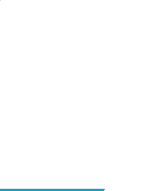
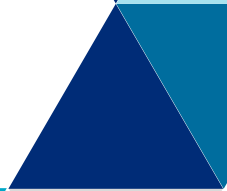
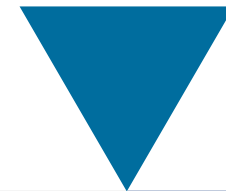
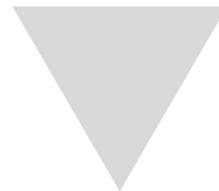
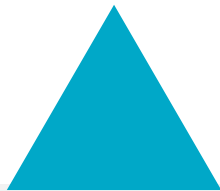


HOW SUSTAINABLE IS THE LGPS?

JULY 2015



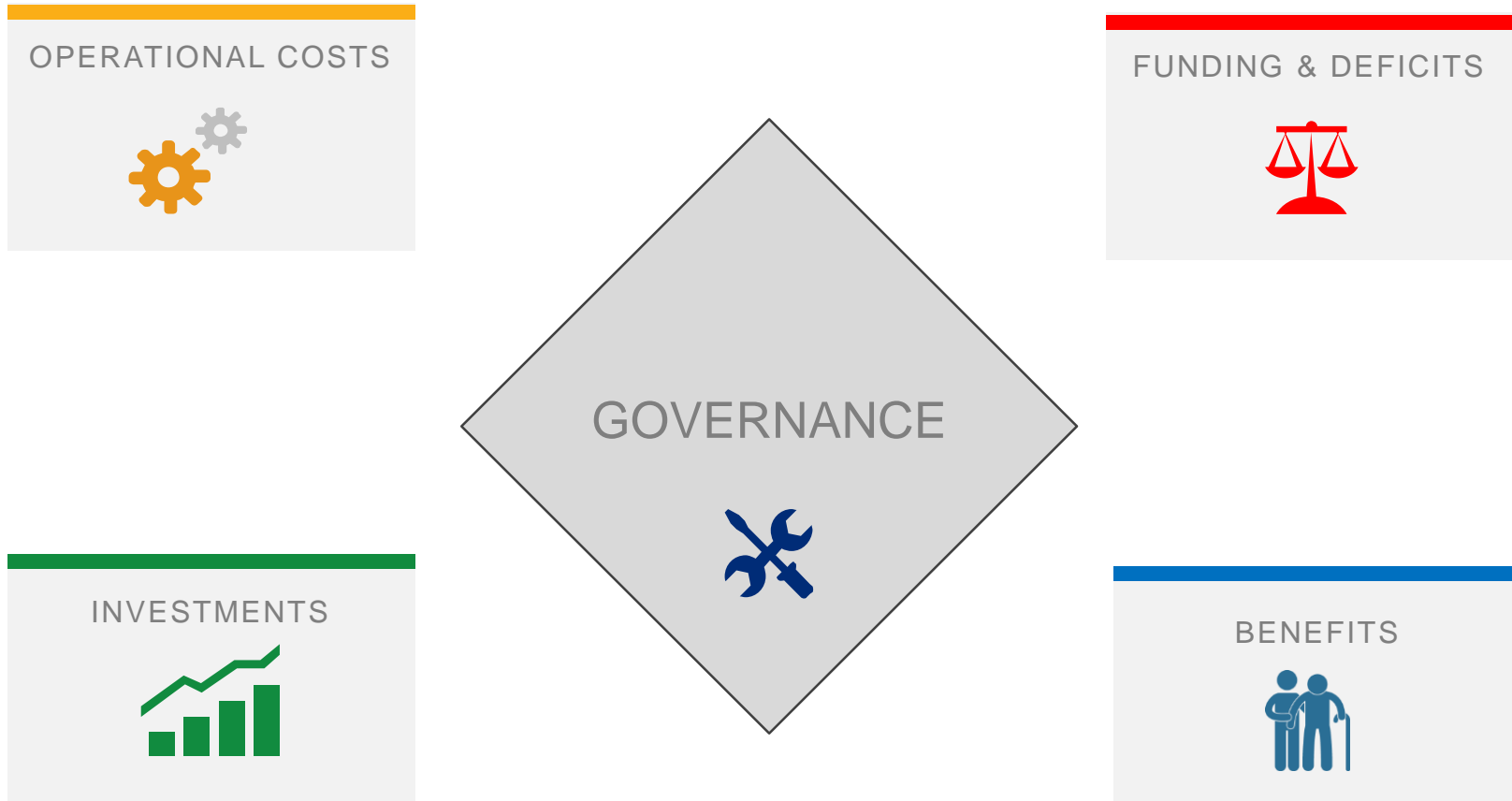
WHAT IS SUSTAINABILITY?

“Able to be maintained at a certain rate or level.”

Oxford Dictionaries
adjective

“Sustainability is defined as a requirement of our generation to manage the resource base such that the average quality of life that we ensure ourselves can potentially be shared by all future generations.”

HOW SUSTAINABLE IS THE LGPS?



WHAT IS CHALLENGING SUSTAINABILITY?

LocalGov
Home Politics & Policy Human Resources Finance E. Government Transform

Thomas Bridge 04 June 2015

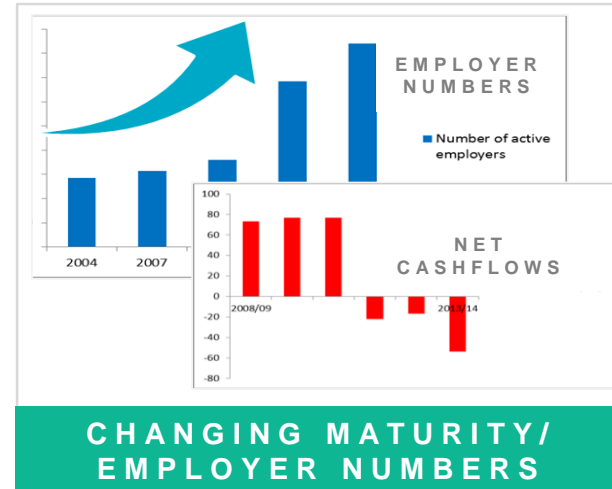
Osborne reveals £230m spending cut for DCLG

George Osborne has revealed £230m will be cut from the Department for Communities and Local Government's (DCLG) spending budget this year, as part of £3bn saving measures.

The chancellor today announced unprotected departments across Whitehall would be required to find average spending reductions of 3% this year, in what the Treasury is describing as a 'significant first step' toward finding further savings.

A total of £3bn will be saved from departments over 2015-16 through efficiencies, tighter budget controls to drive underspend and the

FINANCIAL AUSTERITY AND SECTOR CHANGES



KEY PERFORMANCE INDICATOR

KPI

FUNDING AND DEFICITS

Pensions Board **LGPS Advisory Board**

The West Midlands Pension Fund Local Pensioner Wolverhampton Council's Full Council meeting

The Pensions Board consists of five employer a Councillors.

Member representatives have been appointed members having been drawn from the four tra

Employer representatives have been appointed appointed to that group through open volunteers including local authorities, academies, universit

The two City of Wolverhampton Councillors are employer representative and one as a member Committee.

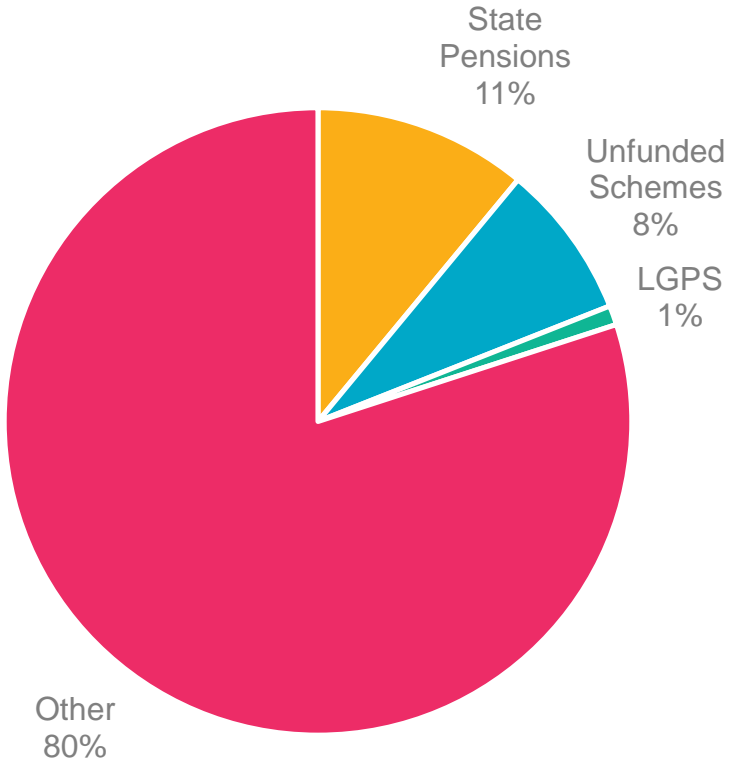
Welcome to the website of the LGPS Advisory Board

The Pensions Regulator

GREATER NATIONAL & LOCAL SCRUTINY?

FINANCIALS – UK PUBLIC SECTOR PENSIONS PLC

UK SPENDING 2013-14 SUMMARY



UK Spending 2013-14
LGPS

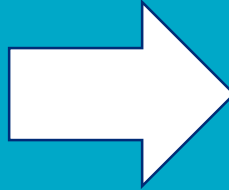
Total Contribution of £6bn

Equivalent to

- 0.4% of GDP
- 0.9% of total spending

FINANCIALS – INDIVIDUAL COUNCILS?

UPWARD COST
PRESSURES



2011

2014

2017?



CONTRIBUTION RATES

% OF MEMBERSHIP PAYROLL

18.5%

20.5%

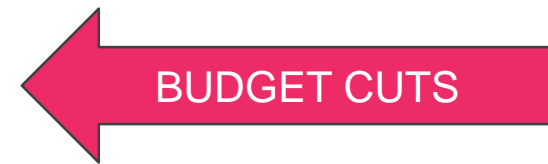
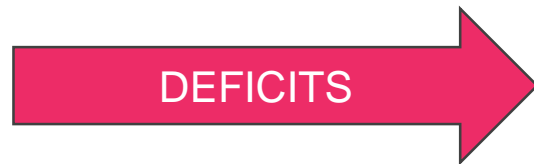
21.5%?

% OF COUNCIL BUDGET

7%

10%

15%?



WHAT CAN WE DO ABOUT IT?

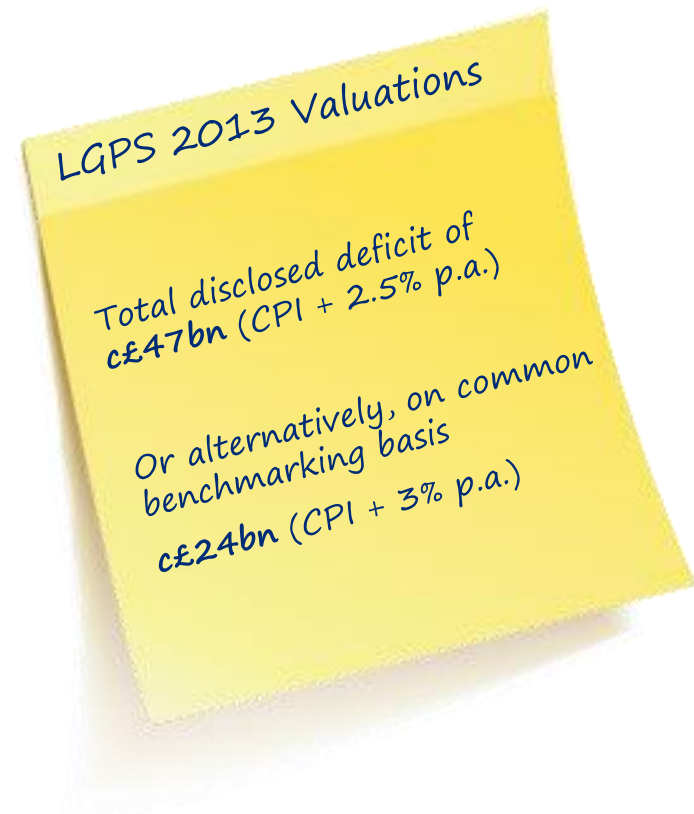
FUNDING & DEFICITS

What have been causes of deficits?

- Historic Investment returns?
- Low interest rates => low expected returns/higher liabilities?
- Historically not enough contributions paid?

What are the options available?

- Higher contributions
- Higher investment returns
- Reduce costs
- “Smarter” Risk Management?

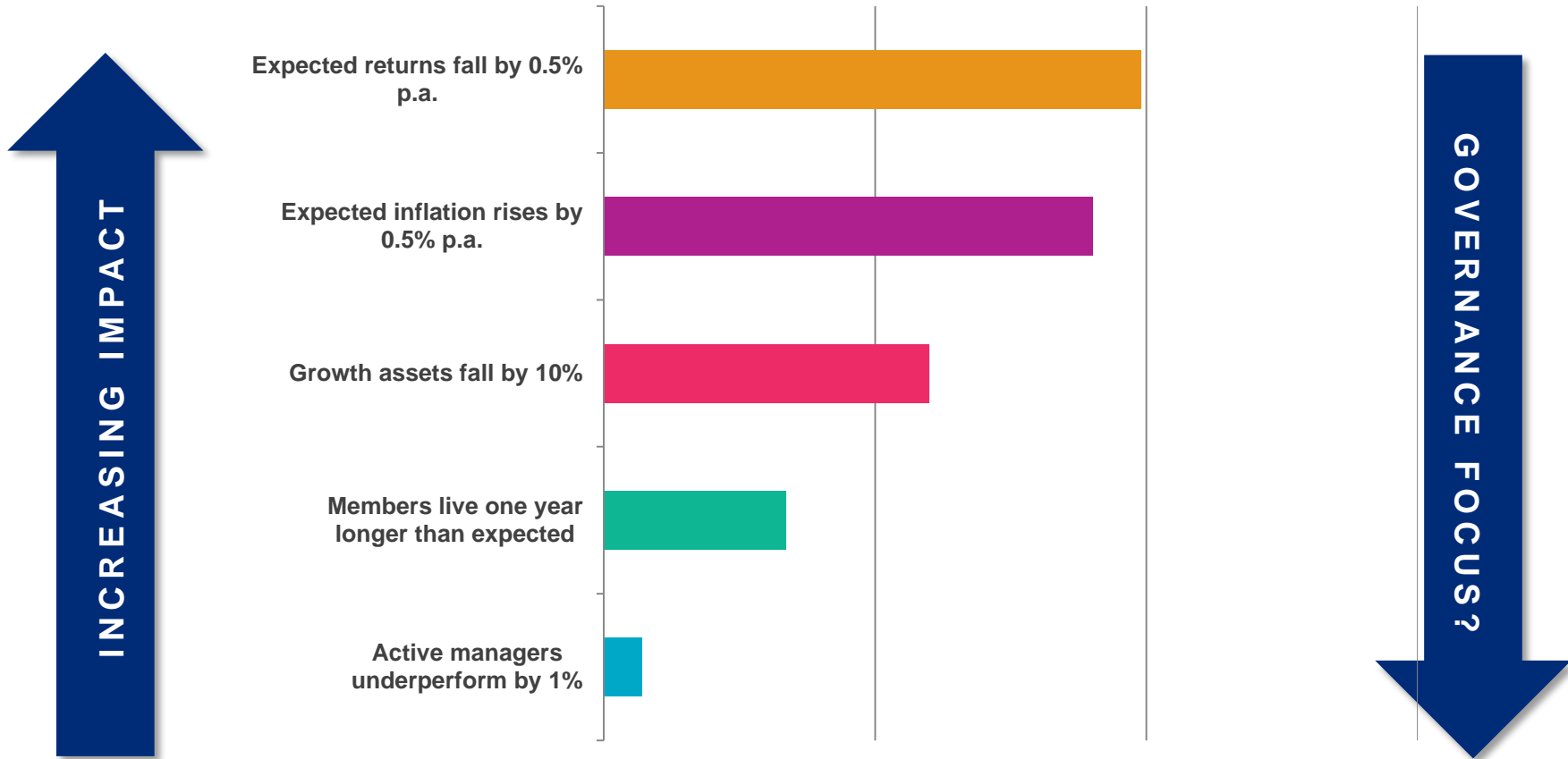


“There are no problems, only solutions.”

John Lennon

FOCUS ON AREAS OF BIGGEST IMPACT

ATTRIBUTION ANALYSIS OF DEFICIT



Return generation + risk management = more stable outcomes and sustainability

... BUT LET'S NOT LOSE SIGHT OF THE ULTIMATE OBJECTIVE...



MANAGING DEFICITS &
STABLE CONTRIBUTIONS

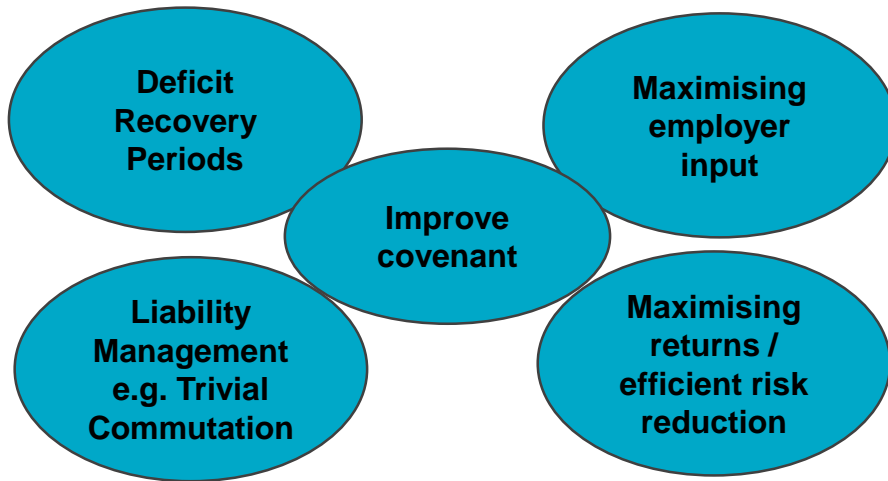


PAYING PENSIONS

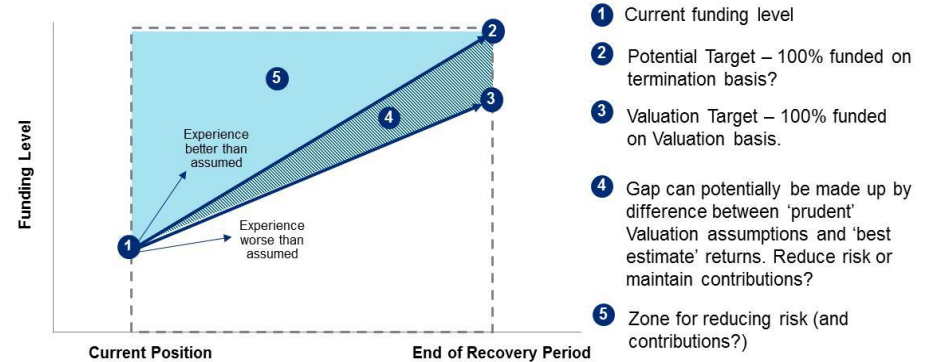
Focus on risk management will be key

FUNDING & DEFICIT MANAGEMENT - TOOLKIT

What do we currently use to manage deficit and risk?



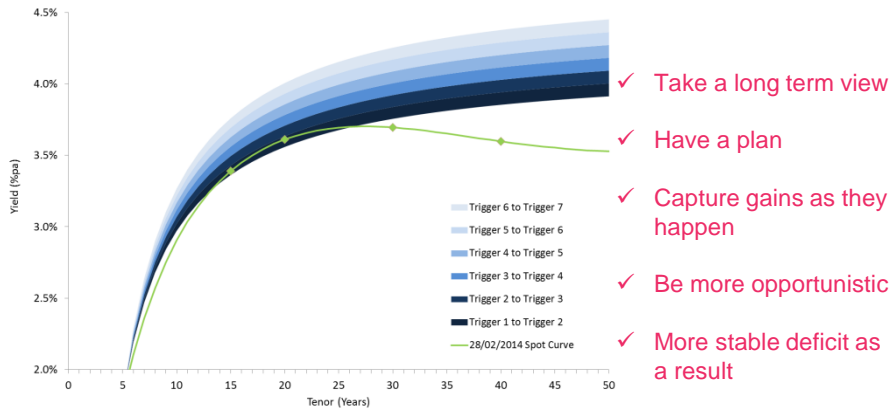
Put a plan in place to be opportunistic



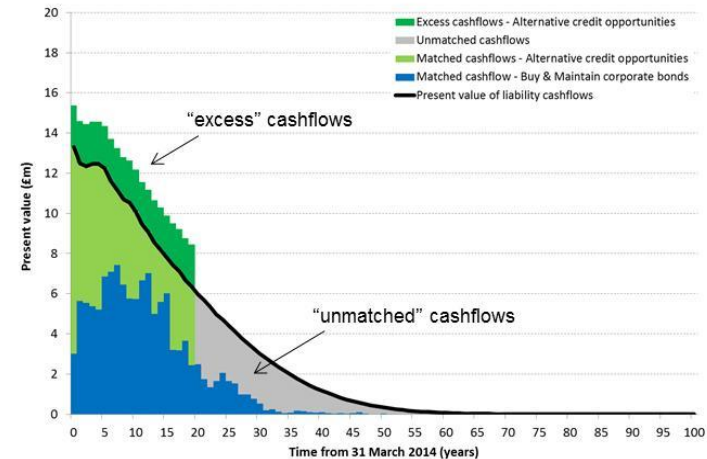
This approach can be applied at a Fund level for individual employers

More efficient liability matching?

Example LGPS yield triggers

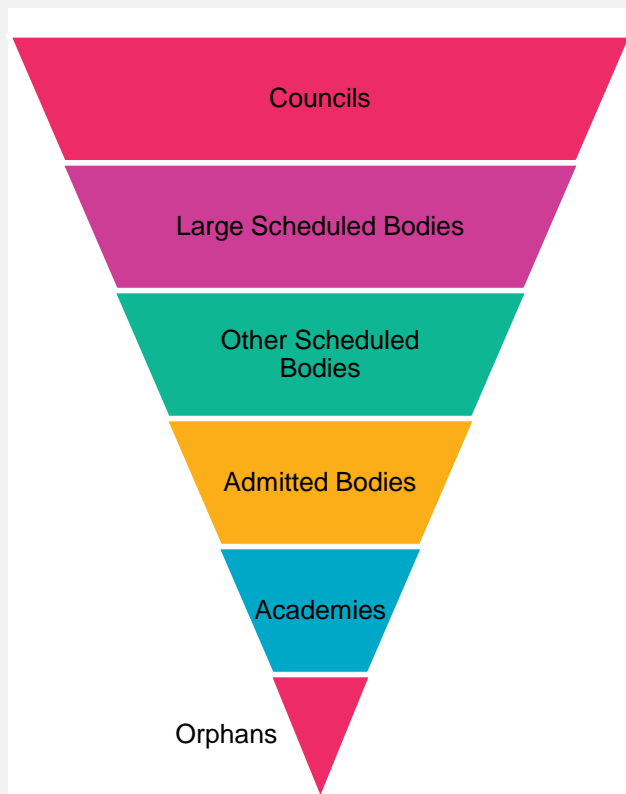


Investing to match cashflows



FUNDING & DEFICITS - MANAGING THE EMPLOYERS

TYPES OF EMPLOYERS



KEY EMPLOYER FEATURES:

- FUNDING LEVEL
- SIZE & MATURITY
- COVENANT
- EMPLOYER OBJECTIVES



HIGHER RISK

MEDIUM RISK



LOWER RISK

OPERATIONAL AND INVESTMENT COSTS

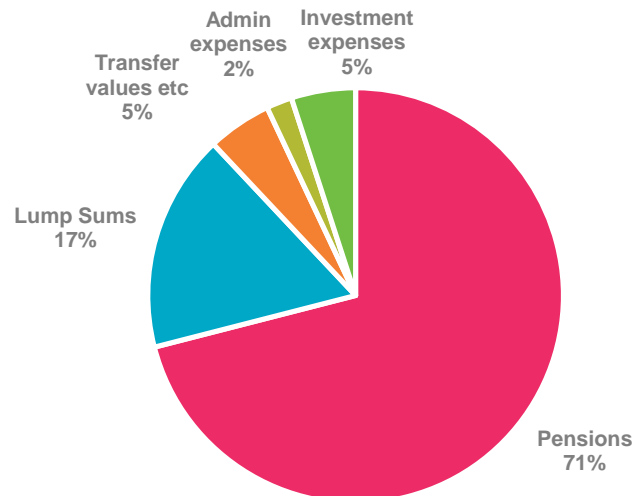
“...The Local Government Pension Scheme has become a staggeringly inefficient, self-serving empire.”

Centre for Policy Studies - Michael Johnson

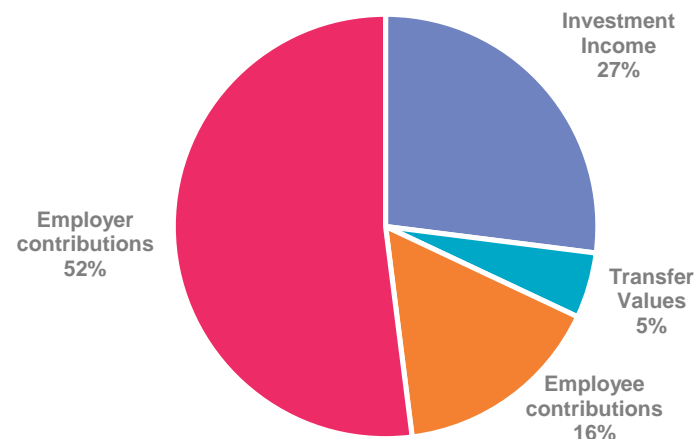
What are his proposals?

- *Single investment fund, 4 asset allocators & 2 CIVs*
- *Single administrator*
- *Cashflow based cost control*
- *PPF protection*

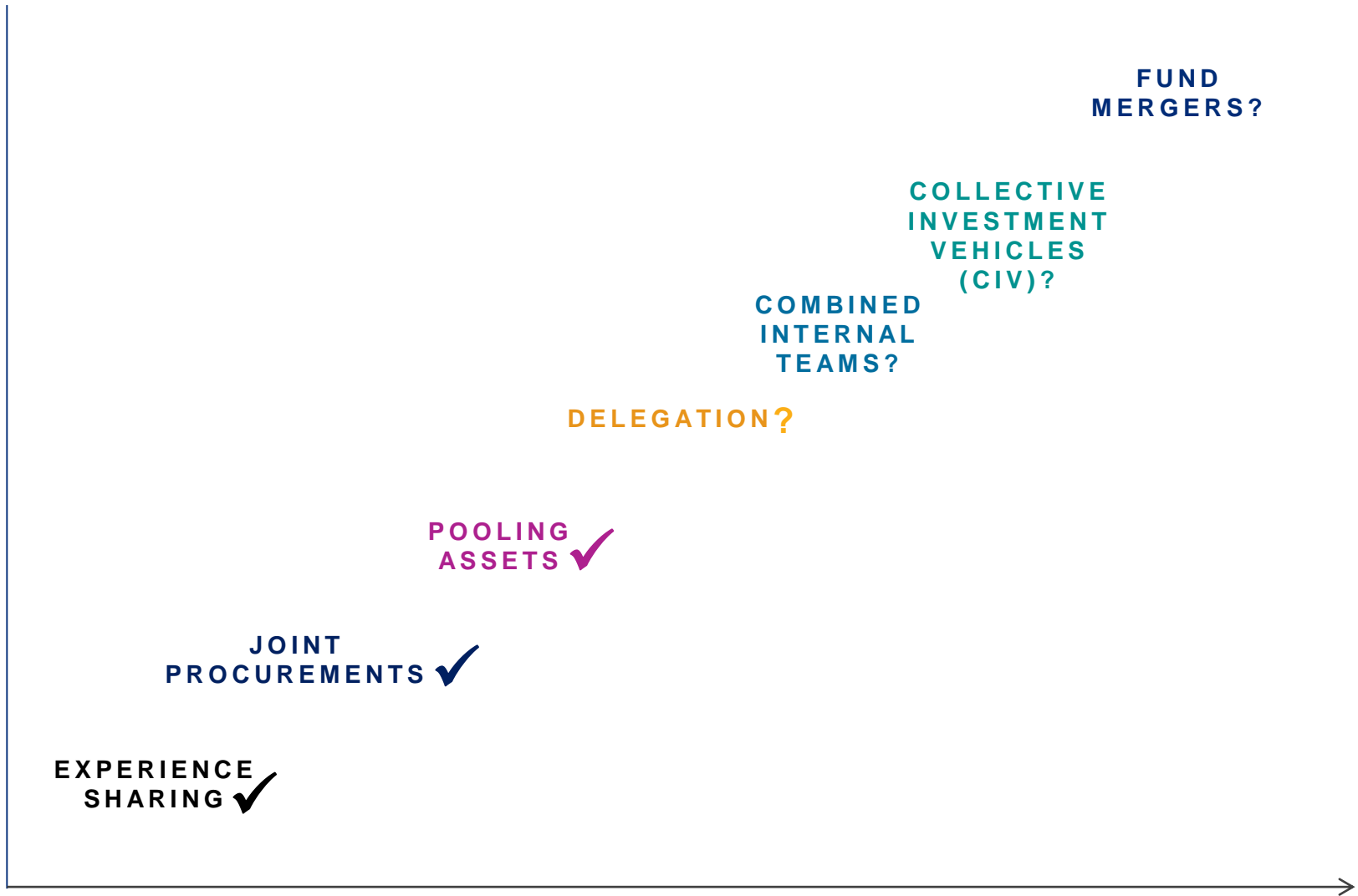
2013-14 EXPENDITURE - £8.9BN



2013-14 INCOME £11.6BN



INVESTMENTS AND COLLABORATION



BENEFITS



THE LGPS – CAN IT BE SUSTAINED?



Operational costs



Improve value for money

Evolution of collaborative working



Funding and deficits

Deficit & Risk management

Employer specific solutions



Investments



? CIVs

? Mergers



Benefits

Cost control

Future changes



IMPORTANT NOTICES

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MAKE



**TOMORROW,
TODAY**