

London Borough of Croydon Pension Fund

2016 Initial Valuation Results

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What are we going to cover?



Valuation basics



Initial valuation results



Employer
contribution rate
setting



Summary and
next steps

2016 valuation timeline

April 2016

Employer risk exercise –
questionnaire issued

September 2016

Initial results discussed with Fund

October 2016

Initial results to Committee

November 2016

Individual employer results calculated

February 2017

End of employer consultation
Final employer results and FSS
agreed

April 2016

Timetable agreed and key
assumptions discussed

July – September 2016

Data submitted and whole fund
calculations processed

December 2016

Employer results and funding strategies
agreed in principle

December 2016

Employer forum and surgeries

March 2017

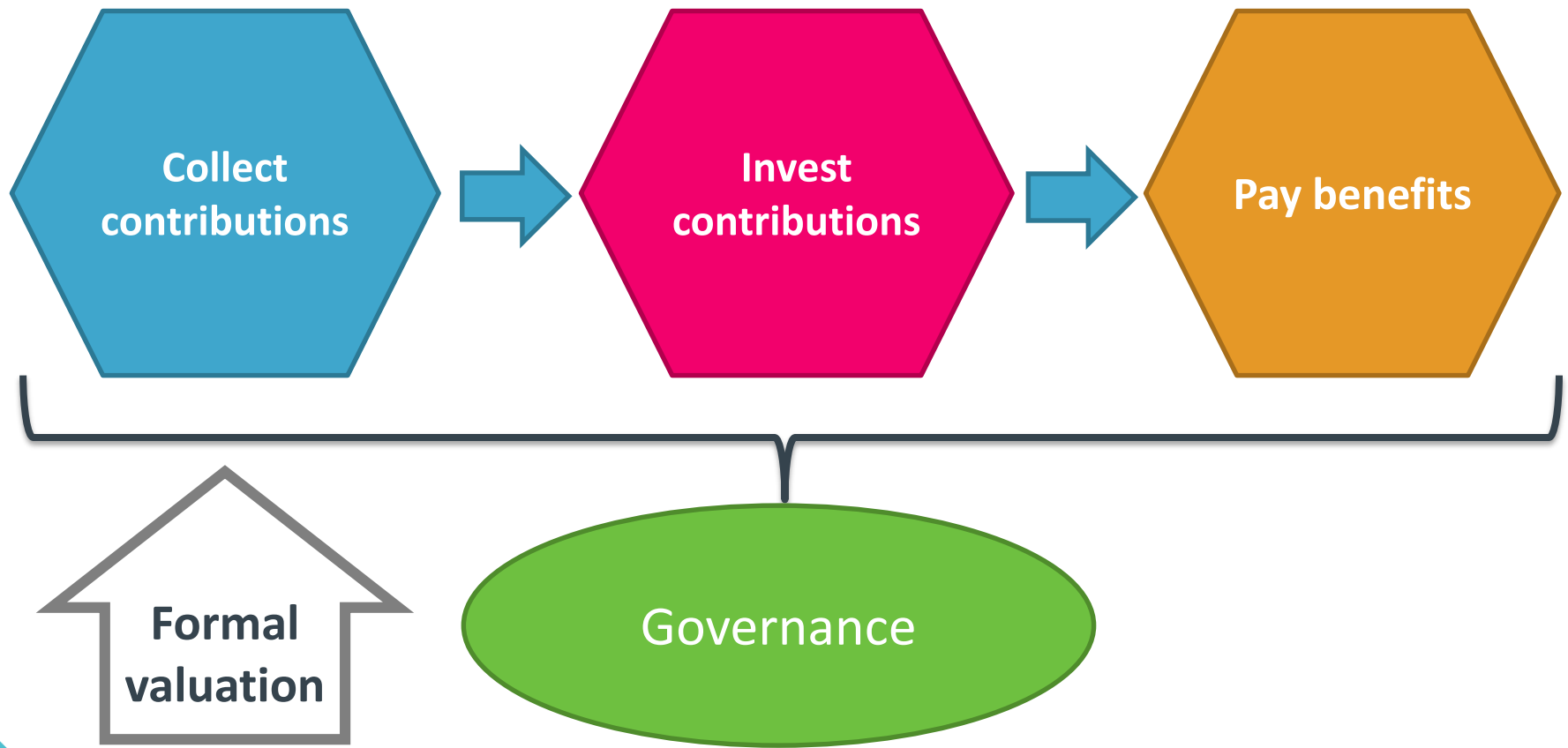
Final valuation report signed off by
31 March 2017



Valuation basics



How the Fund works



Why do we do a valuation?

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

Review the Funding Strategy Statement (FSS)

Roles in the valuation

- **Actuary**
 - Carry out the calculations and modelling
 - Recommend funding strategy e.g. contribution rates
- **Administering Authority**
 - Provide the data
 - Facilitate consultations (e.g. FSS, employer forums, etc)
- **Committee**
 - Agree funding strategy
 - Oversee governance of valuation process
- **Local Pension Board**
 - Ensure Fund (Committee and officers) is meeting responsibilities

Increased scrutiny



Public Service Pensions
(Record Keeping) Regulations



HM TREASURY

The Pensions Regulator

Governance and administration of
public service pension schemes



Local Pension Board



NEW
Scheme Advisory Board

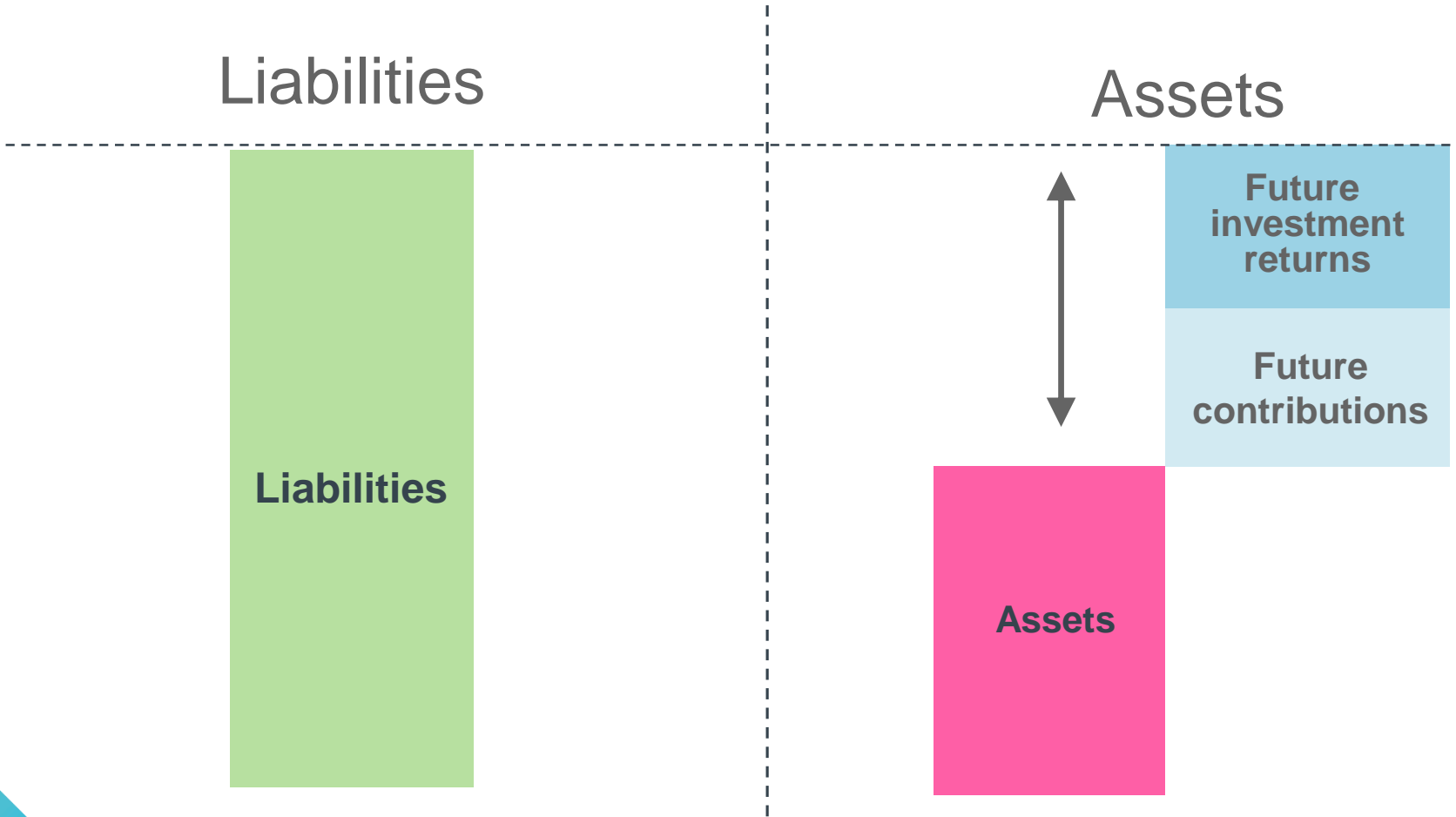


NEW
Pensions Act 2013
(section 13)

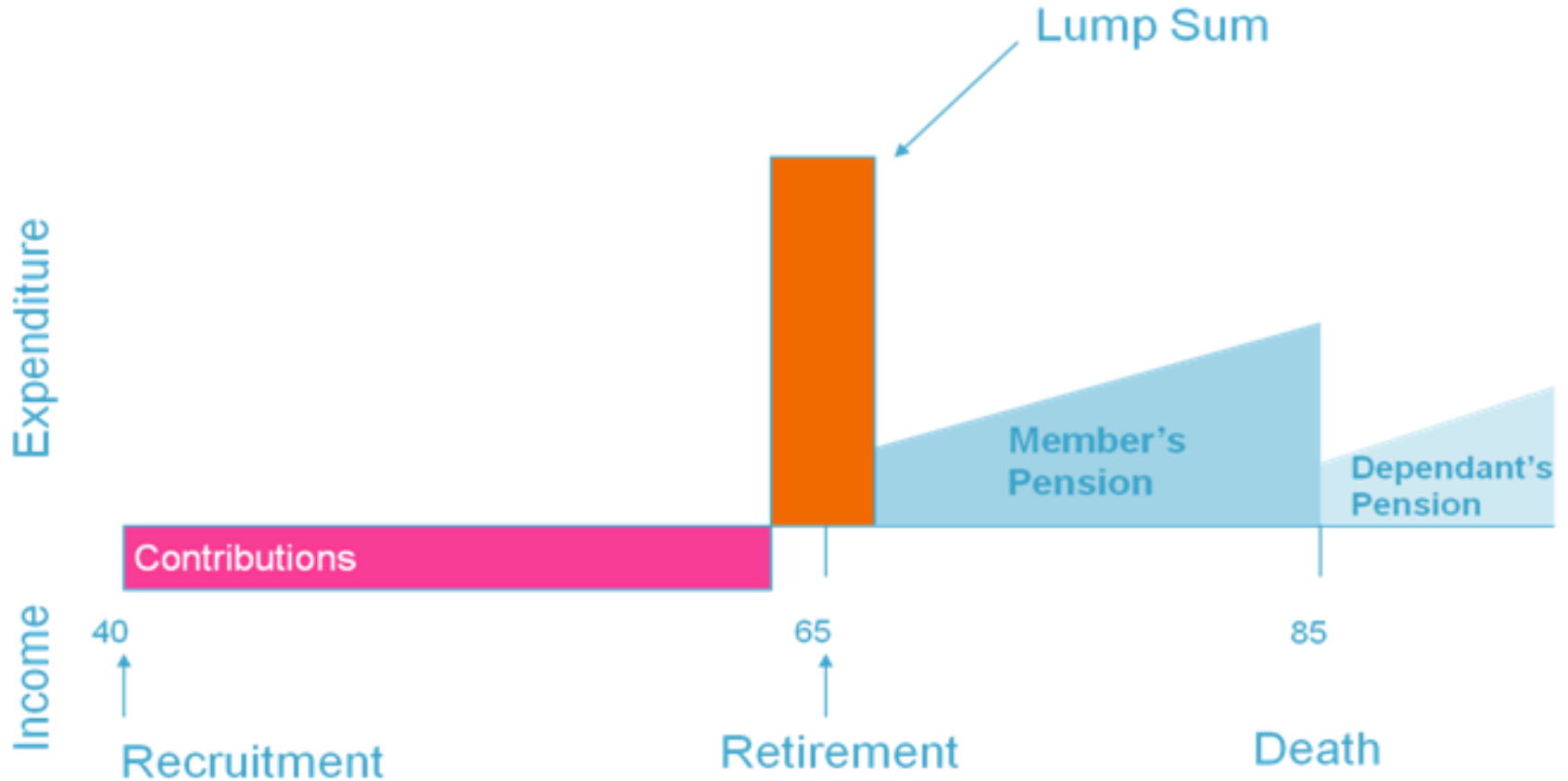
Liabilities and Key Assumptions



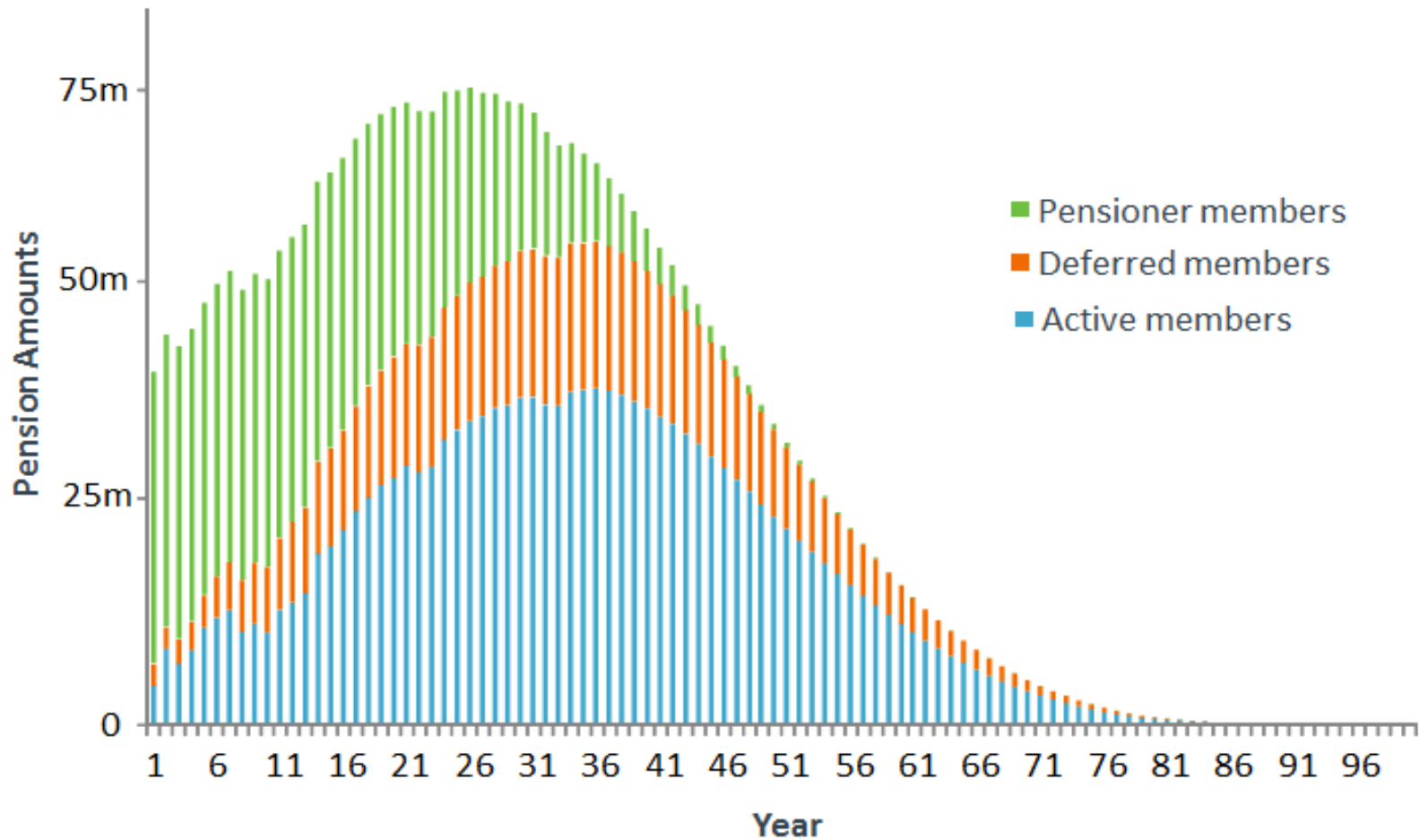
Achieving the right balance



Valuing the liabilities



Valuing all future benefit payments



Allowing for anticipated timing & size of benefits

Liability valuation - assumptions



Financial Assumptions

- Investment return
- Inflation
- Pay increases
- Pension increases

Consider:

- Economic outlook
- Actual Scheme assets
- Historical pay growth

Demographic Assumptions

- Life expectancy
- Retirement age and cause
- Early leavers

Consider:

- Population trends
- Members' social status
- Past Scheme experience

Valuation results

2016 key assumptions

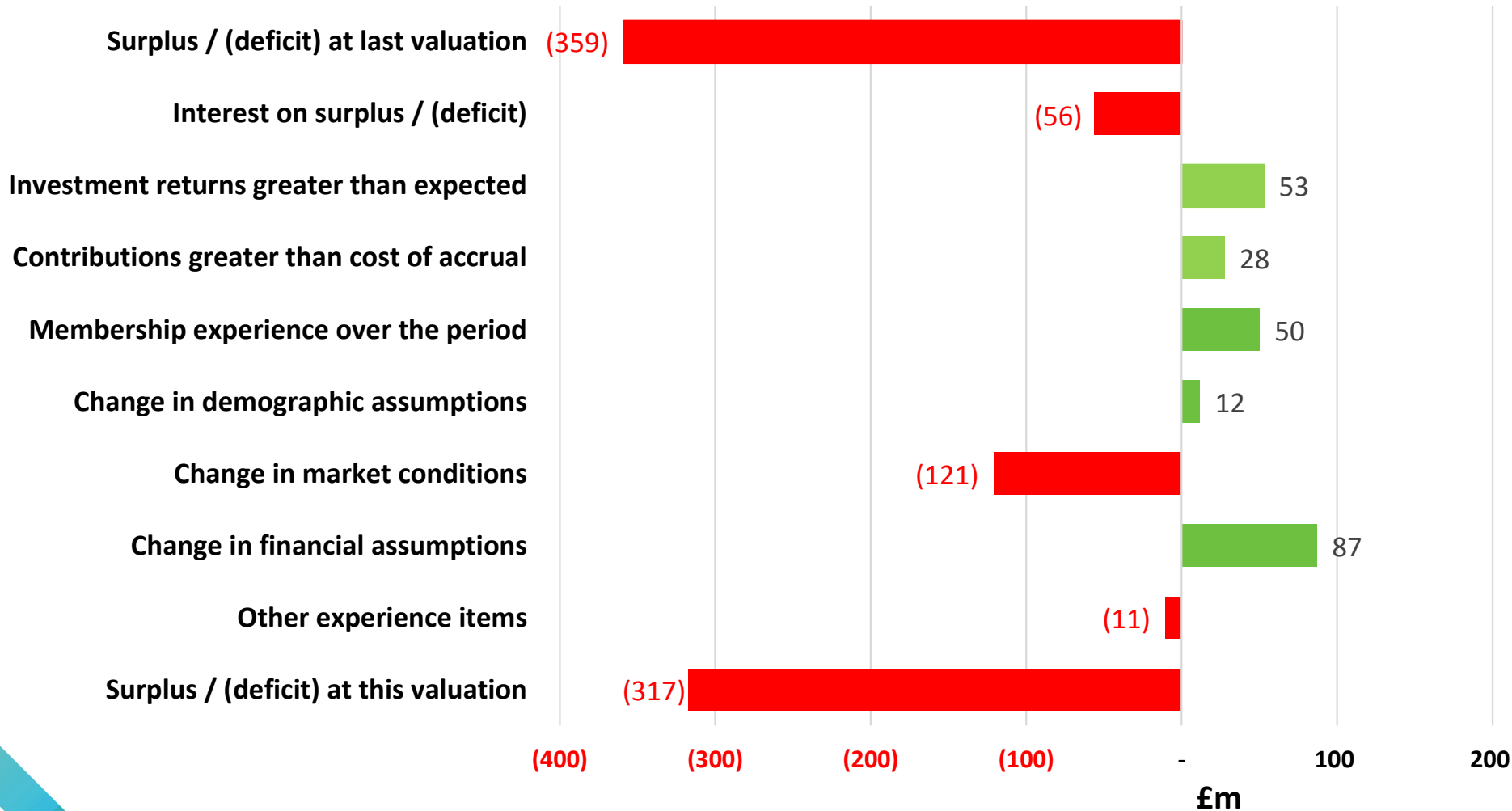
	2013 valuation	2016 valuation
Future investment returns	5.0%	4.4%
Long term <u>inflationary</u> pay growth	3.3%	2.6%*
Pension increases (CPI)	2.5%	2.1%
50:50 take up	10%	5%
Longevity	Bespoke fund analysis	Bespoke fund analysis

* Blended rate allowing for 1% pa to 2020 and RPI thereafter, and excluding promotional increases

Initial Whole fund valuation results

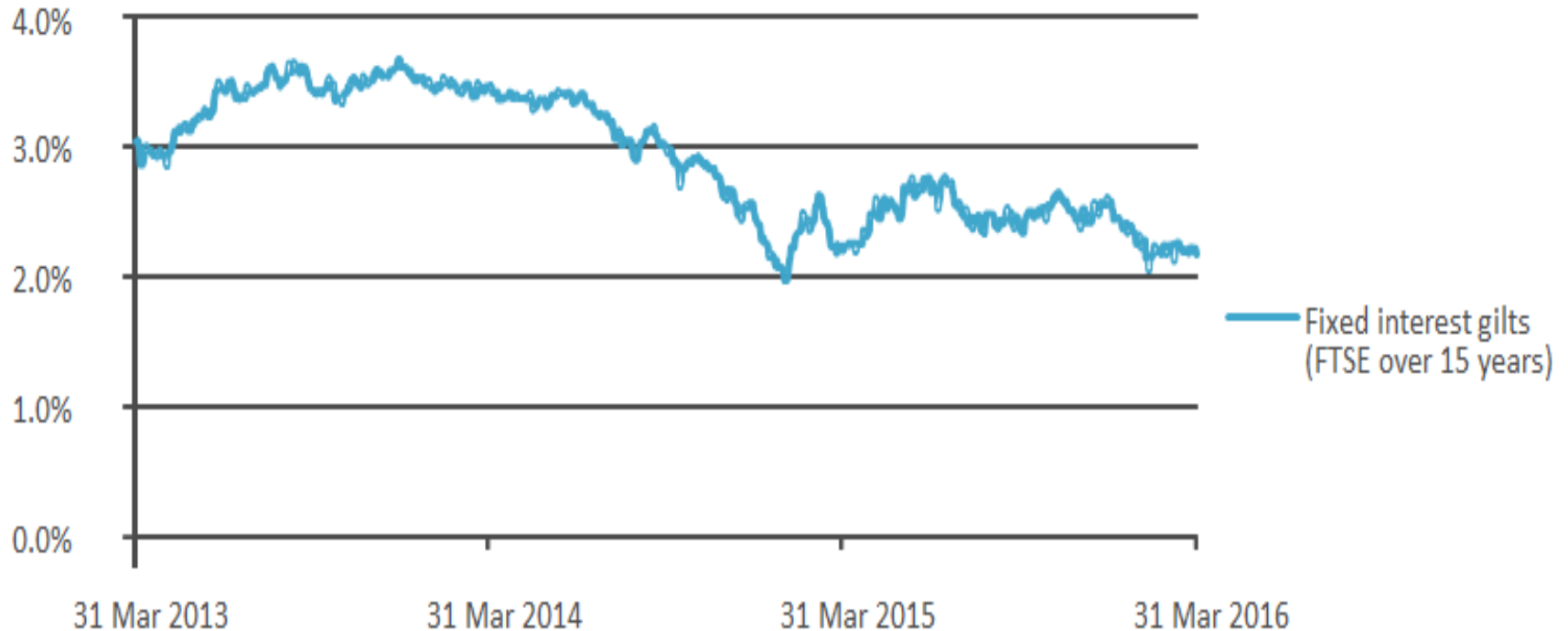
	31 March 2013 £	31 March 2016 £
Active	327m	339m
Deferred	233m	263m
Pensioner	504m	592m
Total liabilities	1,064m	1,193m
Assets	705m	876m
Deficit	(359m)	(317m)
Funding level	66%	73%

Why has the funding position changed?



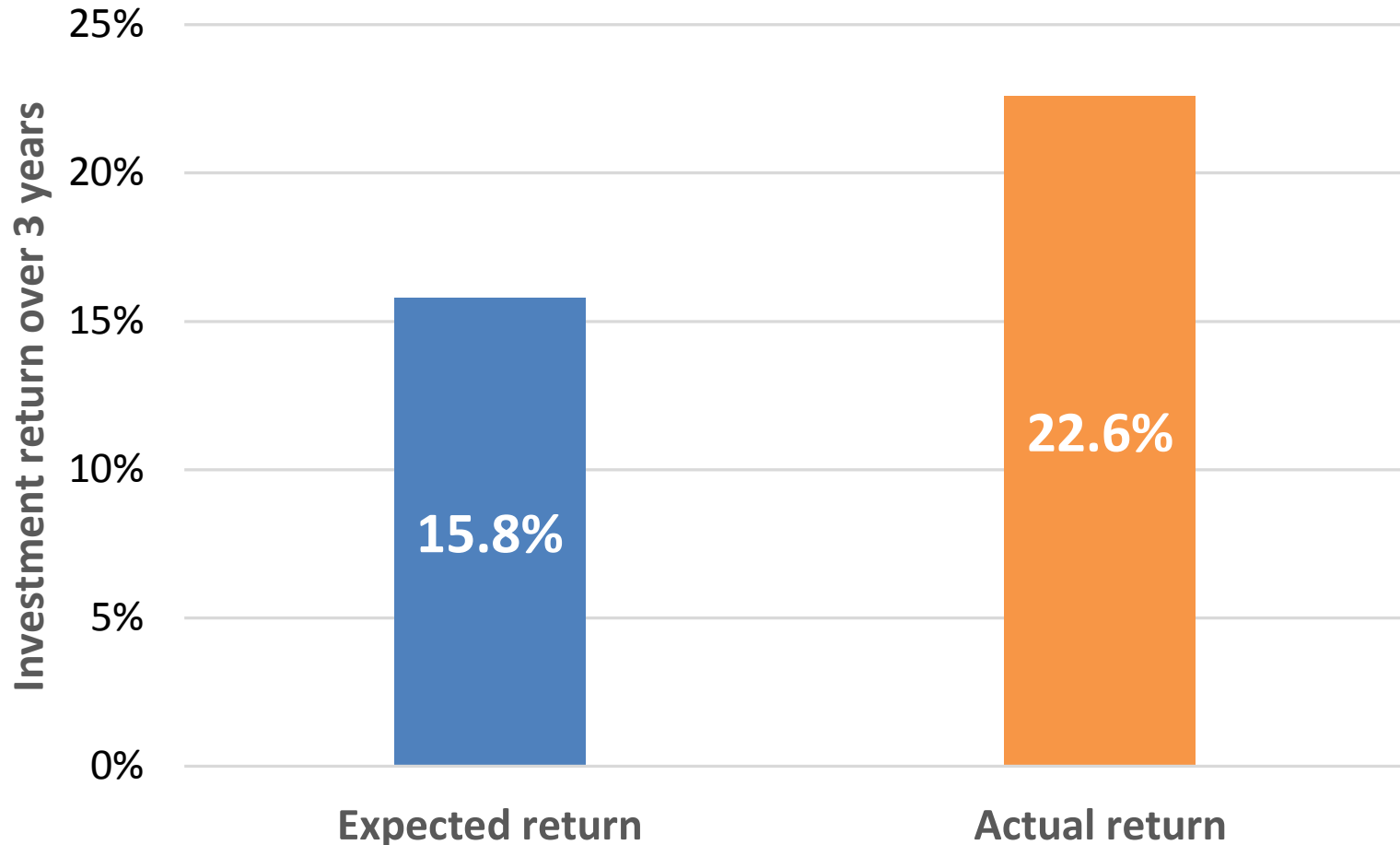
Change in market conditions

UK bond yields since 31 Mar 2013



Falling bond yields have increased liabilities...

Investment return vs expected



...but asset returns have been stronger than expected

Membership experience

- **Pay growth**
 - Lower than expected
 - Does vary across employers
- **Pension increases** (pension increase orders)
 - Expected 2.5% p.a.
 - Actual 2.7%, 1.2%, 0.0%
- **Movements**
 - Fewer ill health retirements than expected
 - Fewer early leavers than expected
 - Fewer pensioner deaths than expected
- **50:50 take-up**
 - Lower than expected

Details, not the headlines

Whole fund valuation results – SAB basis

	31 March 2016 (HMT basis)
Total liabilities	£1,079m
Assets	£876m
Deficit	(£203m)
Funding level	81%

Reminder - Funding basis required to be prudent by Regs

....**GAD have noted HMT basis isn't suitable for funding purposes**

Contribution rates

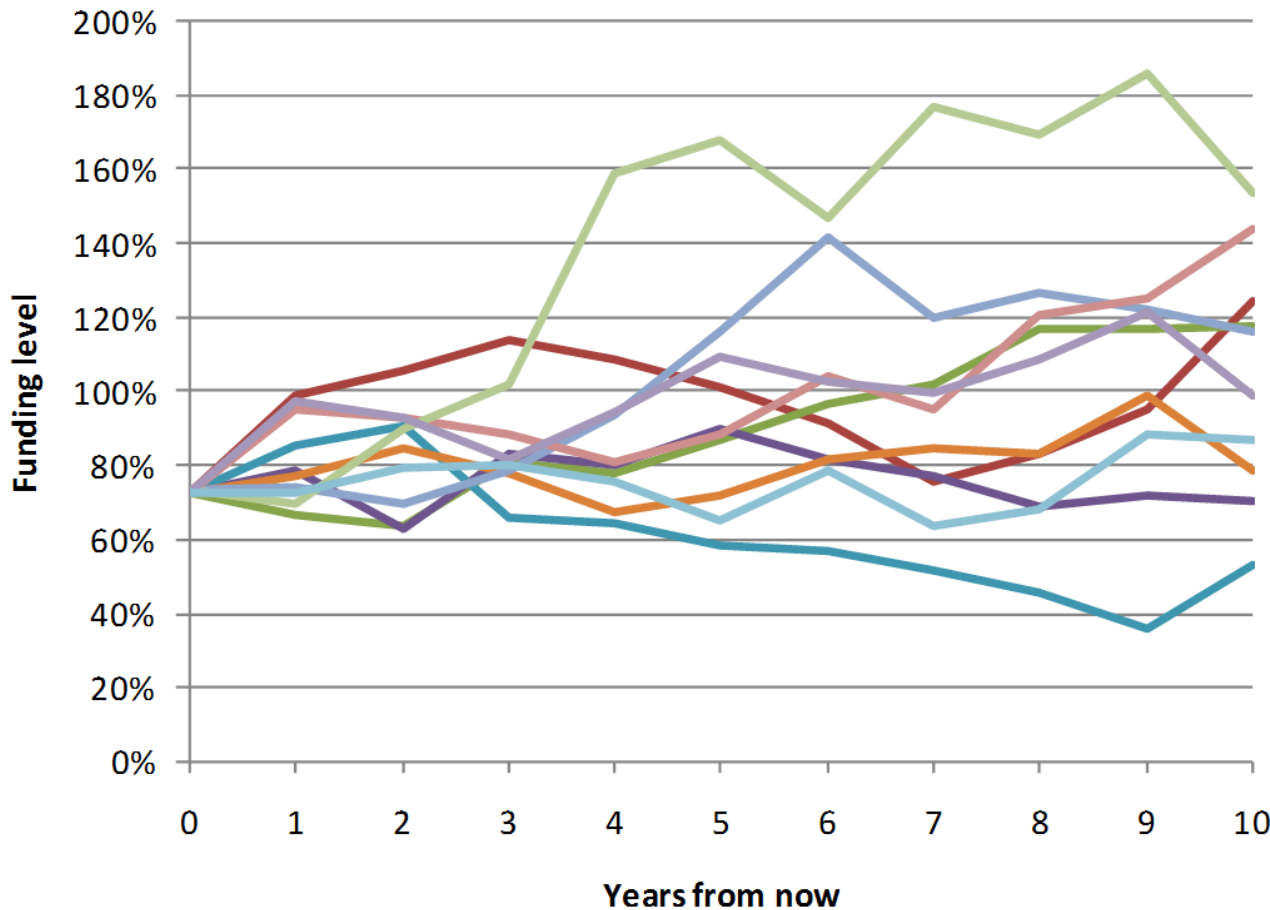
Not all employers are the same



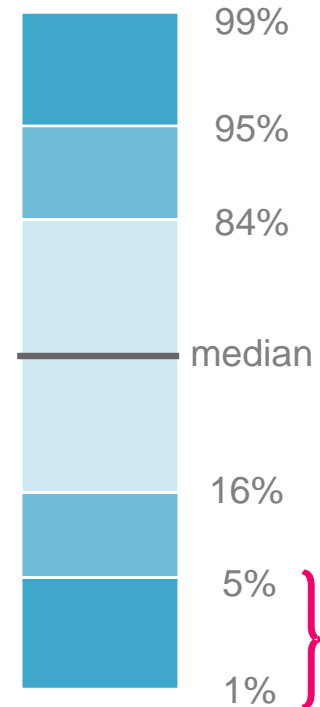
Councils, Academies	Long term Statutory guarantee Tax-raising
Other statutory (e.g. Colleges)	Medium term? No statutory guarantee No tax-raising powers
Admitted Bodies (e.g. contractors, housing associations, charities)	Short term to cessation? No guarantor or statutory status? Financial strength? (variable over time) Heading for (prudent basis) cessation?

**Employer risk profiling exercise is helping us
better understand employers**

Setting contribution rates: Croydon Council



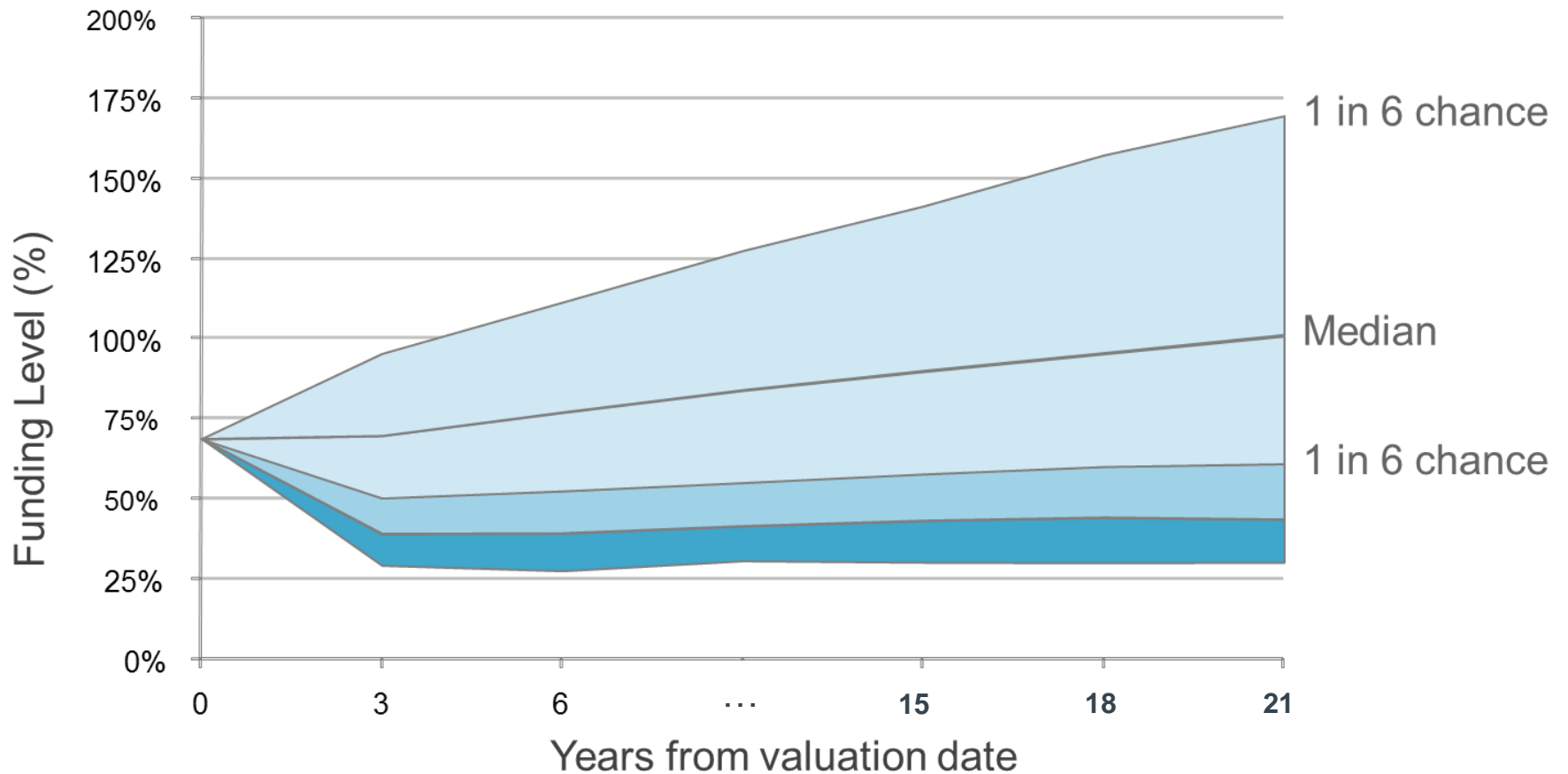
Best outcomes



Worst outcomes

Assess the likelihood of different outcomes

5,000 scenarios gives a distribution of outcomes



Measure probability of meeting funding objective

25

Source: Hymans Robertson LLP, comPASS, sample fund

HYMANS  ROBERTSON

Council contribution strategy

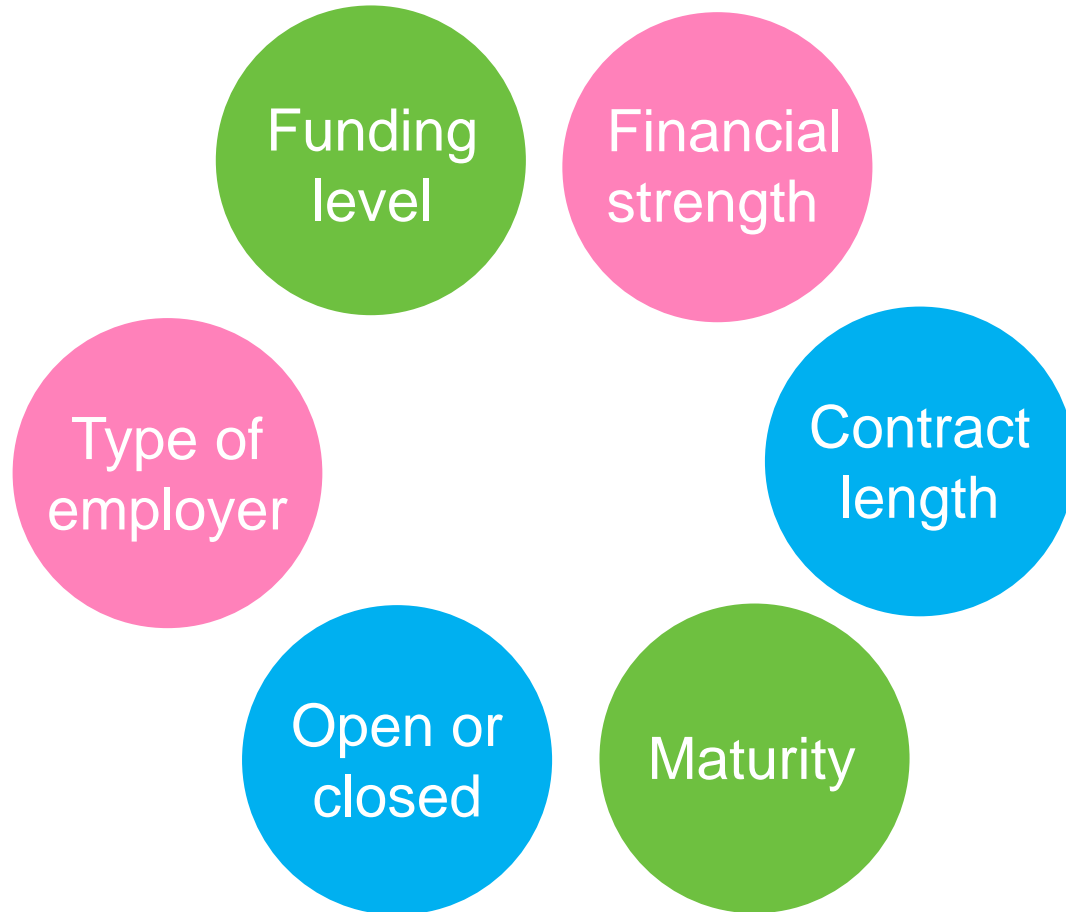
Recommended contribution strategy

Current	2017/18	2018/19	2019/20	Thereafter
25.2%	25.2%	25.2%	26.2%	+1% / 0% p.a. (capped at 30%)

Results of testing contribution strategy

Long term likelihood of meeting funding target in 2037	Average of the worst 5% of funding levels in 2037
73%	46%

Other fund employers



Recognising all employers are different....

Setting employer contribution rates

Understand each employer

What is their funding target?

How long to get to their target?

How much risk is acceptable?

Contribution rate changes depend on answers to above

Next steps and summary



Next steps

- **6th December Committee** – draft Funding Strategy Statement (FSS) and employer results
- Employer forum/surgeries in December
- **7th March Committee** - Agree final employer results and FSS
- Finalise valuation report and contributions by 31 March 2017

Summary

- Since 2013 valuation, whole fund funding level increased and deficit reduced
- Increased scrutiny on valuation results and decision making process at 2016 valuation
- Proposal that Council contributions are frozen for 2017/18 and 2018/19 then increased by 1% in 2019/20
- Risk based approach being implemented for other employer contribution rates
- Contribution rate changes for these employers will depend on individual circumstances

Thank you



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 - TAS D – Data;
 - TAS M – Modelling; and
 - Pensions TAS.

* Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council and set standards for certain items of actuarial work, including the information and advice contained here.

Appendix



2016 progress report

Event	Timescale	Progress
Pre-valuation meeting and agreeing timetable	Feb 2016	
Assumptions discussed with officers	May 2016	
Data received	Sep 2016	
Whole fund results issued to officers	6 Sep 2016	
Submission of results to Scheme Advisory Board	30 Sep 2016	
Contribution strategies tested using ALM	Sept 2016	
Initial Whole fund results to Pensions Committee	18 Oct 2016	
Employer results discussed with officers	Nov 2016	
Funding strategy agreed with Pensions Committee	Dec 2016	
Employer result forum and surgeries	Dec 2016	
Final employer results and Funding Strategy Statement agreed	Feb/Mar 2017	
Sign off valuation report and R&A	31 Mar 2017	

Results are sensitive to assumptions about the future

Financial assumptions

		Benefit Increases			
Discount Rates		1.9%	2.1%	2.3%	
	4.6%	(251)	(284)	(318)	(Deficit)
		78%	76%	73%	Funding Level
	4.4%	(283)	(317)	(352)	(Deficit)
	76%	73%	71%	Funding Level	
4.2%	(317)	(352)	(388)	(Deficit)	
	73%	71%	69%	Funding Level	

Demographic assumptions

	Peaked improvements	Non-peaked improvements
(Deficit)	(317)	(344)
Funding Level	73%	72%

Key assumptions for funding target

	2013 valuation	2016 valuation	Derivation of assumption
Discount rate (assumed future investment return)	5.0%	4.4%	Change in approach: Gilts plus prudent asset out-performance assumption (AOA) At 2013: AOA = 2.0% p.a. At 2016: AOA = 2.2% p.a.
Long term pay growth	3.3%	2.6%	Change in approach: At 2013: RPI% At 2016: equivalent of RPI - 0.5%
Pension increases (CPI)	2.5%	2.1%	Change in approach: At 2013: CPI = RPI - 0.8% At 2016: CPI = RPI - 1.0%
50:50 take up	10%	5%	Lower than anticipated take up
Longevity	Bespoke fund analysis, peaked improvements, CMI 2010 model for future improvements	CMI 2013 for future improvements	2013 to remove volatility experienced in last two years

Contribution strategies tested

Scenario	2016/17	2017/18	2018/19	2019/20	Thereafter*
Fixed	25.2%	25.2%	25.2%	25.2%	25.2%
Status Quo (+/- 1% p.a)	25.2%	26.2%	27.2%	28.2%	+1% / -1% p.a.
Status Quo (with 1 year freeze)	25.2%	25.2%	26.2%	27.2%	+1% / -1% p.a.
Narrower parameters (+/- 0.5% p.a.)	25.2%	25.7%	26.2%	26.7%	+0.5% / -0.5% p.a.
Freeze for year 1 and 2, 1% increase in year 3, +1/-0% thereafter	25.2%	25.2%	25.2%	26.2%	+1% / -0% p.a.
Freeze in year 1 then 0.5% increase in years 2 & 3, +0.5/-0% thereafter	25.2%	25.2%	25.7%	26.2%	+0.5% / -0% p.a.
Freeze in year 1 then 0.5% increase in years 2 & 3, +1.0/-0% thereafter	25.2%	25.2%	25.7%	26.2%	+1% / -0% p.a.

(NB contribution figures include expenses of 1.1%)