

Pension Committee Meeting



Actuarial assumptions at 2016

- Richard Warden
- Fund Actuary
- 7 June 2016



2016 valuation – brief overview

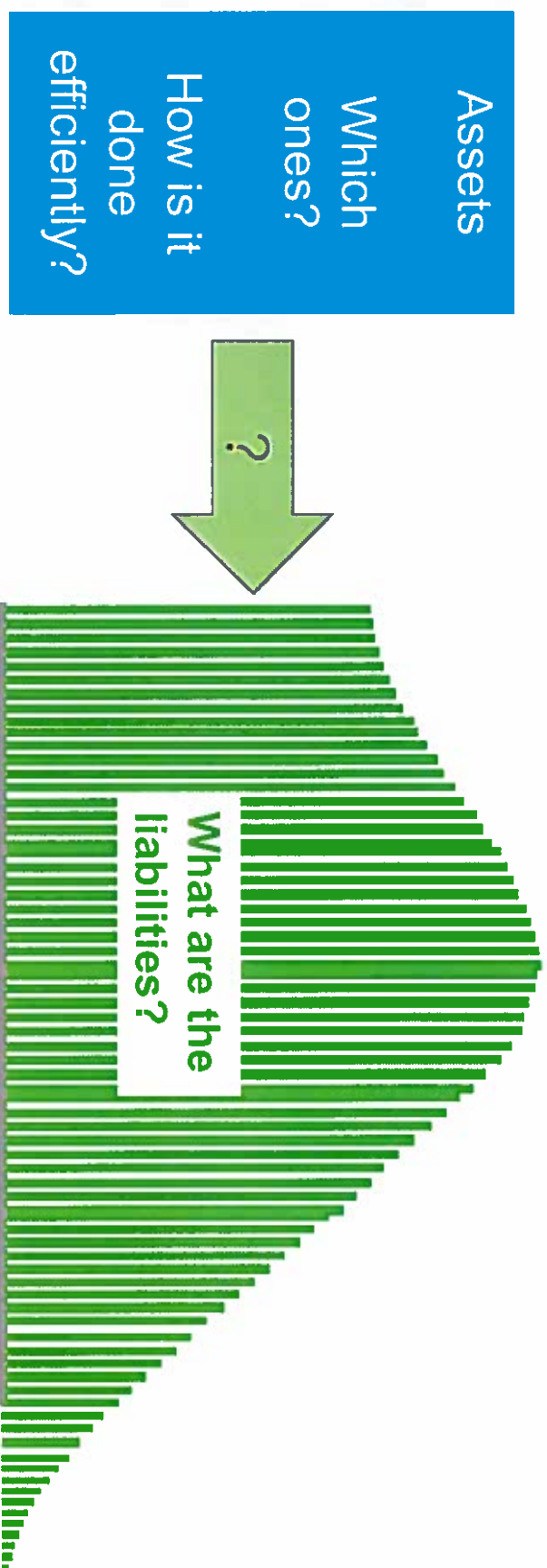
Why do we do a valuation?

- 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

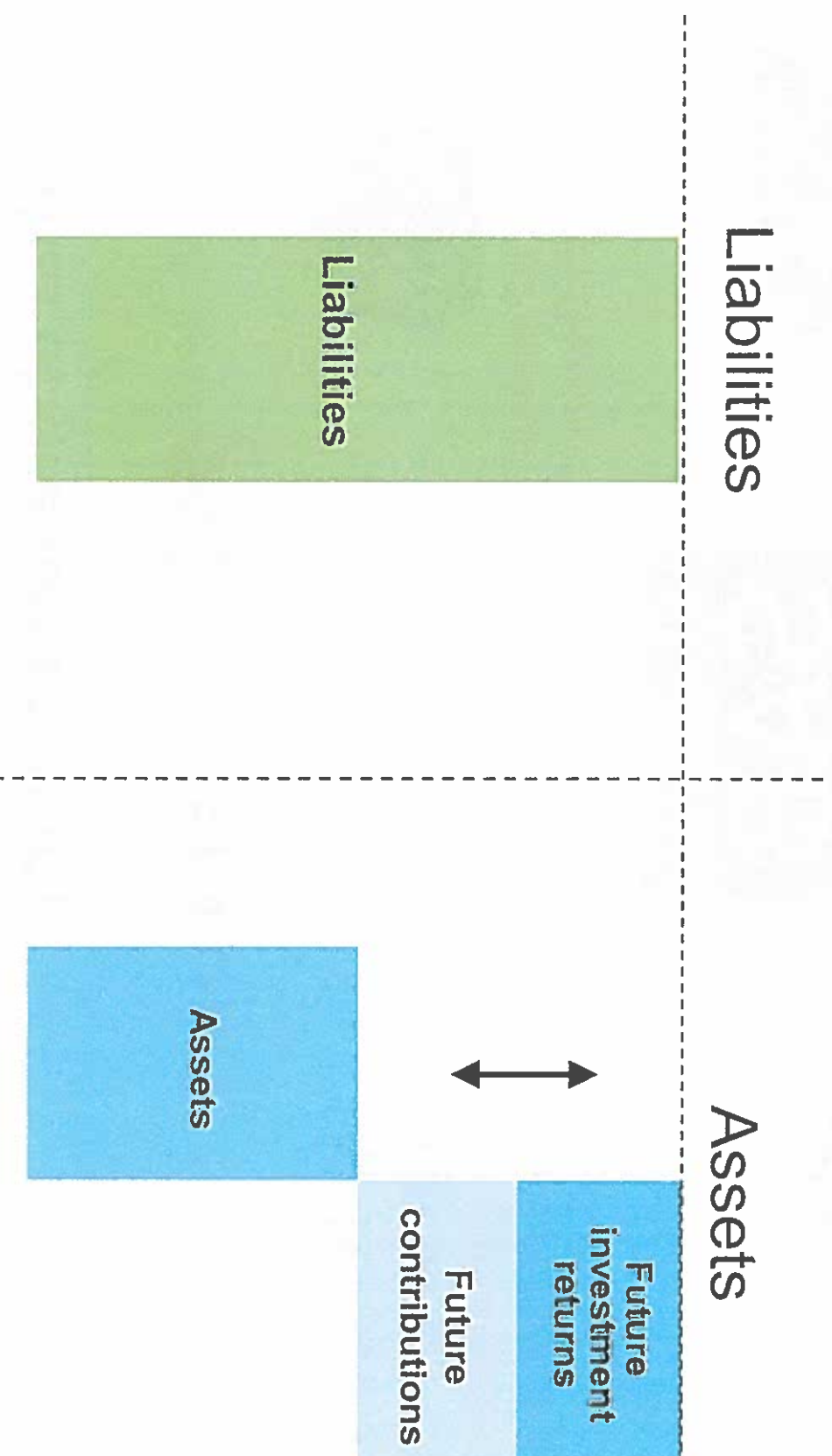
Review the Funding Strategy Statement (FSS)

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



Public Service Pensions
(Record Keeping) Regulations

The Pensions
Regulator
Governance and administration of
public service pension schemes



Local Pension Board



Scheme Advisory Board





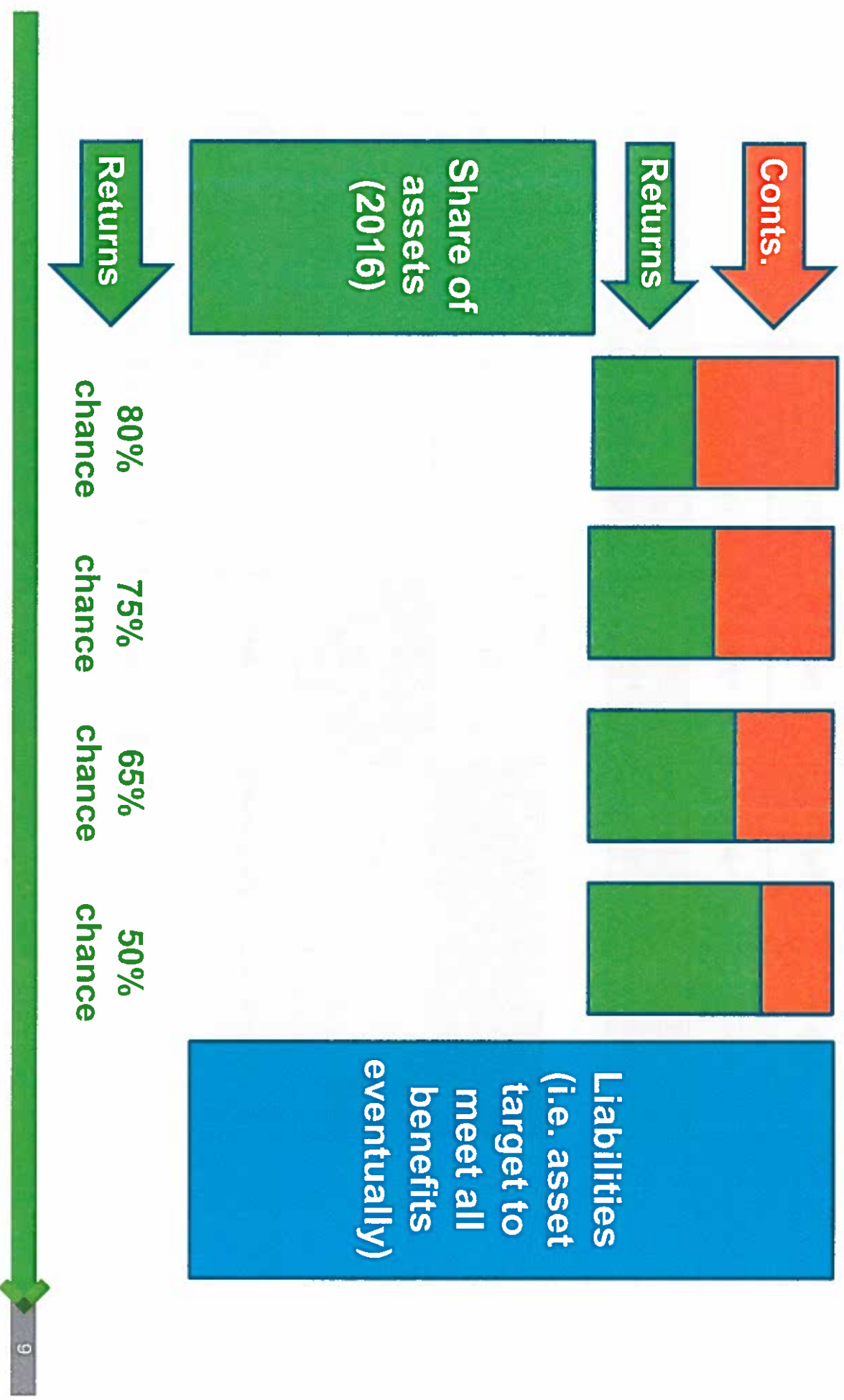
Setting assumptions at 2016

Key liability assumptions

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



Setting a prudent discount rate



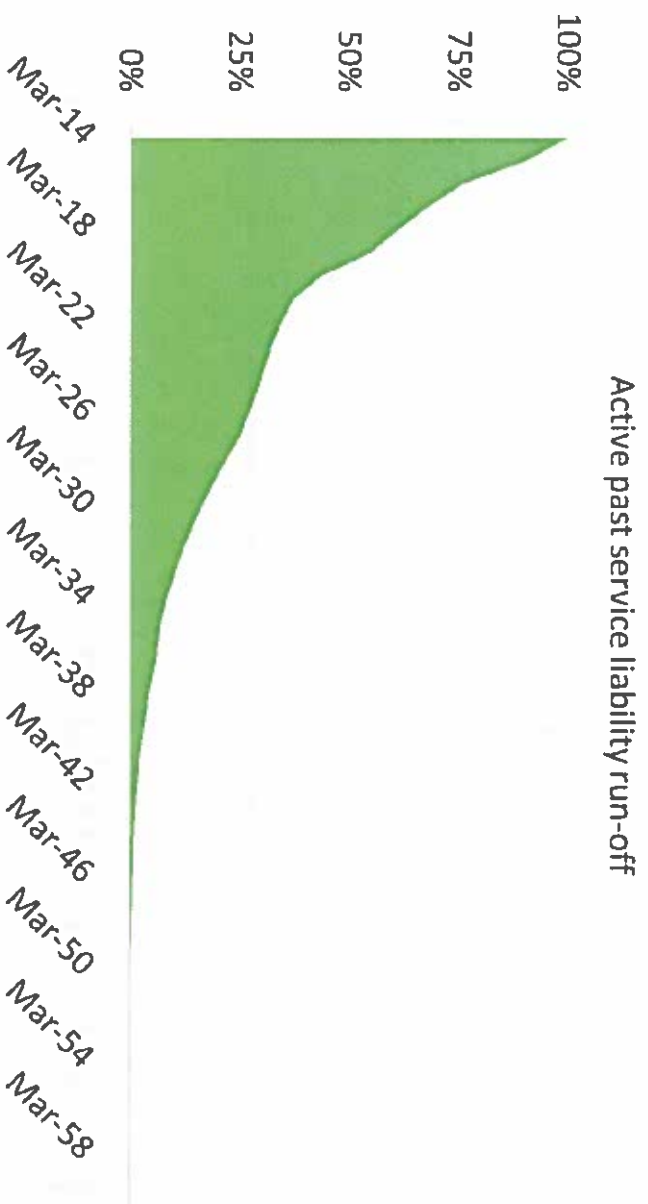
Discount rate – results of analysis

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) - Long term (from 1 April 2020)	1% CPI (2.2%)	1% RPI (3.2%)	1% RPI + 1% (4.2%)
Single equivalent 2016 valuation assumption - Nominal - Relative to CPI	1.9% CPI less 0.3%	2.7% CPI plus 0.5%	3.3% 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