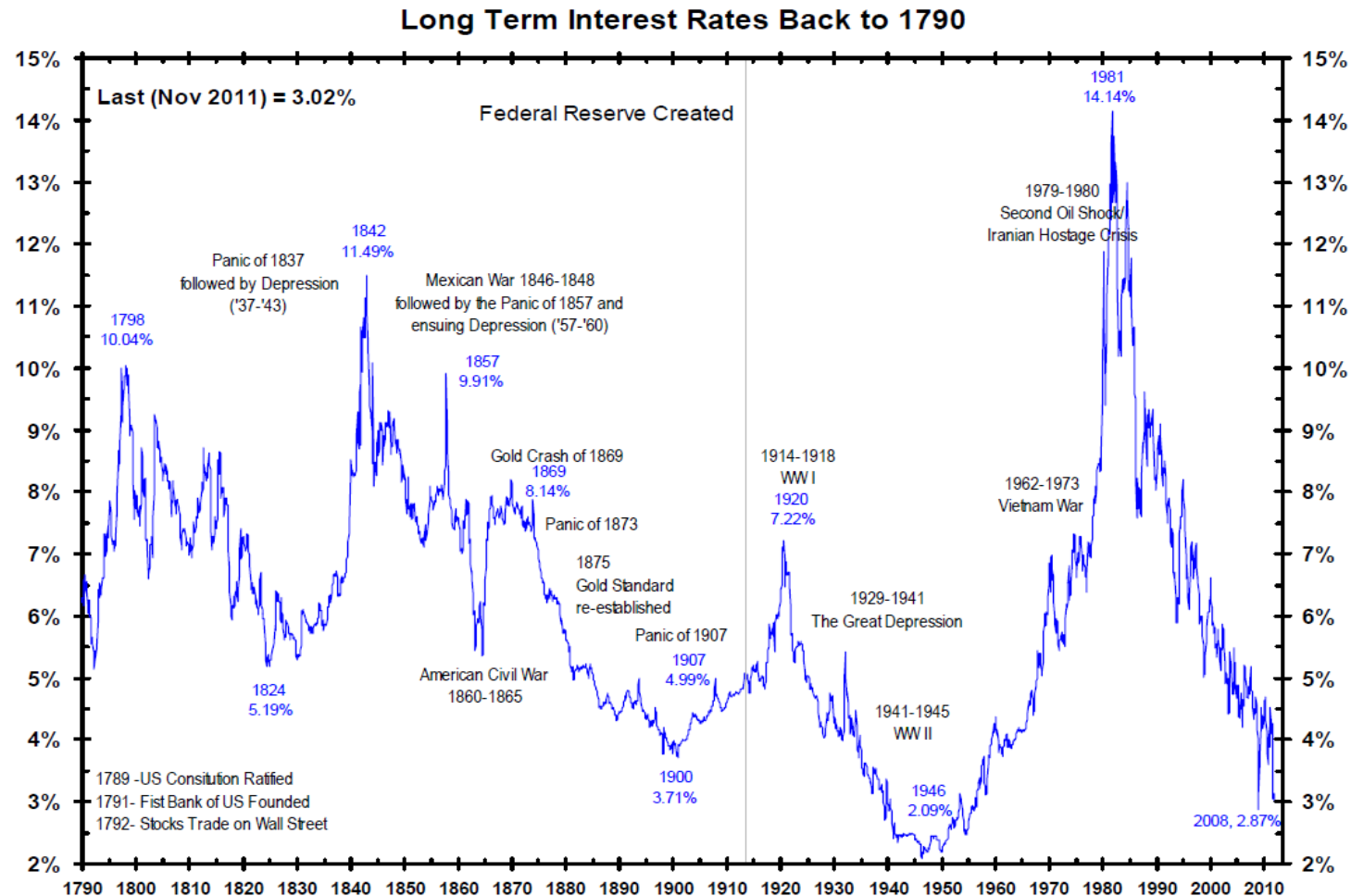
— Expected investment return

# Falling interest rates



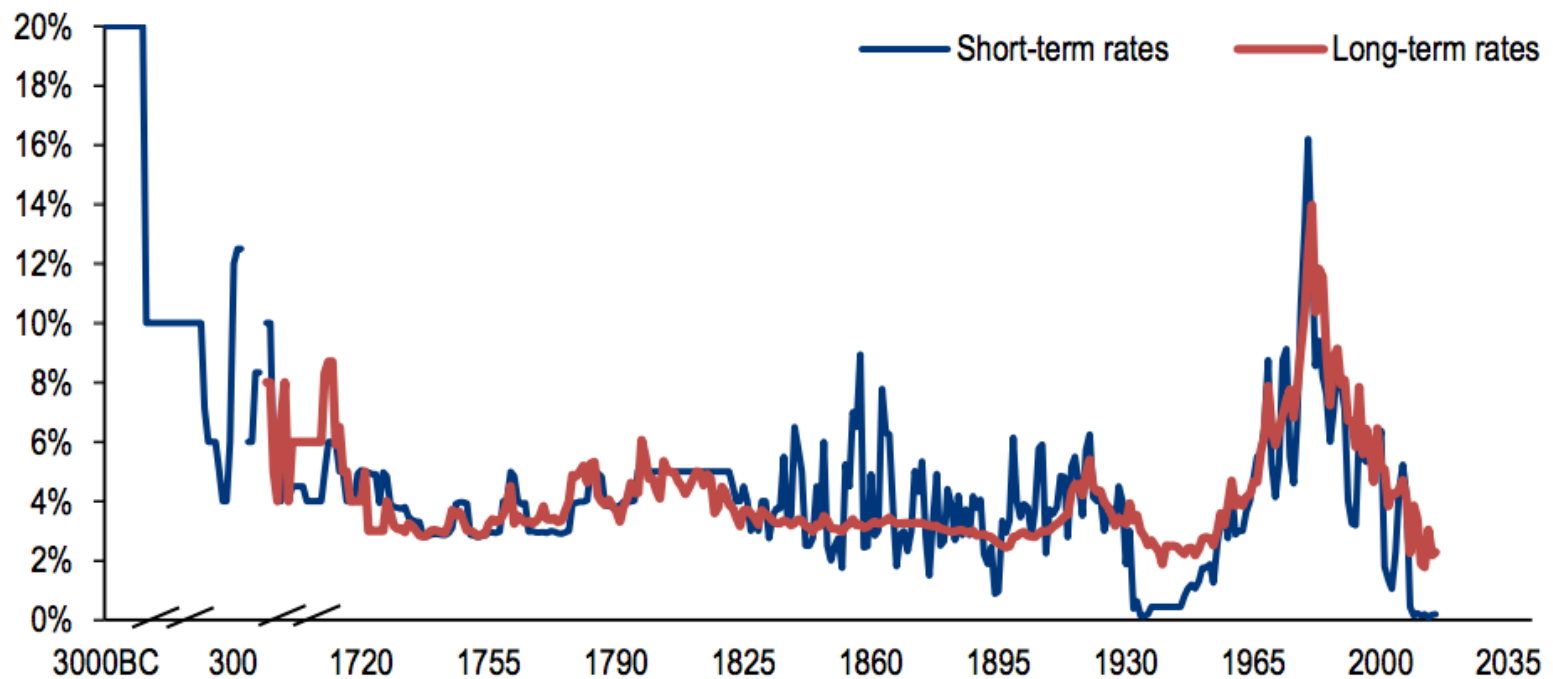
— Index-linked gilts (FTSE over 15 years, 3% inf.)

# Not the first time...





... and won't be the last!



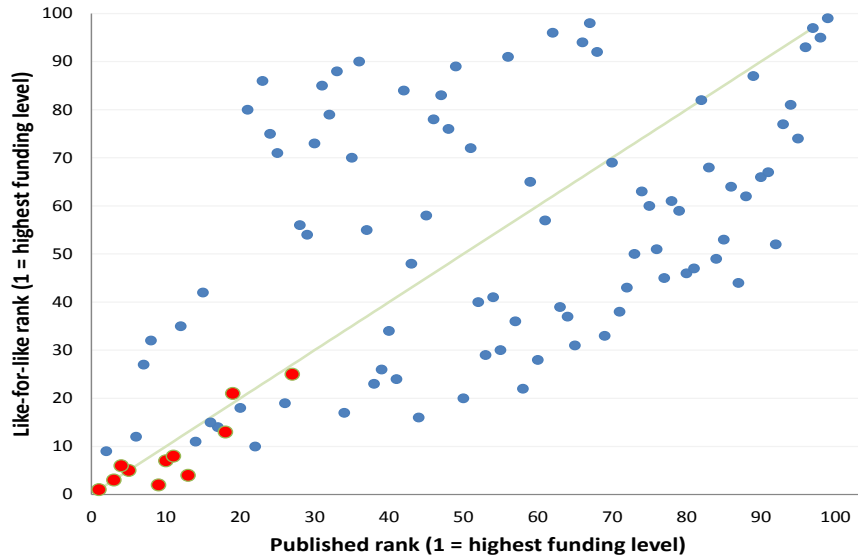
Sources: Bank of England, Global Financial Data, Homer and Sylla "A History of Interest Rates"

# Themes emerging from E&W 2016 valuations

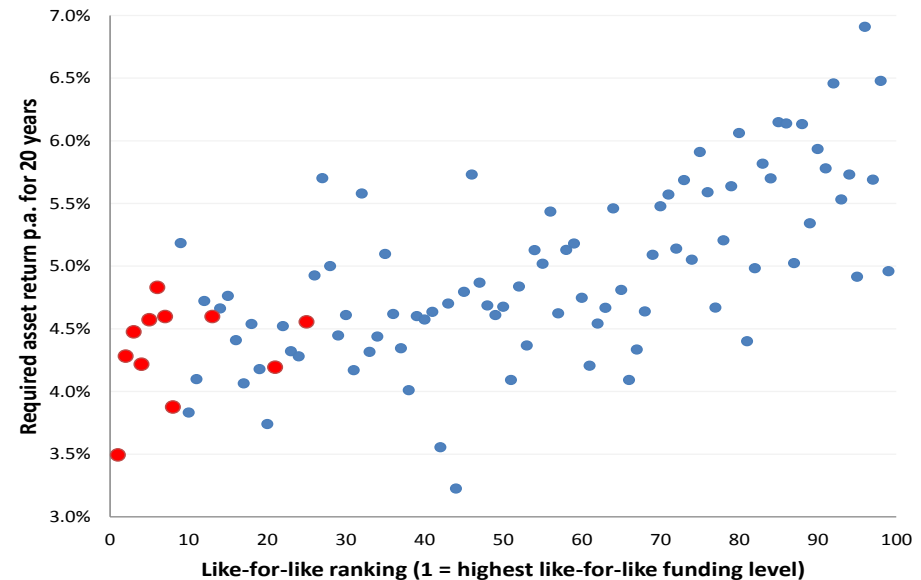


# The North vs. The South

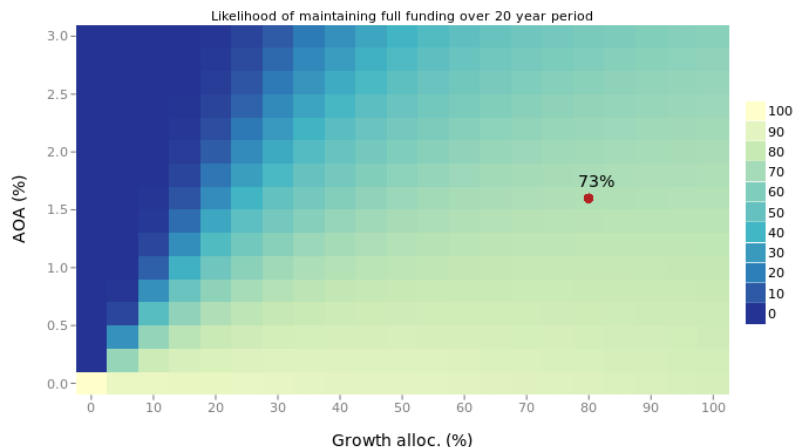
Like-for-like comparison



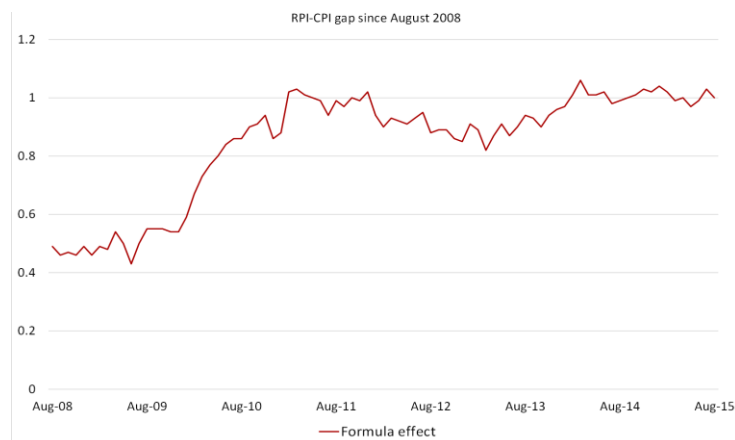
Required asset return



# Movement in financial assumptions



Risk analysis of discount rate

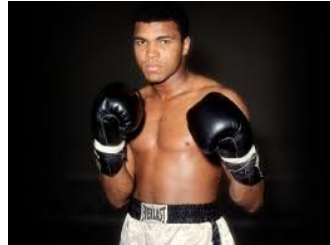


Increased RPI/CPI gap



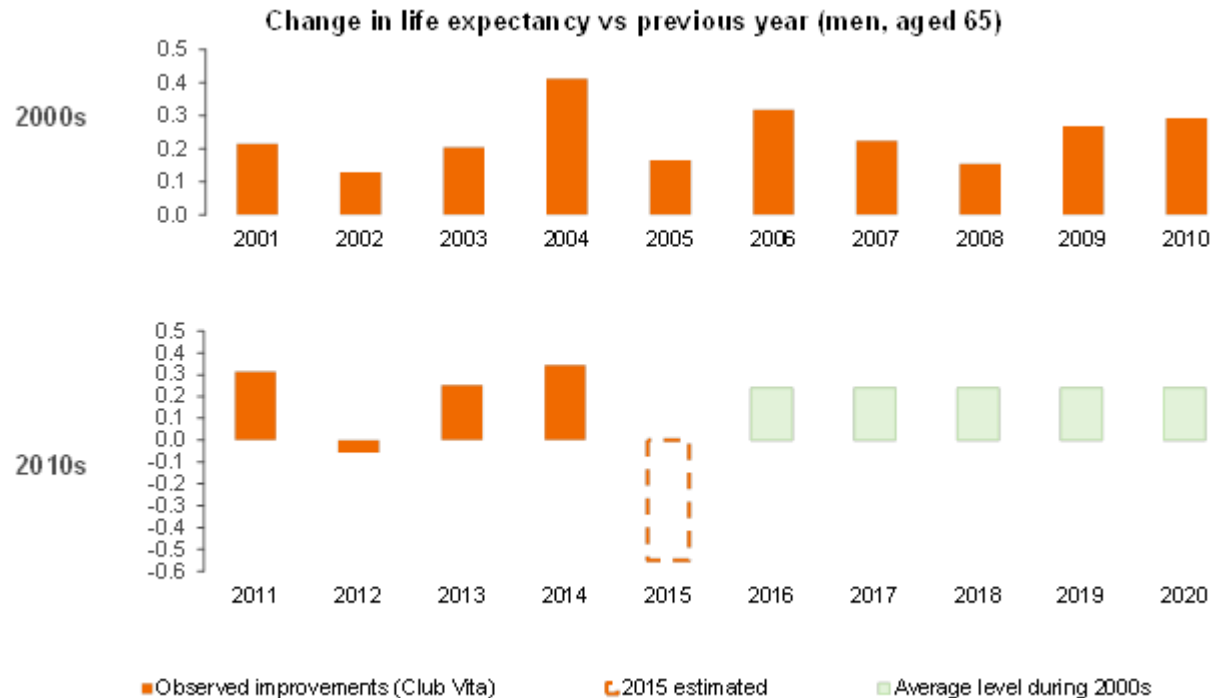
Recognising short term pay restraint

# Are deaths on the rise?



# Movement in non-financial assumptions

- Longevity



- Lower rates of withdrawal and ill health
- Sharp reduction in 50/50 assumption

# Short term impact of Brexit

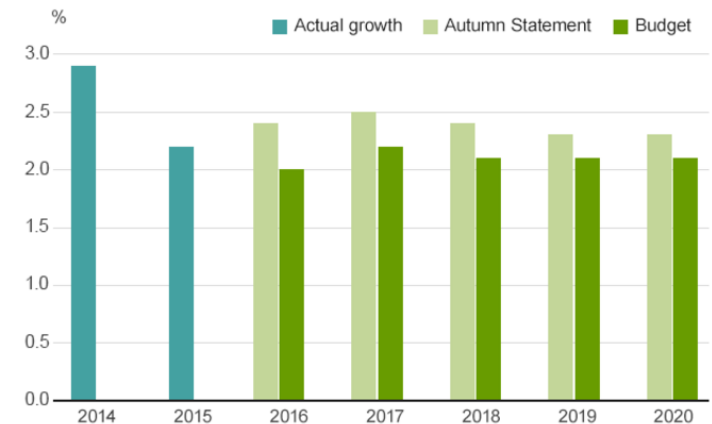


Brexit caused a lot of volatility...but not anything exceptional

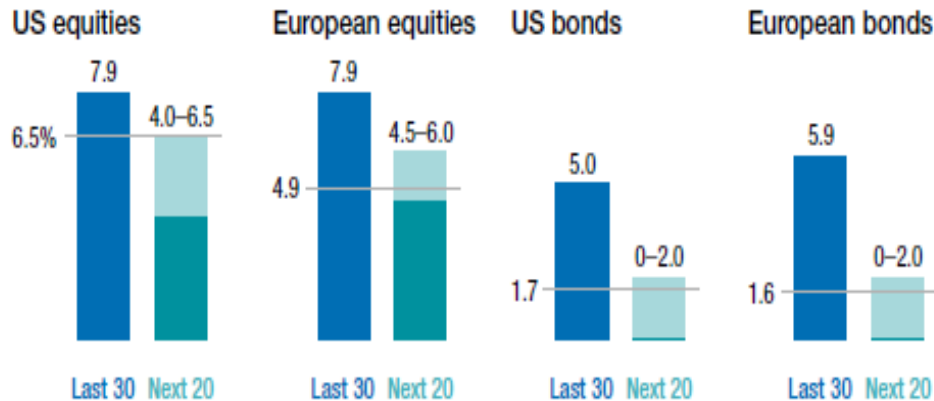
# Lower growth for longer?

*“Economic growth in the developed world since the Financial Crisis has been slower than at any comparable period except the Great Depression” GMO, 2016*

GDP growth forecasts



Source: ONS and OBR



Source: McKinsey Global Institute, May 2016



# Key themes in E&W

- Improved solvency levels ...
- ... but pressure on contributions as cost of accrual rising
- Increased focus on employer risk e.g. colleges, charities
- Section 13 valuation in the background
- Austerity and affordability concerns

# Pressures on employers



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**Continuing Council Tax freeze => limited revenue**

**End of contracting out => Increased payroll costs**



## **Moray Council proposes 18% council tax rise**

13 January 2016 | Scotland politics

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## **Moray Council to maintain council tax freeze and not put up bills**

2 February 2016 | Scotland politics

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**Funds increasingly seeking more security**

# Increase in scrutiny



# More stakeholders

## Administering Authority



Local Pension Board



## Employers and members




## External bodies



Scottish  
Scheme Advisory  
Board



Thank you



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