

## Pension Committee Meeting



### Actuarial assumptions at 2016

- Richard Warden
- Fund Actuary
- 7 June 2016



## 2016 valuation – brief overview

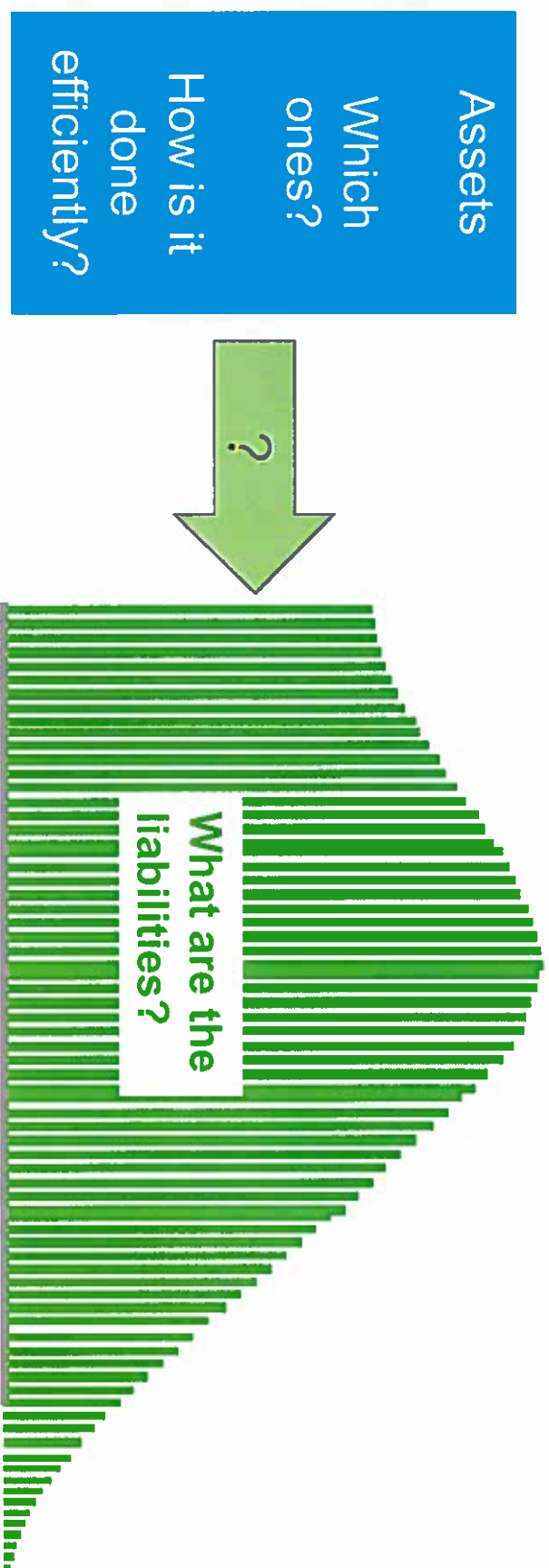
## Why do we do a valuation?

- Compliance with **legislation**
- Recommend **contribution rates**
  - Common rate
  - Individual employer rates
- Determine money needed to meet accrued liabilities
- Calculate solvency (“**funding level**”)
- Monitor experience vs. assumptions
- Manage risks to Fund and employers

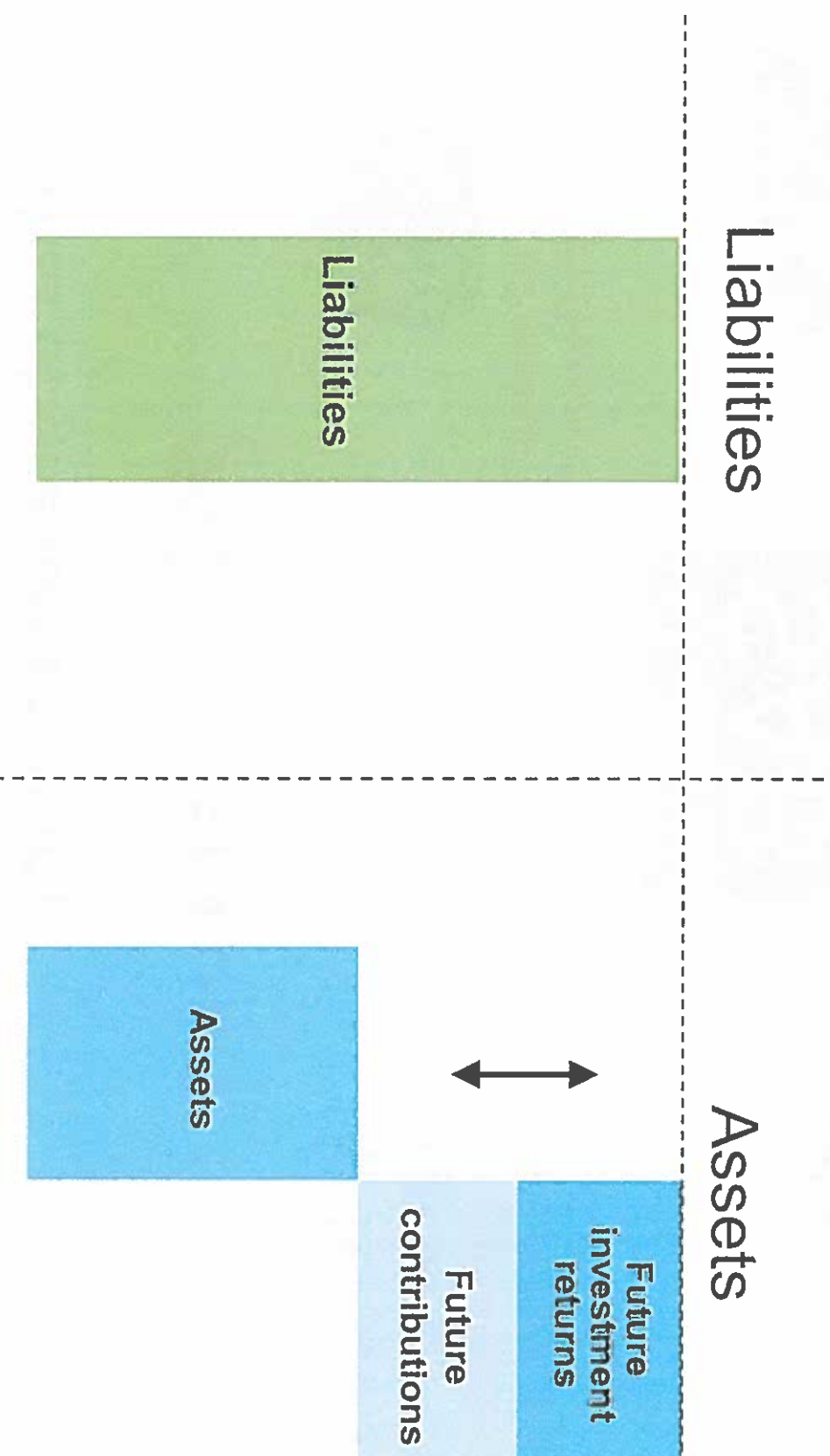
**Review the Funding Strategy Statement (FSS)**

## The Fund's ultimate objective

- How much money does the Fund need, and how should it be invested, in order to be able to meet the promised benefits?



# Achieving the objective



# Be mindful of greater scrutiny



HM TREASURY

The Pensions  
Regulator

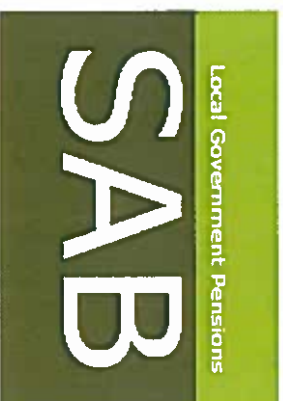
Governance and administration of  
public service pension schemes



Public Service Pensions  
(Record Keeping) Regulations



Local Pension Board



Scheme Advisory Board





## Setting assumptions at 2016

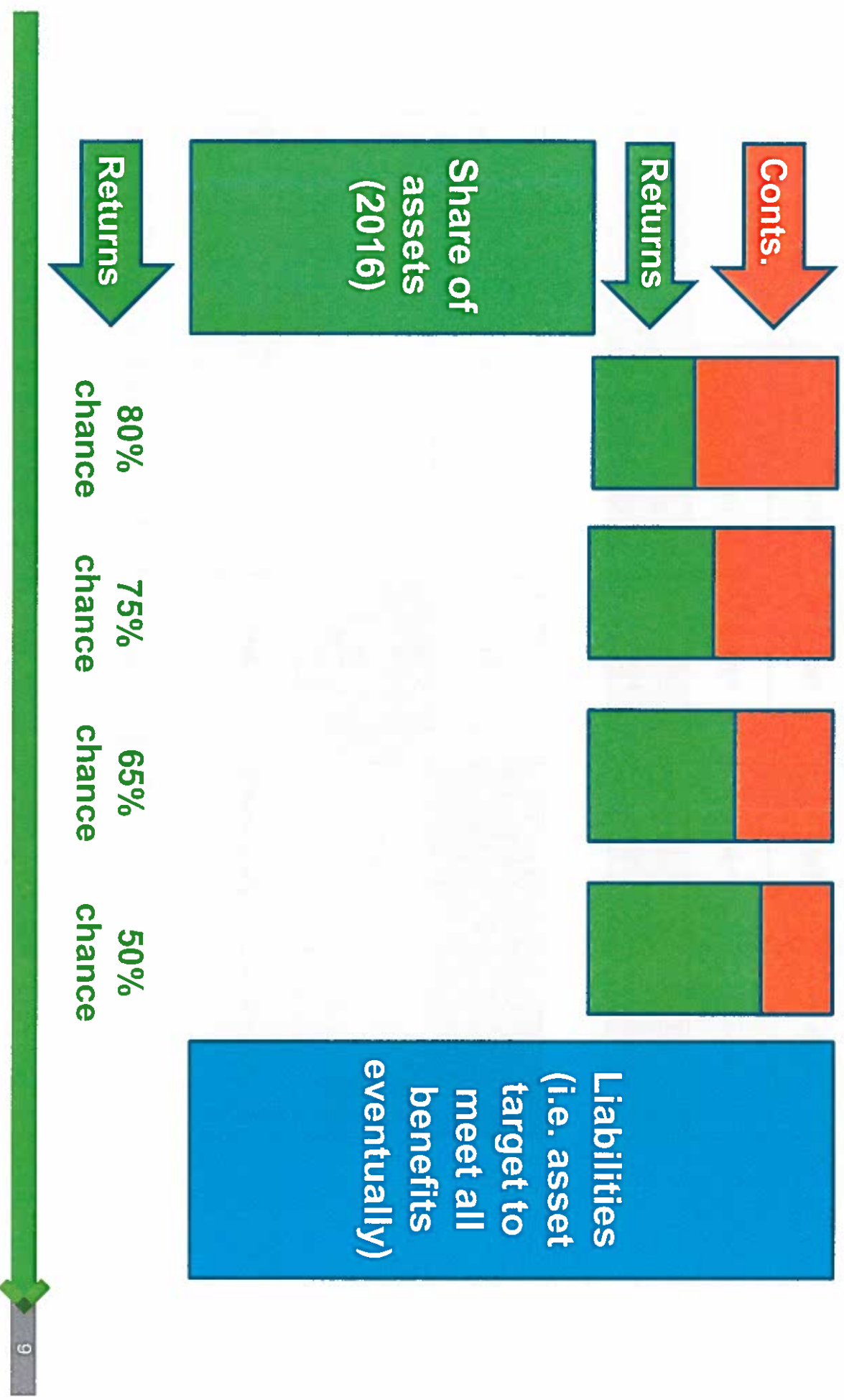
## Key liability assumptions

- Financial (size of benefits)
  - ✦ **Discount rate**
  - ✦ **Salary increases**
  - ✦ Pension increases
- Demographic (timing of benefits)
  - ✦ Longevity





# Setting a prudent discount rate



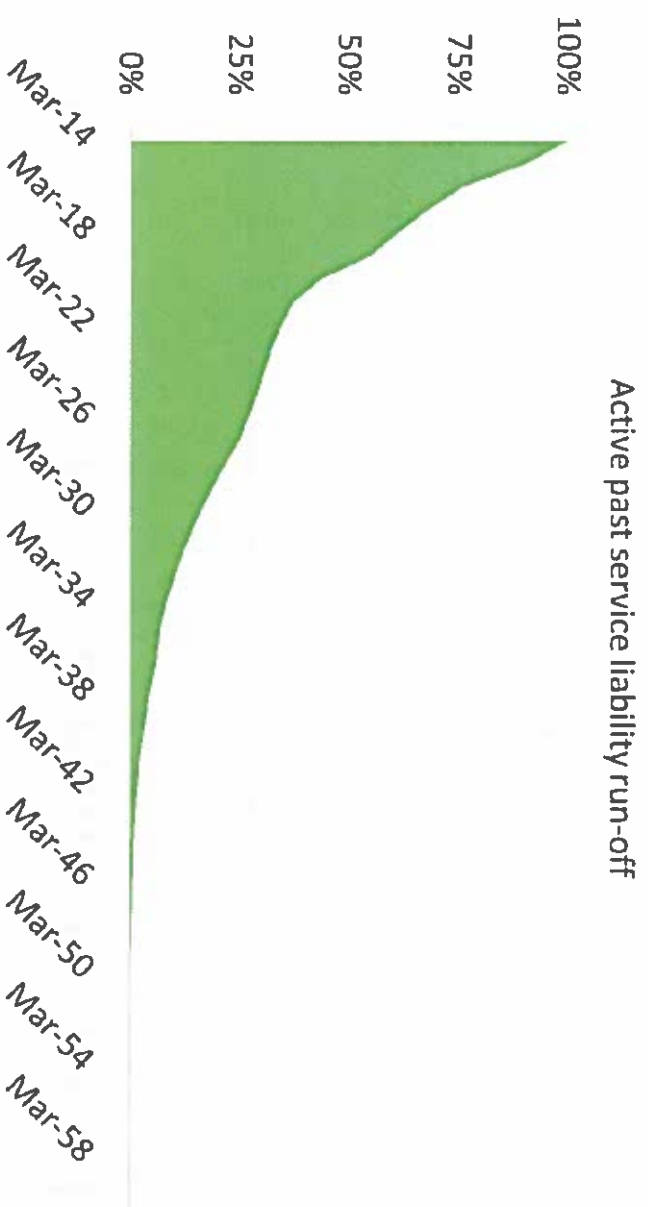
# Discount rate – results of analysis

Probability of success	Asset split (growth/matching)	Asset Outperformance Assumption (AOA)		
		1.8%	2.0%	2.2%
		Current (80/20)	71%	69%
Alternative (60/40)	68%	64%	61%	

Additional contributions required in the worst 10% of outcomes (% of pay p.a.)	Asset split (growth/matching)	Asset Outperformance Assumption (AOA)		
		1.8%	2.0%	2.2%
		Current (80/20)	16%	16%
Alternative (60/40)	13%	13%	13%	

## Setting the salary growth assumption

- Assumption can no longer be 'long-term' because:
  - Pay restraint (c. 1% increases) until 2020
  - Final-salary liabilities stopped accruing in 2014 – now running off



# Salary growth assumption – results of analysis

Pay growth (per annum)			
- Short term (to 31 March 2020)	1%	1%	1%
- Long term (from 1 April 2020)	CPI (2.2%)	RPI (3.2%)	RPI + 1% (4.2%)
Single equivalent 2016 valuation assumption			
- Nominal	1.9%	2.7%	3.3%
- Relative to CPI	CPI less 0.3%	CPI plus 0.5%	CPI plus 1.1%
Change to past service deficit*	- £50m to - £60m	- £10m to - £20m	£0m to + £10m
Change in funding level*	+ 4% to + 5%	+ 1% to + 2%	Negligible