

## *CIPFA Annual summit 2017*

### *Are different actuarial assumptions justified?*

*Mark Packham*

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**pwc**

### *Standardised Assumptions?*

**Yes**

Actuarial conflicts of interest mitigated

Easily presented to commentators and regulators

Consistent with unfunded public sector schemes

Simple logic



**No**

Retain responsibility as fiduciaries and actuaries

Balanced response to real world events and markets

Responsive to local budget pressures and covenant differences

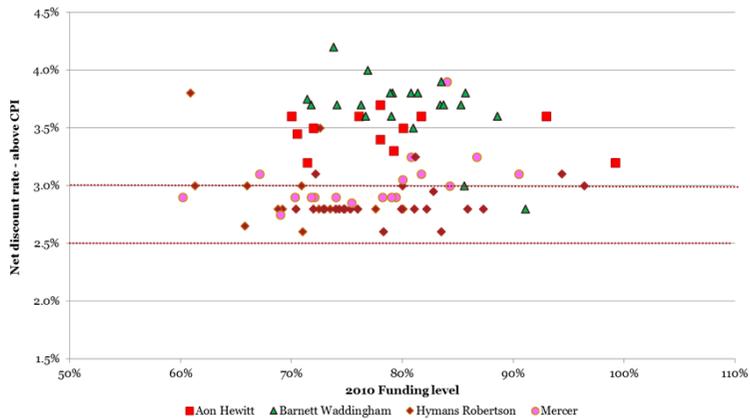
History of standard bases is unfortunate, e.g. MFR in 1990s

**Prompt disclosure on standardised bases  
Contributions also disclosed  
Convergence of approach**

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**Look back 6 years – when deficits were £37 billion**

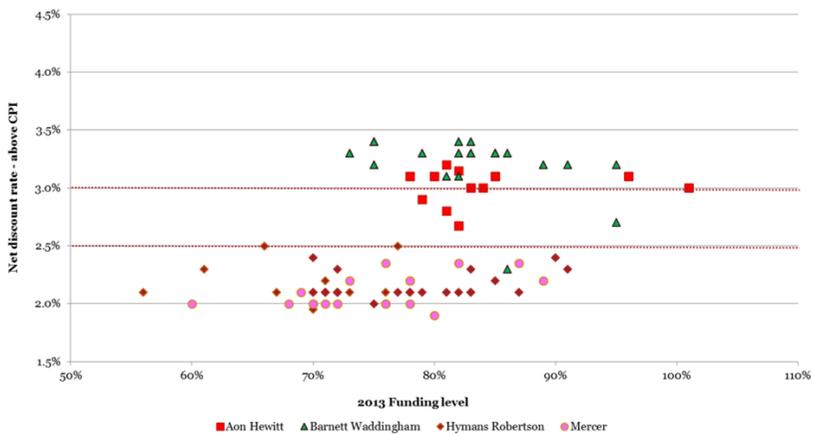
**England & Wales - 2010 funding levels**



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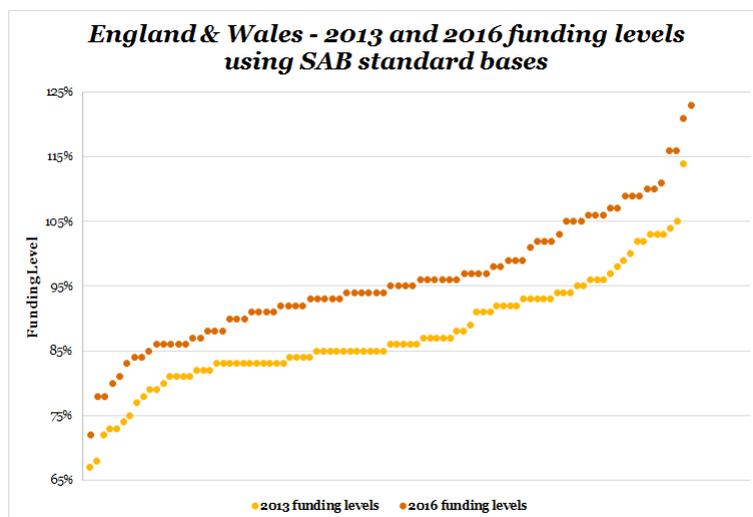
**Look back 3 years – when deficits were £47 billion**

**England & Wales - 2013 funding levels**



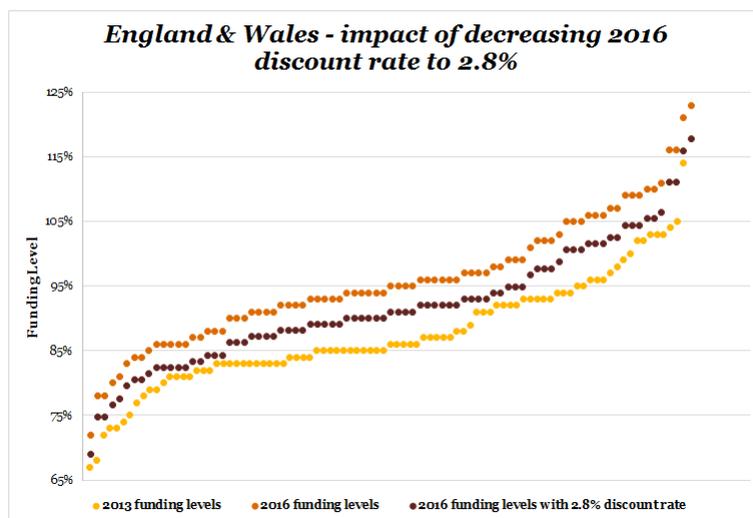
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## Comparison of 2013 and 2016 funding levels



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## Comparison of 2013 and 2016 funding levels



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## Why do assumptions matter?



To preserve DB Pensions in the public sector. Socially useful.  
Value for money: provide pensions without the cost of annuities.



Funded public sector pensions encourage responsible planning by:  
+avoiding political short termism +delivering intergenerational fairness



Investing £200bn of real money in the real world is complex.  
Should liabilities drive investments?



Maintain momentum of reducing LGPS inefficiencies and costs.  
+improving transparency +removing perceived conflicts



We should know the true, economic price of LGPS benefits. If we  
quote too high a price now, it undermines the VFM argument.



We should know the true, economic price of LGPS benefits. If we  
quote too low a price now, how do we ride out storms?

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## Why do assumptions matter?



### Preserve DB benefits

- DB in public sector is value for money, if fairly priced to the taxpayer
- No requirement for annuities and their costs to deliver income
- Reduce DWP benefit costs
- Mind The Gap - from private sector auto-enrolment



### Carry on funding

- The LGPS can take credit for funding, and now for pooling
- Funding can deliver intergenerational fairness
- Mind the Gap - private sector valuations follow the gilt market



### Asset led thinking

- Gilt led analysis is a valid private sector approach to investment
- The LGPS long term analysis? Accruals continue? Taxpayer support?
- The economics: will GDP growth slow?

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## Why do assumptions matter?



### Avoid waste / keep the house in order

- Embrace transparency and efficiency
- Ease the case to regulators and media
- Avoid any sense of buying an opinion



### Don't overprice

- Economics: ties up too much money in pensions?
- But it builds in some flexibility to respond to tough funding settlements
- Mind the Gap - private sector debate - to fund or to pay dividends?



### Don't underprice

- It may win in the short term - but it could lose in the long term
- Attracts criticism from regulators and media
- Mind the Gap - private sector is looking at expensive assumptions

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## Six issues related to standardised assumptions



*Mind the gap - contrast with the private sector - 25 years*

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