2016 Valuation Results

Seeing the whole picture

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Three pictures

1. Fund	2. Employers	3. National
		

1. The Fund picture

Whole Fund results

Current deficit

Headline figures

Not split by employer

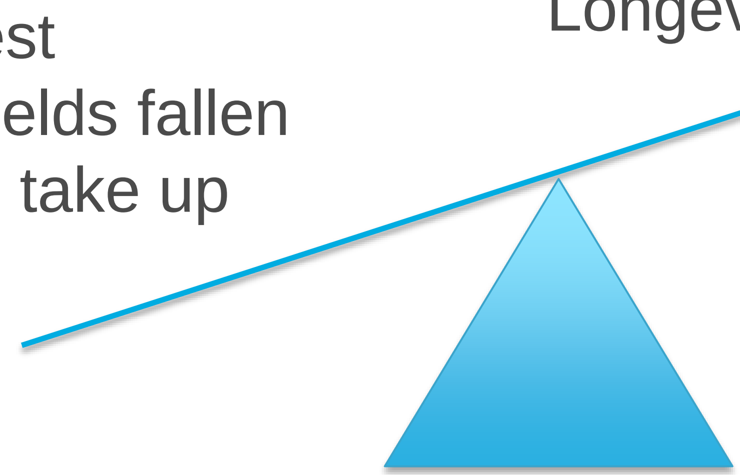
But who wants to know…

…. and why?

Current deficit (if we must)

Pay & CPI experience
Pay & CPI expectations
Asset returns
Longevity

Interest
Gilt yields fallen
50:50 take up



… but …

Seeing the whole picture

Solvency

Long Term
Cost Efficiency

So what, if we are 100% funded now?

Discounted approach

Assets

Liability value

Discount

Benefits

Time

Deficit defines the contributions needed

Forward-looking approach

Assets + returns

Contributions + returns

Benefits

Time

Balance = nil

(No need for discount rate)

2. The employer picture

Fund = Sum of employers

All shapes and sizes

Employers interested in solvency…

… but more interested in cash!

Long term cost efficiency

= credible funding plan

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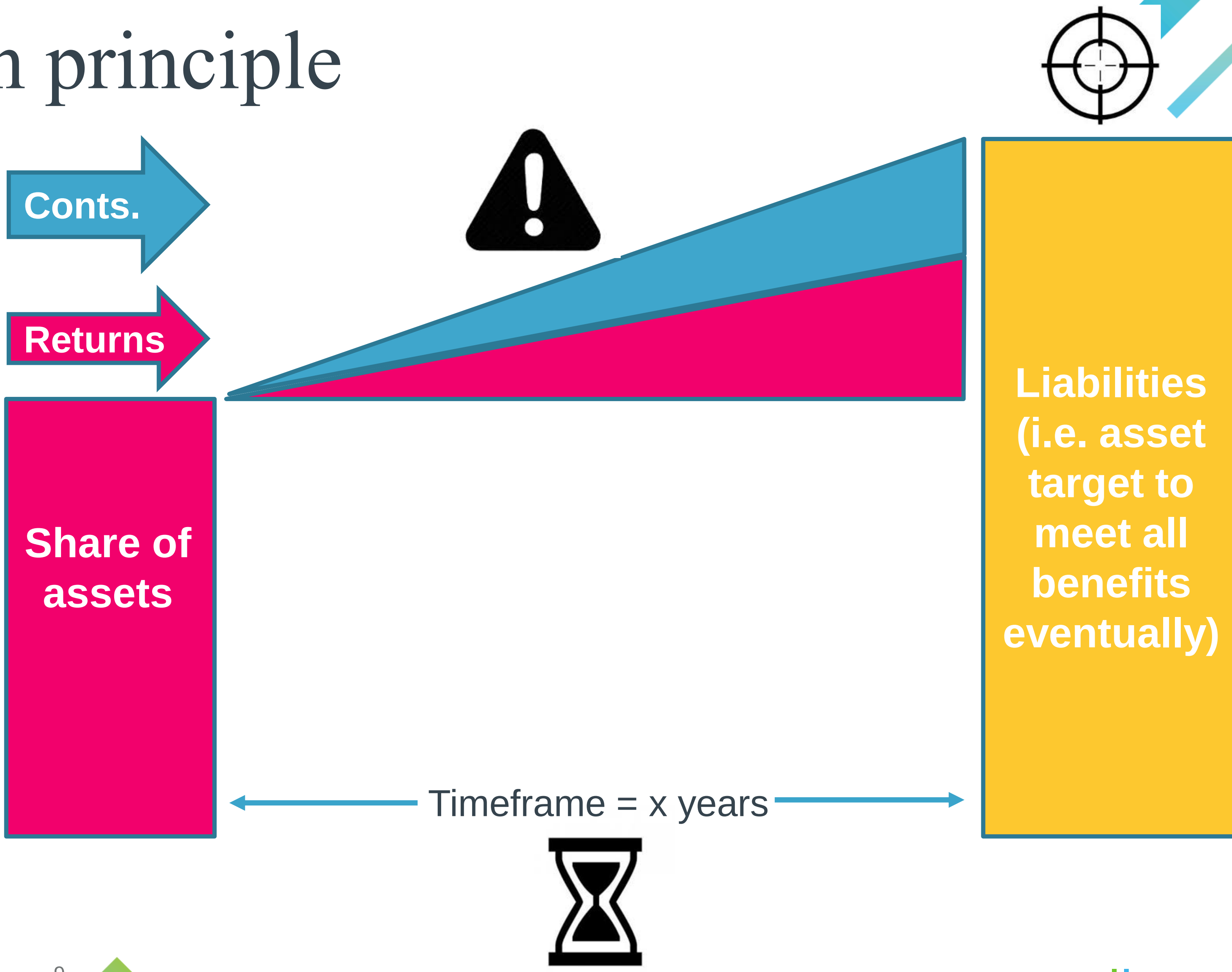
In principle



Three step approach

1. What is the employer's funding target?

2. How long does the employer have to hit target?

3. How sure do we want to be that employer hits target?

Same approach, different answers



Councils	Academies	Colleges	“CABs”
Ongoing	Ongoing	Ongoing?	Cessation?
Long	Long/Med	Medium	Short
Low	Low	Medium	High

Need consistency within the Fund (FSS)

3. The national picture

…. DCLG looking for consistency across funds

Trying to be transparent

Is there an LGPS story?

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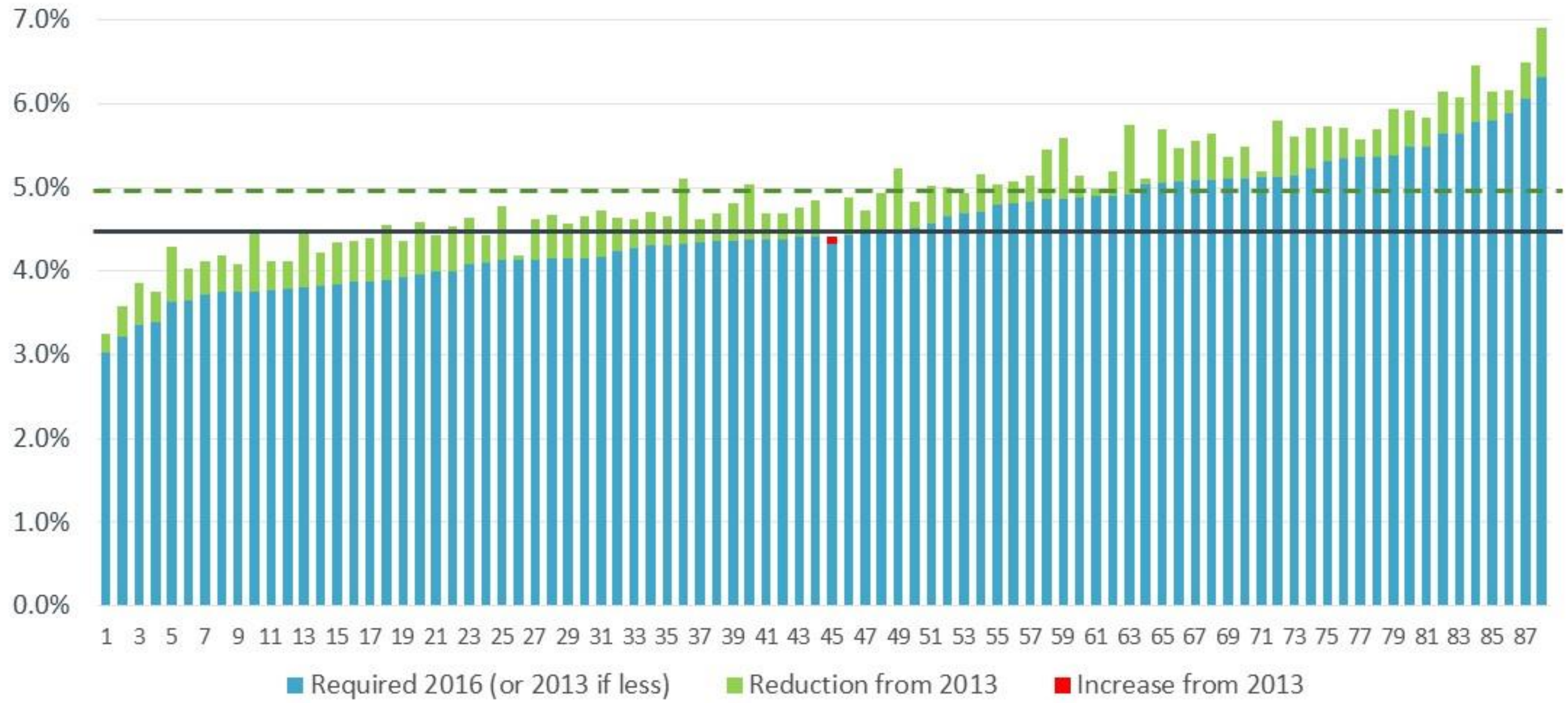
Required returns from 2016 (E&W)



Average required annual return has reduced from 5.0% to 4.5%

Range is 3.0% to 6.3%

10 year asset class expected returns

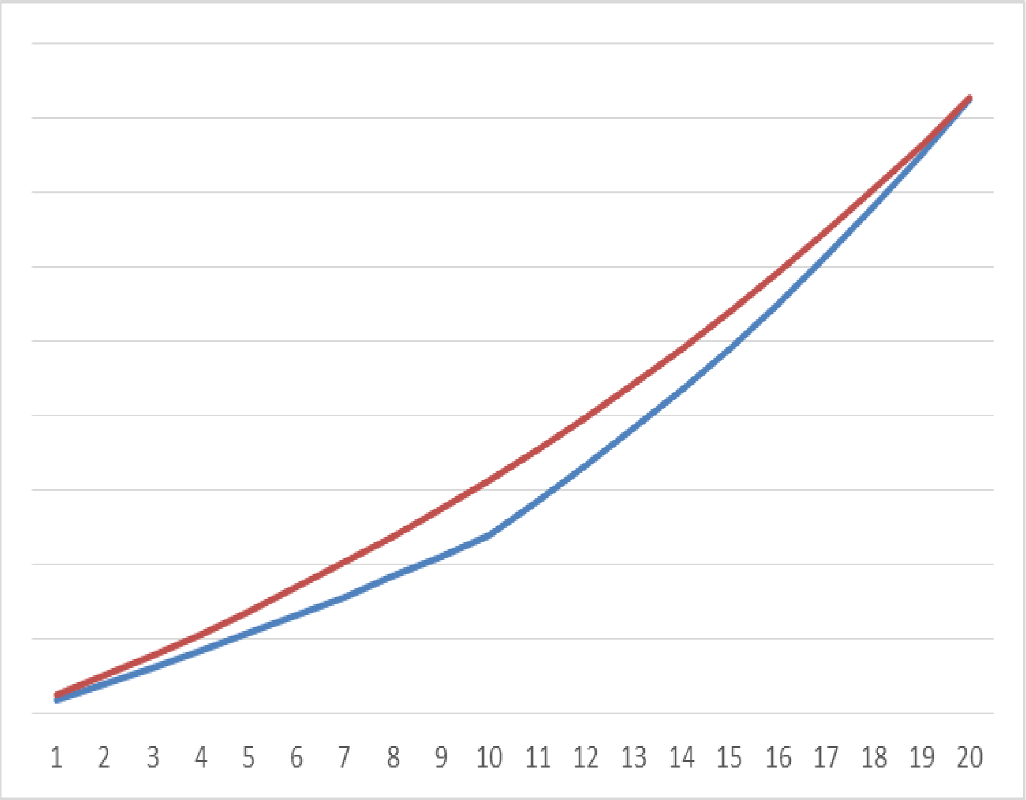
	Expected returns	Absolute return	Equivalent real return	Confidence
Growth dependent	Equities	5.0% p.a.	3.5% p.a.	Very mixed!
	DGFs	4.0% p.a.	2.5% p.a.	Very mixed!
Income focused	Property	4.0% p.a.	2.5% p.a.	Reasonable
	Infrastructure	4.0% p.a.	2.5% p.a.	Reasonable
	Sub-IG Credit	4.0% p.a.	2.5% p.a.	High
	IG Corporate bonds	2.1% p.a.	0.6% p.a.	High
Protection	Nominal gilts	1.0% p.a.	-0.5% p.a.	High
	Index-linked Gilts	0.75% p.a.	-0.75% p.a.	High
	CPI	1.5% p.a.		Modest

Average expected return for LGPS: 4.5% p.a.

The secret of asset returns …

(a) 4.5% p.a. for 10 years, followed by 5.5% for 10 years

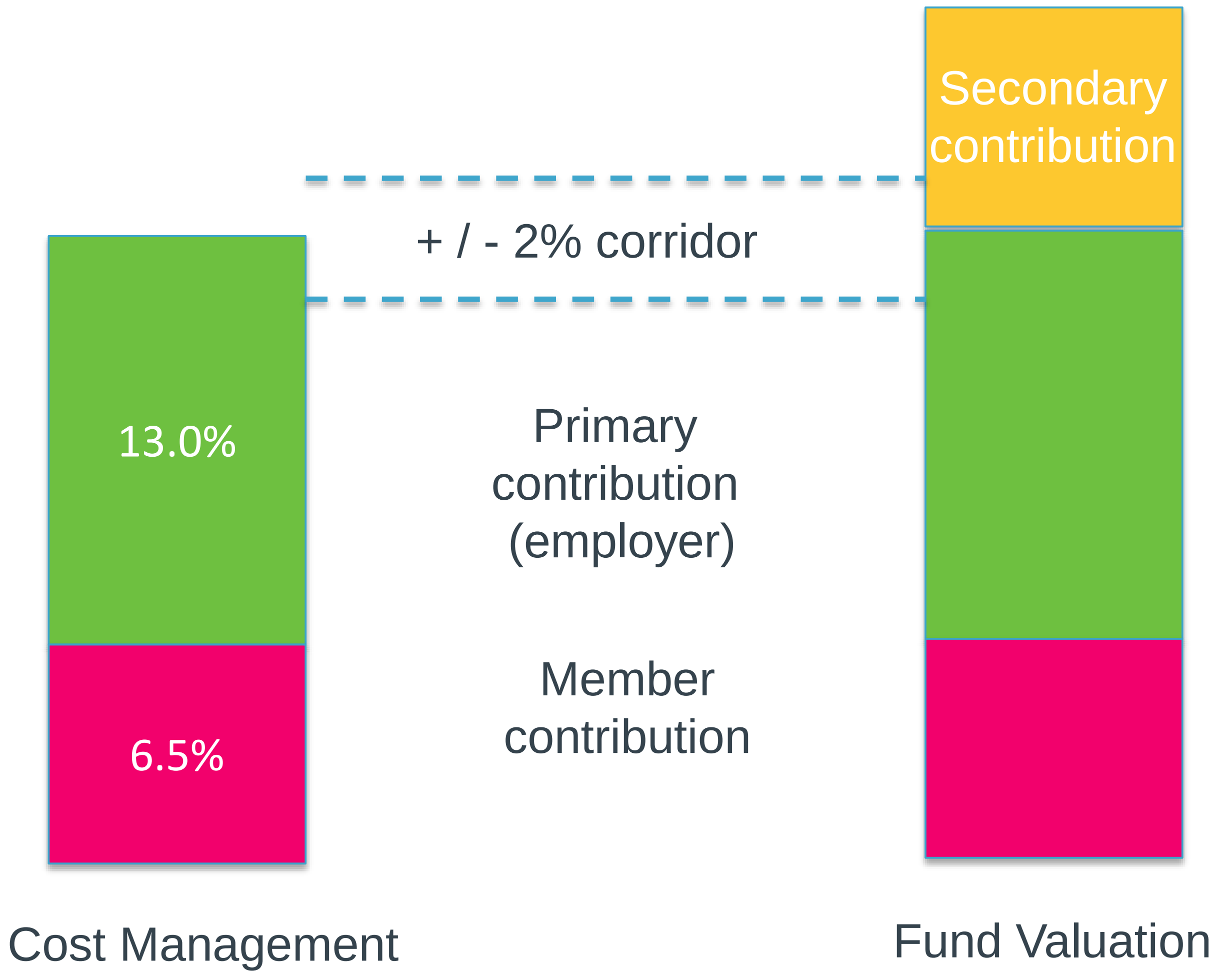
(b) 5.0% p.a. for 20 years



Not the same!
Because …

- Timing matters
- Shorter term employers
- Cash flow negative

(Hard) Bake off



Seeing the whole picture

Forward – looking
Long term cost efficiency vs discounted solvency

Employers in all shapes and sizes vs one-size fund

Watch impact of lower for longer

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