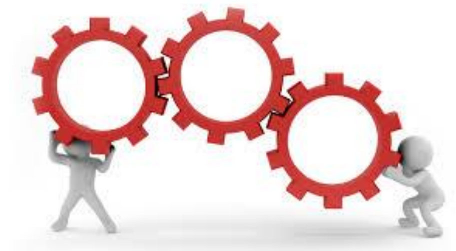
CFO Briefing – LGPS Reform

LGPS Valuations 2016

- Barry McKay
- 23 June 2016

What we will cover today



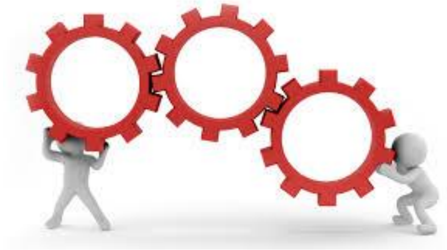
Principles of funding

Purpose of the valuation
&
Responsibilities

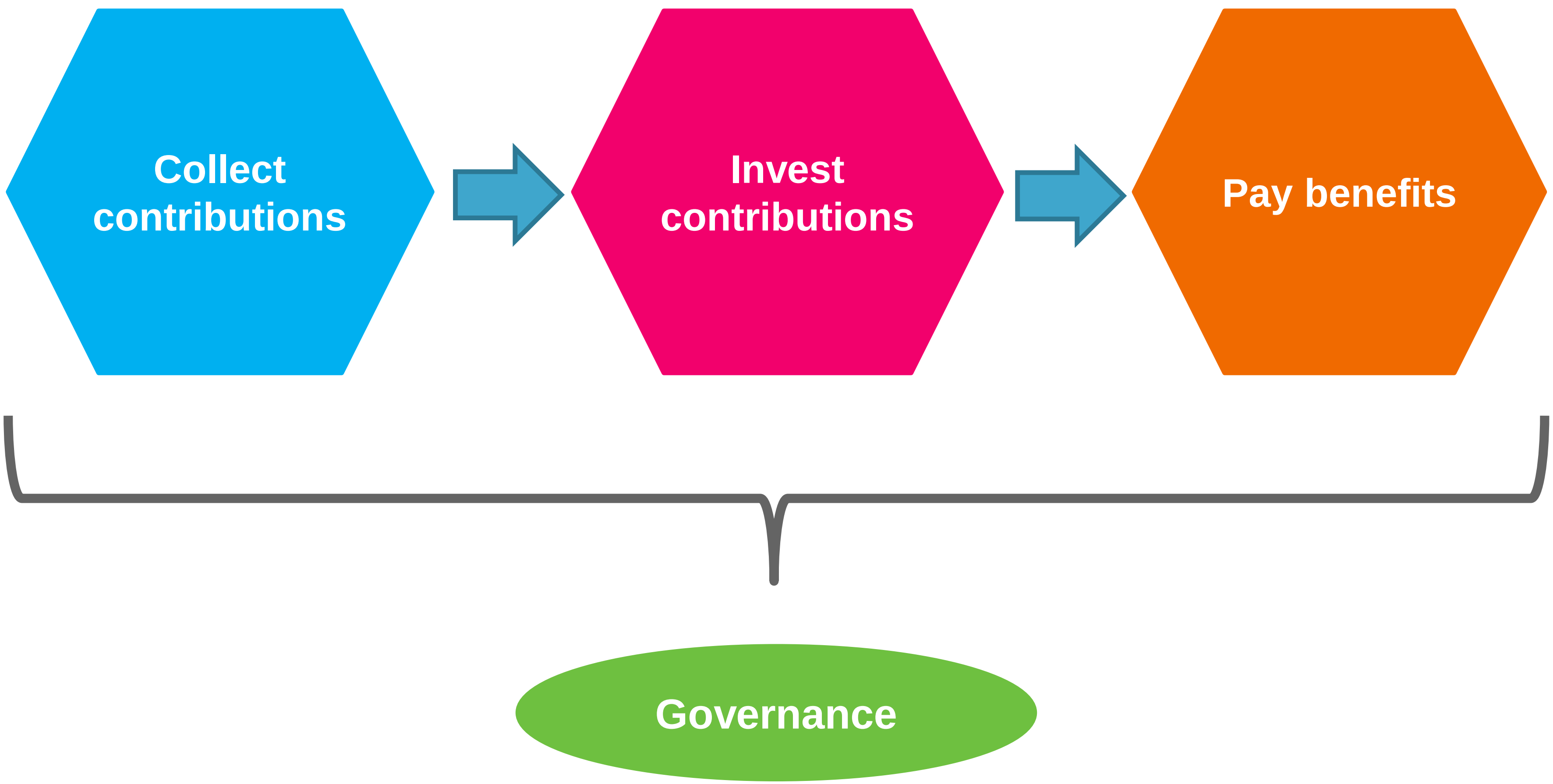
Funding considerations for Councils

Triggers of pension risk/cost

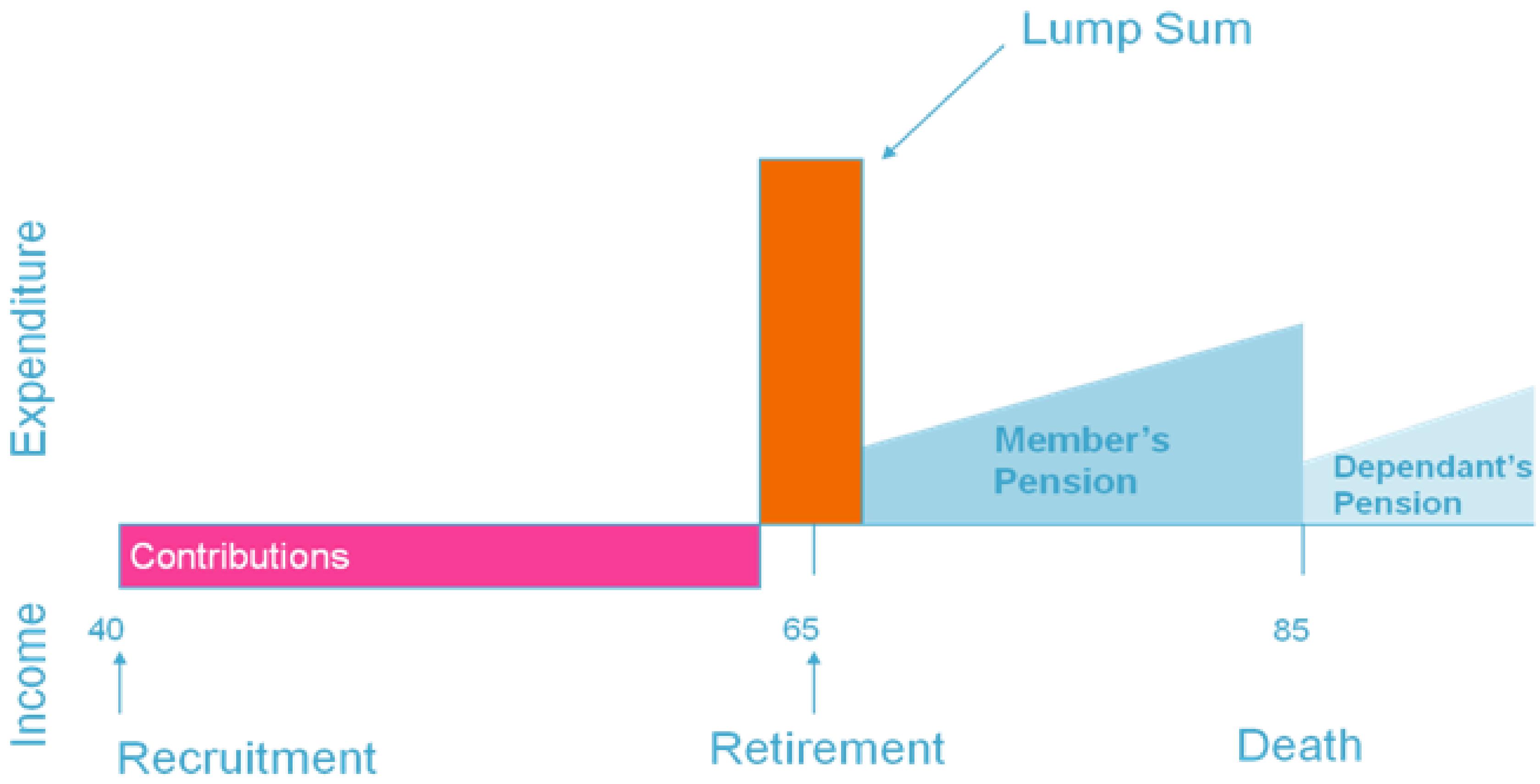
Principles of funding



The basics of a funded pension scheme



Valuing a single member



Assumptions

Amounts paid and probability of payment

Financial assumptions:

- Investment return
- Inflation
- Pay increases
- Pension increases

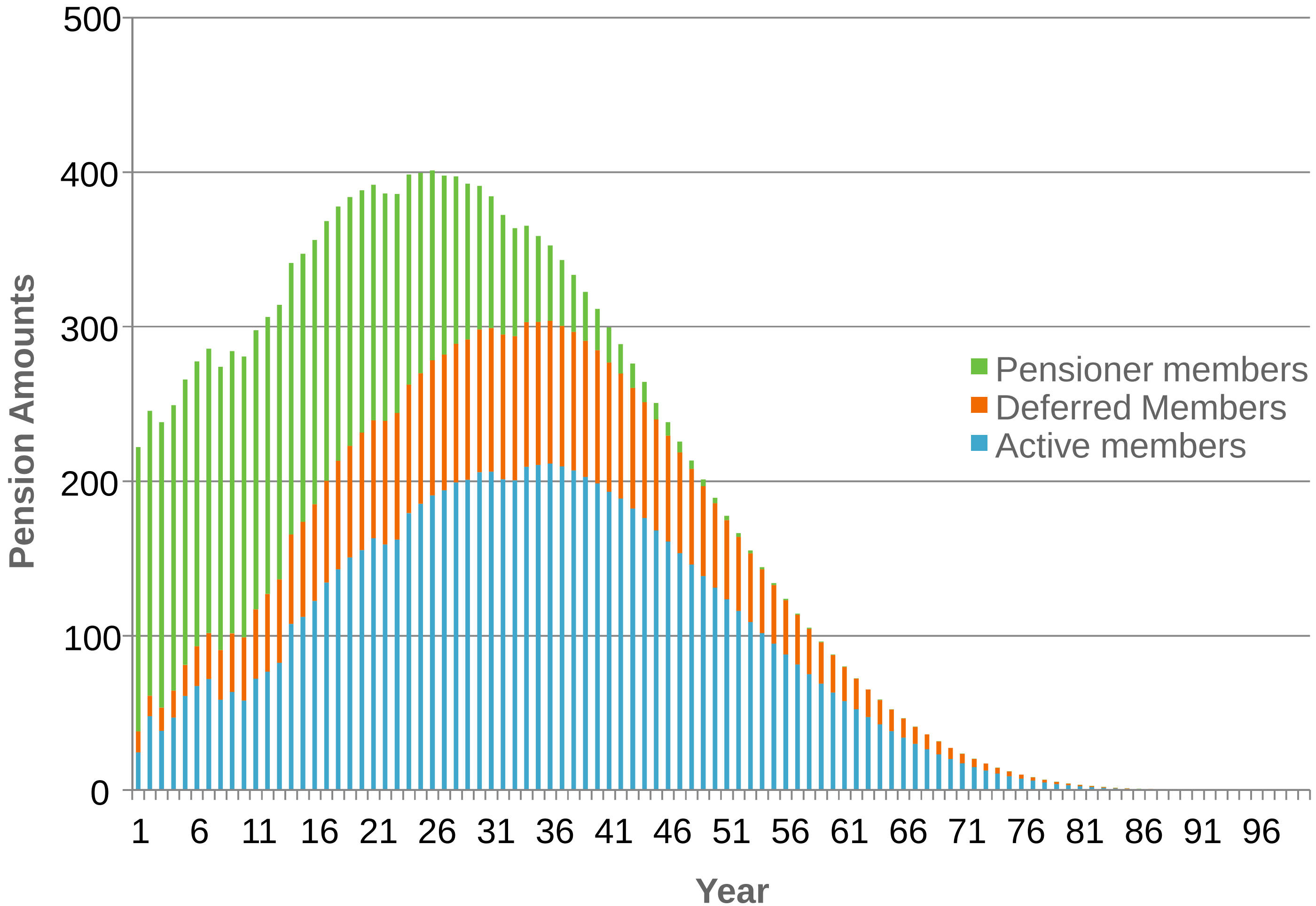
Consider:
Economic outlook
Actual scheme assets
Historical pay growth

Demographic assumptions:

- Life expectancy
- Retirement age/cause
- Withdrawals
- Marriage statistics

Consider:
Population trends
Members' social status
Past scheme experience

Valuing the Fund



Allowing for anticipated timing & size of benefits

Source: Hymans Robertson, based on a sample LGPS pension fund.

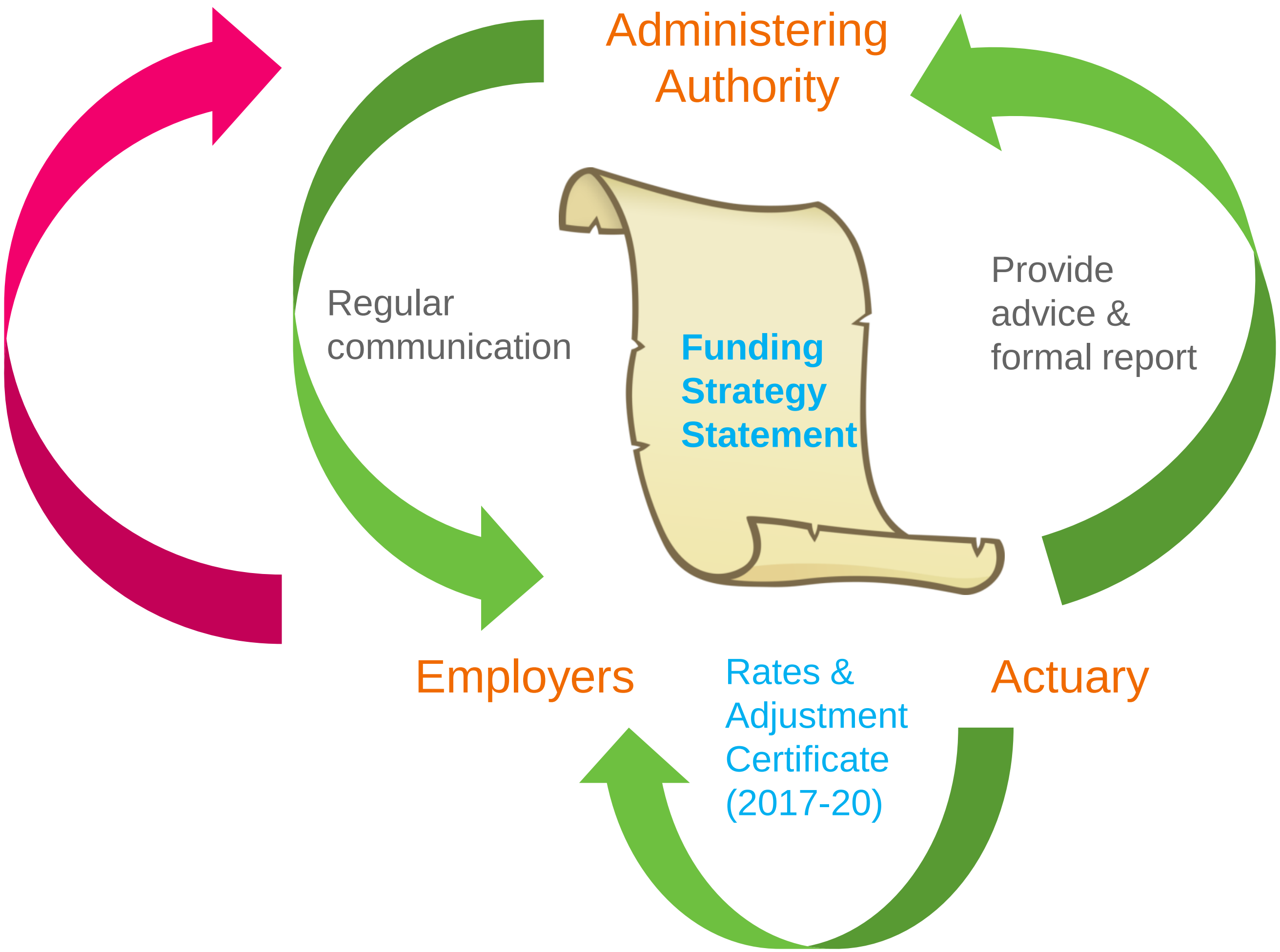
HYMANS ROBERTSON

Purpose of a valuation & responsibilities

Overview of a valuation

- Actual cost of the Fund to an employer will depend on the benefits actually paid to its employees & their dependants
- A valuation estimates how much money will be needed to pay the benefits
- Estimate is based on assumptions
  - projected amounts of benefit payments
  - projected probability of benefits being paid

Who does what?



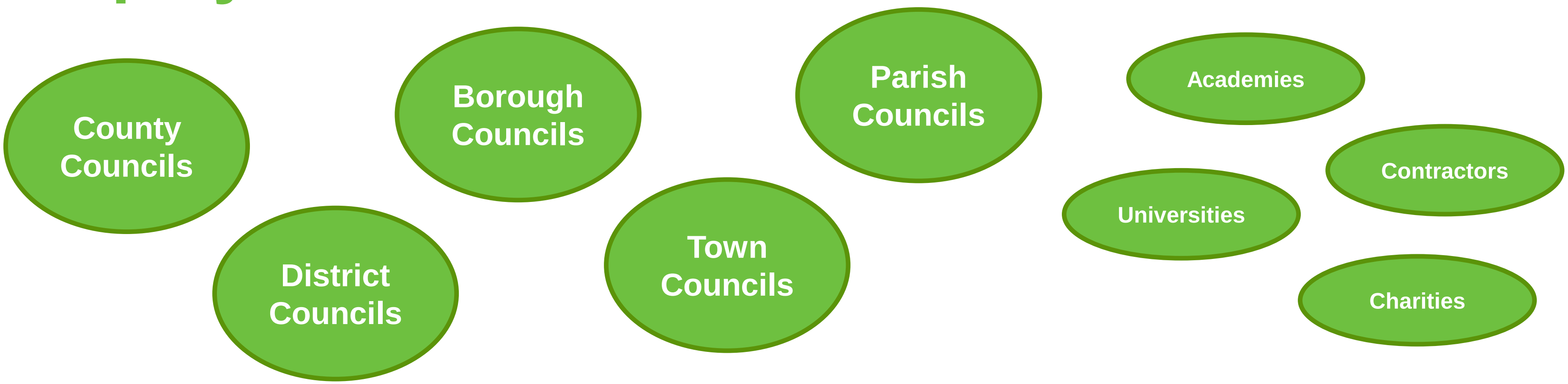
Statutory requirements every 3 years

What should employers do?

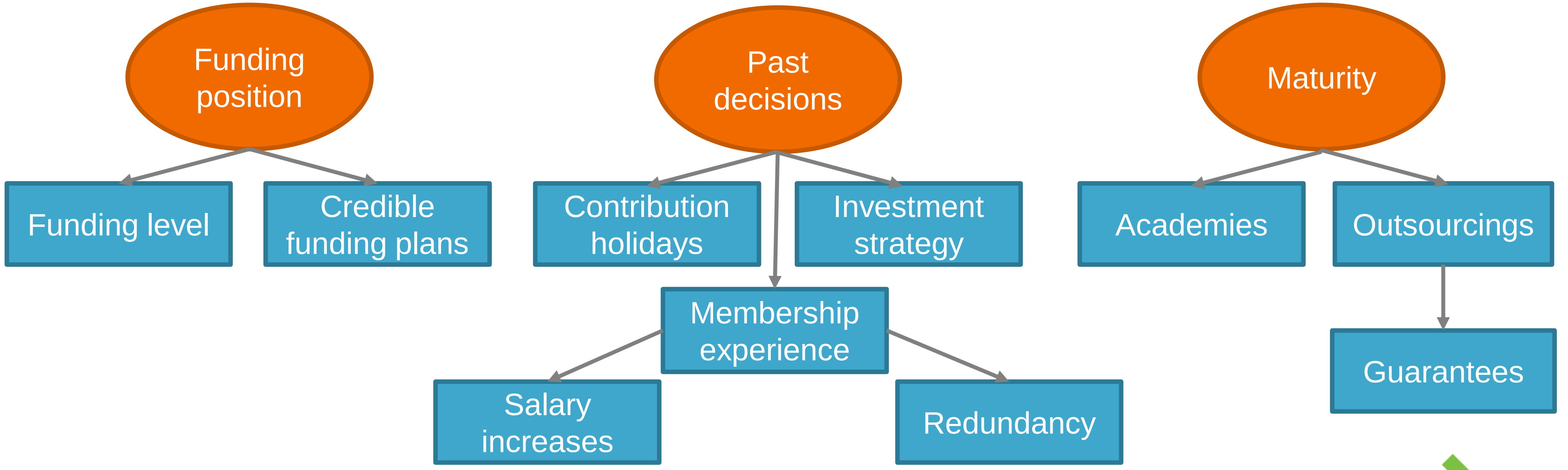
- Engage and communicate with the Fund
- Supply clean and timely data to the Administering Authority
- Attend employer forums
- Discuss the affordability of the certified contribution rates
- Consult on the Funding Strategy Statement

Funding considerations for Councils

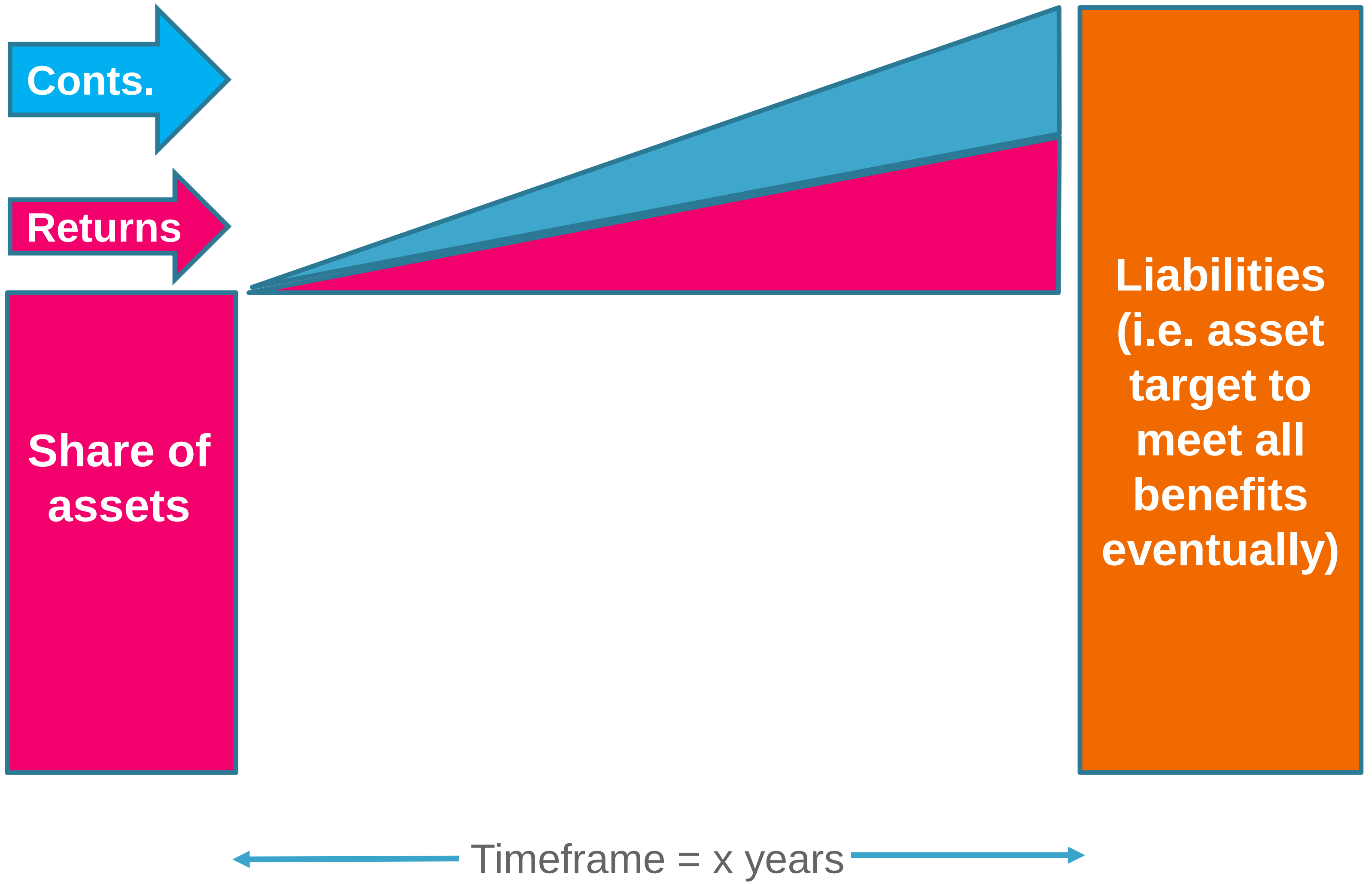
Employers are different…



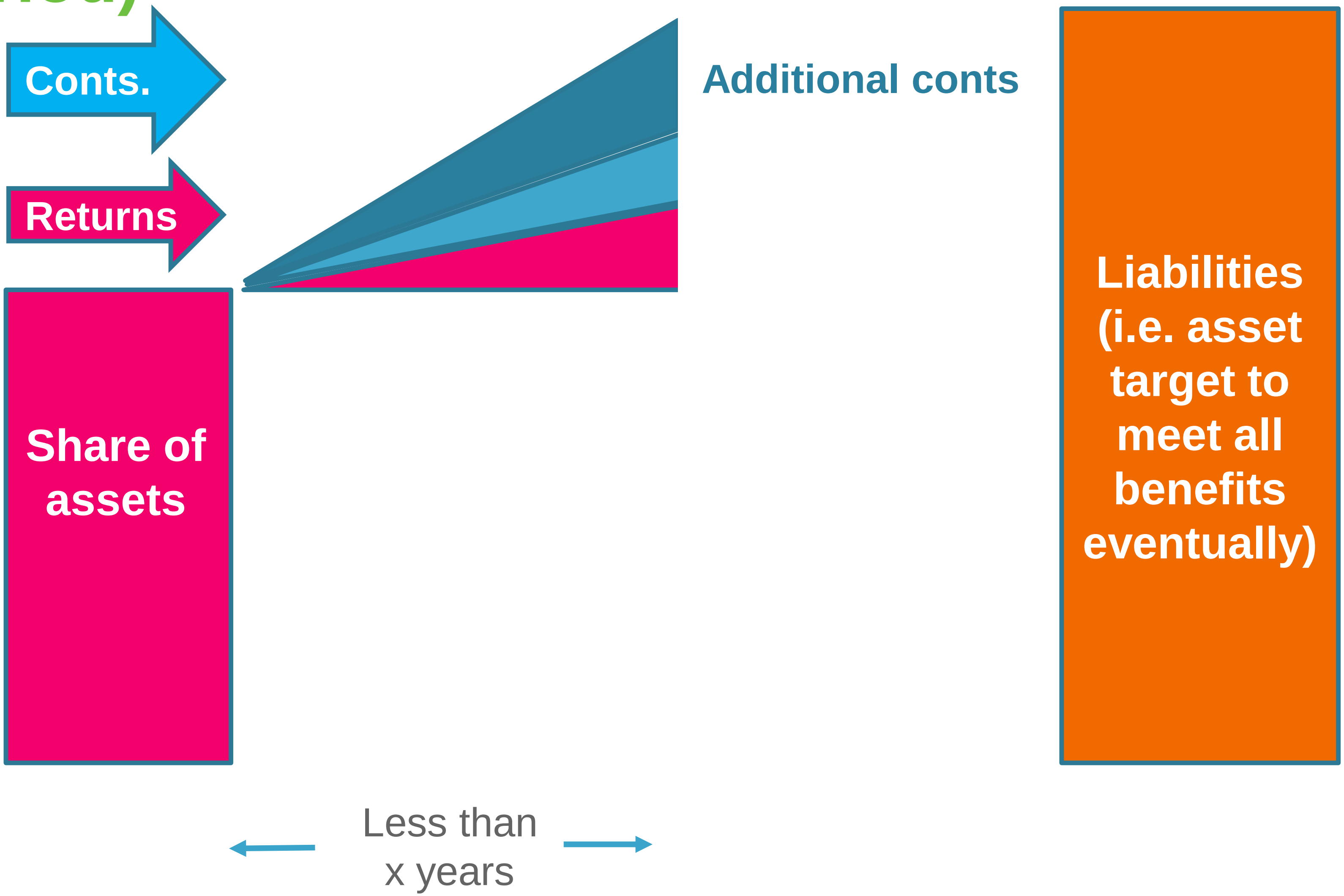
…with different characteristics



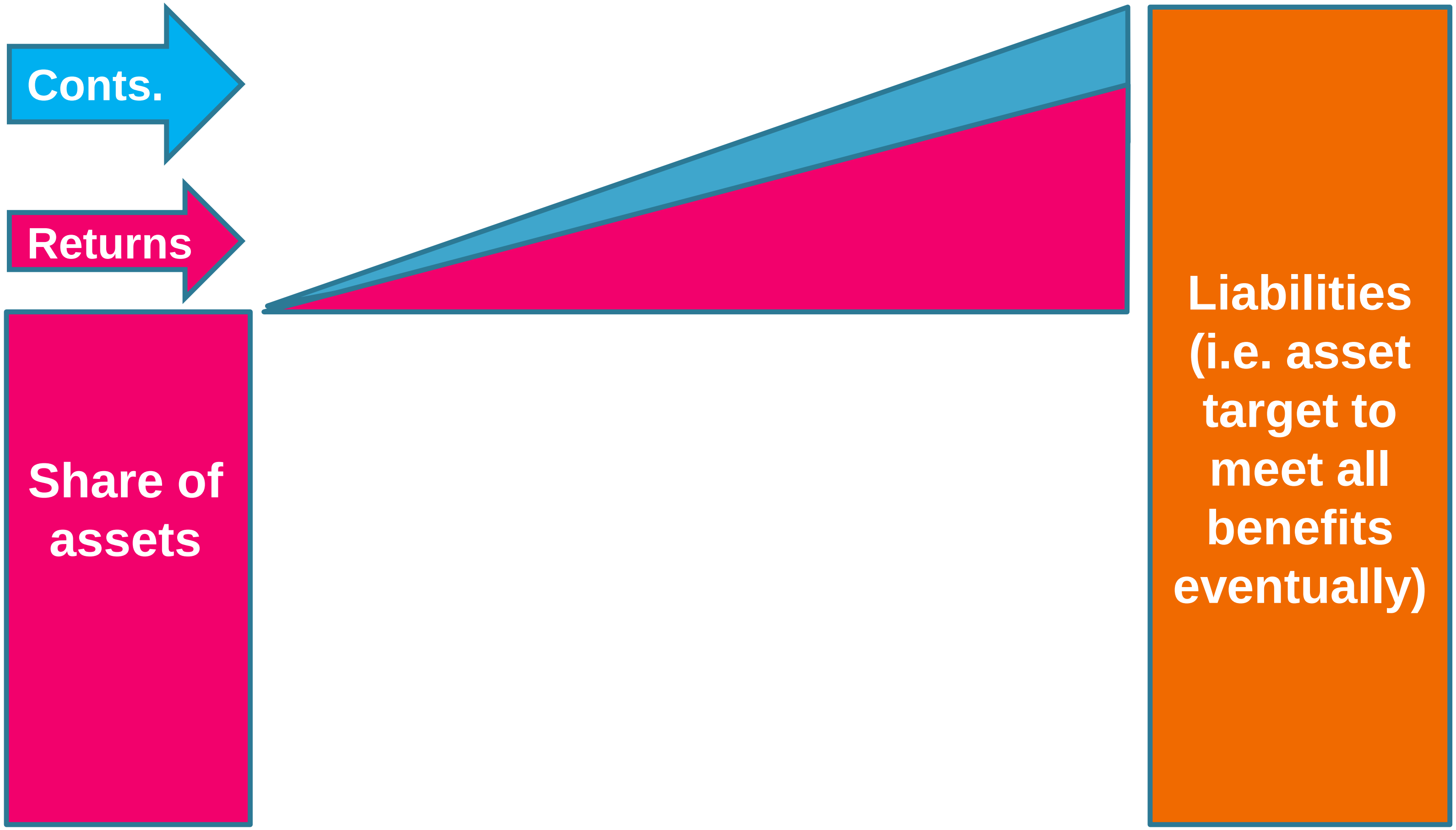
In principle



Varying the timeframe (deficit recovery period)



Varying the risk/return



Employer profile links to contributions

Triggers of pensions risk/cost

Understanding what changes your deficit (or your contributions)

Salary increases

Lump sum contributions

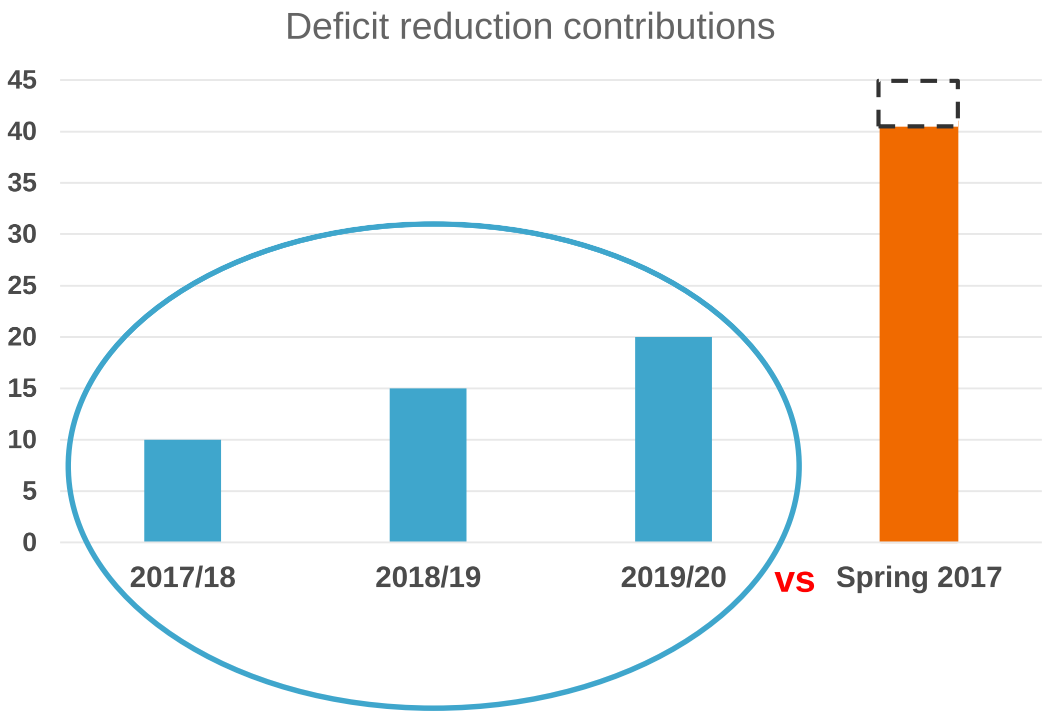
Workforce restructuring

Outsourcings

Ill health retirements

Your actions have a reaction in your pension costs

Lump sum option



Potential benefits:

- Investment returns higher than interest earned elsewhere
- Earn additional investment returns on lump sum paid sooner
- Reduction on annual amount of interest paid on the debt owed to the Fund

Risks:

- Benefits clouded if negative investment returns achieved by Fund
- Opportunity cost of not using the cash elsewhere
- Removes the protection of contributions being paid monthly which “ride out” the ups and downs of the markets and the Fund’s investment returns

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Who else is interested?

Daily Mail

UNISON

The Pensions Regulator

HM TREASURY

Governance and administration of public service pension schemes

Local Pension Board

Local Government Pensions

SAB

Scheme Advisory Board

Communities and Local Government

Thank you

Any questions?