

# The Pensions Dimensions

A 1-2-3 guide to Like-for-like valuations

Douglas Green FFA



# The Fund valuation in isolation ...



Dealing with your own:

- Elected Members
- Officers
- Employers
- Advisers

Set assumptions & contribution rates regardless of others

# ...but what other questions are asked?

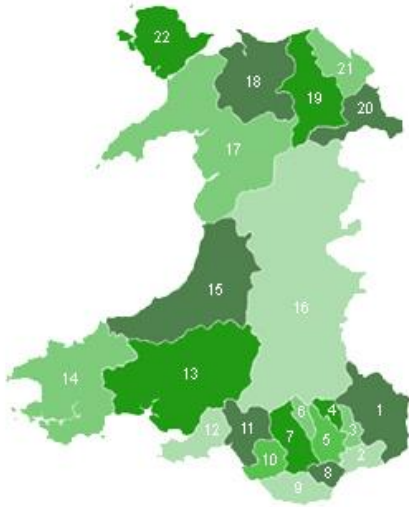
How well funded are we vs. other LGPS Funds?

Are our contributions enough to fund all the benefits?



To answer these questions, we need like-for-like analysis

# Who gives a “FIG”? \*



HM TREASURY

**Daily Mail**



Local Pension Board

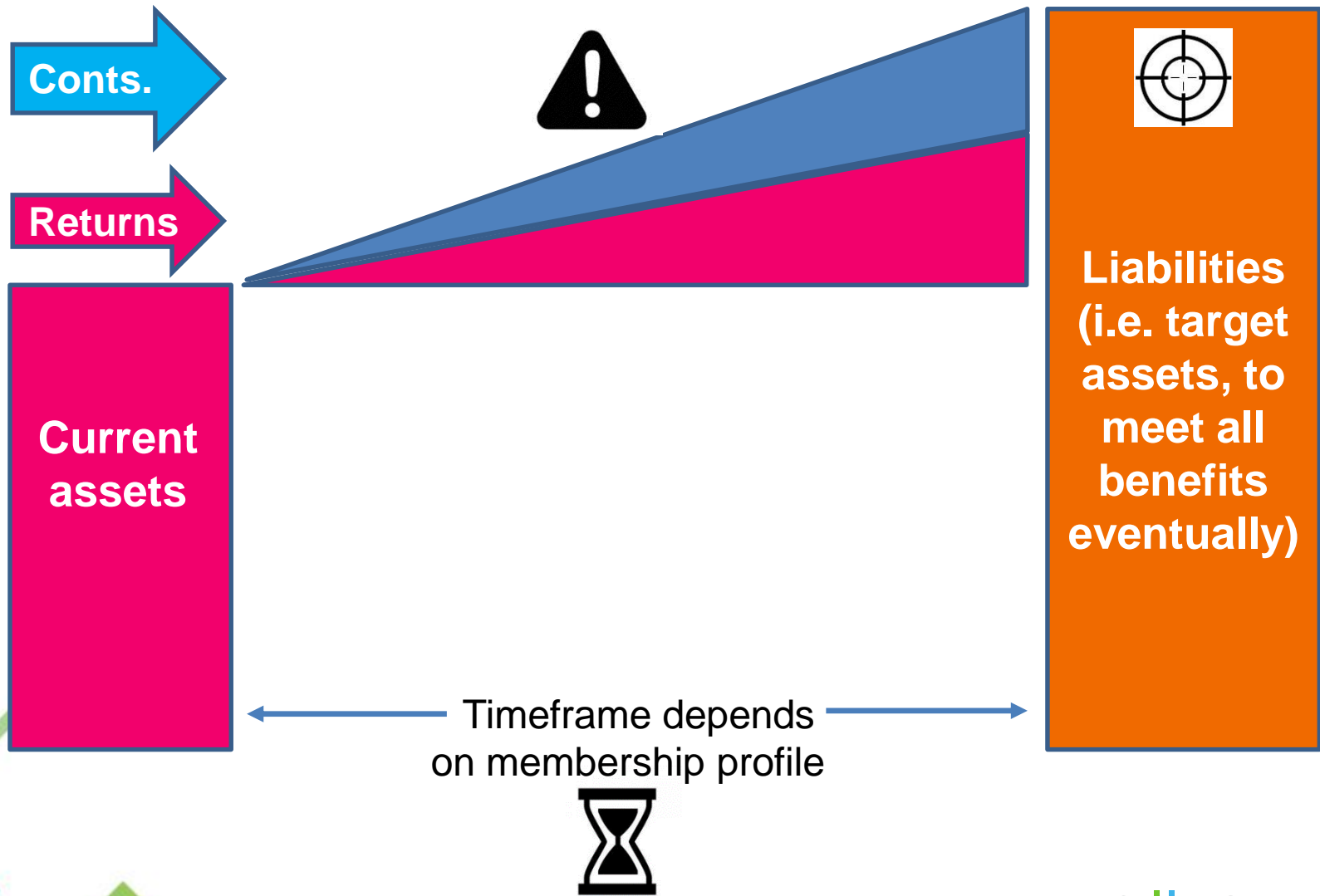


Scheme Advisory Board



\* Funding, Investment & Governance

# Funding in principle

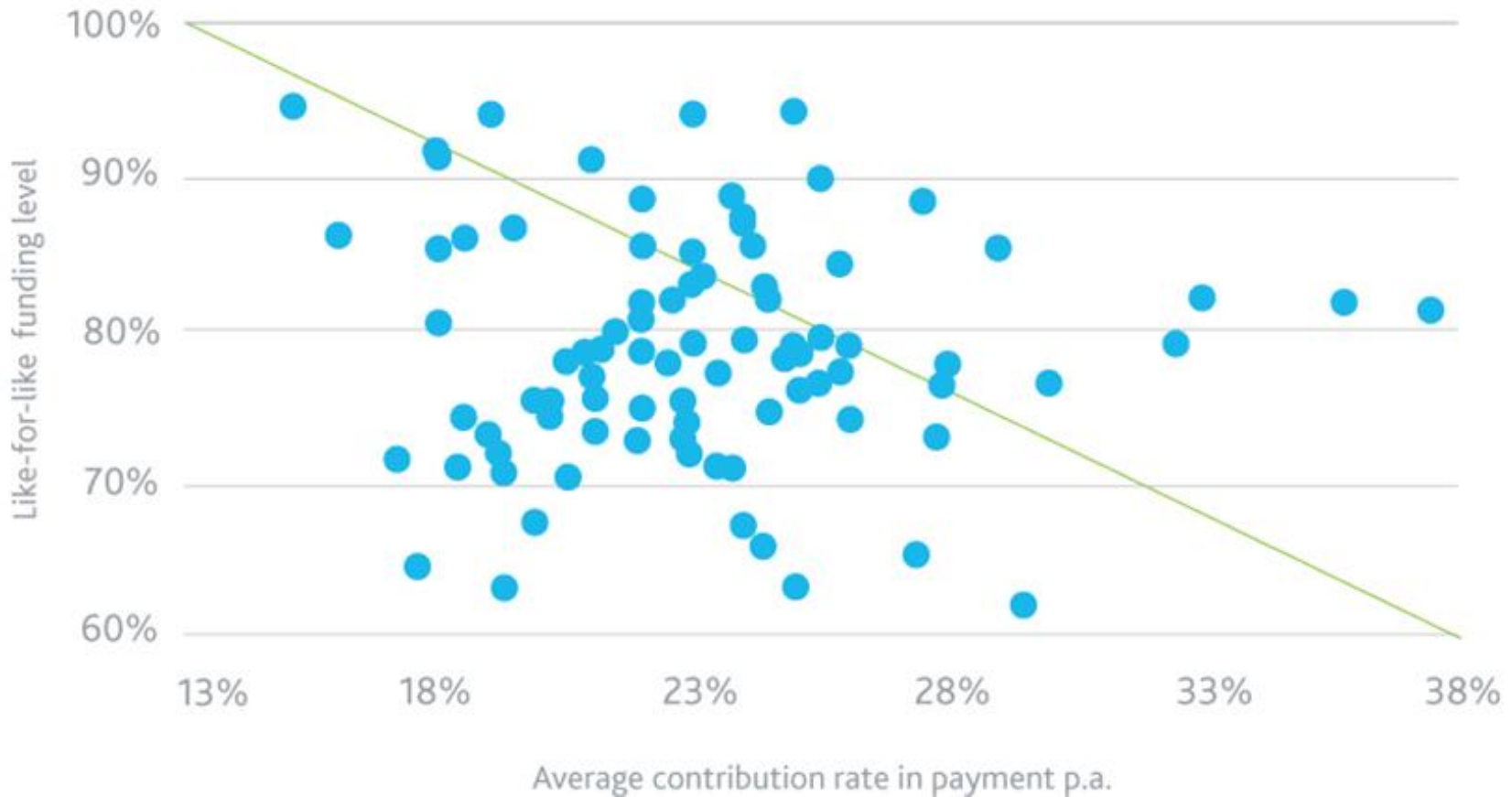


# 1<sup>st</sup> Dimension: Funding level



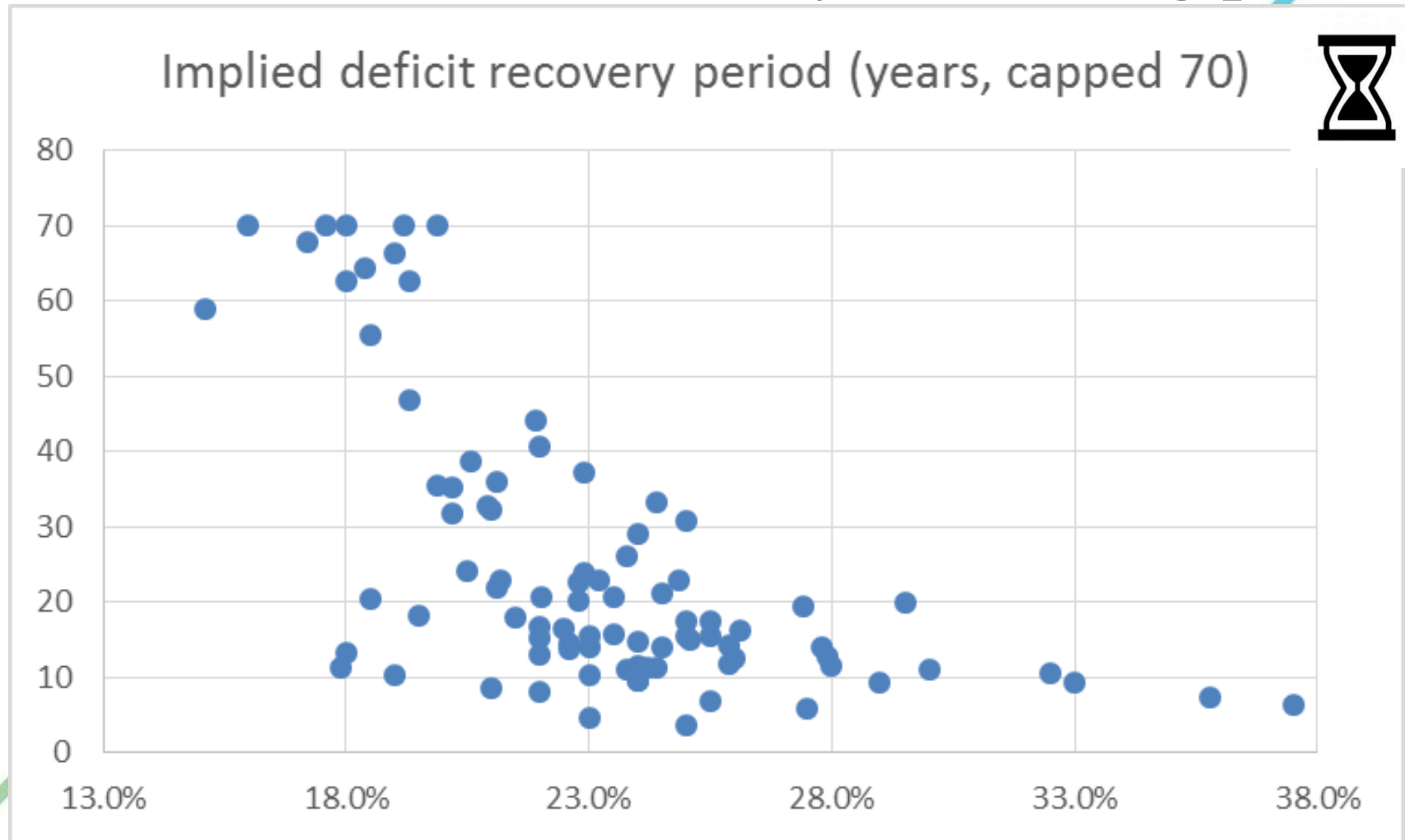
... but someone's always going to be 88<sup>th</sup>?

# 2<sup>nd</sup> Dimension: Funding level vs. Contributions



2D picture better... but is there a 3D?

# 3<sup>rd</sup> Dimension: Credibility of funding plan



i.e. long term cost efficiency



# Absolute or relative?

Absolute measures	Relative measures
Set “pass mark”	Identify outliers and/or “poorest” x%
Choice of standard assumptions crucial & results could be very sensitive to these	Choice of standard assumptions less critical
Drives behaviours to those absolutes?	Drives “herd” behaviours?
Can be advised in advance	Can only be seen when all results are in
Risk of being arbitrary?	Risk of always punishing someone?
Gives clear targets for Funds?	Gives continual impetus for Funds?

Perhaps aim to have best of both measures?

# Basket of key performance indicators



\* On standardised basis – SAB or GAD?

# The two “regulators”



Regulator	SAB	DCLG (GAD)
Powers?	Influence	Statutory <small>(s.13 of PSPA 2013 – see appendix)</small>
Request info by	30 Sep 2016	Q2 2017
What requested?	Funding level	Basket of KPIs
Publish results?	No but discuss with actuaries?	Yes - mid-2018
Further info?	Annual basket KPIs	None
2013 dry-run?	No	Maybe

# Like-for-like mythbusting

Myth	Reality
Can't really compare: all Funds are different	All are LGPS. Main difference is investment strategy & returns.
Drives the wrong behaviours	Basket focuses on poor outcomes, doesn't dissuade good behaviour?
Won't permit local approaches	Fund still reflects local investment strategy, membership maturity, life expectancies ...
"League table" approach	Looking at basket of measures, not any single dimension
Someone will be made a scapegoat	If a Fund is an outlier and fails various absolute measures ...?
Meaningless if everyone passes	Ensure appropriate mix of (sensible) absolute & relative measures.

# Questions it answers...

Are we an  
"outlier"  
vs. other  
Funds?

Do we have  
a credible  
long term  
funding  
plan?




# .... and questions it leaves local:

How balance  
risk and  
affordability?

How set  
contributions  
for different  
employers?

What  
assumptions  
made for  
the future?

How set  
investment  
strategy?



The material and charts included herewith are provided as background information for illustration purposes only. It is not a definitive analysis of the subjects covered, nor is it specific to circumstances of any person, scheme or organisation. It is not advice and should not be relied upon.

All charts and analyses were prepared by Hymans Robertson LLP on the available data for the 31 March 2013 actuarial valuations of all 88 English & Welsh LGPS Funds, as made available by the respective Fund Actuaries. Analysis carried out on HMT standard 2014 financial assumptions.

©Hymans Robertson LLP 2016

# s.13 of Public Service Pensions Act 2013

## 13 Employer contributions in funded schemes

- (1) This section applies in relation to a scheme under section 1 which is a defined benefits scheme with a pension fund.
- (2) Scheme regulations must provide for the rate of employer contributions to be set at an appropriate level to ensure—
  - (a) the solvency of the pension fund, and
  - (b) the long-term cost-efficiency of the scheme, so far as relating to the pension fund.
- (3) For that purpose, scheme regulations must require actuarial valuations of the pension fund.
- (4) Where an actuarial valuation under subsection (3) has taken place, a person appointed by the responsible authority is to report on whether the following aims are achieved—
  - (a) the valuation is in accordance with the scheme regulations;
  - (b) the valuation has been carried out in a way which is not inconsistent with other valuations under subsection (3);
  - (c) the rate of employer contributions is set as specified in subsection (2).
- (5) A report under subsection (4) must be published; and a copy must be sent to the scheme manager and (if different) the responsible authority.
- (6) If a report under subsection (4) states that, in the view of the person making the report, any of the aims in that subsection has not been achieved—
  - (a) the report may recommend remedial steps;
  - (b) the scheme manager must—
    - (i) take such remedial steps as the scheme manager considers appropriate, and
    - (ii) publish details of those steps and the reasons for taking them;
  - (c) the responsible authority may—
    - (i) require the scheme manager to report on progress in taking remedial steps;
    - (ii) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate.