

CIPFA Pensions Network CFO Briefings



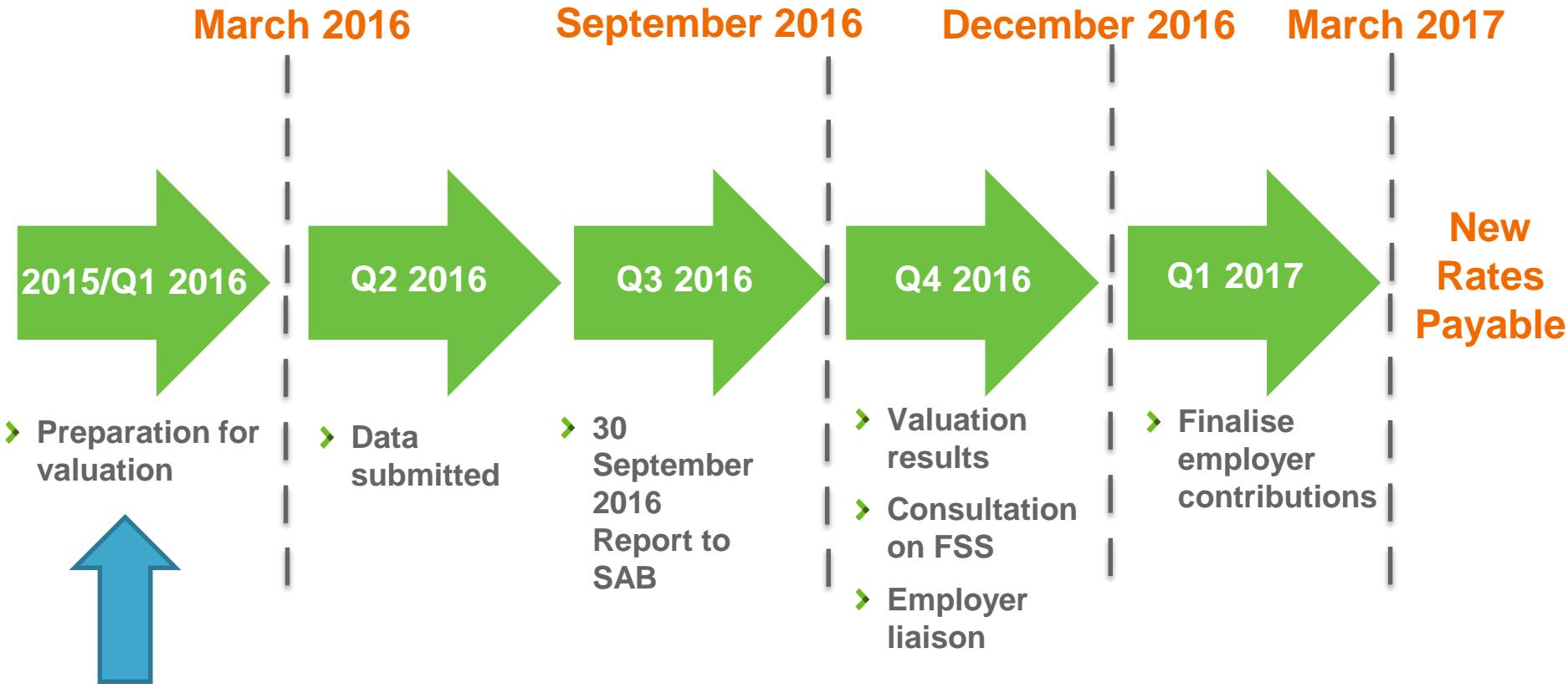
2016 Funding Valuations

- Catherine McFadyen FFA
- 4,5 November 2015

Why do we do a valuation?

- Compliance with legislation
- Recommend contribution rates
- Solvency check
- Monitor experience vs. assumptions
- Manage risks to Fund and employers

Valuation timetable



Now is the time to prepare

Stakeholders

Administering Authority



Local Pension
Board



Employers



External bodies



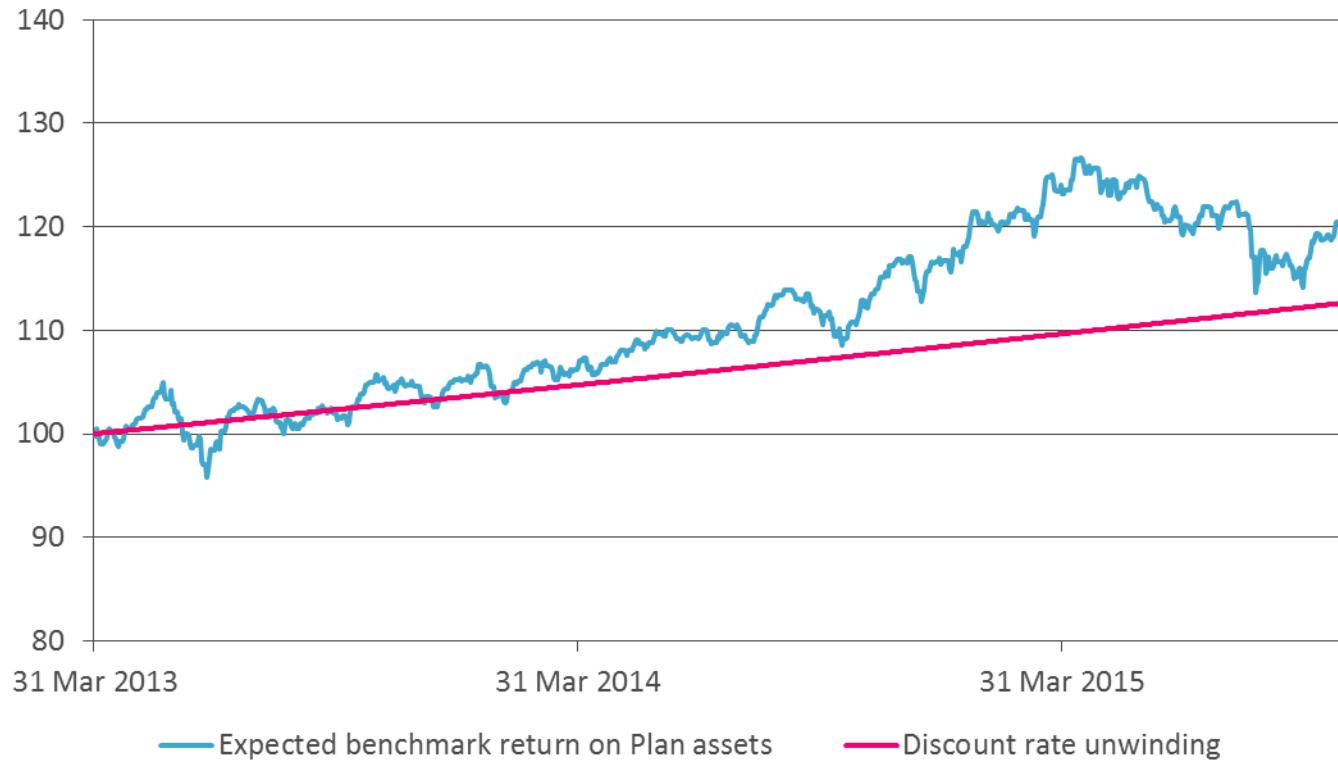
Department for
Communities and
Local Government



Local
Government
Pension Scheme
Advisory Board



What's happened?



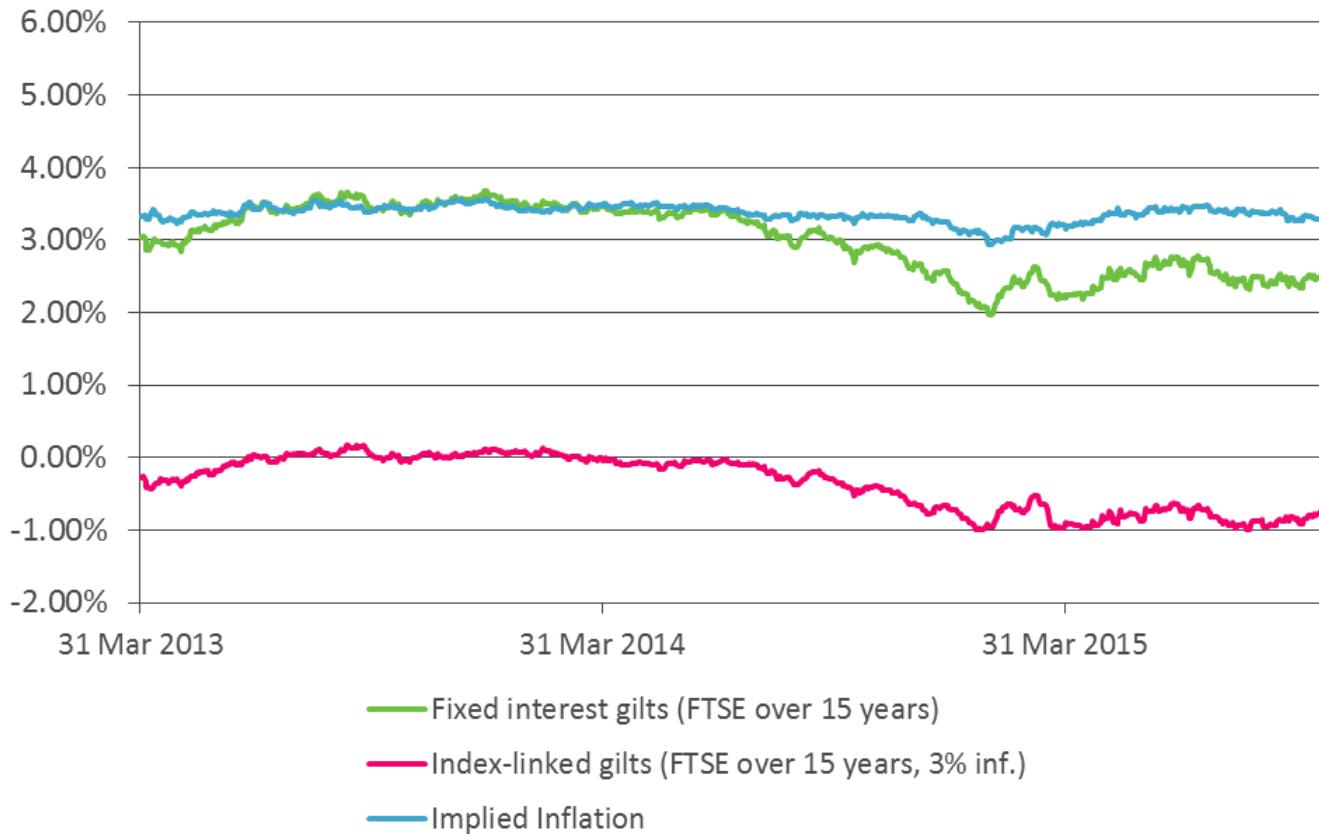
Good asset return
experience
improving the
funding position

Discount Rate	4.60%
UK equities (FTSE All Share)	40%
Index-linked gilts (FTSE over 15 years)	9%

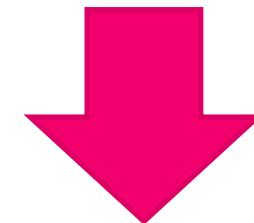
Overseas equities (FTSE World ex-UK)	30%	Fixed interest gilts (FTSE over 15 years)	5%
Corporate bonds (iBoxx all over 15 years)	5%	Property	10%



What's happened?



Falling gilt yields
worsening the
funding position



Environment

- New benefit structure implemented 1 April 2014
- New governance arrangements
- Public sector pay caps
- Academy policy
- End of contracting out
- Freedom and Choice

Developing Funding Plans

“

Our approach builds a funding plan that is simple, transparent and affordable for employers ”

⚙ Our principles

Transparent information

- all information is presented clearly and objectively
- no information is hidden from you, allowing you to demonstrably make more informed and accurate decisions

3d view

- we help you look at the bigger picture, taking contribution rates, investment strategy and employer covenant all into account
- we view the valuation as a 3 year healthcheck against your long term objectives, rather than making decisions based on a snapshot view

Efficient process

- our automated tools are driven by market leading technology
- end-to-end process is time and cost effective

📊 Results

Faster results

- process is complete within 2 weeks
- cost savings are passed on to you

Better outcomes

- deliver more manageable pension costs for your employers and more secure pensions for your members
- be amongst the top performing funds in the LGPS

3D Approach : Setting funding targets



What is our funding target?



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



How sure do we want to be that we hit the target?



Set a funding target

- **Objective**
 - Market based and consistent over time
- **Prudent**
 - Not a target for fund managers
- **Credible**
 - Can your investments deliver this target consistently?
- **Affordable**
 - Can you meet the contributions required?
- **Clearly articulated**
 - Relative to gilts or CPI



Define the time horizon

- Member lifecycle
 - Members' participation in the fund can last 80+ years
- Cashflow
 - Understand the Fund's and employer's cashflow position
- Long-term Cost Efficiency
 - Should deficits be funded while members remain in employment?

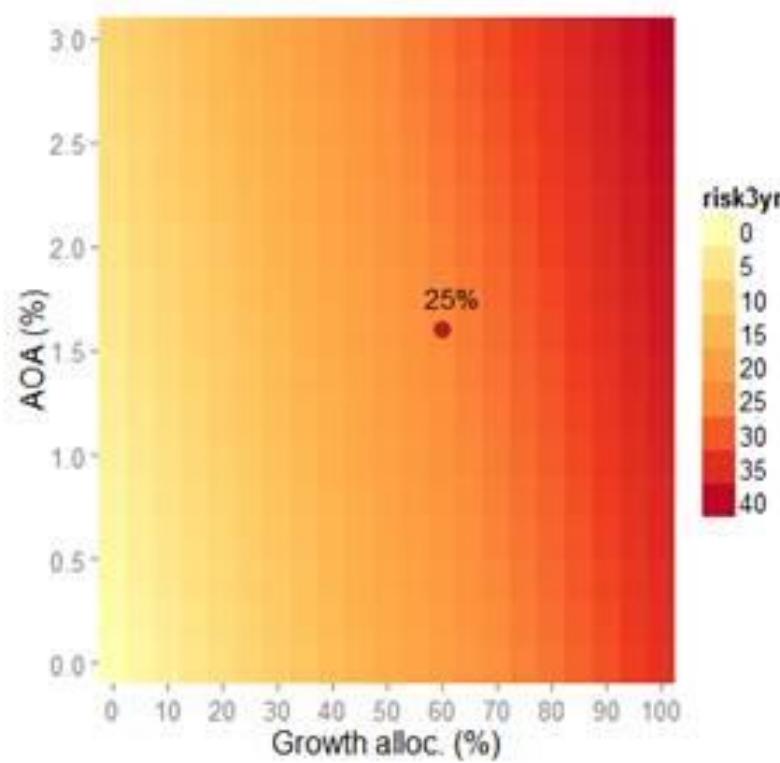
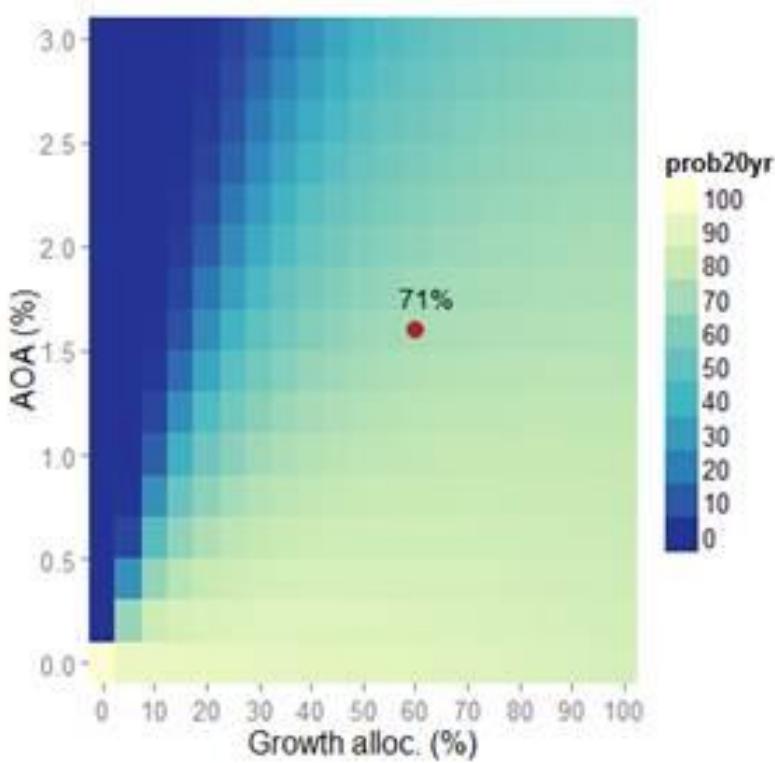
How much risk do we want to take?



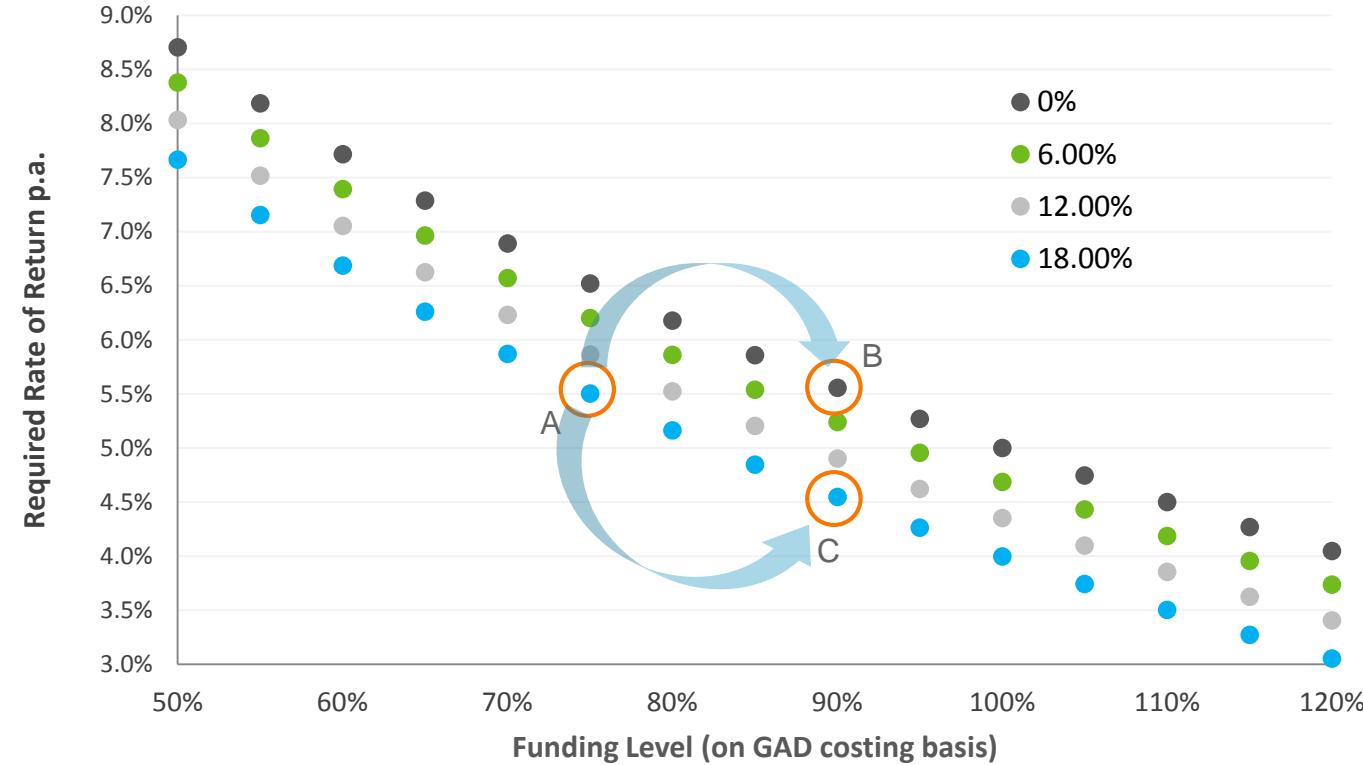
Select target AOA



Select target growth %



Balancing risk and contributions



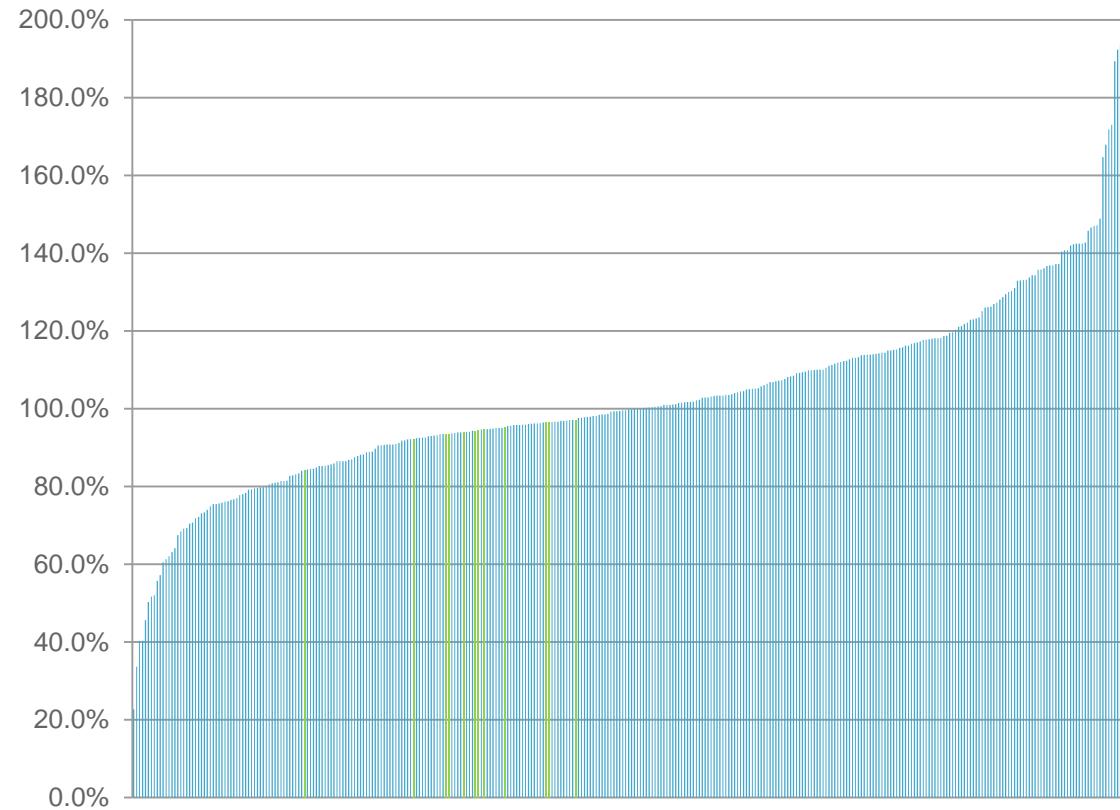
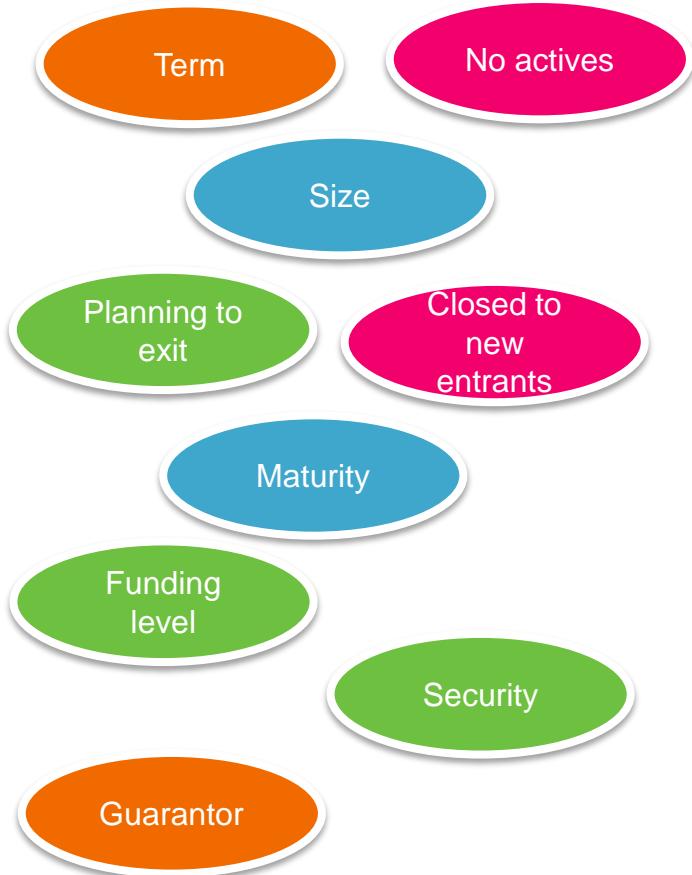
Clear plan as market conditions change and target steady state

- when to reduce deficit contributions (B)
- when to reduce investment risk (C)
- when to do both

Ensure better funding outcomes by focussing on long term objectives



LGPS Pension Fund



Employers are a diverse group

Setting funding targets

Understand employers



What is their funding target?



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



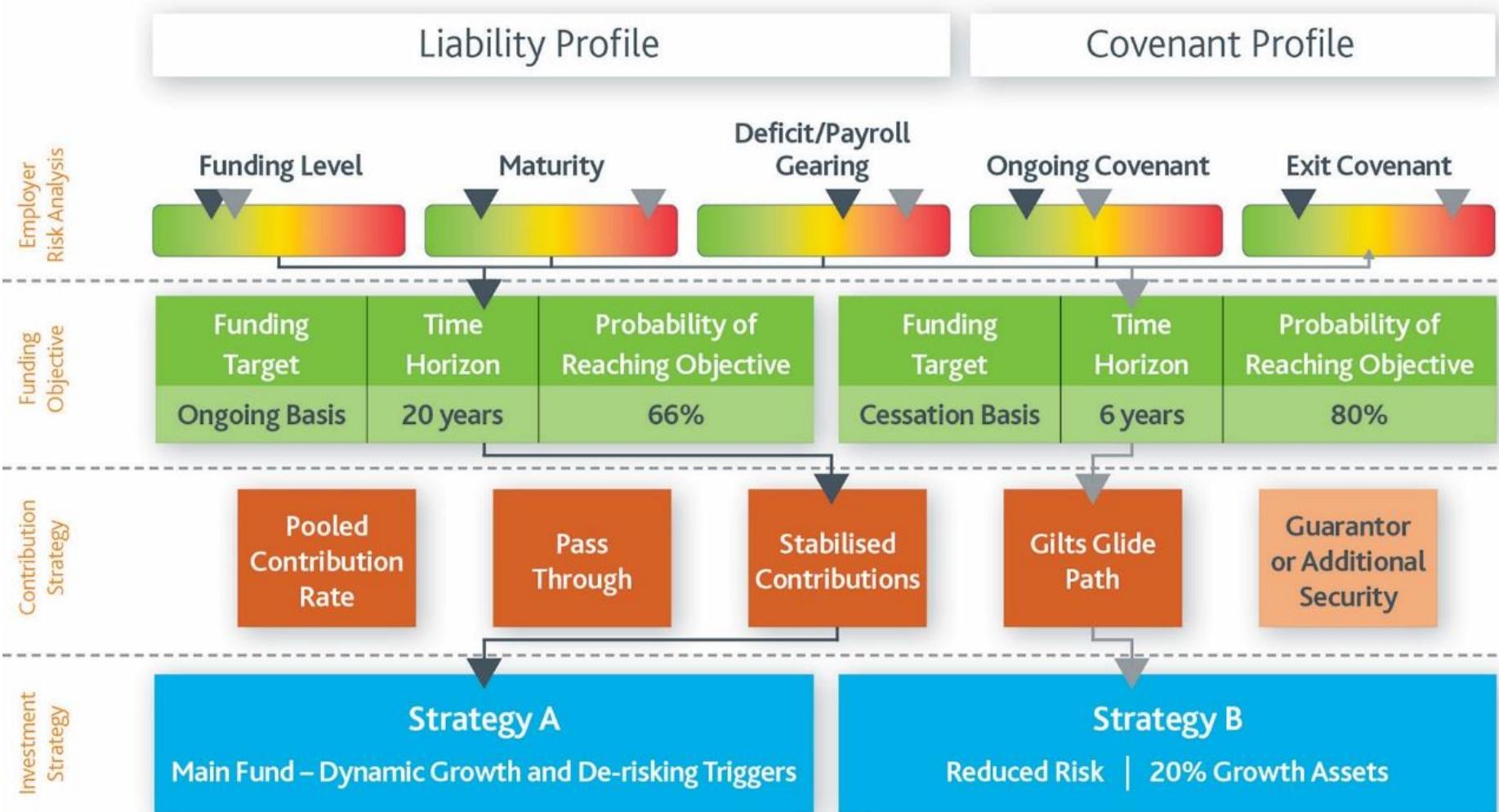
How much risk can each employer take to hit the target?

Employer analysis

- Liability Profile
 - Understand employer's liabilities to the Fund
 - Funding level, deficit, membership profile, cashflow, contribution level
 - Work with your actuary to analyse
- Employer Covenant
 - Objective look across all employers
 - Concentrate on highest risk
 - Get professional help

Employer Funding Plans

▼ Employer A ▼ Employer B





Thank you
Any questions?