Cipfa Actuarial Summit
2016 Valuations: key issues

Alison Murray FFA
25 January 2017

Aon
Empower Results®

What I said last year

- New data extract
- New funding objectives
- Falls in asset values
- More employers
- Standardised basis calcs
- Higher deaths than expected?
- Lots of early leavers / early retirements
- Section 13 / GAD requirements
- Falling payroll?

What actually happened

Data-related issues	Our experience
Effect of delays in new software / data spec	No time for pre-valuation data cleaning Internal testing of systems delayed Data arrived (nearly) all at once
Membership movements	Largely positive on valuation results (experience + effect on assumptions) Auto-enrolment offset redundancies
Data quality	Suffered (for lots of reasons) Higher volume of data queries Assumptions required to fill gaps

What actually happened

Employer-related issues	Our experience
More employers (largely contractors and new academies)	Whole of fund results no longer a good proxy for council results Higher volume of results / calculations Knock-on effect on data quality
Increasing diversity of employers	Consideration of covenant Adoption of different funding targets Shorter deficit recovery periods
Communication	More important than ever Less evidence than expected of increasing queries / higher responses to FSS changes

Empower Results®

What actually happened

External influences	Our experience
New objectives	Challenge to justify affordability and stability of contributions within new framework Increasing pressure on employer contributions
Section 13 report	Pressure to second-guess GAD's views Difficult to avoid "MFR" effect Race to the middle Shortening deficit recovery periods
Standardised basis calculations	Continued use of CPI + 3% unhelpful Not part of funding discussions

Other comments

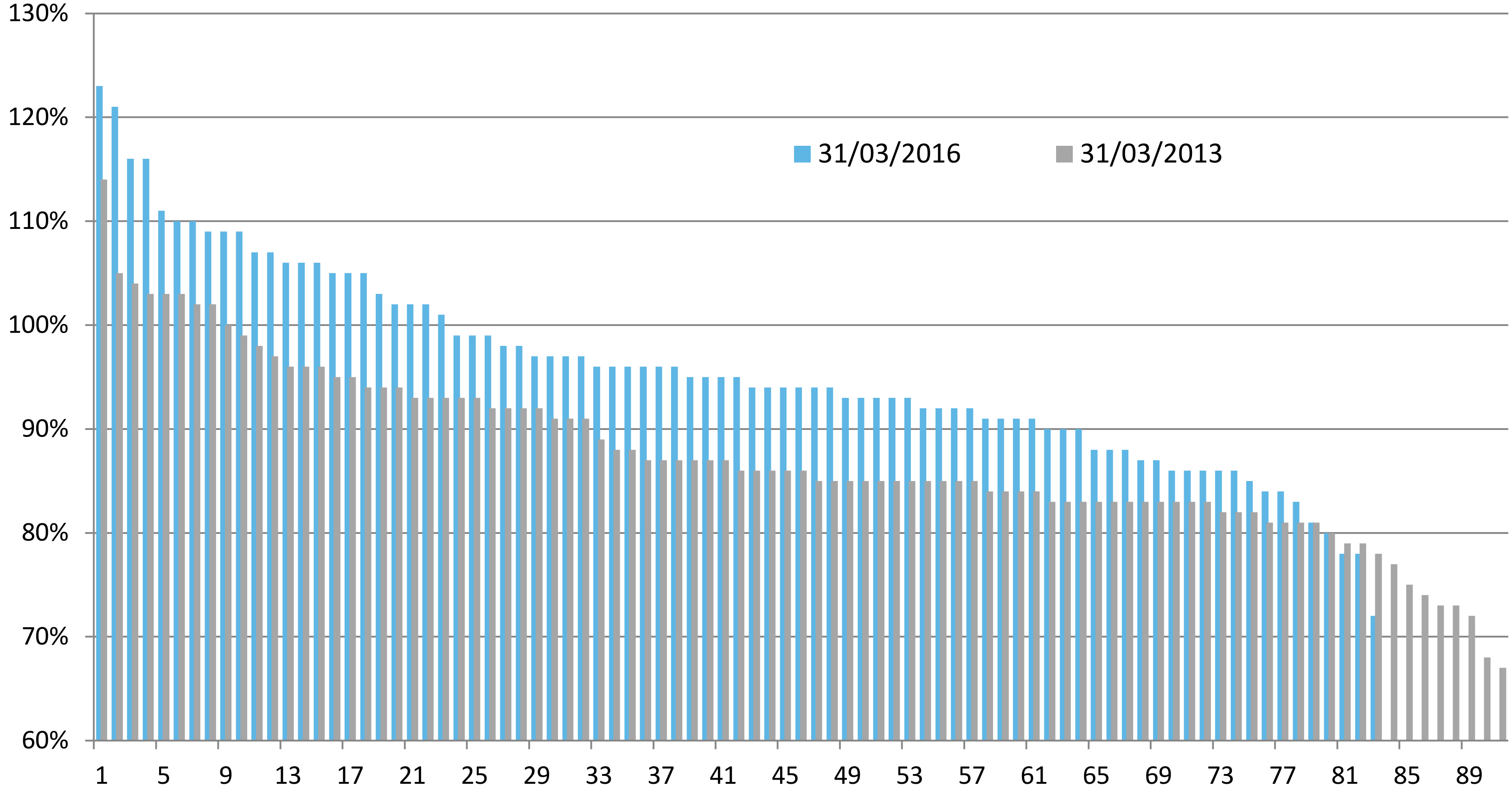
- Huge variation in effect of investment returns
  - Range amongst Aon Hewitt actuarial clients*

1.6% p.a. below 2013 discount rate → 4.4% p.a. above 2013 discount rate

- Pay growth generally not as positive as expected
- Continuing challenges for charities and other not-for-profit organisations
  - Councils more reluctant to offer subsumption commitments
- Employers looking to manage their exit
  - Gilts-based exit valuations not looking pretty
- Continuing uncertainty in financial markets
  - Funding ratios may be up since 31 March but expected future returns down (so liabilities and future service costs up)
- Refinement of funding strategy likely to continue between now and 2019

* Based on gross returns and past service discount rate adopted for scheduled bodies at the 2013 valuations

Standardised basis results to date



Source: Section 13 Report (2013 figures) and Scheme Advisory Board website (2016 figures)
Note that 2016 data is anonymised so both 2013 and 2016 results are ranked by funding level, i.e. the chart doesn't compare 2013 and 2016 results for each fund individually

Average (2013) = 87% Average (2016) = 96%

Disclaimer

This document is intended to communicate general themes from the 2016 LGPS valuations based on Aon's experience of advising LGPS funds. It does not represent advice to any administering authority or employer and should not be construed as such.