

# 2013 Valuations



Update

- Catherine McFadyen
- 18 September 2013

## Data

- Quality has slipped
  - Reduction in staffing?
  - Teething problems with new TPA arrangements?
  - Issues with Heywood extracts and Altair?
- Proliferation of new employers (academies)
- Active payrolls have fallen
  - Pay freeze
  - Early retirements
  - Councils have lost actives from schools to academies



Messier than last time around

# Investment Experience



Source: Hymans Robertson – index return on a portfolio of 70% equities and 30% bonds from 31 March 2010, discount rate 6.1% p.a



## Assets have performed well

# Investment Experience



Source: Hymans Robertson – UK bond yields since 2010



Falling bond yields have increased liabilities

## Membership Experience

- Pay growth
  - Some small strains against the 1% p.a. pay freezes
  - Does vary across employers
- Pension Increases
  - Expected 3.3% p.a (10.2%)
  - Actual 3.1%, 5.2%, 2.2% (10.8%)
- Retirement experience
  - Very low incidence of ill health retirement
  - Lots of redundancy and efficiency retirements
- Auto enrolment
  - Little impact as yet



Details, not the headlines

## Changes in Assumptions

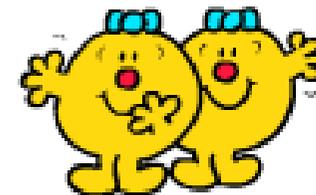
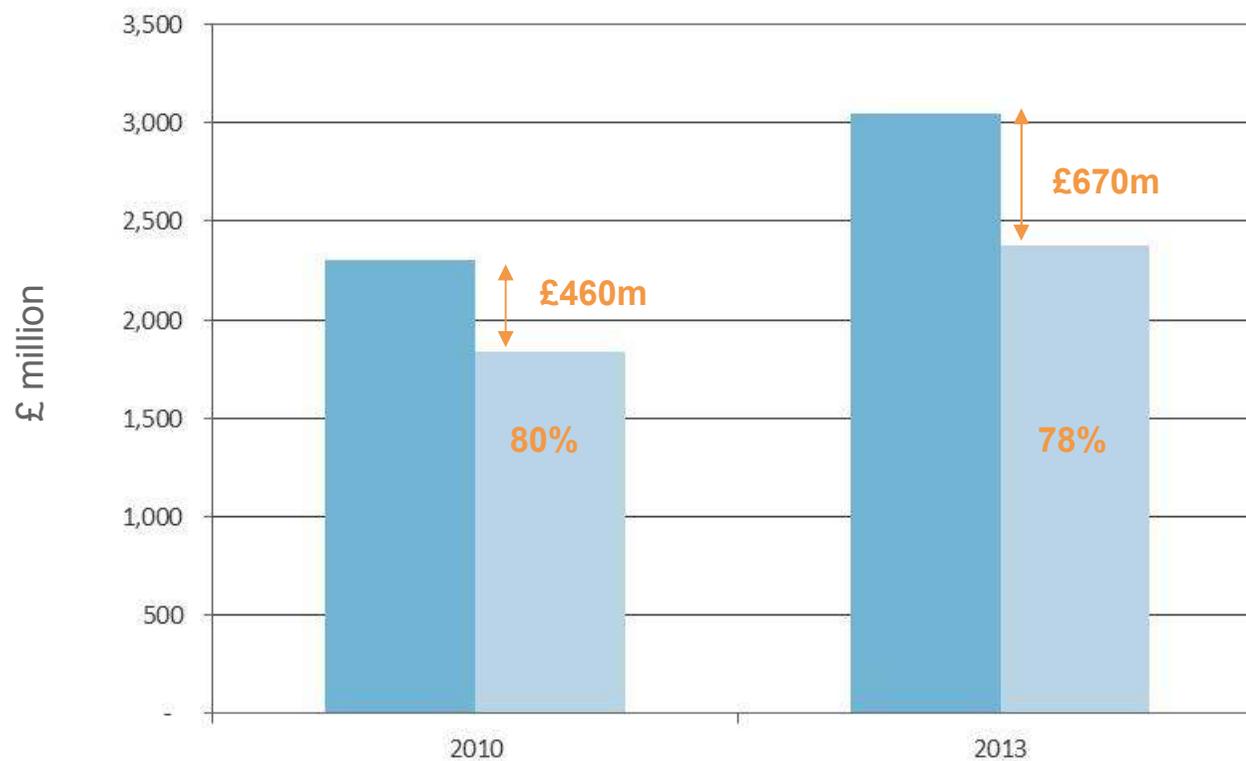
	2010	2013	Impact on liabilities
Asset outperformance	1.6%	1.6%	Nil
Net discount rate (disc rate – CPI)	2.8%	2.1%	Up
CPI adjustment	RPI - 0.5%	RPI - 0.8%	Down
Salary – short term	c1% pa	No freeze	Up
Salary – long term	RPI + 1.5%	RPI + 1.0%	Down
Longevity improvements	Medium Cohort + underpin	New ONS projection (peaked)	Up



Incorporating new information

## Early results – Past Service

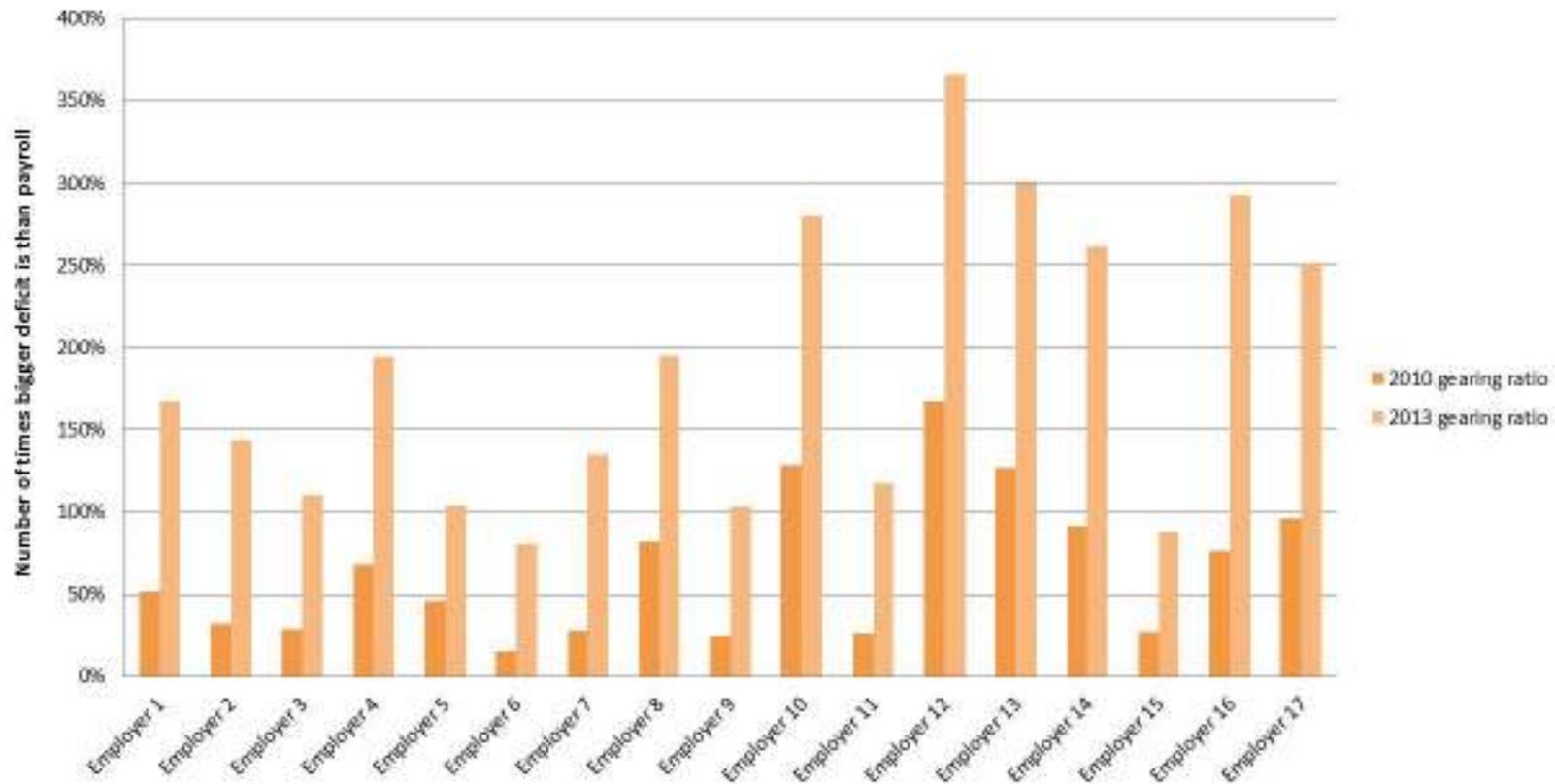
Whole Fund – Funding Level 2010 vs 2013



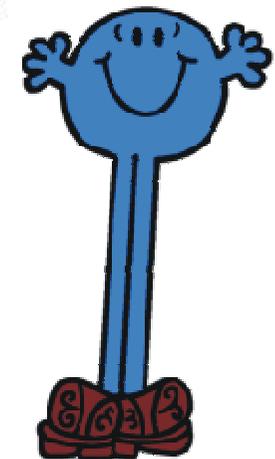
Funding levels are similar, but deficits have grown

# Early results – Past Service

Gearing Ratio (deficit/payroll) 2010 vs 2013



Source: Hymans Robertson – Typical County Council Fund



Deficits have *really grown* relative to payroll

## Early results – Future Service Costs

- Cost of future service is uncertain
  - Yields are very low
  - Allow for markets to improve

Employer Future Service Contribution Rate	Probability of Success	AOA	Time Horizon
19.6%	81%	1.6%	8 years
15.3%	63%	1.6%	8 years

- 50/50 option take up very uncertain
- Employee contribution yield under pressure
  - Low pay rises – contribution bands
  - Change to actual rather than FTE pay
  - Allowance for 50/50 option



Some unknowns

## Early results – Future Service Costs

Member, Age 50, Salary £26,000						
	Pension Accrued	Pension Age	Revaluation over next 3 years		Pension at retirement*	
LGPS 2014	1/49 <sup>th</sup> *£26,000 = £530	65	£571		£768	
Old Scheme	1/60 <sup>th</sup> *£26,000 = £433	65	1%	£446	1%	£478
			RPI	£478	RPI	£599
			RPI+1%	£492	RPI+1%	£815

\* From 1 year of service only, CPI assumed to be 2.5%, RPI assumed to be 3.3%

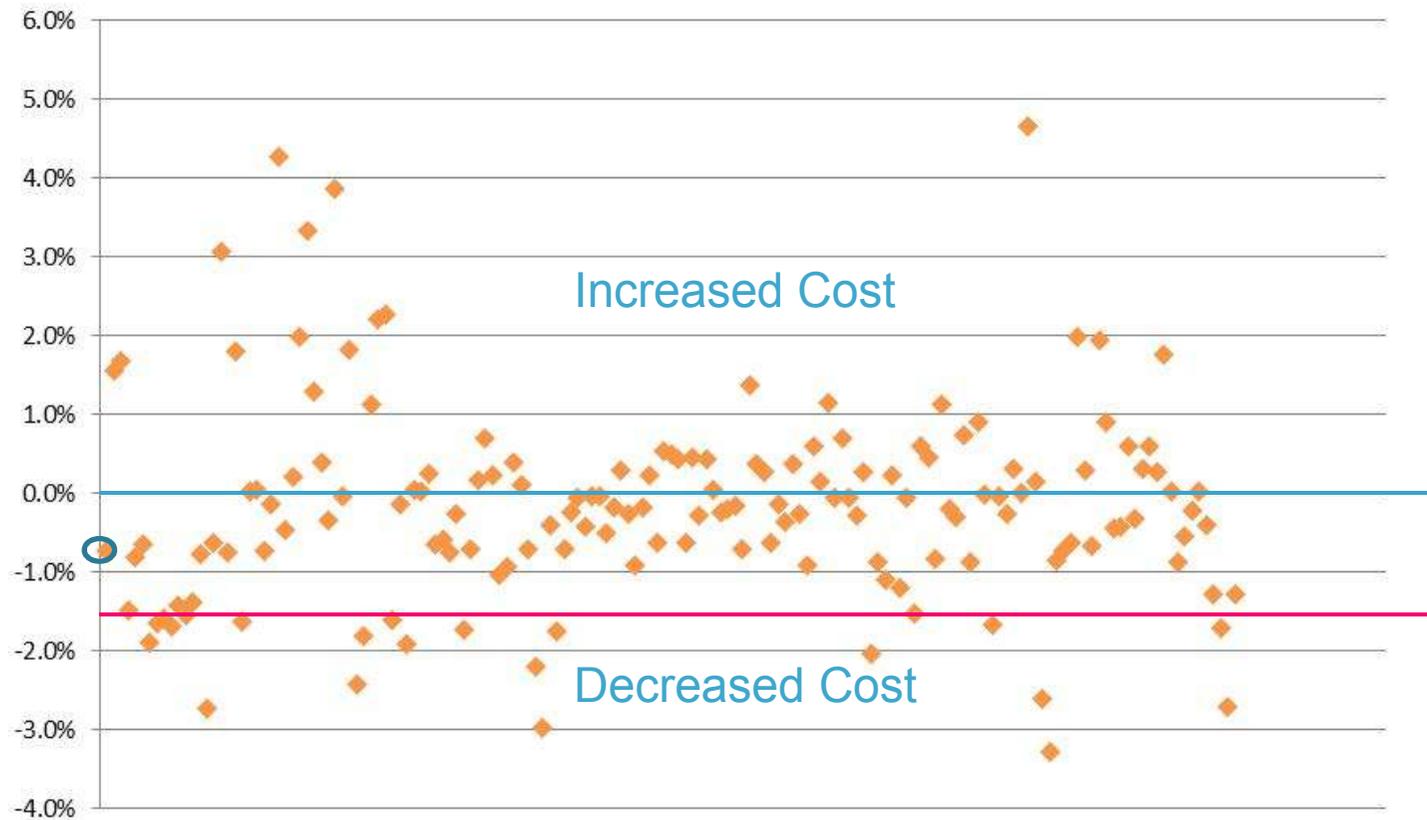
- 49ths accrual is greater than 60ths accrual
- CPI revaluation is expected to be less than earnings growth revaluation in the long term



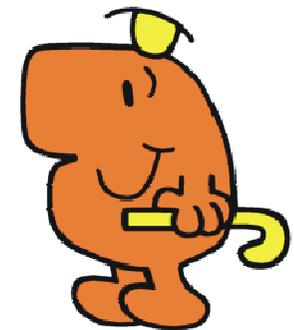
Savings will take time to emerge

# Early results – Future Service Costs

- Impact of LGPS2014 varies across employers



Expected saving?



Source: Hymans Robertson – Typical County Council Fund

## Summary

- Funding levels similar
- Deficits have increased in £ cash terms
- Payrolls falling for many employers
- Continued upwards pressure on contributions
  - Still possible to stabilise contributions but ...
  - Greatest increases for those with falling payrolls
- New scheme – what savings?

