Government Actuary's Department

CIPFA Pensions Network Workshops

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Government Actuary's Department

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London/Manchester

Government Actuary's Department

LGPS comprises 91 separate funds with their own valuation processes and corresponding contribution outcomes

- **In aggregate the LGPS had liabilities of £204 bn measured on the SAB basis compared with assets of £181 bn in 2013**
- **Section 13 review designed to provide an overview of the 91 separate valuations by four actuarial firms, and the appropriateness of the employer contributions**
- **Section 13 formally starts from the 2016 round of valuations, but a dry run based on 2013 data is designed to trial the process and provide some indications of approach**
- **Dry run has no statutory force. First S13 report due in early 2018.**

Our thanks to……..

- Scheme Advisory Board
- DCLG pensions officials
- CIPFA
- 4 LGPS actuarial firms

Section 13 of PSPA 2013 requires GAD to review valuations on four dimensions

compliance

consistency

solvency

long term cost efficiency

Mathematicians finally developed a financial model to accurately compare apples and oranges. …

… any two kinds of fruit can be compared, although guavas still cause minor rounding errors.

Graham Parke, author

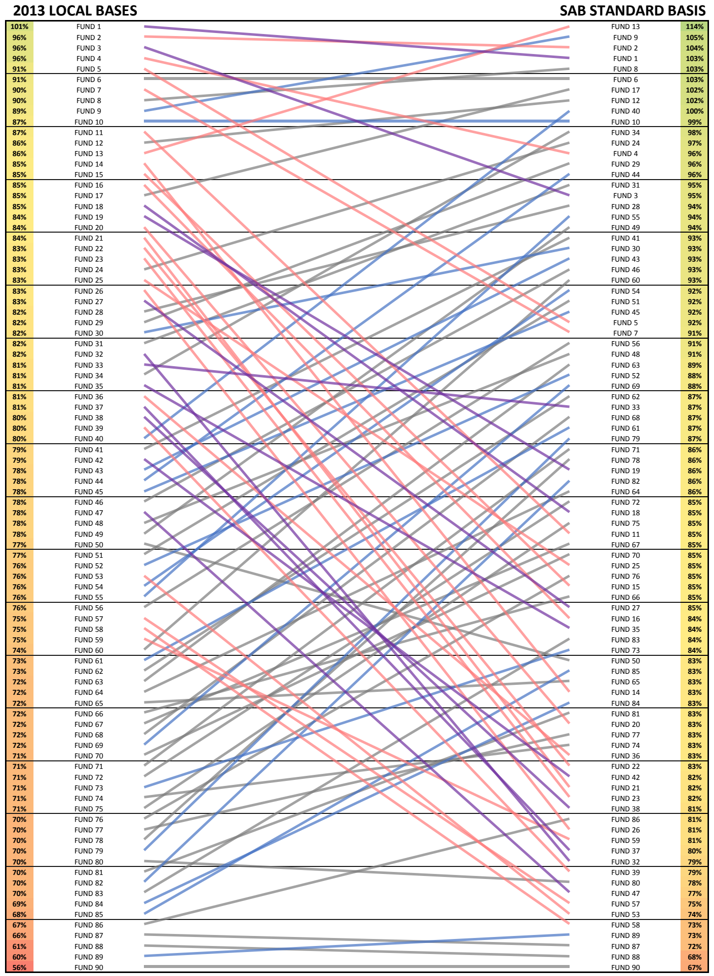
Restating valuations on a consistent basis is quite revealing

For example:

A section with "top decile" funding of 87% on a local basis moves to 5th decile and 85% funding on a standard basis.

A section with 10th decile funding of 70% moves in opposite direction to 5th decile and 86% funding.

We found material inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures. These inconsistencies make the meaningful comparison of local valuation results difficult.



It is impossible to judge consistency in setting employer contribution rates

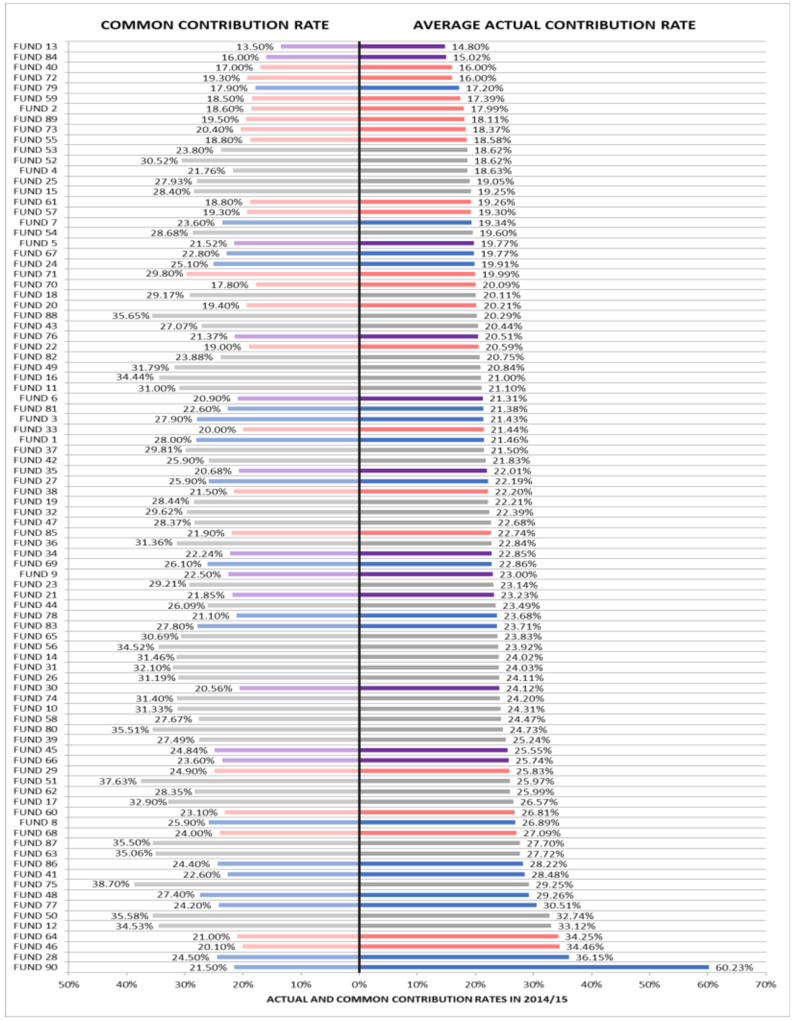
We acknowledge that there are significant challenges to achieving consistency

…we would expect a narrowing of the range of assumptions used, where local experience cannot be used to justify differences.

We recommend that the four actuarial firms should

… seek to agree a standard way of presenting contribution rates and other relevant disclosures …

… should interpret primary and secondary contribution rates consistently and by reference to contributions actually received.



Solvency is a matter of judgement and not fact. In our opinion it is not a funding percentage league table or a recovery plan.

We have developed a number of measures in a "solvency dashboard" such as:

- Funding level
- Open/closed
- Proportion of non-statutory employees
- Effect of asset or liability shocks (stress tests)
- Affordability compared to payroll and cashflow

SOLVENCY MEASURES					
RISKS ALREADY PRESENT			EMERGING RISKS		
SAB FUNDING LEVEL	OPEN FUND	NON-STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
73%	YES	6%	+3%	+3%	+1%
99%	YES	7%	+4%	+6%	-0%
67%	YES	0%	+4%	+3%	+0%
93%	YES	2%	+4%	+5%	+0%

We have taken the view that there are no absolute criteria to pass for solvency but propose to flag up those authorities who are outliers based on the dashboard as a whole.

Areas of concern have been passed back informally (at this stage) through consultants.

Similarly long term cost efficiency isn't a single snapshot measure but a portfolio of key indicators

As with Solvency we have developed a number of key indicators in a "cost efficiency dashboard":

- Proportion of deficit paid off in the year after the valuation results are published
- Do contributions cover the cost of accrual of benefits and the interest on the deficit?
- Period to repay the deficit
- Ultimately being able to understand why a deficit plan changes from valuation to valuation – not just starting afresh at each valuation and re-spreading the deficit.

LONG TERM COST EFFICIENCY MEASURES						
RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
4%	34	6%	-2%	-0.5%	-3	No
>50%	2	3%	13%	3.1%	3	Yes
IN SURPLUS	IN SURPLUS	N/A	N/A	N/A	3	N/A
13%	8	5%	5%	1.5%	5	Yes

Assessed on a standardised, market consistent basis.

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Next steps

- **Continue to engage with stakeholders**
- **Finalise the dry-run report**
- **Communicate findings and continue to engage as necessary**
- **Publication a matter for DCLG**
- **Preparation for the formal S13 process following 2016 valuations**