2019 valuation Employers' forum

Lincolnshire Pension Fund

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November 2019

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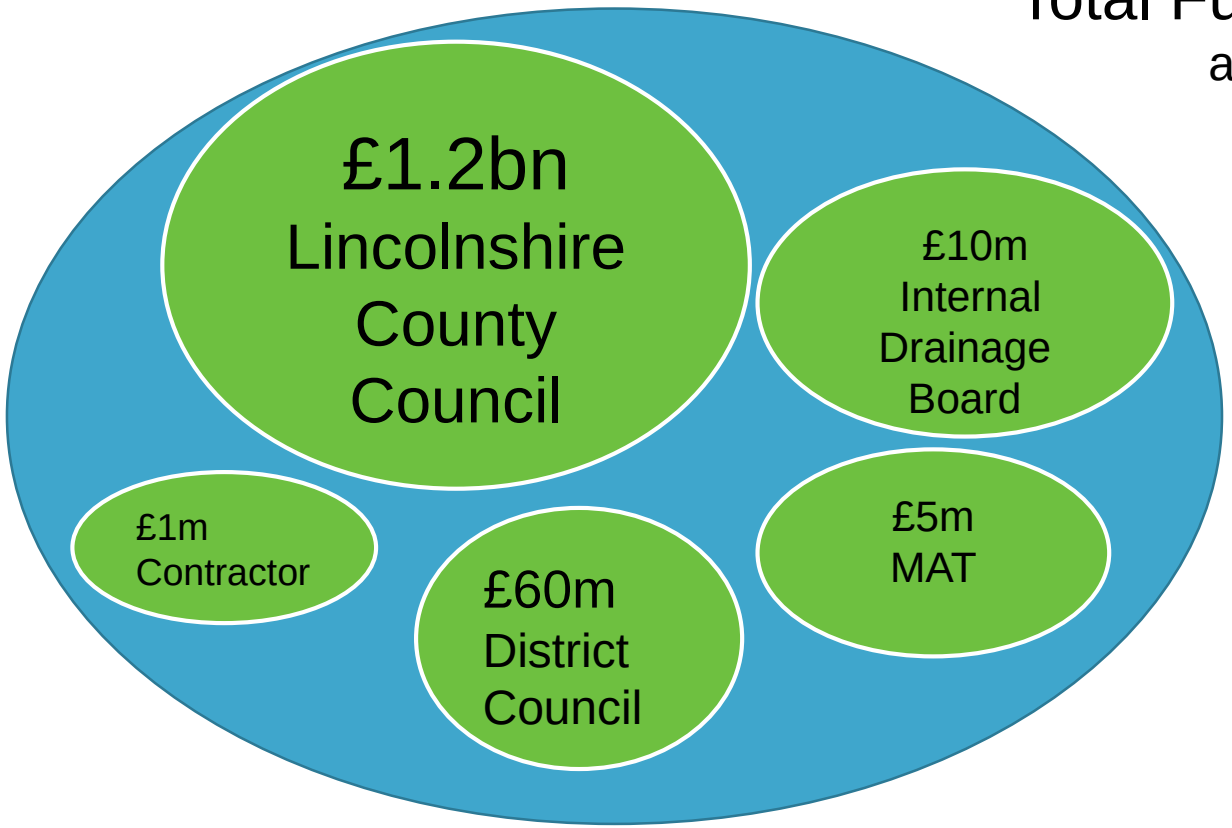
What are we going to cover?

1. Understanding your Fund
2. Funding valuations
3. Longevity
4. Employer funding strategy
5. Valuation results
6. McCloud and GMP
7. Accounting

Understanding your Fund

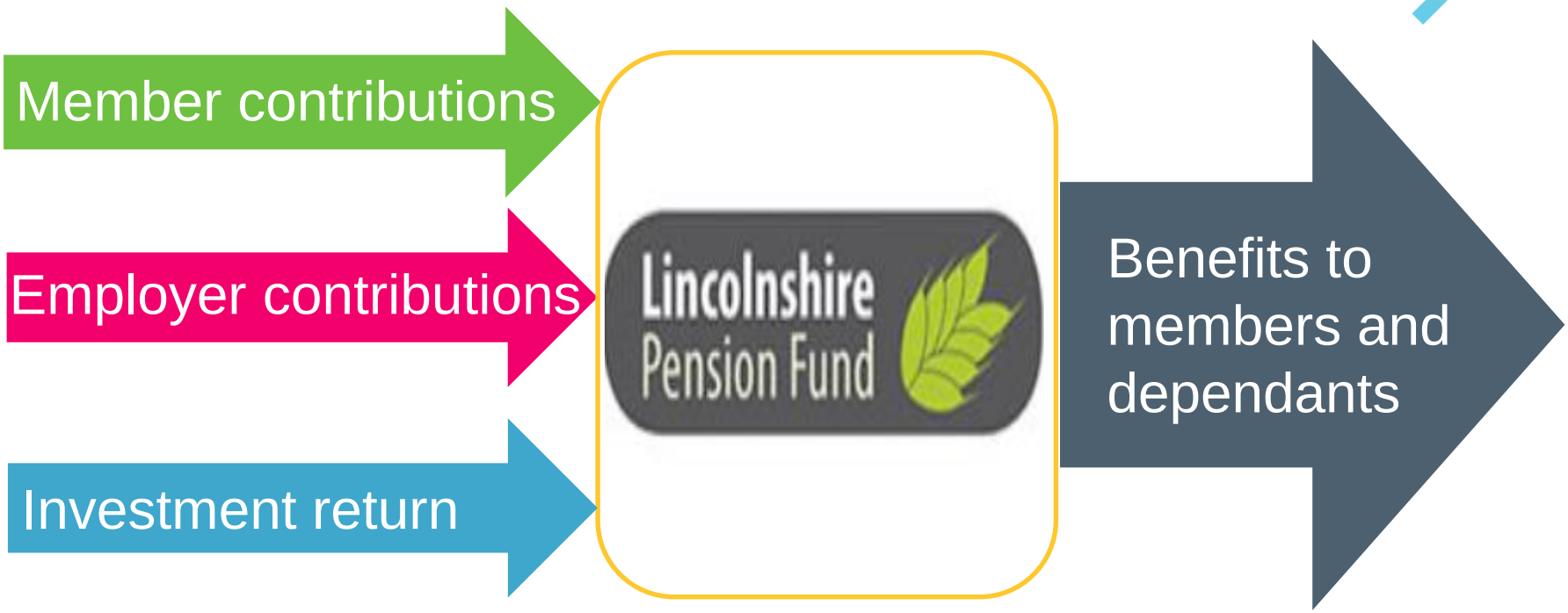
One big pot of assets …

Total Fund = c.£2.4bn
as at 31 March 2019



Every employer is individually tracked

How the Fund works



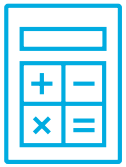
Determined by LGPS Regulations

Must meet balance of cost over longer term

Determined by investment strategy & manager performance

Funding valuations

Why we do a valuation



- Calculate employer contribution rates



- Compliance with legislation



- Analyse actual experience vs assumptions

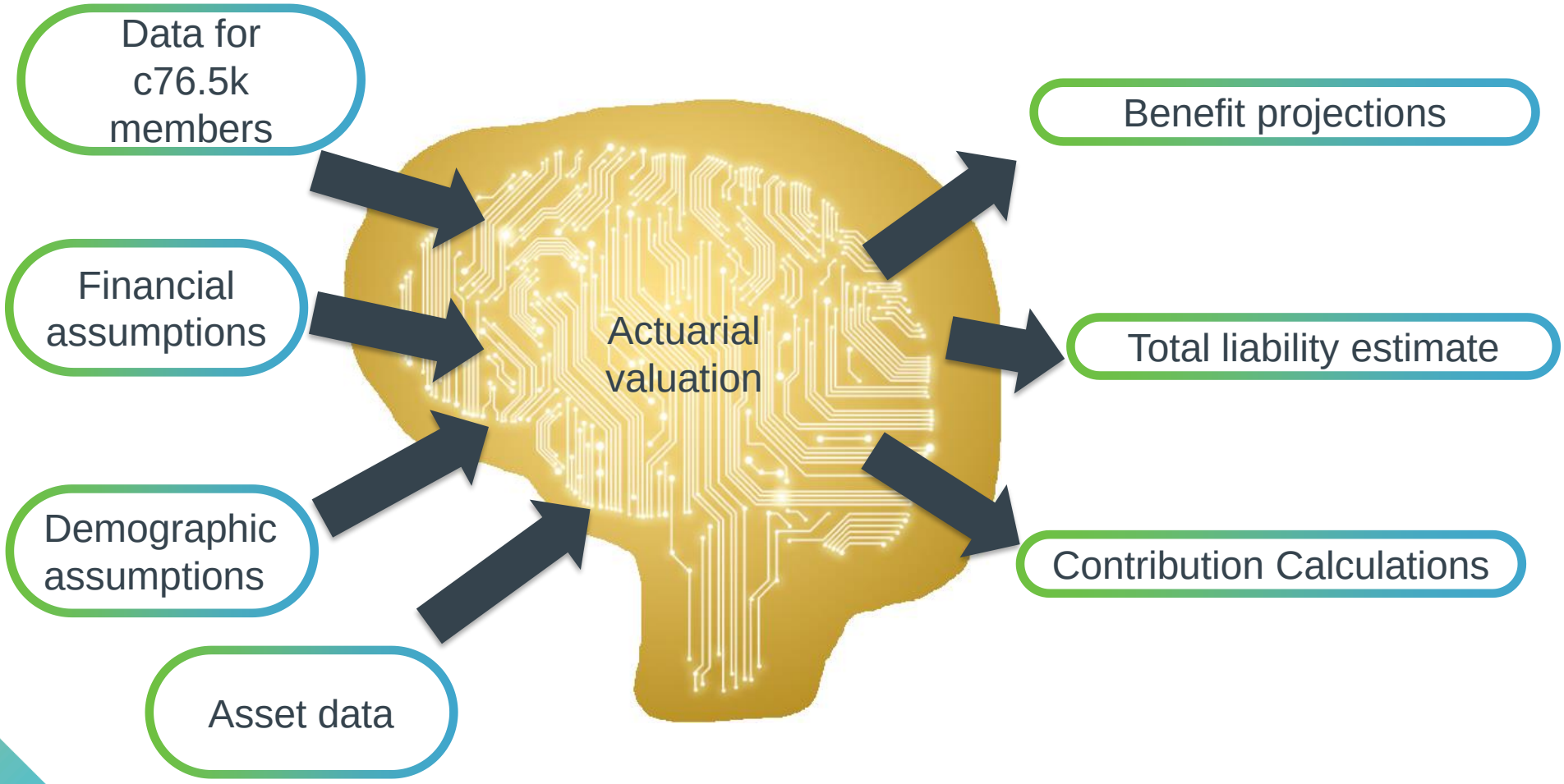


- Review Funding Strategy Statement

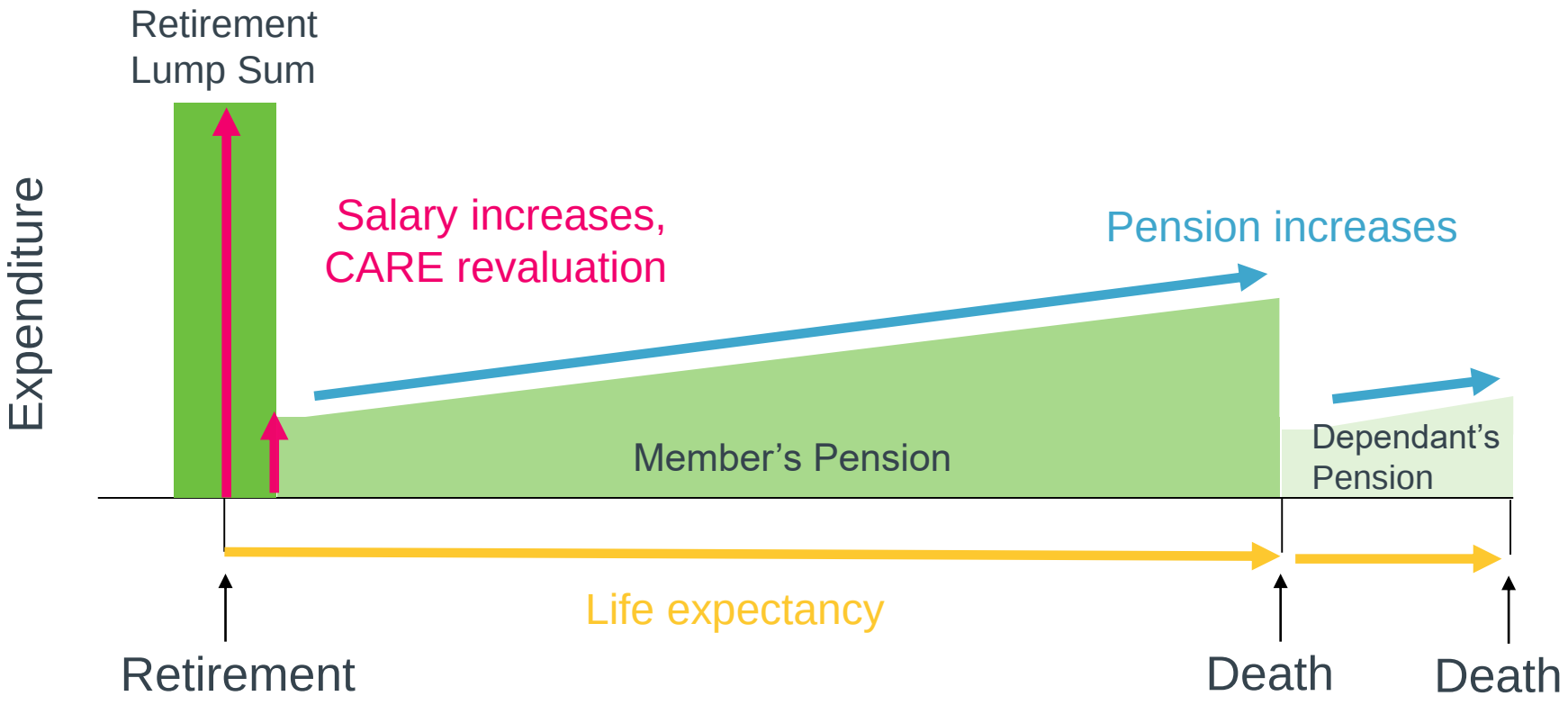


- Part of continual ‘health check’ on Fund solvency

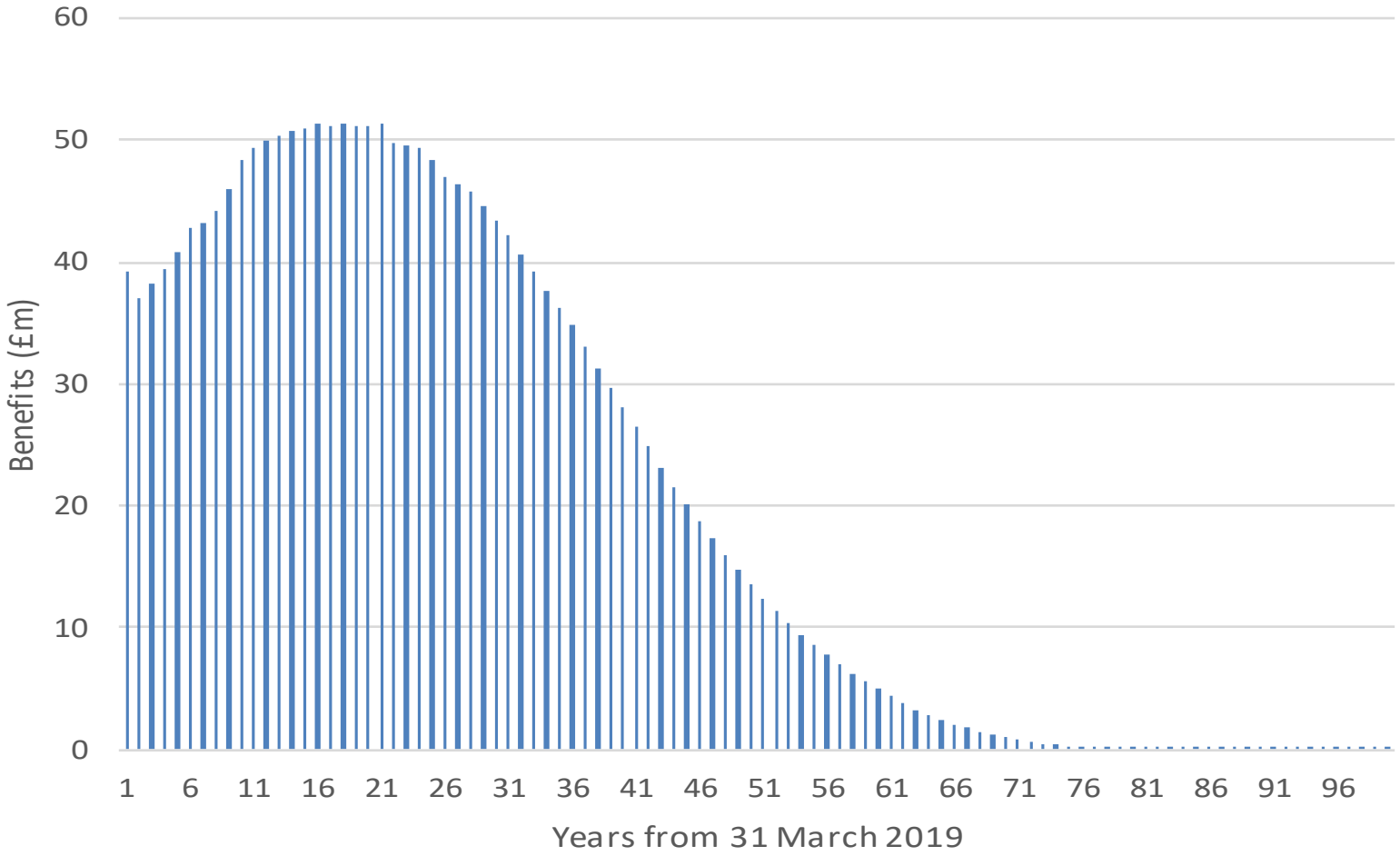
How we do the valuation



Why do we need assumptions?

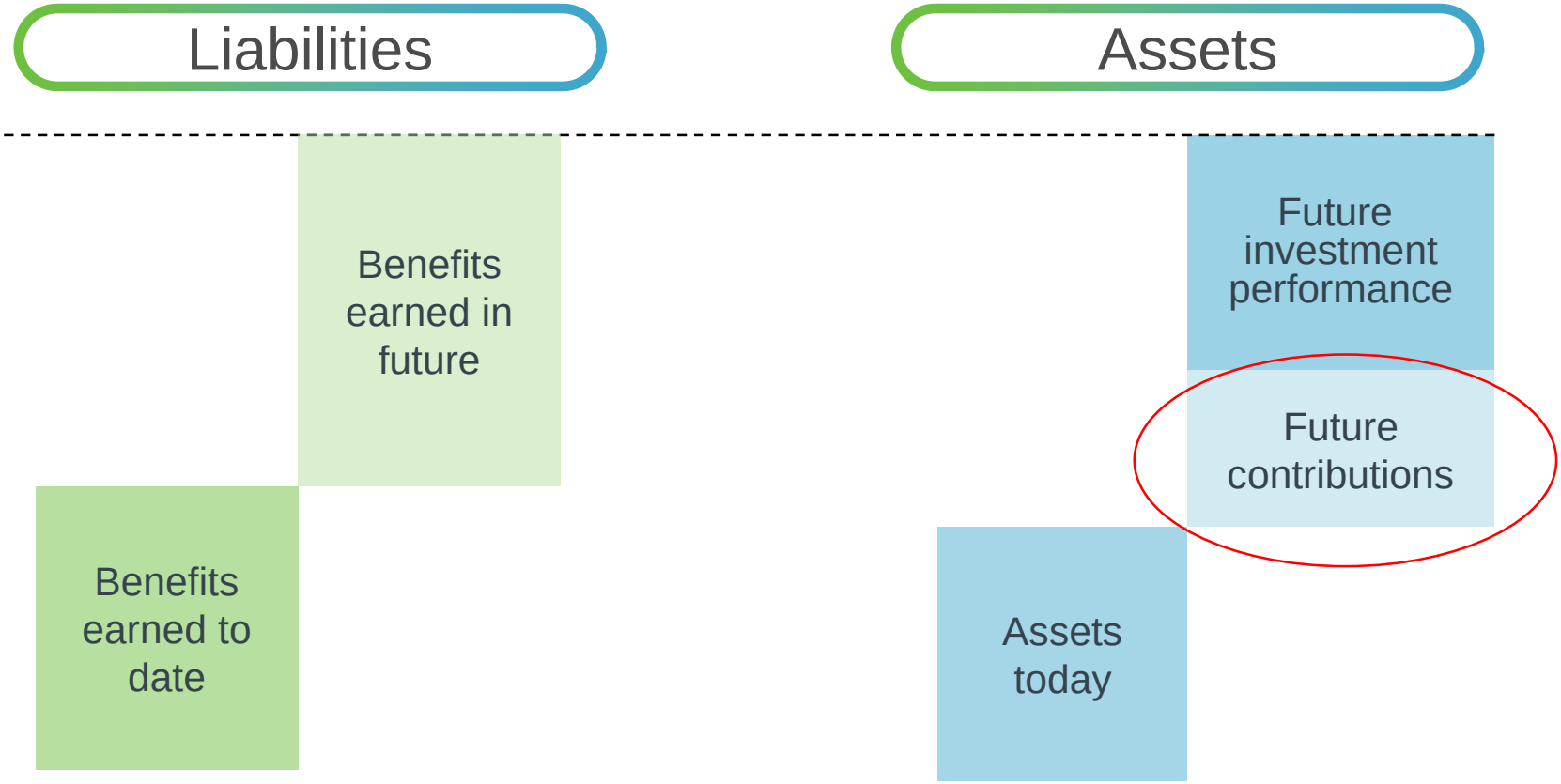


Data and assumptions used to project benefits



Pensions is a long term game!

How to fund benefits



Contributions are the final piece of the puzzle

Longevity

Falling life expectancy makes headlines

The Actuary

The magazine of the Institute & Faculty of Actuaries

Falling life expectancy to slash pension scheme liabilities

sky news

A lot of people in the City are getting very excited about death

"...£2bn windfall to the life sector."

Mail Online

British life expectancy falls by SIX MONTHS for men and women with experts blaming NHS cuts and a rise in dementia, diabetes and obesity

"...pension firms have already began to cash in on falling life expectancies."

THE WALL STREET JOURNAL.

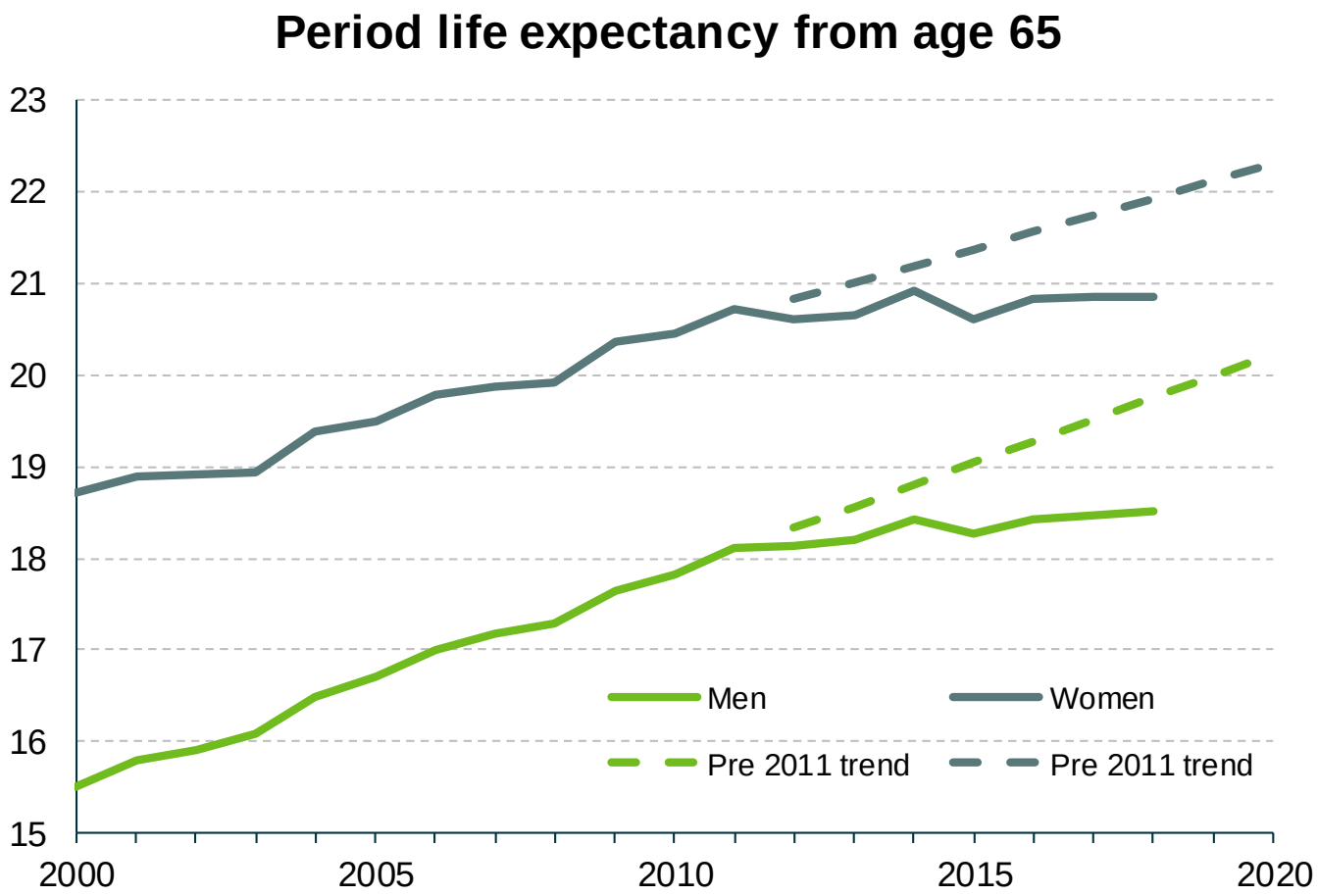
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Life Was Short for Longevity Gains

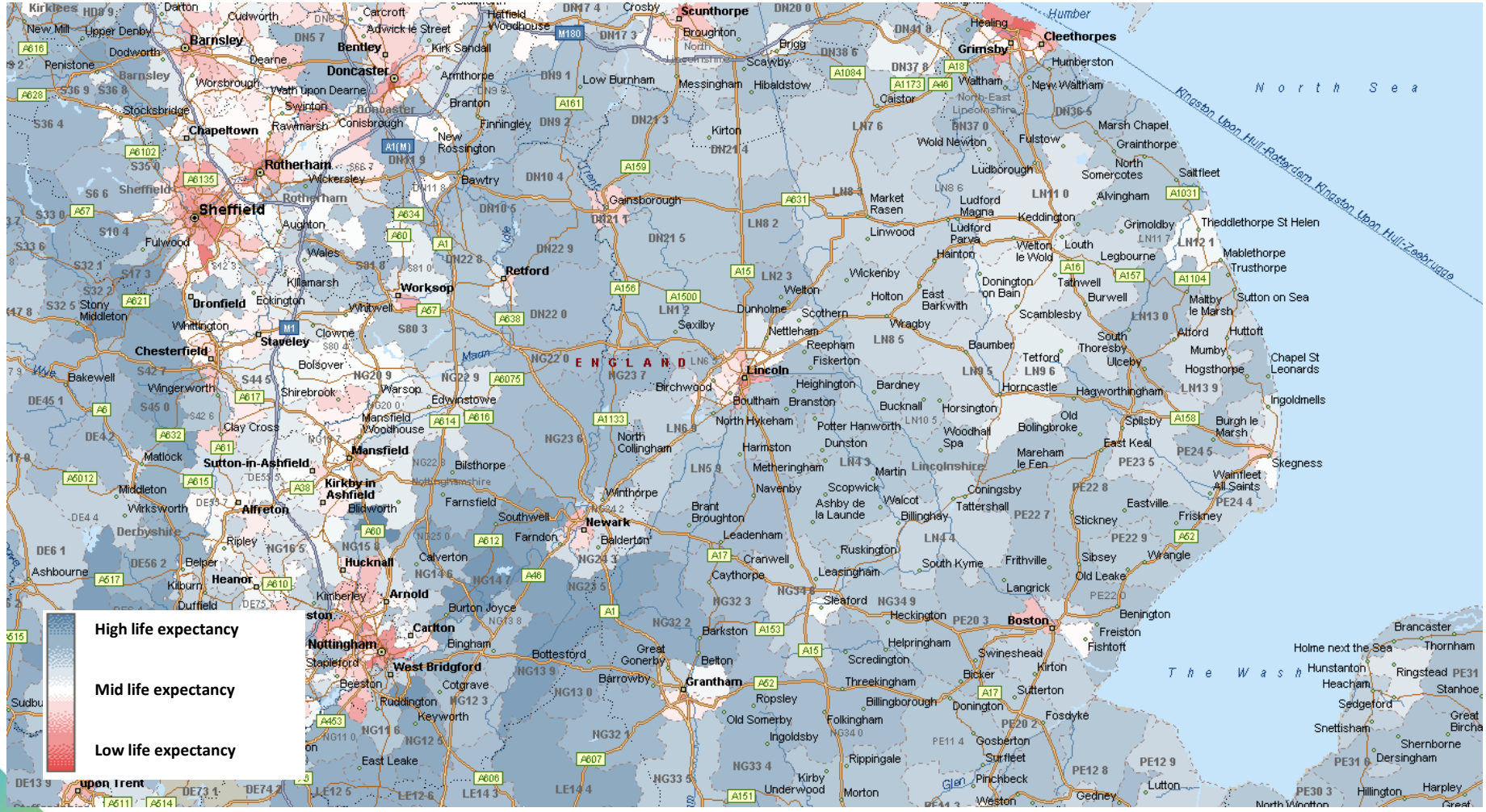
Life expectancy at 65 is falling and that means cash windfalls for insurers

Is it fake news?



True for the general population…

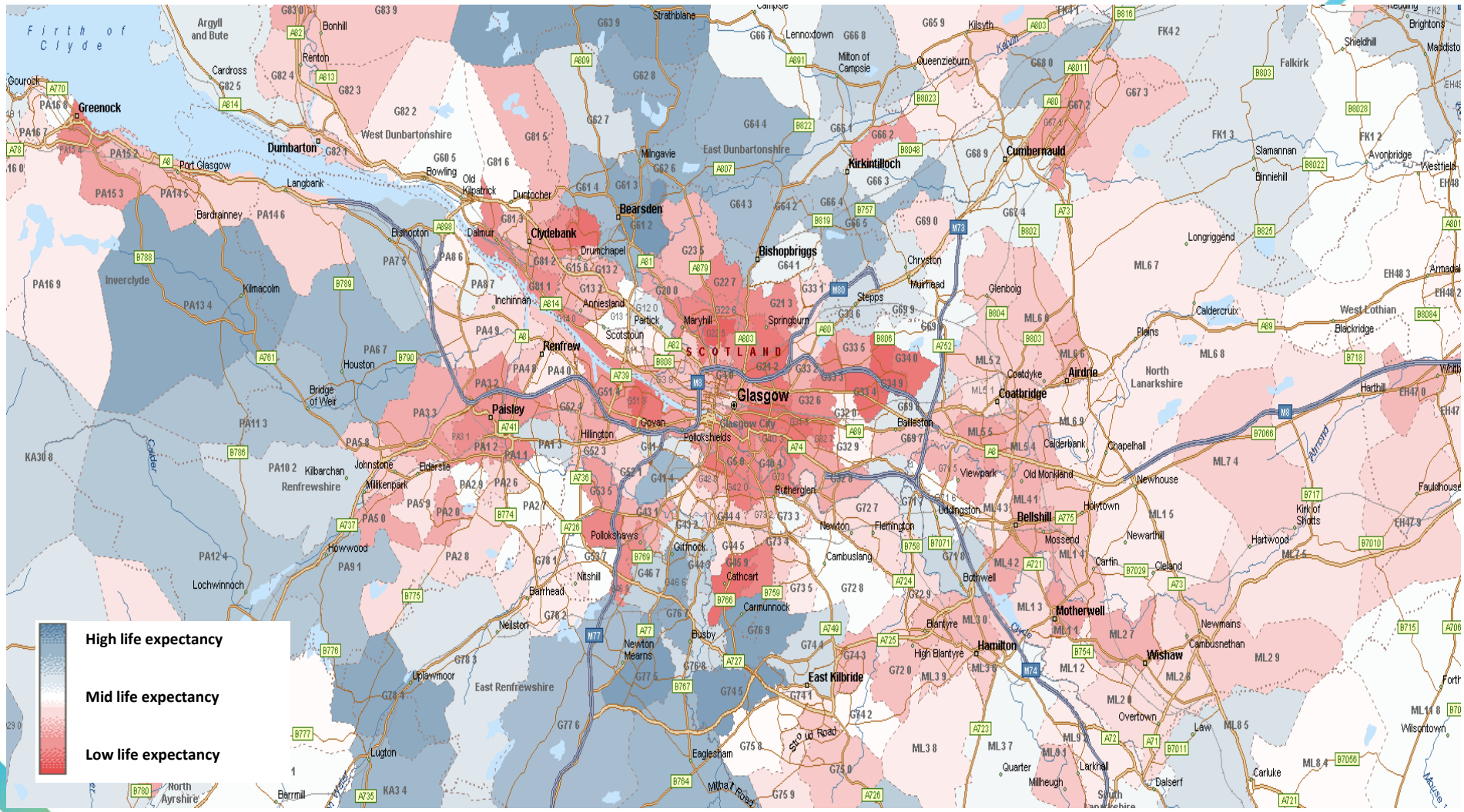
The postcode effect



Source: Club Vita research based on VitaBank as at December 2018

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The deep fried Mars Bar effect

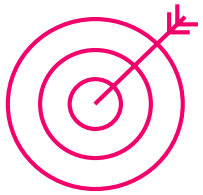


Source: Club Vita research based on VitaBank as at January 2018

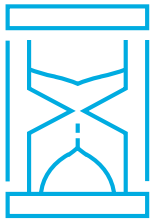
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Employer funding strategy

Funding strategy – 3 step approach



What is the funding target?

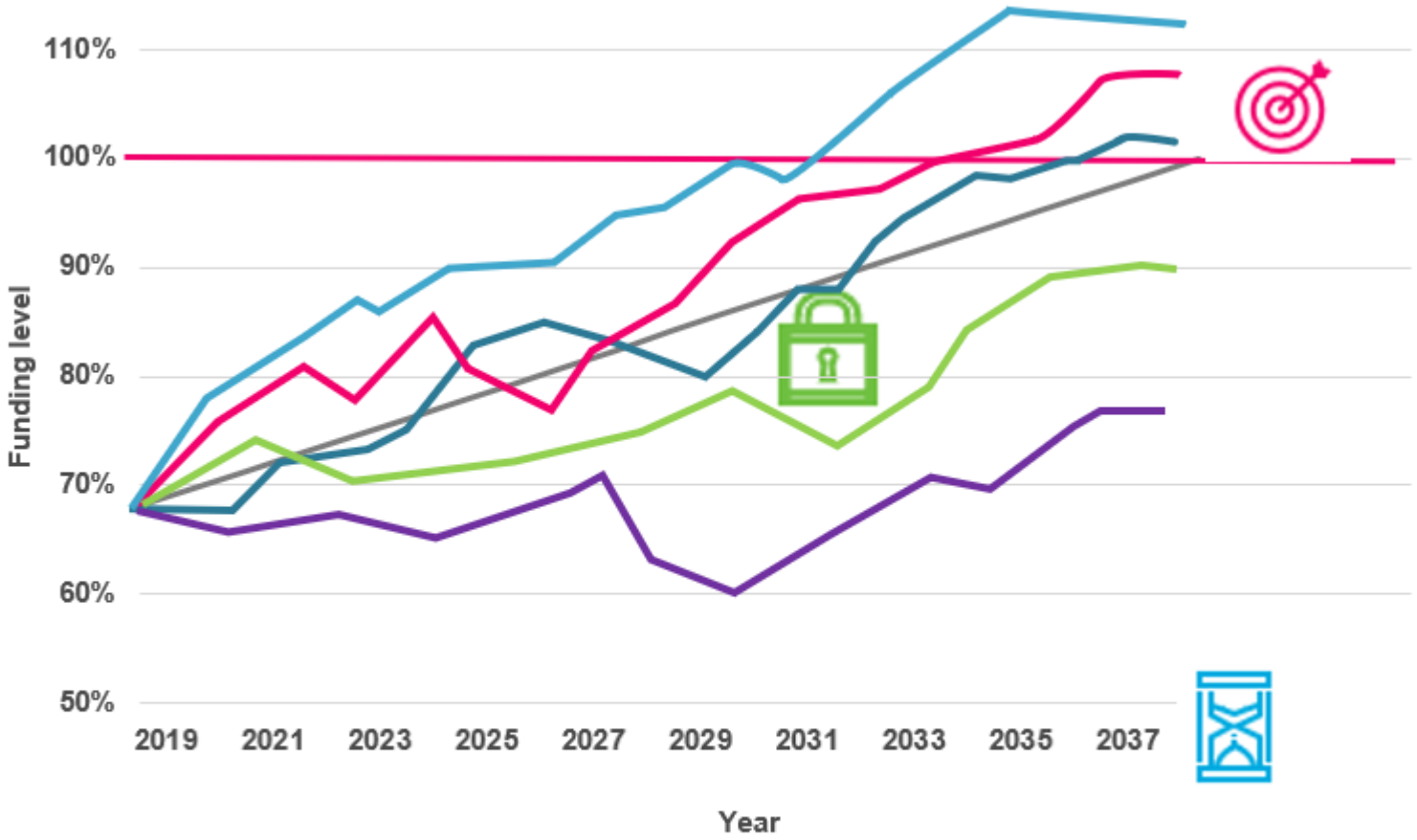


How long do we want to give the employer to get to the target?



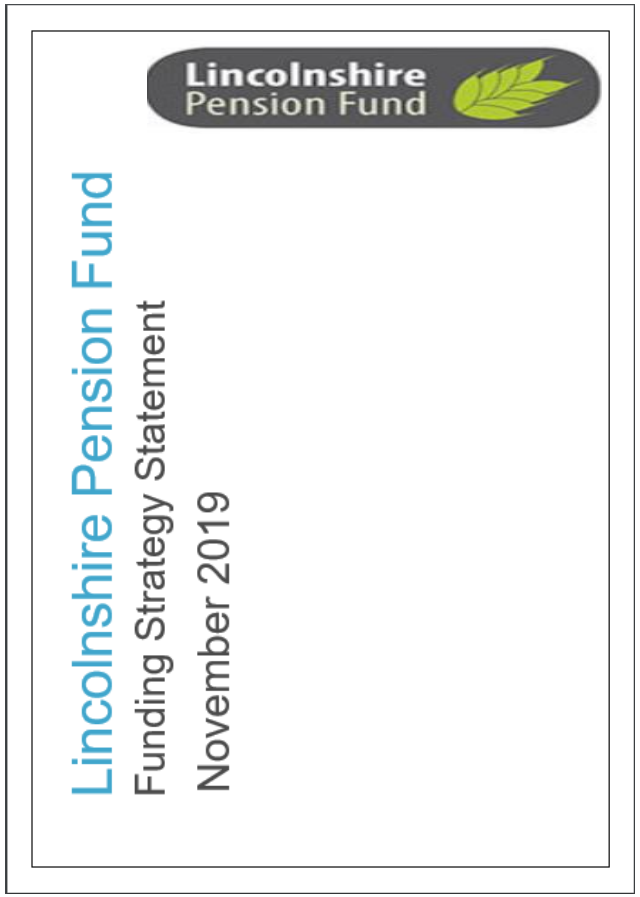
How sure do we want to be that the employer hits the target?

Test contributions under thousands of economic scenarios



Approach recognises uncertainty

Where to find further information



Funding Strategy Statement

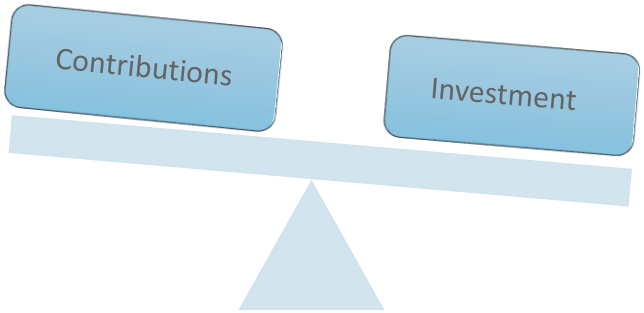
Details the Fund's approach to funding benefits for all employers

Valuation Results

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Financial assumptions

- Investment Return



- RPI - market's view of the difference in yields on long-dated government fixed interest and index-linked bonds.
- CPI pension increases **1% below RPI**
- Salary increases

"two per cent per year for the next five years"

Key assumptions for health check

Assumption	2016 valuation	2019 valuation	Derivation of assumption
Investment return (% p.a.)	4.0%	4.0%	2016: gilt yield plus 1.8% 2019: return with 71% likelihood*
Salary increases (% p.a.)	2.6%	2.6%	2016: RPI less 0.6% 2019: RPI less 0.7%
Benefit increases (CPI) (% p.a.)	2.1%	2.3%	No change
Longevity	VitaCurves, CMI 2013 improvements	VitaCurves, CMI 2018 improvements	Adopt more recent tables

** Long term asset out performance assumption of 2.0% used when setting a target to determine contributions for employers*

Long term assumptions – steady as you go!

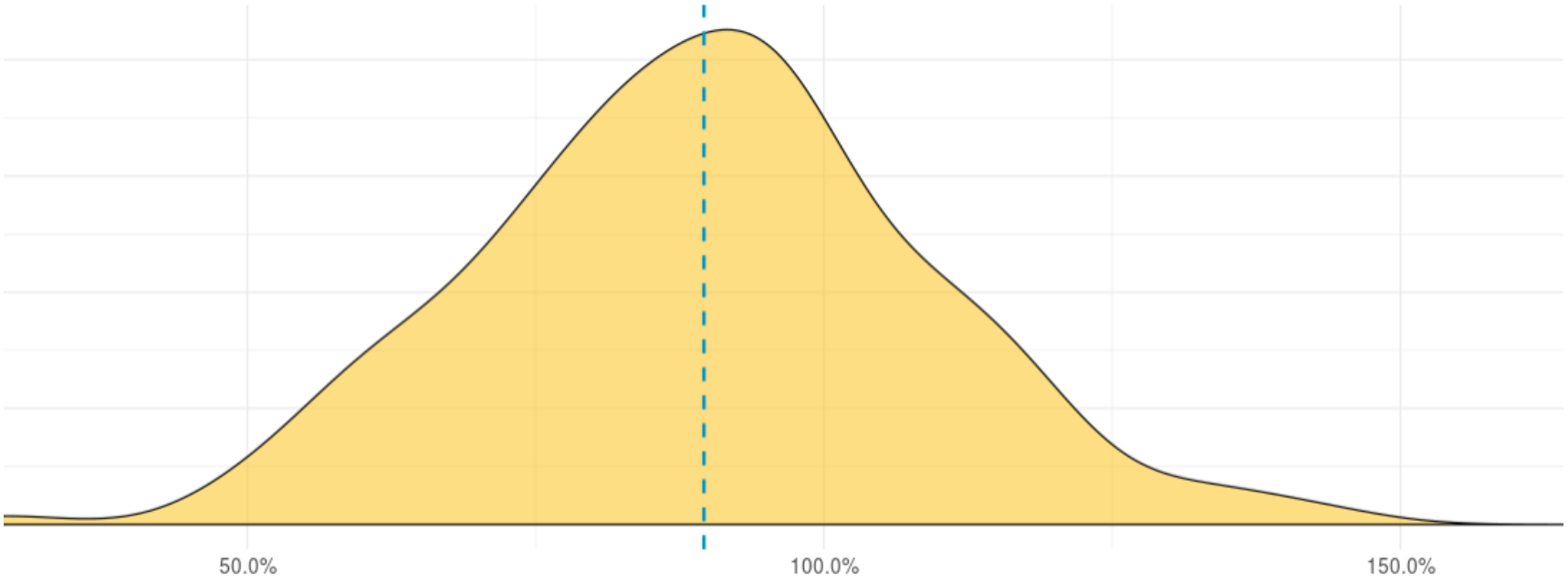
Whole Fund funding position

	2016 valuation (£m)	2019 valuation (£m)
Active liabilities	769	869
Deferred pensioner liabilities	488	500
Pensioner liabilities	1,031	1,167
Total liabilities	**2,288**	**2,536**
Assets	**1,759**	**2,353**
Surplus/(Deficit)	**(529)**	**(183)**
Funding level	**77%**	**93%**

Funding level shows a snapshot in time…

But funding pension benefits is a long term game

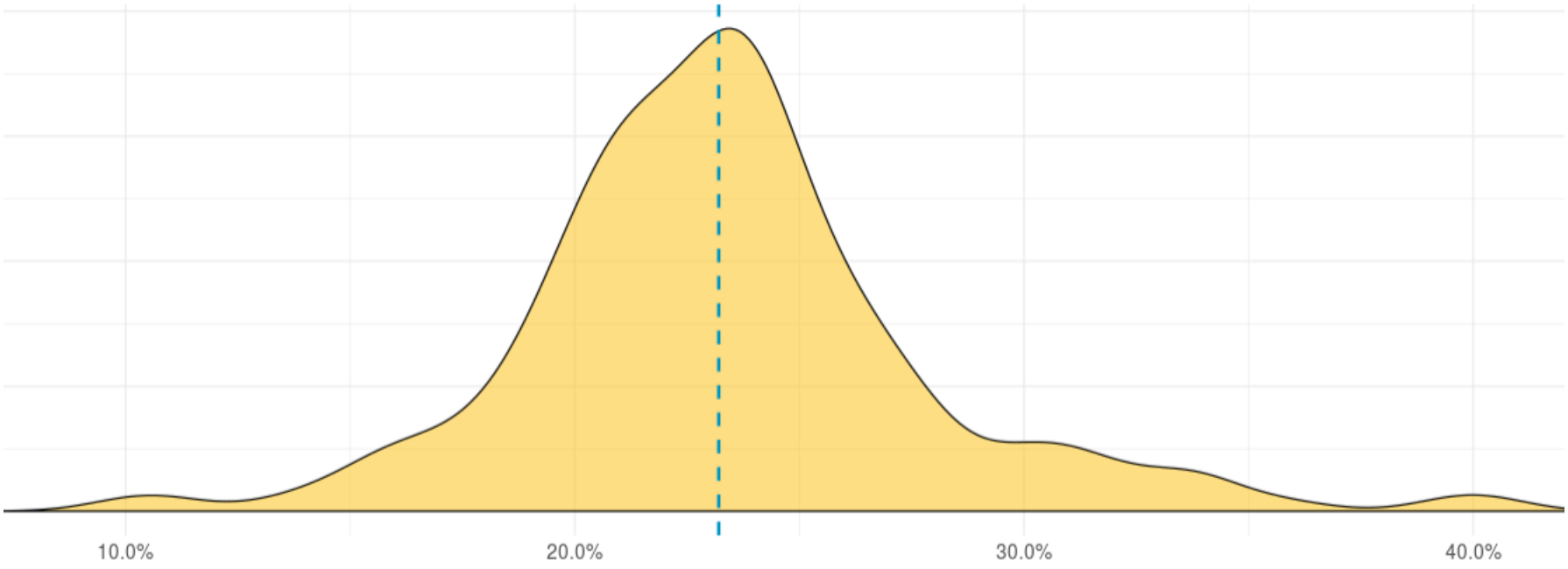
Range of employer funding levels



Most employers will see an improved funding level versus 2016..

but there is a wide range

Range of employer contribution rates



Higher cost of new benefits and increased uncertainty

McCloud and GMP

McClouds on the horizon

Apr 2014/5	Reforms to public service pensions following Hutton review – benefits generally made less generous but older members are spared
	→ Members launch legal challenge claiming age discrimination
Jan 2017	→ Government loses and appeals to Court of Appeal
Dec 2018	Court of Appeal rules against the Government
	→ Government appeals to Supreme Court
June 2019	Supreme Court declines to hear the Government's appeal
???	

Allowance for McCloud included in contribution rates

GMP: Generating More Problems?

State pension age before 2016

Baseline GMP funded by LGPS employers

Annual increases funded by combination of LGPS employers and central government

Overall GMP + state pension equal between men and women

State pension age after 2016

Baseline GMP funded by LGPS employers

Annual increases **entirely** funded by LGPS employers

Overall GMP + state pension equal between men and women

Many employers will see little impact

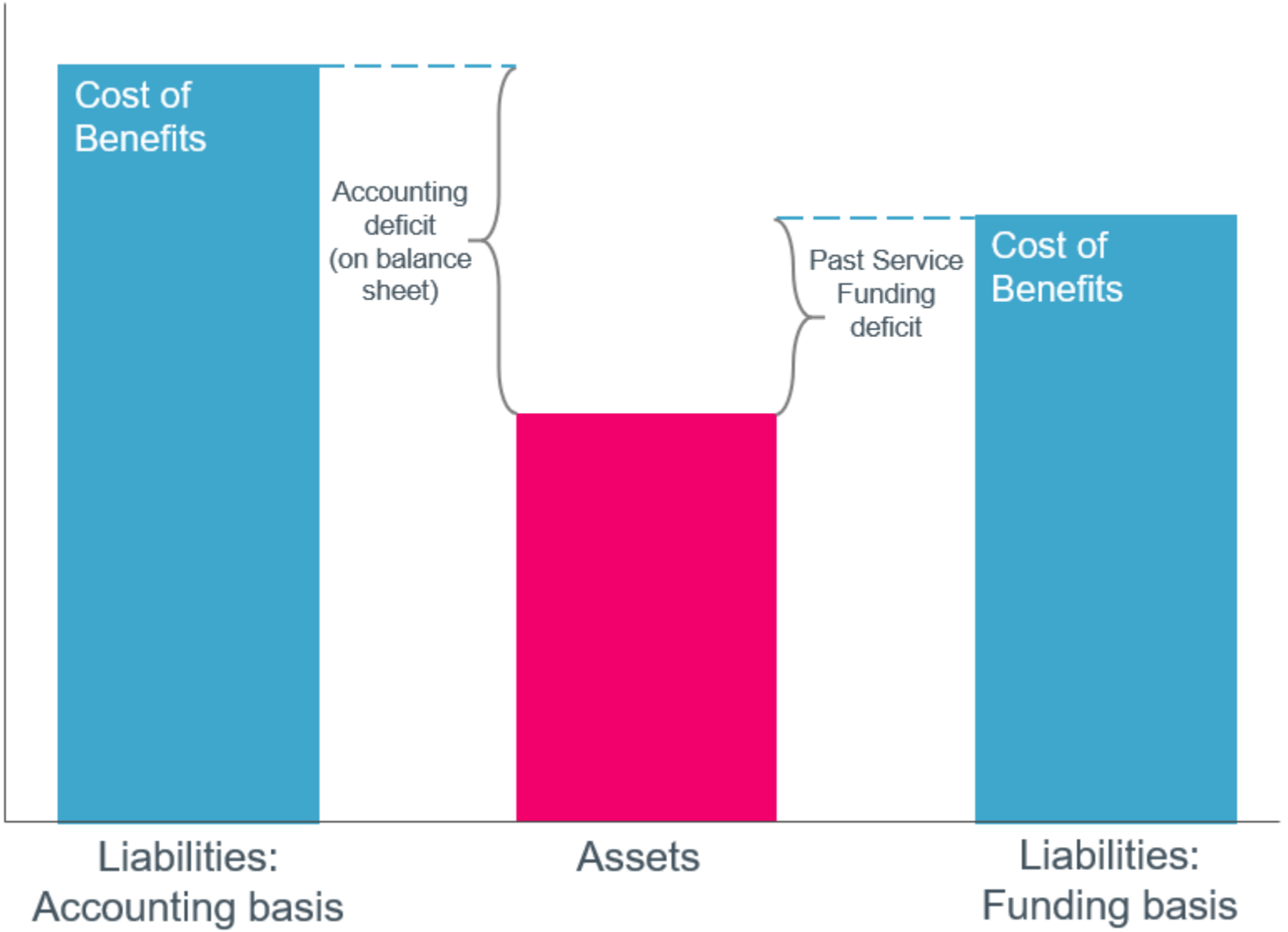
Accounting

Valuation / Accounting differences

	Valuation	Accounting
Financial Assumptions	Scheme specific	Largely prescribed
Application	Regulatory	Employer accounts
Frequency	Triennial	Annual
Accuracy	Full data required	Approximate update permitted

Accounting figures do not affect the contributions payable

Different assumptions: different results



Impact of low corporate bond yields

	Valuation	Accounting
Investment Return Assumption	Fund's asset portfolio	High Quality Corporate Bonds
Assumption*	4.0% p.a.	2.8% p.a. (2018) 1.8% p.a. (2019)
Increase in Liabilities**		c.25% (2018) c.55% (2019)

*as at 31 August 2018 / 19

**assumes duration of 20 years

…but the Fund isn't invested solely in Corporate Bonds!

Next steps

2019 valuation timeline

Q4 18 – Q2 19
Pre-valuation work
- Planning
- Long term employer modelling

July – September 2019
Data cleansed and submitted to actuary
Actuarial calculations processed

3 October 2019
Committee review whole Fund results and draft Funding Strategy Statement

November 2019
Individual employer results issued to employers
Employer forum arranged 27th/28th
FSS consultation started



April - June 2019
Data submitted by employers

July 2019
Committee review assumptions

October 2019
Whole Fund results calculated

Mid October – November 2019
Individual employer results calculated

February - March 2020
Final valuation report signed off by 31 March
Final FSS signed off by Committee

1 April 2020
New employer contributions start to be paid for next 3 years

Thank you

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