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Department

London Pensions Board Conference

John Bayliss

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29 June 2016

Barnett Waddingham, 138 Cheapside

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

consistency

solvency

long term cost efficiency

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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

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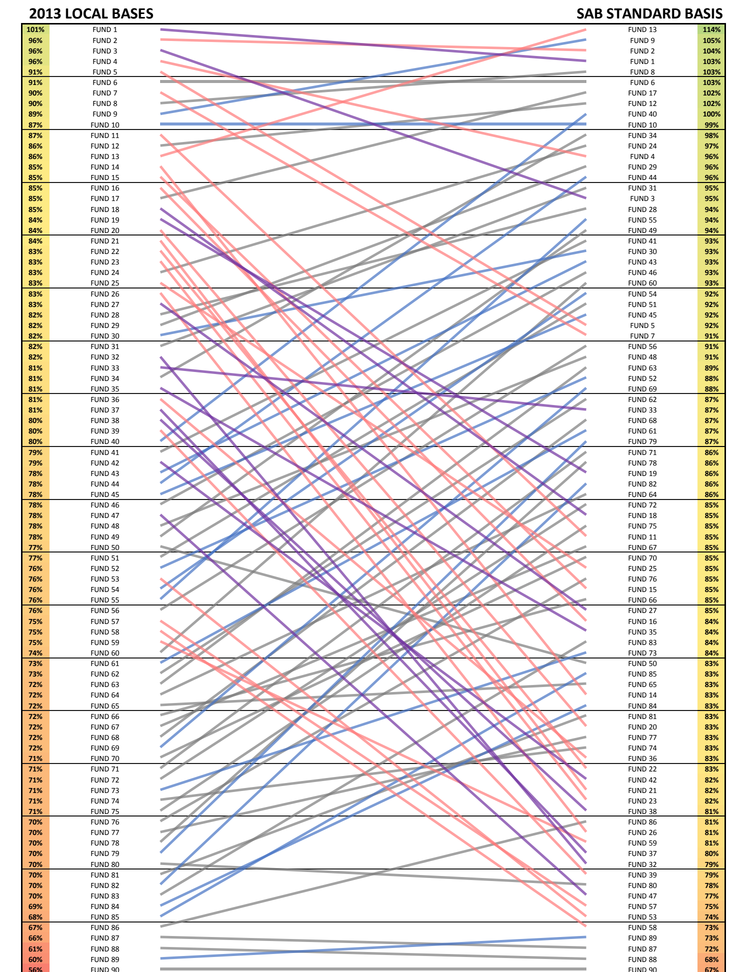
Restating valuations on a consistent basis is quite revealing

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.



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It is impossible to judge consistency in setting employer contribution rates

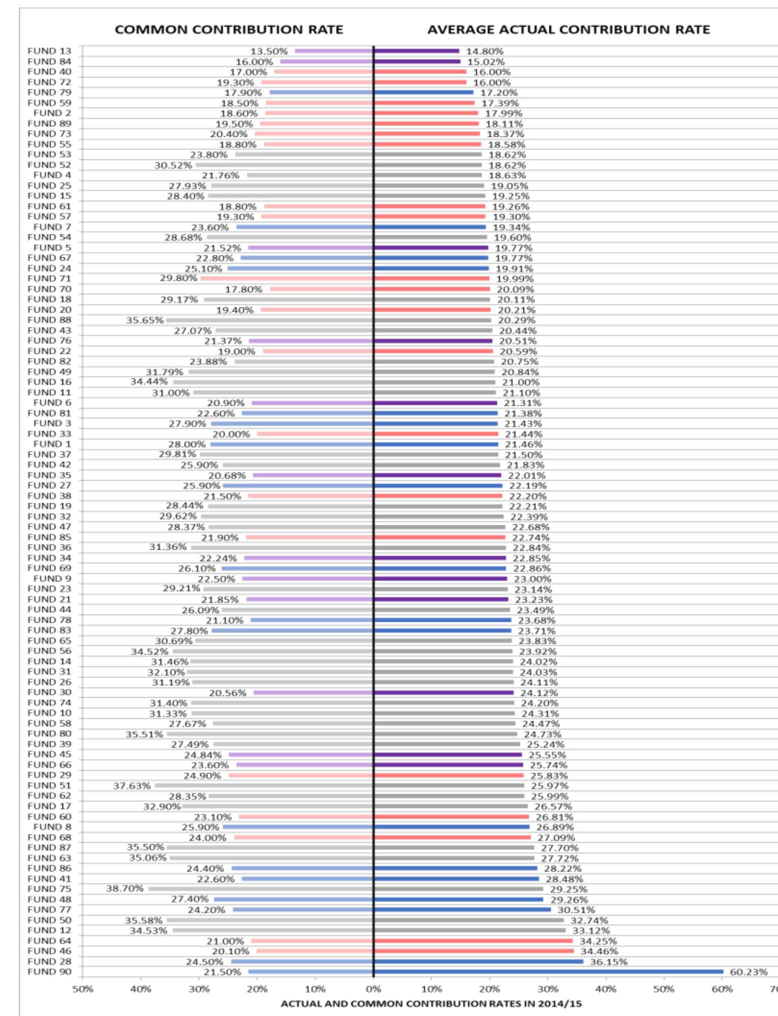
We acknowledge that there are significant challenges to achieving consistency

…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.



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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.

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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**