



TALENT • HEALTH • RETIREMENT • INVESTMENTS

# CPN ACTUARIAL SUMMIT LOOKING FORWARD TO 2016

14 JANUARY 2014

John Livesey FIA



## Agenda



Funding level movements (up to and since March 2013)

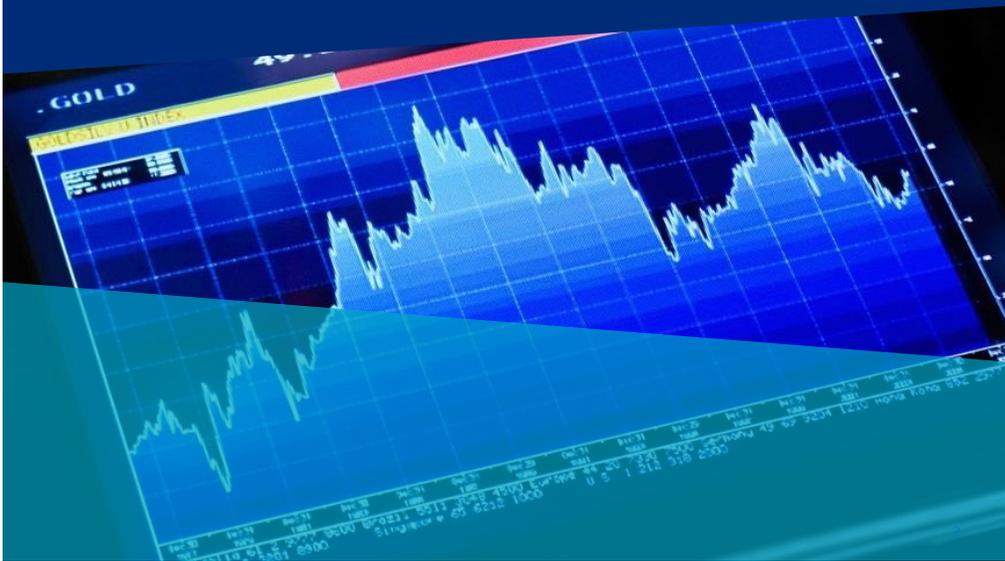


The new LGPS



Cost control

## FUNDING LEVEL MOVEMENTS (UP TO AND SINCE MARCH 2013)



### The Actuarial Valuation Process What's in an assumption?

*Two actuaries are clay pigeon shooting.*

*They see the first disc in the air and they both shoot.*

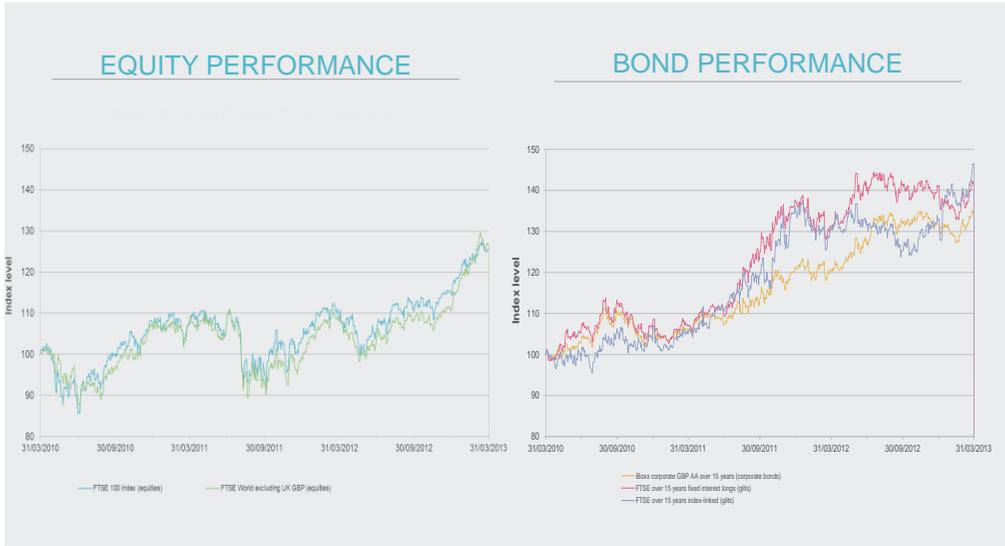
*The first actuary's shot is 20 feet wide to the left.*

*The second actuary's shot is 20 feet wide to the right.*

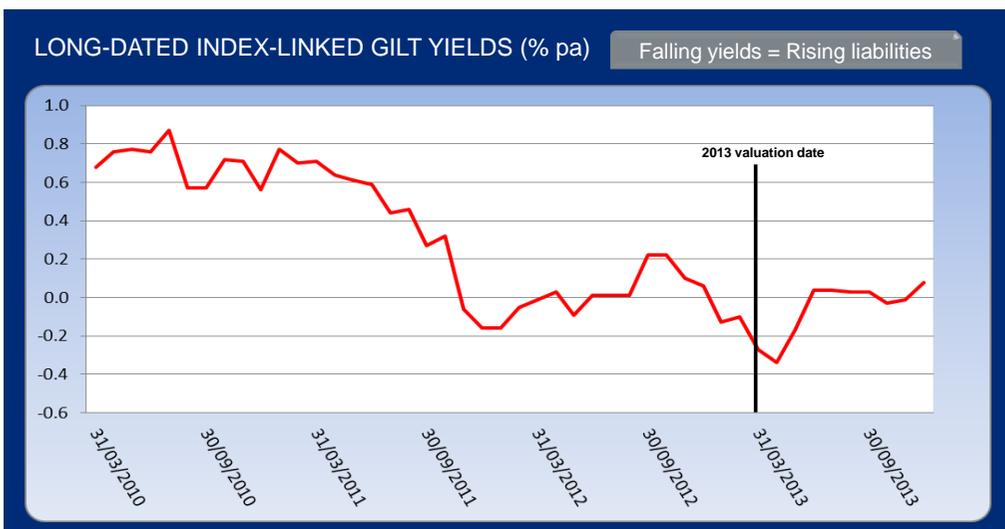
*The actuaries give each other high fives, because on average they shot it!!*



## The Economic Climate Equity and Bond Performance From March 2010



## Funding Level Movements since the 2010 Valuation Key Driver of Liabilities



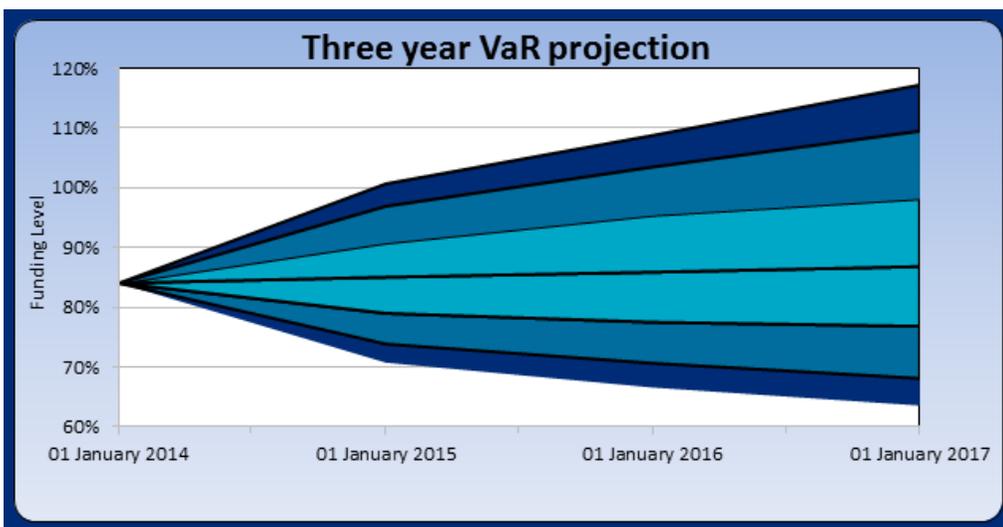
Funding Level Movements since March 2013  
Market-related approach



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Looking Forward to 2016  
A range of potential outcomes



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## The new LGPS & the 2016 valuation

### Main issues

#### STRUCTURAL ISSUES

- Scope for “like for like” basis rises in funding levels and reduced £ deficit, as and when yields improve
- Already some mitigation from market improvements since 31 March
- Knock on effects – potential for some reduction in future service rates?
- Extent of flexibility used in 2013 / “Headroom” influences future outcomes
- Older workforces – much higher future service cost – new LGPS?
- Many mature employers - funding positions often volatile against payroll base
- Some employers still expecting material headcount reductions over next few years

#### FUNDING POSITION WILL BE IMPROVED RELATIVELY IF (CONVERSE ALSO APPLIES).....

- Deficit partly paid off by higher contributions
- Low pay growth
- Lots of leavers before retirement

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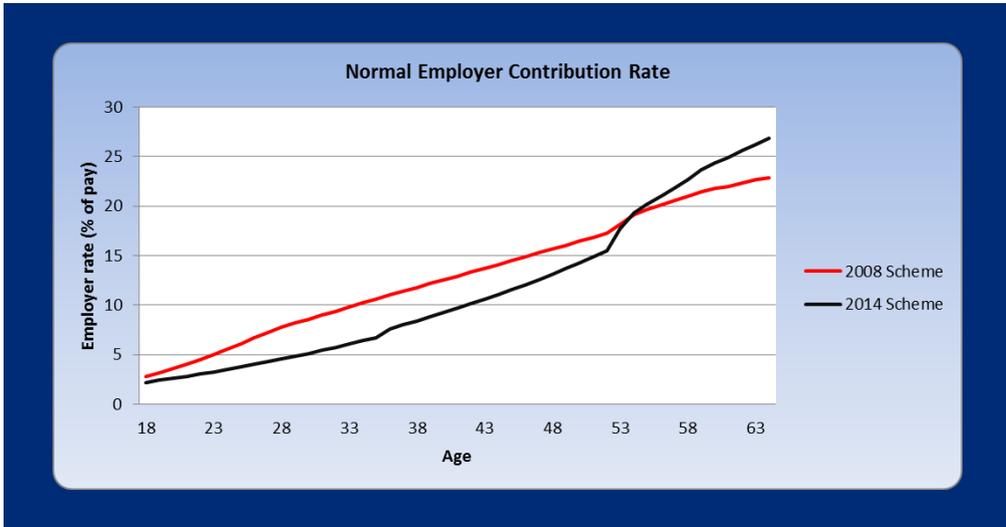
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## THE NEW LGPS



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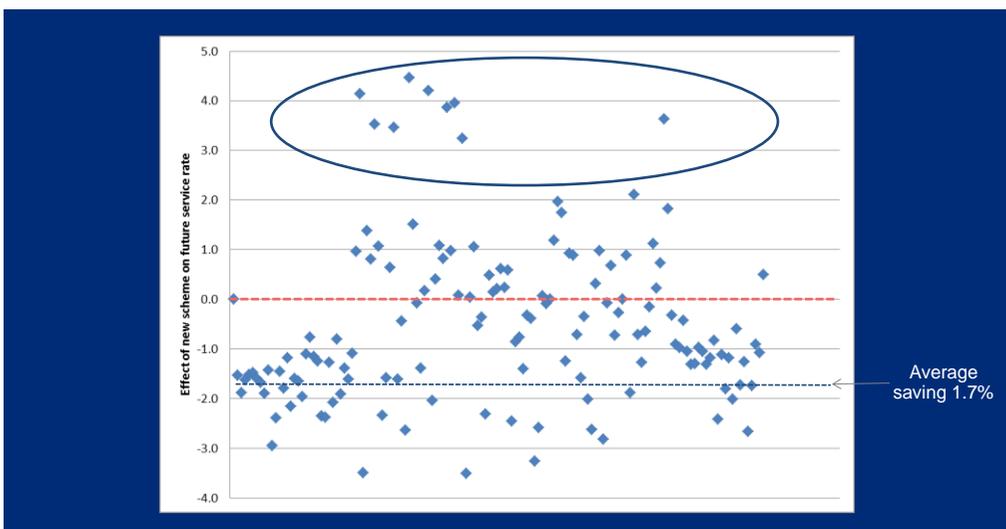
The new LGPS  
Effect of the new Scheme by age



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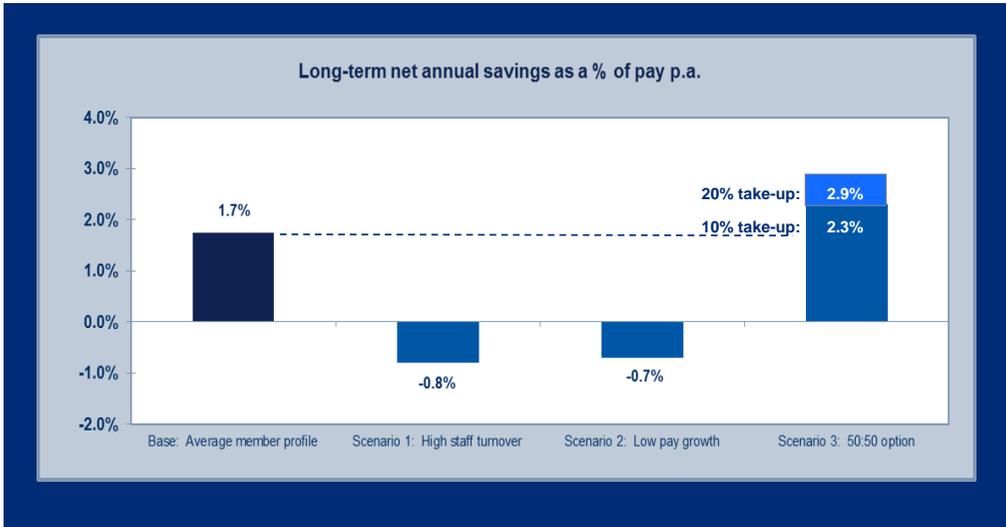
The new LGPS & the 2013 valuation  
Some shocks



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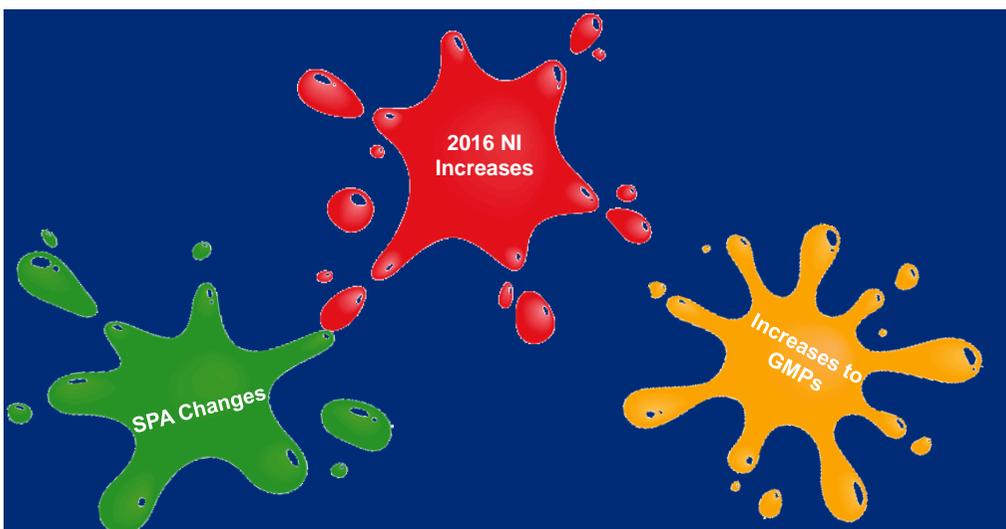
The new LGPS  
Analysis under different scenarios



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LGPS – Looking Forward  
What else is in store?



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# COST CONTROL



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## Cost Control

### Key drivers of cost

### IMPACT

#### HIGH

- Discount rate
- Long-term inflation assumption

#### MEDIUM

- Longevity
- State Pension Age
- Long-term pay growth assumption
- Short-term pay experience
- Staff turnover

#### LOW

- Commutation
- Opt-outs/rejoiners
- 50:50 take-up
- Early retirement
- Ill-health retirement

## Cost Control Key drivers of cost

### INCLUDED

- Longevity
- State Pension Age
- Short-term pay experience
- Staff turnover
- Commutation
- Opt-outs/rejoiners
- 50:50 take-up
- Early retirement
- Ill-health retirement

### EXCLUDED

- Discount rate
- Long-term inflation assumption
- Long-term pay growth assumption

Pre 2014 benefits in payment

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## Cost Control Potential Issues

### Parallel HMT/LGPS Approaches

- Plenty of scope for confusion

### Split of benefits & benefit cash flows as per GAD Note 19 December

- Needs separate identification of pre 2014 and 50:50 benefits
- Applies to benefit calculations
- Also applies to cash flows for benefits in payment

### Benefit calculations

- Achievable for active/deferred?
- Less easy for benefits in payment?

### Benefit cash flows

- Do the calculations sit on administration or payroll system?
- How much work/likely cost?
- How much time to implement?

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And finally....  
Any questions



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