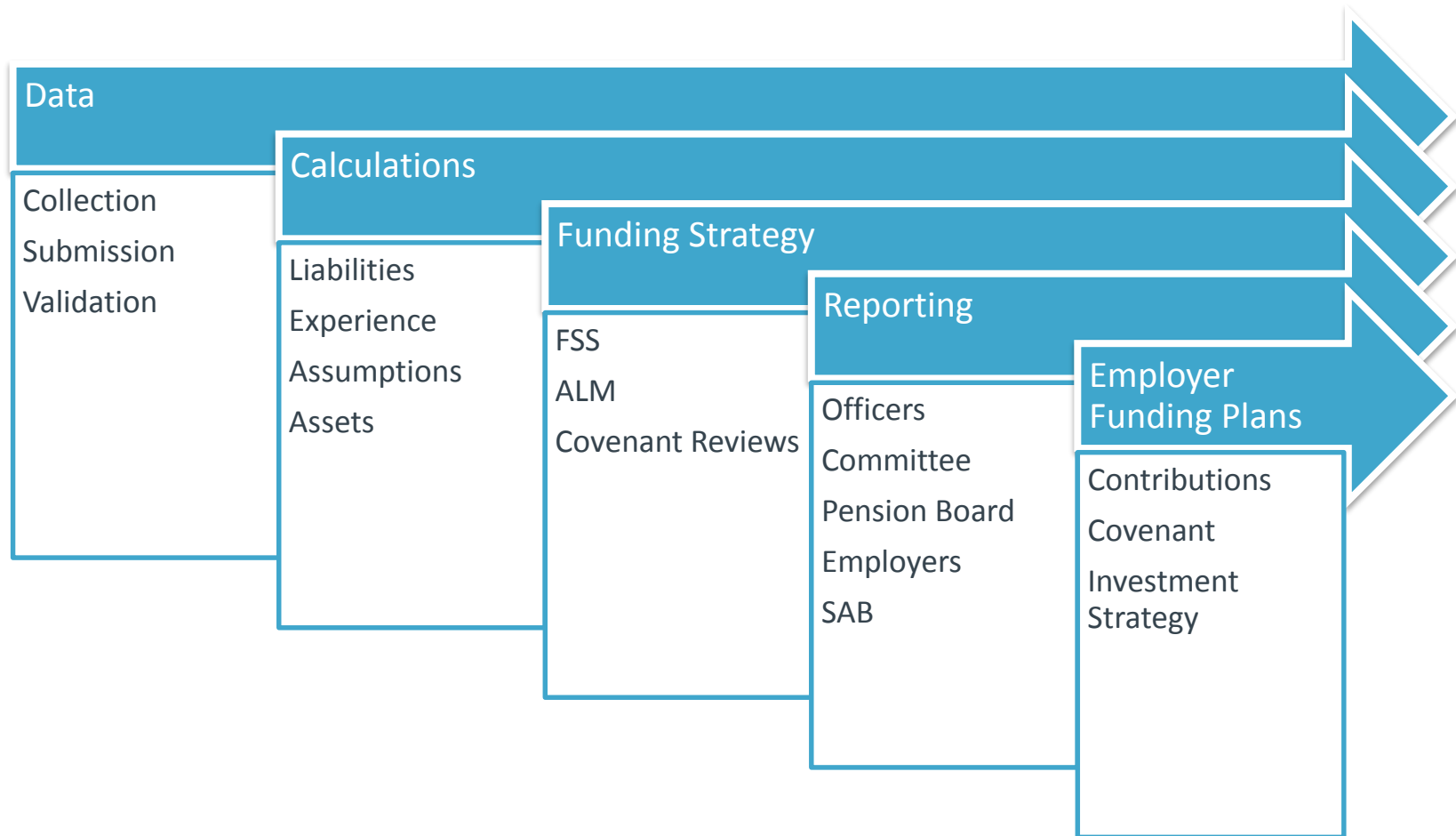


2016 valuation update

- Peter Summers FFA
- Partner
- Hymans Robertson LLP
- November 2016

Valuation Timeline



Data - context



Data



Employers are confused by the complexity of the new Scheme

Data is inconsistent and misunderstood

Risks of incorrect benefit calculations are real

Since 2013

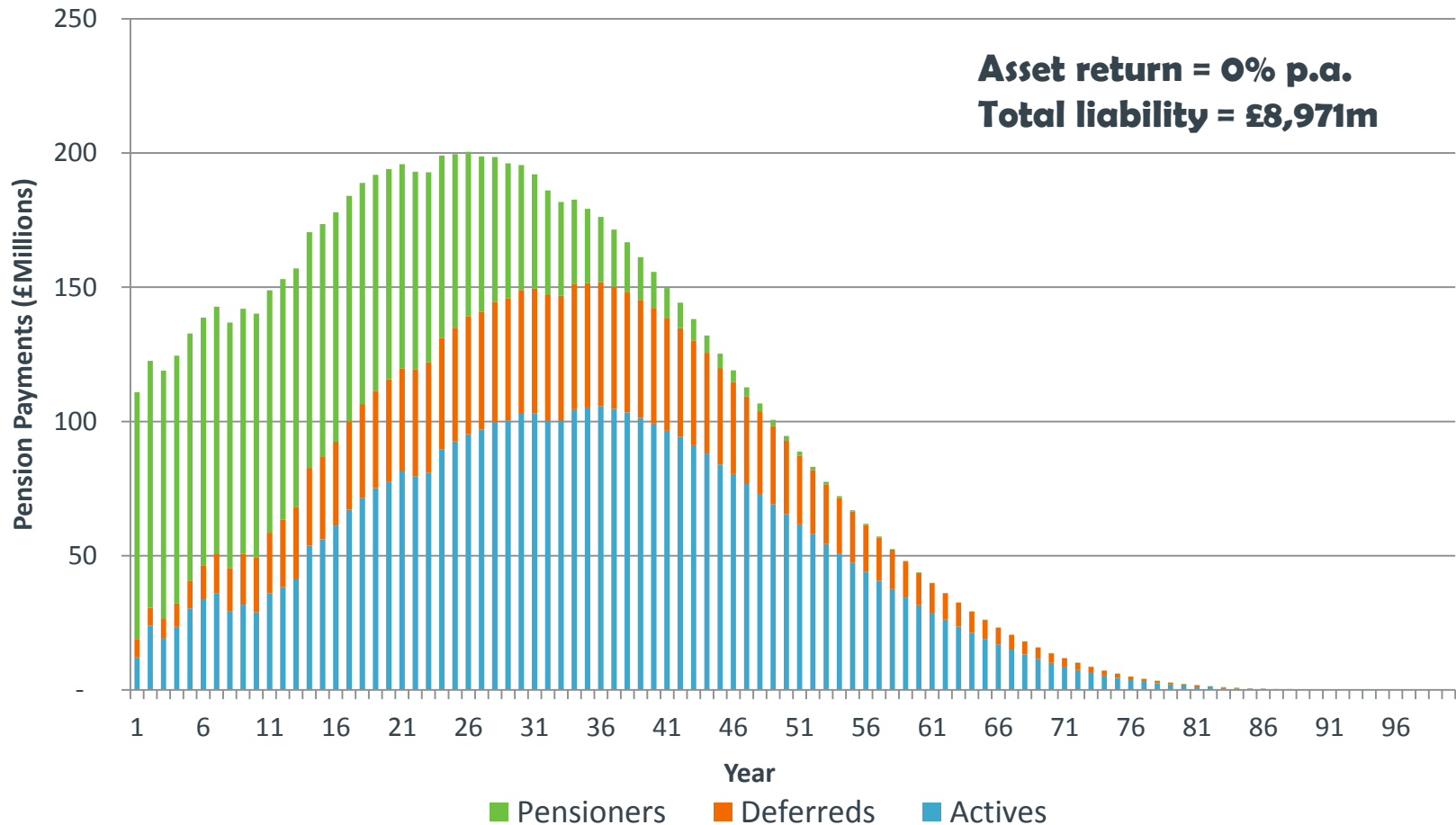


Pay & CPI experience
Pay & CPI expectations
Asset returns
Longevity
Lots of new members

Interest
Asset Expectations
50:50 take up

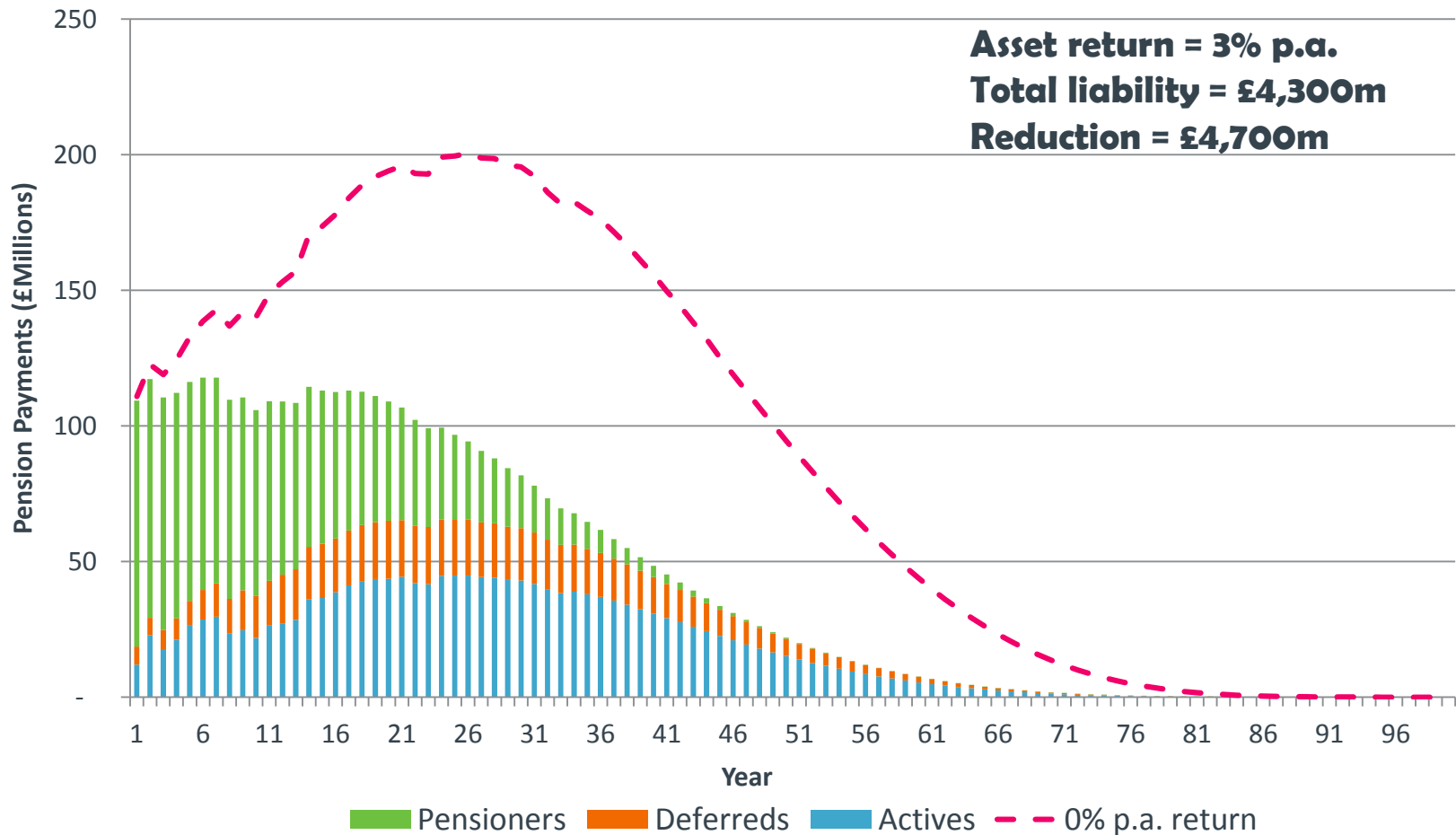


Introduction to compound interest



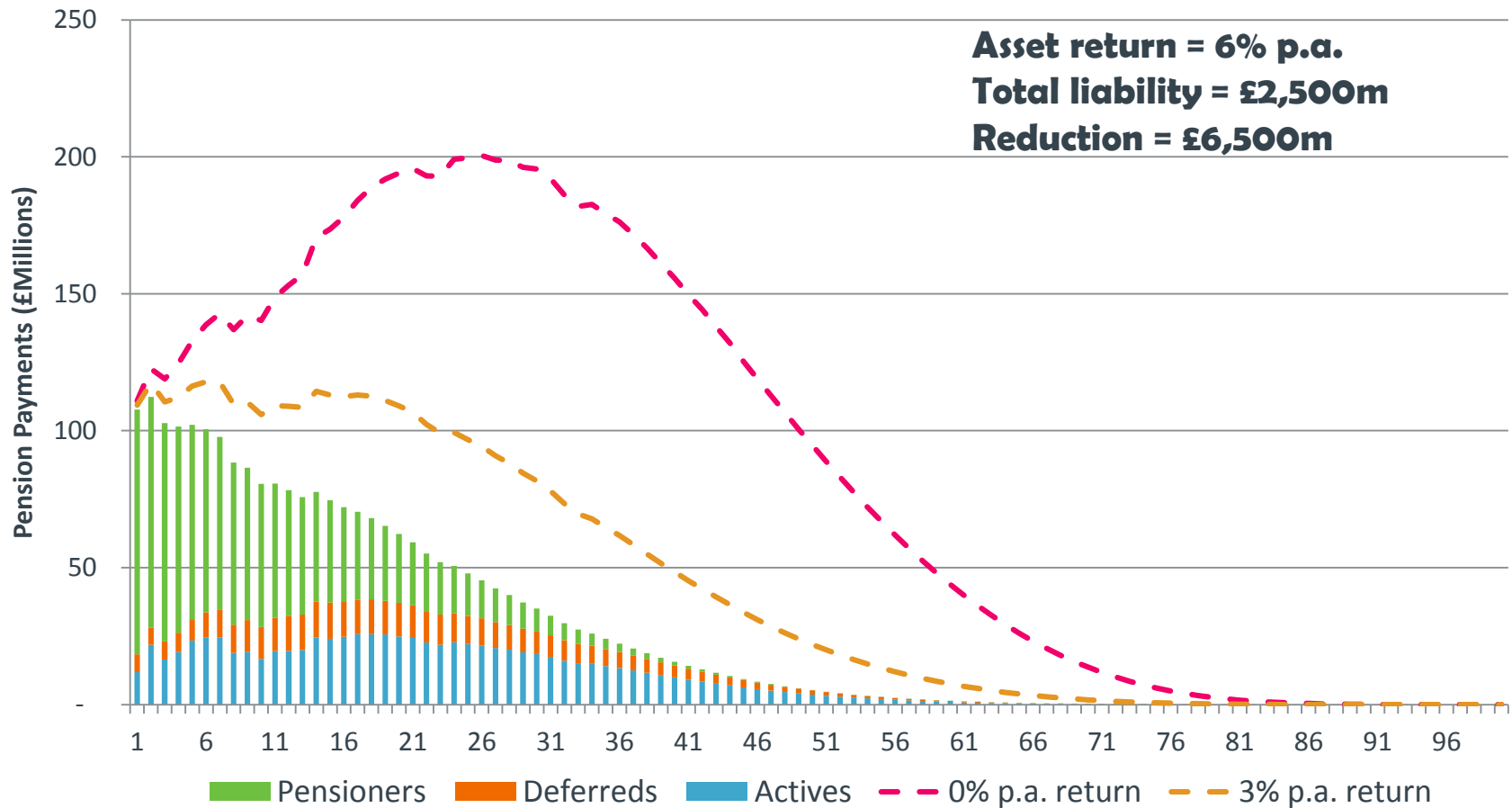
Source: Hymans Robertson, typical county council LGPS fund

Paying the benefits - returns matter



Source: Hymans Robertson, typical county council LGPS fund

The most powerful force in the universe



Source: Hymans Robertson, typical county council LGPS fund

Under pressure

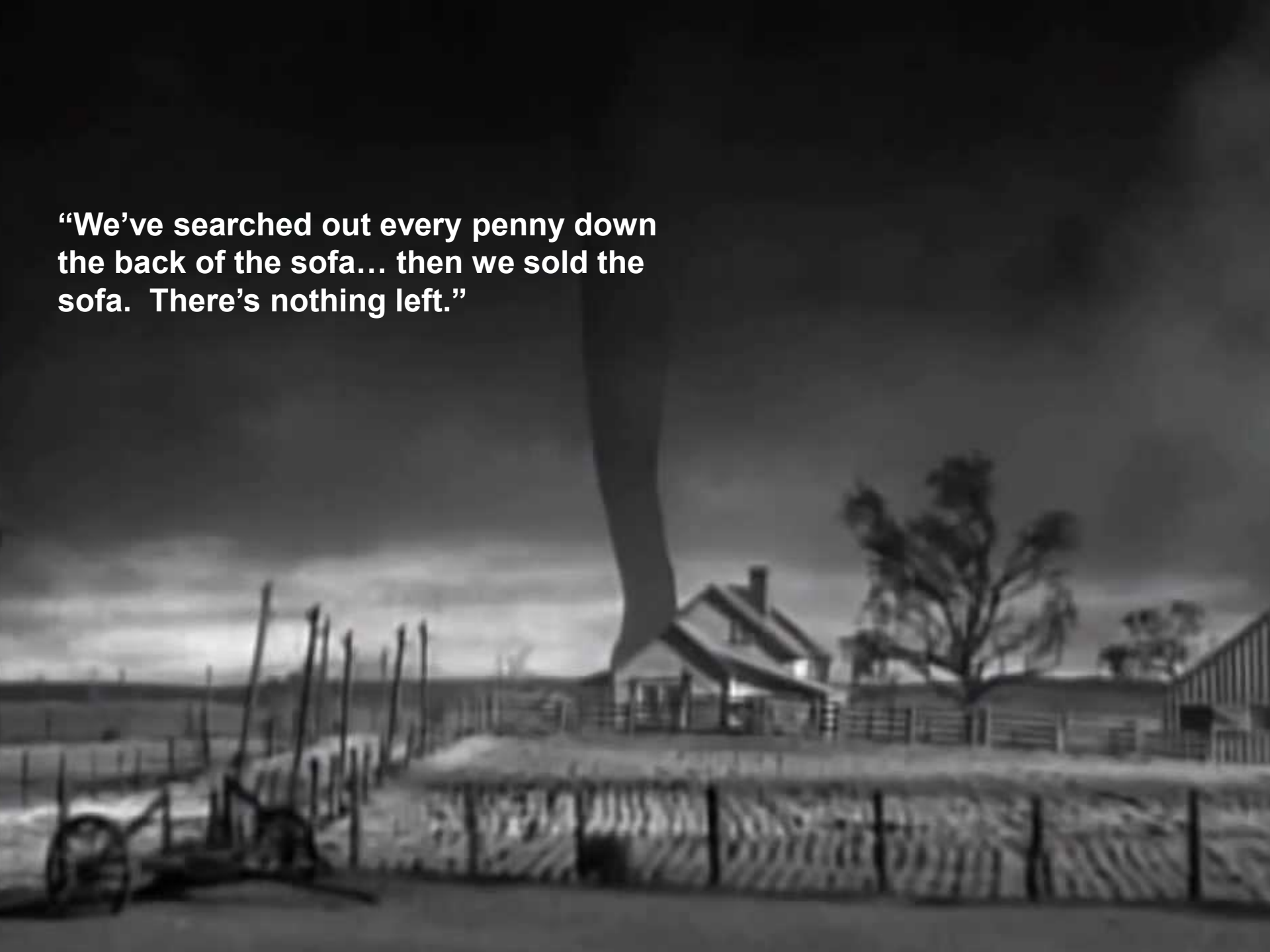


Austerity

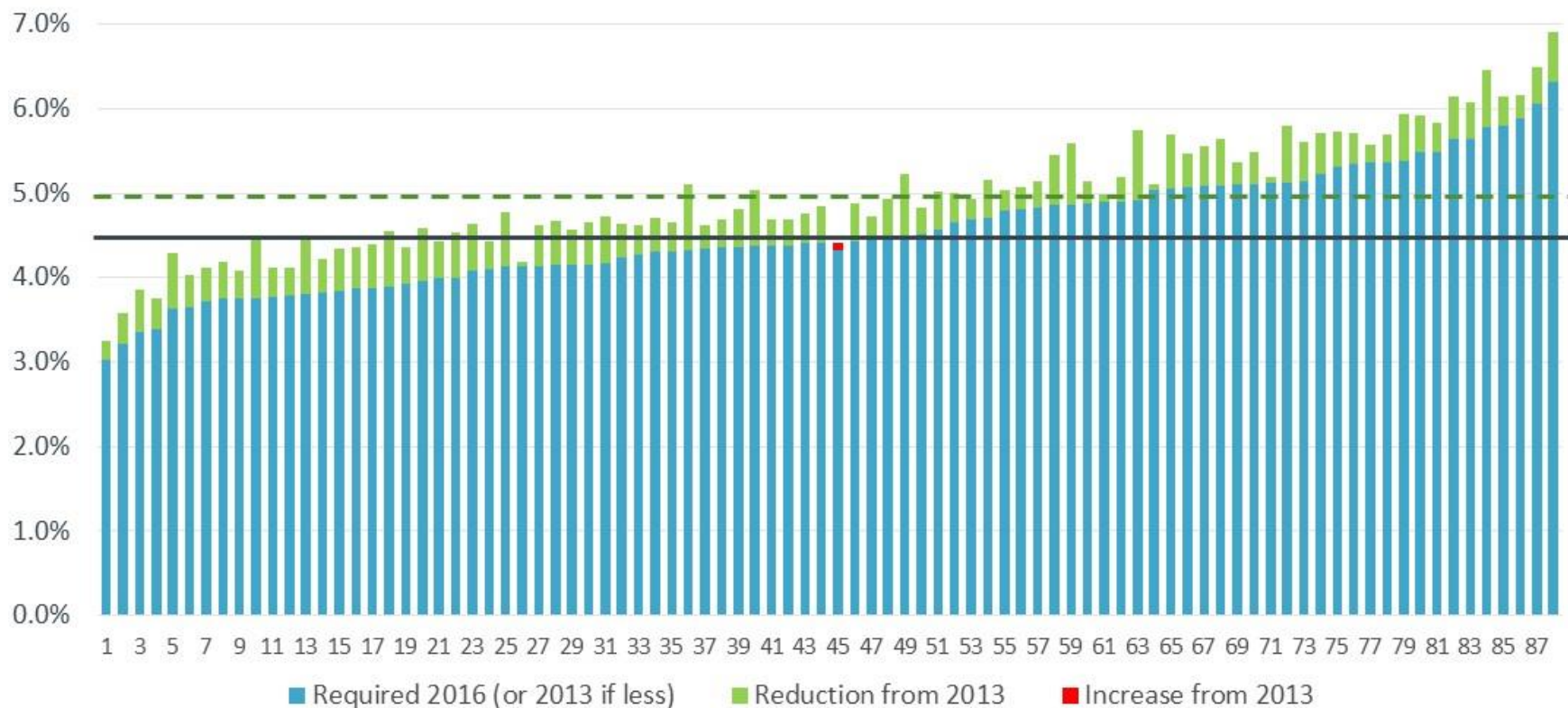
LPB

KPIs - Section 13 and SAB

**“We’ve searched out every penny down
the back of the sofa... then we sold the
sofa. There’s nothing left.”**



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%

LGPS Success Story

Reduced asset dependence

Holding more assets than before to meet future benefit payments



Future expectations for asset returns?

“Projected return forecasts for 2016 – 2026 have fallen for developed market government bonds, investment grade credit, high yield bonds and global equity markets”

Baillie Gifford, 2016

“Our 2016 assumptions anticipate a challenging investment environment as policy and economic conditions globally continue to diverge and many asset returns fall short of those achieved over the past 30 years.”

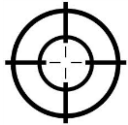
JP Morgan 2016

“Economic growth in the developed world since the Financial Crisis has been slower than at any comparable period except the Great Depression”

GMO, 2016

The outlook is for lower returns

Employer Funding Plans



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?

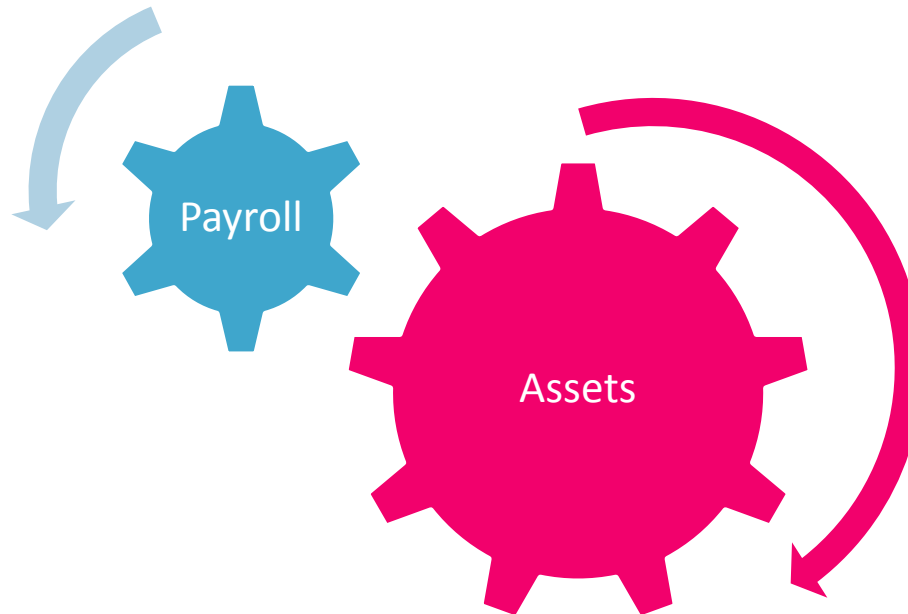


Councils	Academies	Colleges	"CABs"
Ongoing	Ongoing	Ongoing?	Cessation?
Long	Long/Med	Medium	Short
Low	Low	Medium	High

Different Beasts



Walrus or giraffe?



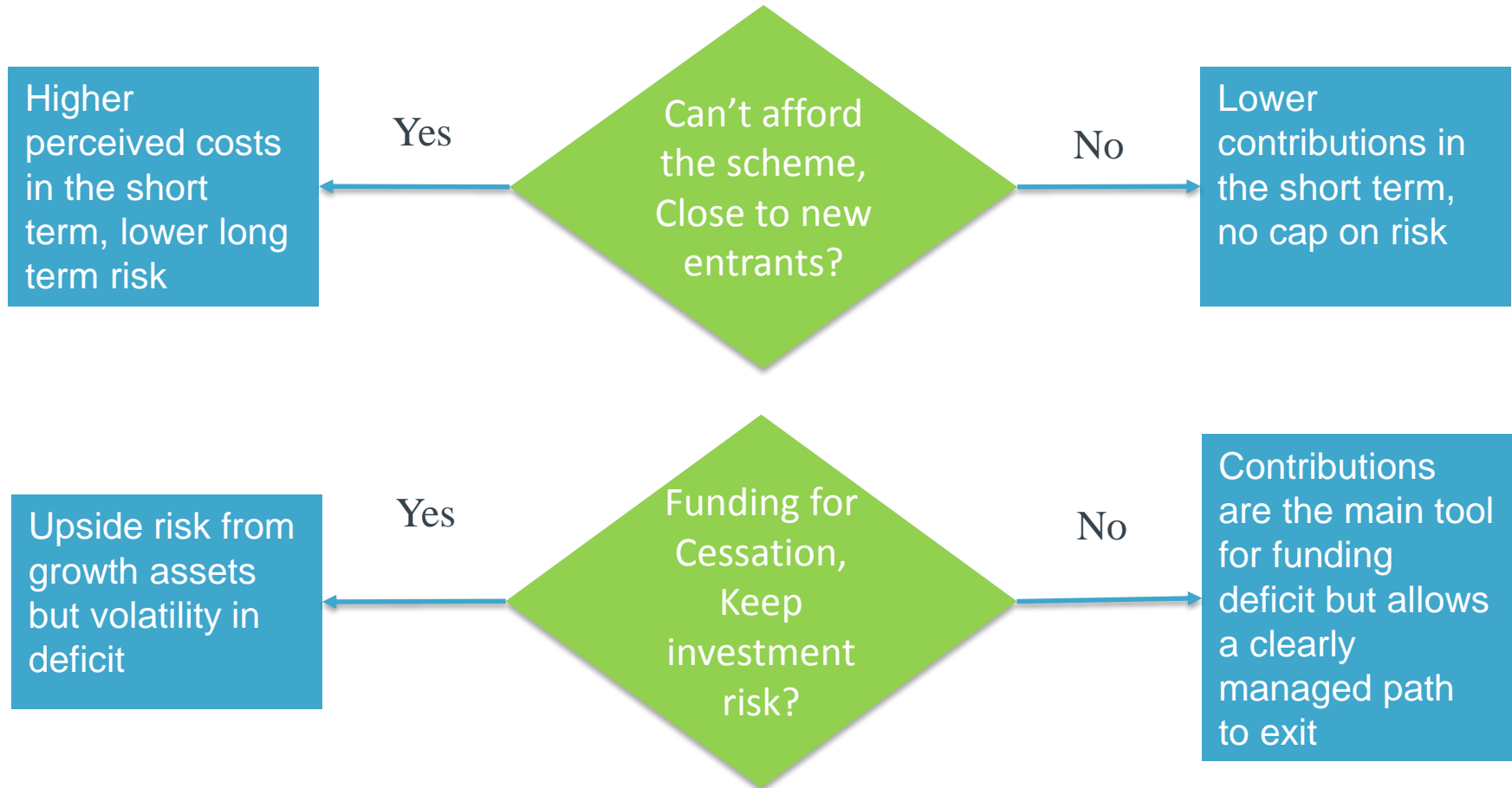
Typical LGPS fund:

- $\text{Payroll} \times 8 = \text{Assets}$

...but employers vary wildly

1% lower return = 8% of extra employer contributions

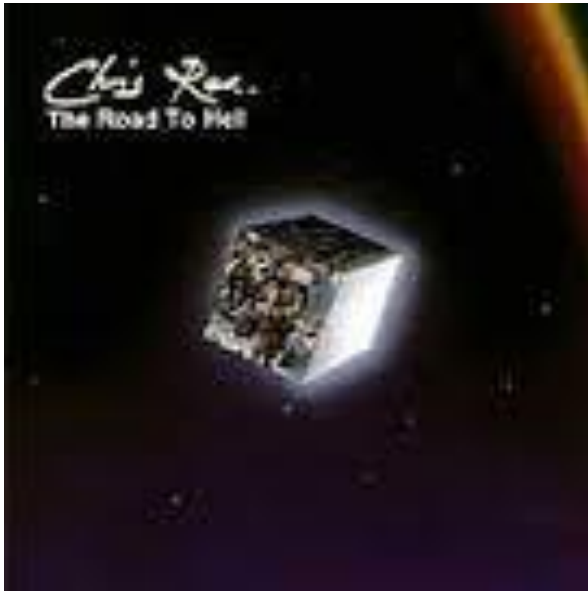
Hard decisions for employers



Summary

- Complexity is causing difficulties in the valuation process
- Asset returns are a positive story
 - LGPS Funds are holding more assets per £ of pension to be paid
- We need future investment returns to pay for the benefits
- Medium term expectations of asset returns are subdued
 - Time horizon and timing of returns can matter for funds/employers
- Employer funding plans
 - Some difficult decisions ahead
 - Optimise the balance between covenant, investment return and contributions

So where does this leave us.....




OR



Better futures aren't down to chance



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