

CIPFA PENSIONS NETWORK

2013 Actuarial Valuation and 2014 Scheme Savings

20/22 November 2013

John Livesey FIA

HIGHLIGHTS



2010 valuation

Key issues

AFFORDABILITY AND RISK MANAGEMENT

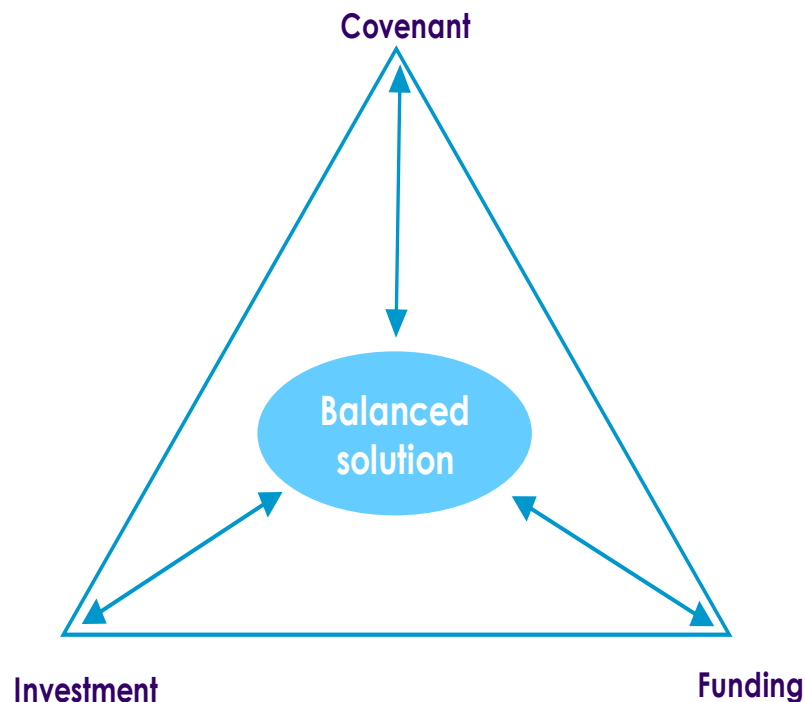
- Affordability vs. Affordability vs. Affordability
- Headcount reductions → Accelerating Maturity
- Deficit recovery as £ amounts

CHANGES TO THE LGPS BENEFIT STRUCTURE

- RPI to CPI indexation of Benefits
- Changes in Ill Health Benefits

FUNDING ASSUMPTIONS

- Low(ish) yield environment and investment returns low
- Pay growth / restraint
- What assumption for CPI
- Life expectancy and Expected Retirement Age



2013 valuation

Key issues.....more of the same

AFFORDABILITY AND RISK MANAGEMENT

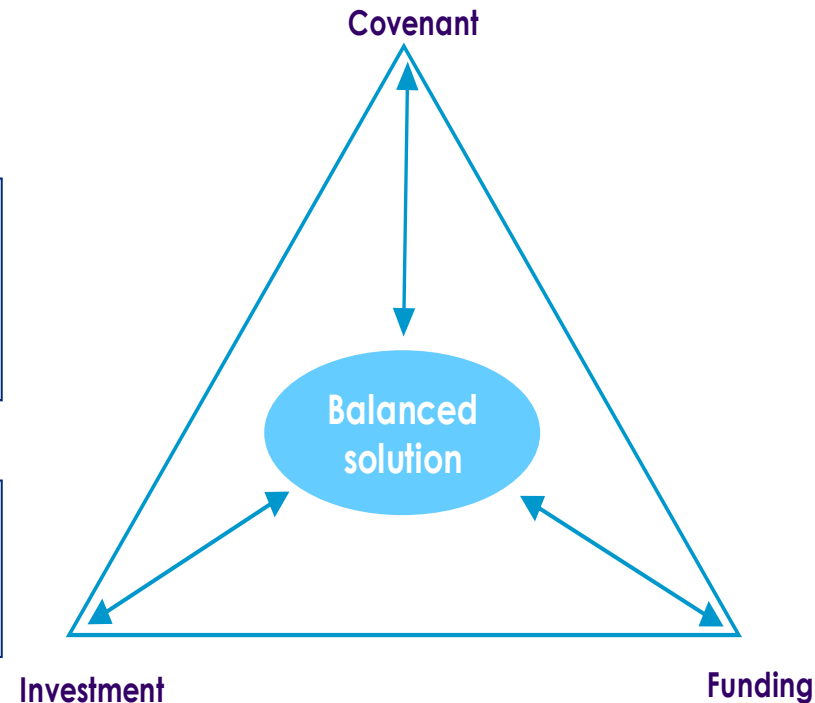
- Affordability vs. Long Term Financial Health of Fund
- Accelerating Maturity
- Large increase in employer base

CHANGES TO THE LGPS BENEFIT STRUCTURE

- Saving or Costs?
- Impact of Cost Control mechanism?

FUNDING ASSUMPTIONS

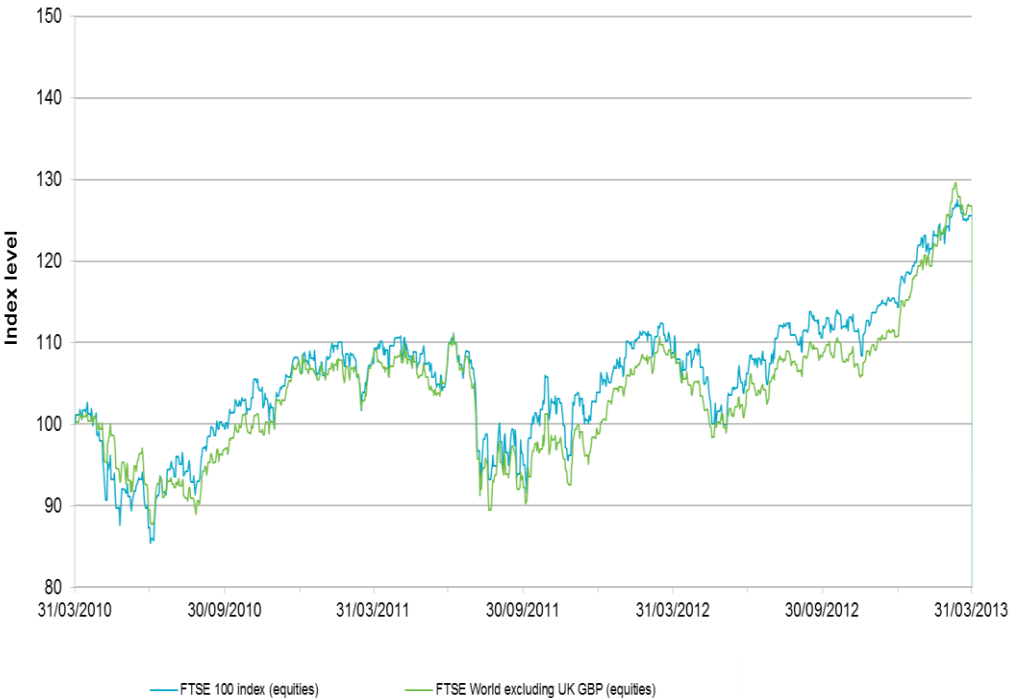
- Low yield environment and expected investment returns
- Pay growth / restraint
- Changes to CPI index since 2010
- Life expectancy and Expected Retirement Age



The Economic Climate

Equity and Bond Performance From March 2010

EQUITY PERFORMANCE



BOND PERFORMANCE



Over the three-year inter-valuation period, equity and bond returns have been positive, so assets will be higher (returns Typically c25%-30% over the period). Liability values have increased significantly, driven by falling (nominal and real) bond yields. Since the valuation date yields have risen and returns have been volatile.

2013 valuation

Main trends

FUNDING LEVELS

- Funding levels lower on pure “like for like” market-related basis (down ~5%)
- Mitigated in part by shorter-term effects (turnover, low pay growth)
- Higher base assets and liabilities, so higher deficit
- Favourable experience since March (funding levels up ~5%)

CONTRIBUTION RATES

- Pressure on future service contribution rate from lower yields
- Higher deficits so higher deficit £ amounts

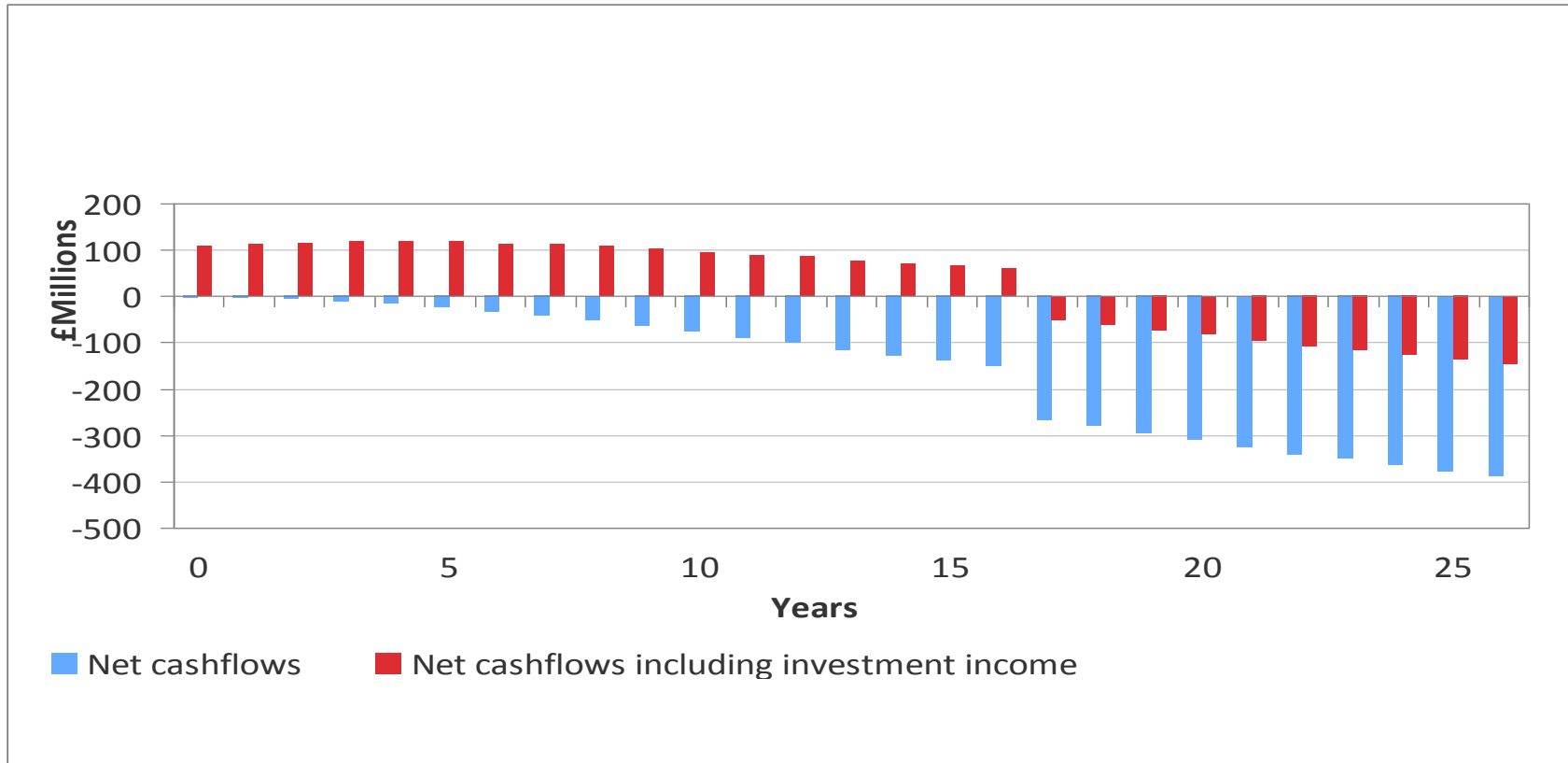
INDIVIDUAL EMPLOYERS

- Even more emphasis on risk management and stabilisation techniques
- Large variation between employers

**OTHER FUNDING APPROACHES ARE AVAILABLE BUT
TRANSPARENCY IS IMPORTANT**

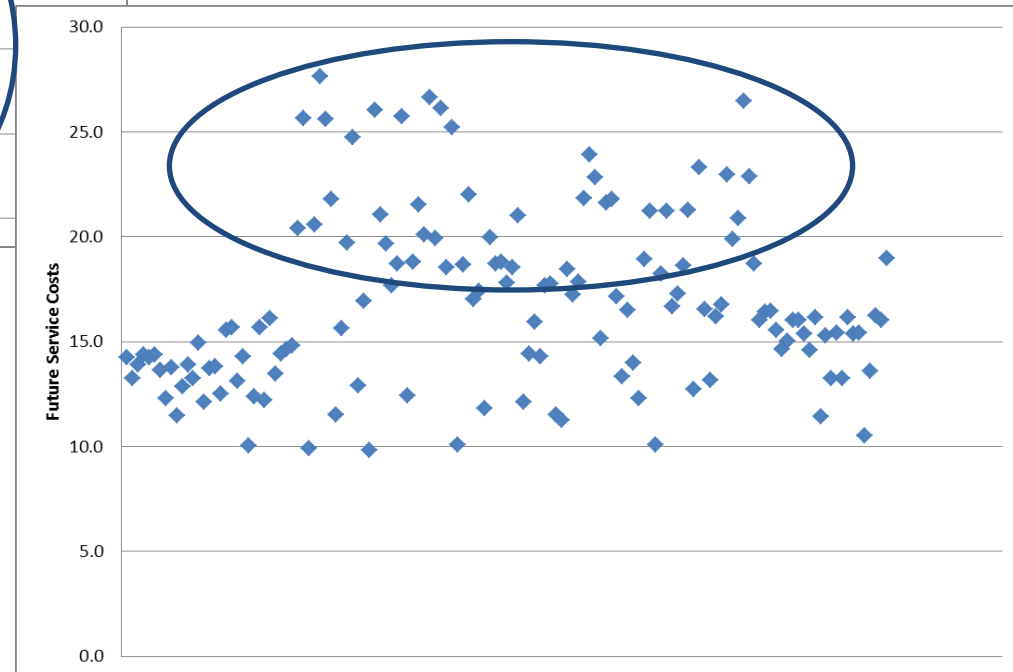
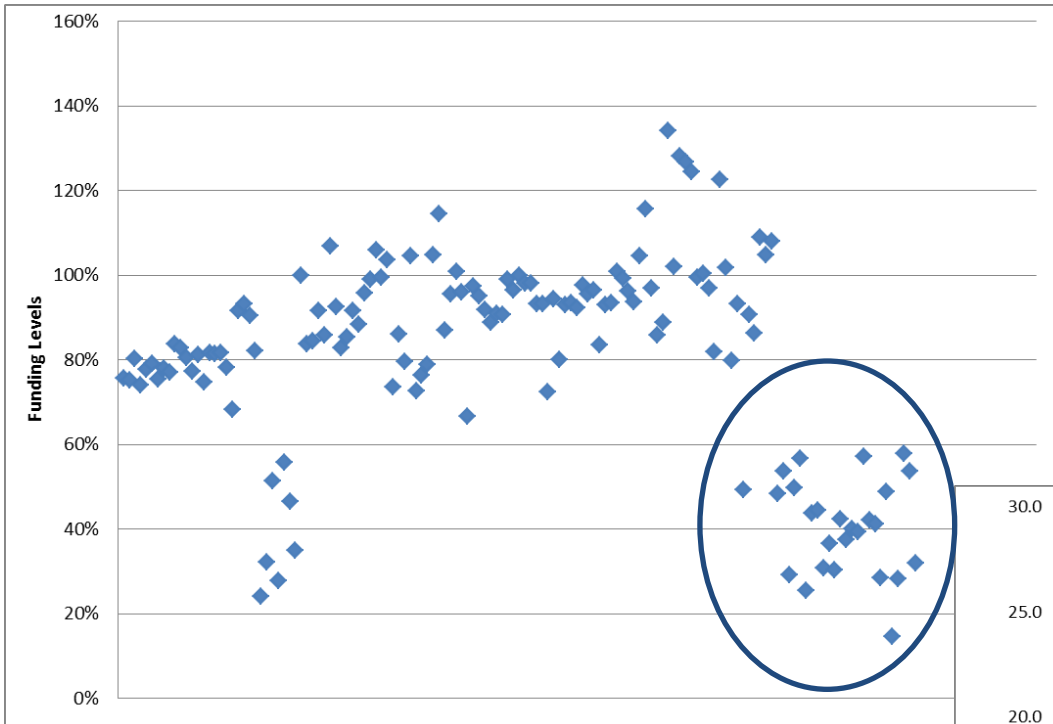
2013 valuation

Cashflows and liquidity



2013 valuation

All employers are not equal.....



2013 valuation

Main trends

STRUCTURAL ISSUES

- Falls in payroll combined with % of pay deficit recovery
- Extent of flexibility used at 2010 valuation/“Headroom” remaining from approach used at 2010 valuation.
- Older workforces – much higher future service cost
- Budgeting for increases more manageable for those with higher payroll base?
- Some employers still expecting material headcount reductions over next few years

FUNDING POSITION WILL HAVE BEEN IMPROVED RELATIVELY IF (CONVERSE ALSO APPLIES).....

- Deficit partly paid off by higher contributions
- Low pay growth
- Lots of leavers before retirement

AND DON'T FORGET.....

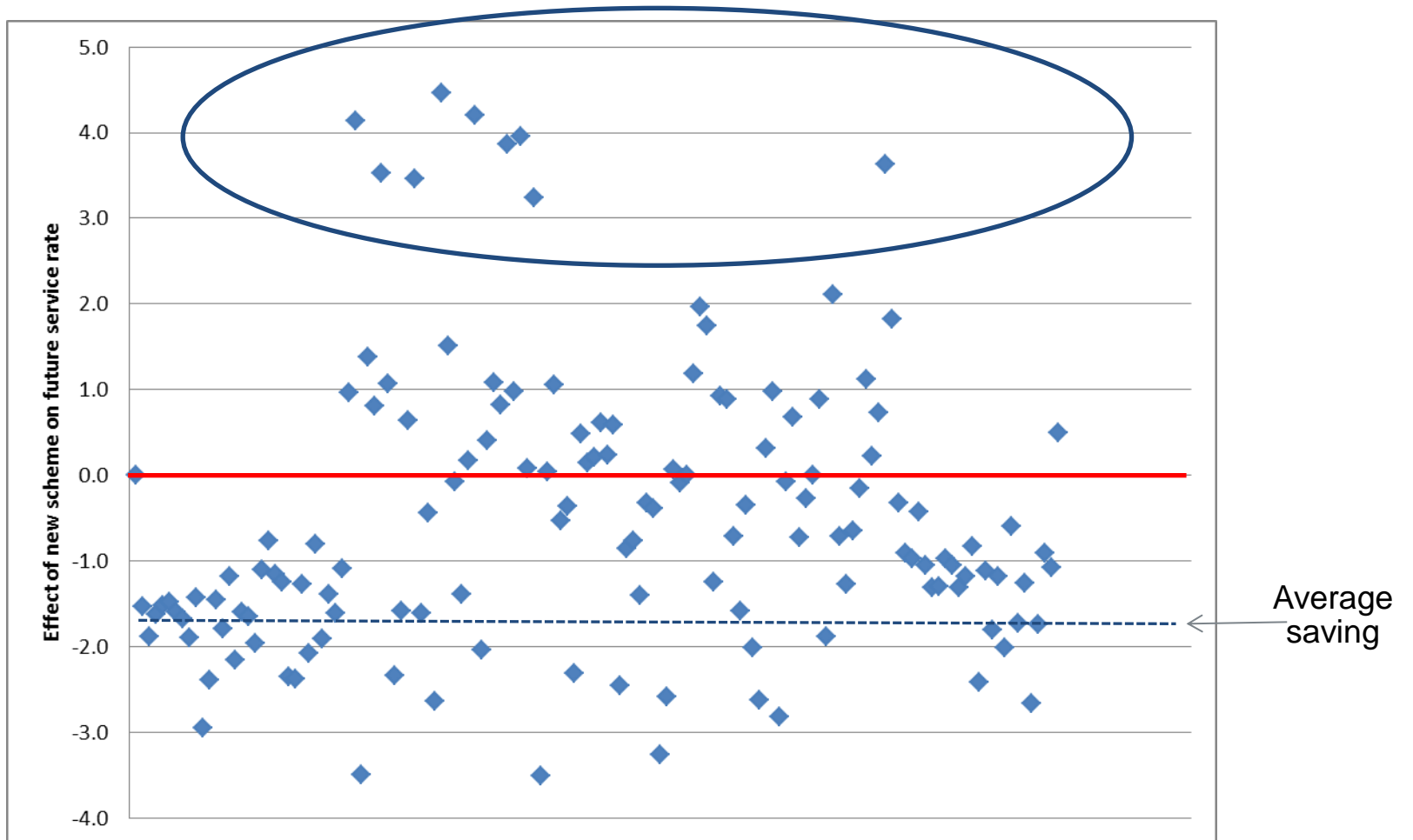
- Non-contractual overtime “Pensionable Earnings” effect post 2014

THE 2014 SCHEME AND BEYOND....

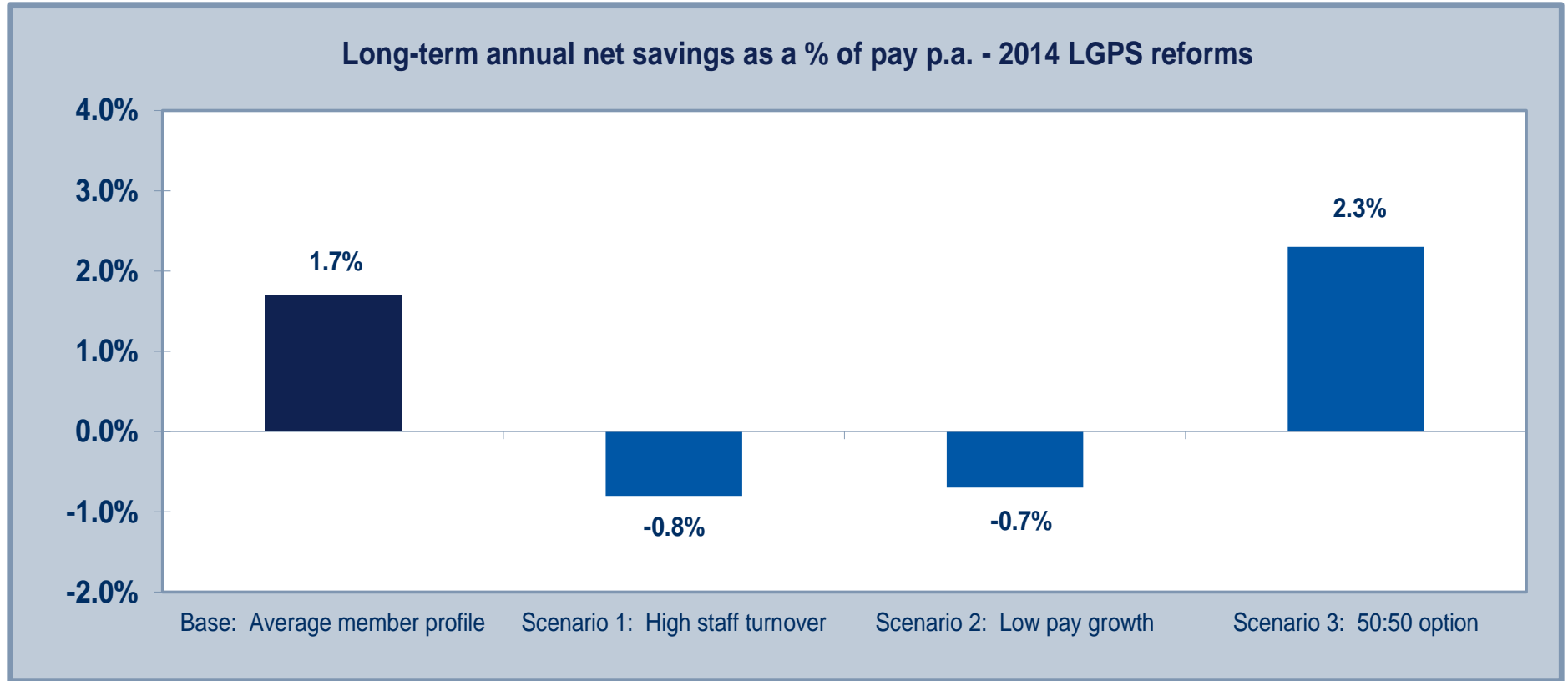


LGPS 2014 Scheme

Some shocks in store.....



LGPS 2014 Scheme – Analysis under different scenarios



Cost Control

What's in and what's out?

INCLUDED

- Anyone with post 2014 membership (including all their pre 2014 service until leaving)
- Longevity/State Pension Age changes
- Pay growth
- 50:50 take-up
- Rates of retirement
- Leavers/opt-outs/rejoiners
- Commutation take-up

EXCLUDED

- Pre 2014 leavers/pensioners
- Investment returns
- Discount rate changes
- General inflation

Parallel HMT/LGPS Approaches – Plenty of Scope for Confusion

Summary

WATCH OUT FOR.....

- Maturing profiles
- Older workforces
- Falls in payroll combined with % of pay deficit recovery
- Double-counting of flexibilities
- 2016 NI change
- 50:50 take-up/opters out



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