

Northamptonshire Pension Fund The 2016 Actuarial Valuation



What you need to know ... and possibly do soon

- Douglas Green
- Jamie Clark
- 21 April 2016

What are we going to cover?

Actuarial valuation basics



How your contributions will be set from April 2017



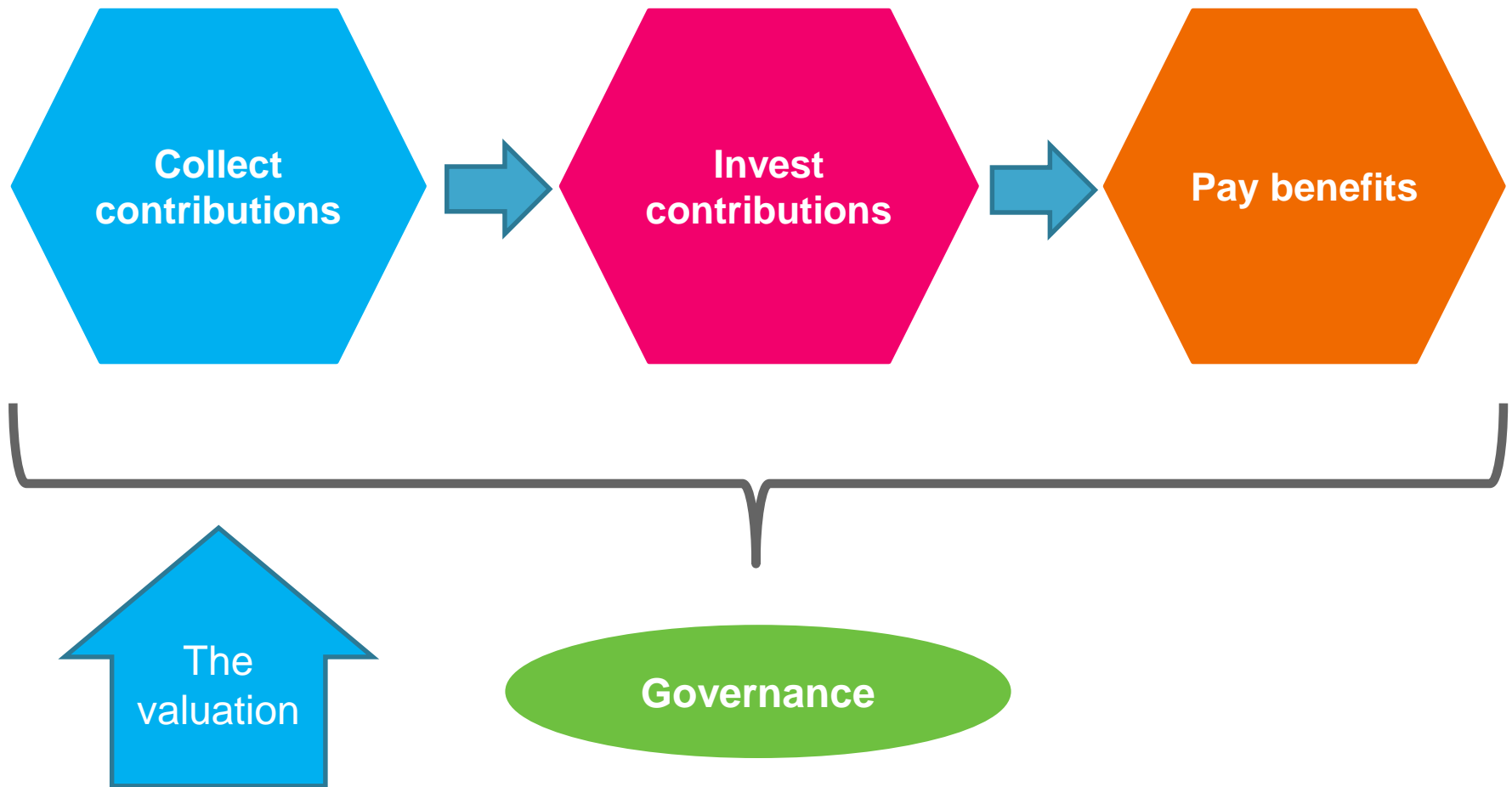
What you need to look out for



Actuarial valuation basics



The basics of a funded pension scheme



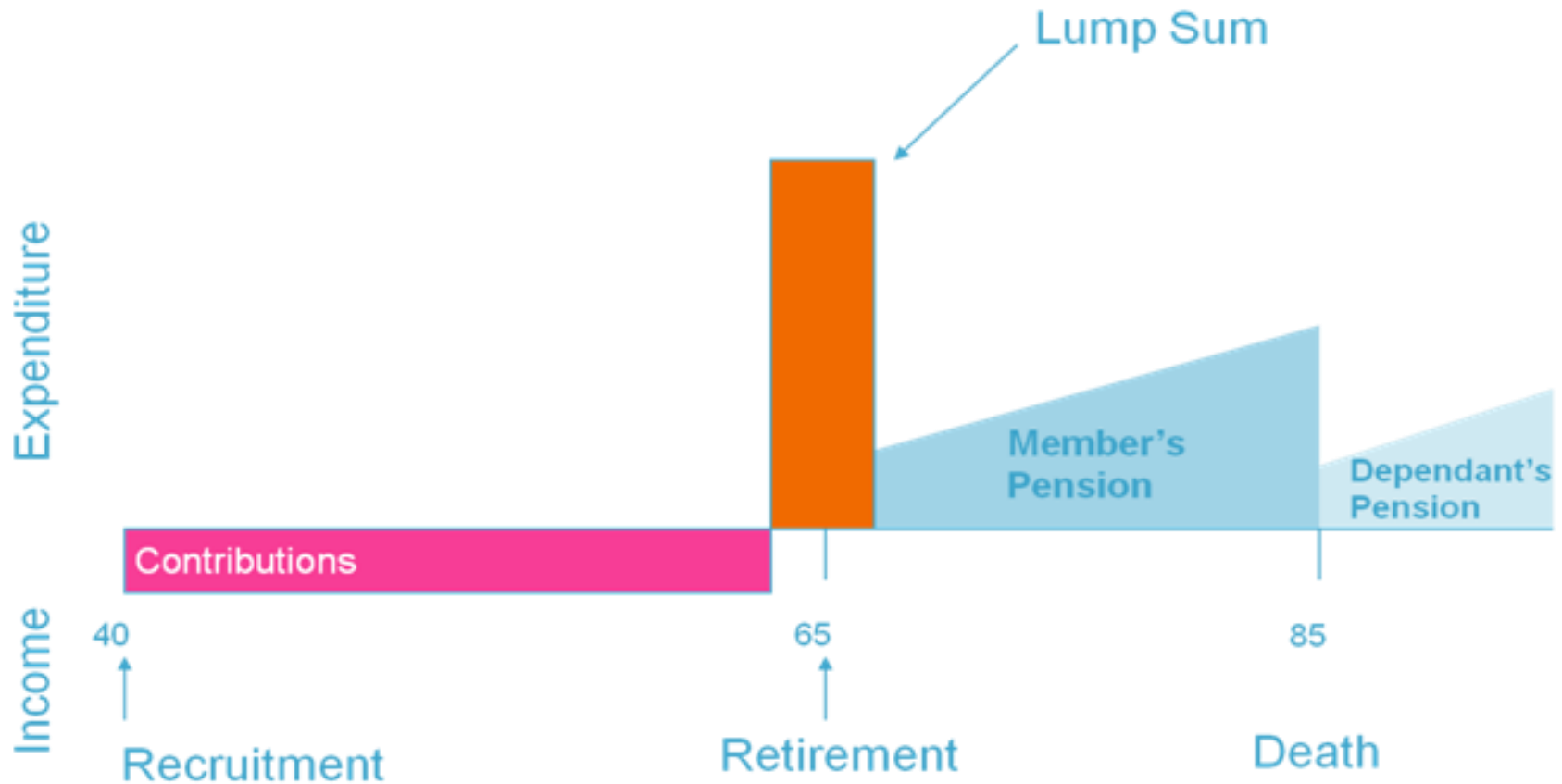
Why do we do a valuation?

- **Assess** how well pension promises are covered
- **Monitor** experience vs. assumptions
- Set **credible** funding plan
- Consider potential **risks** to the Fund & employers
- Every three years: next one as at **31 March 2016**

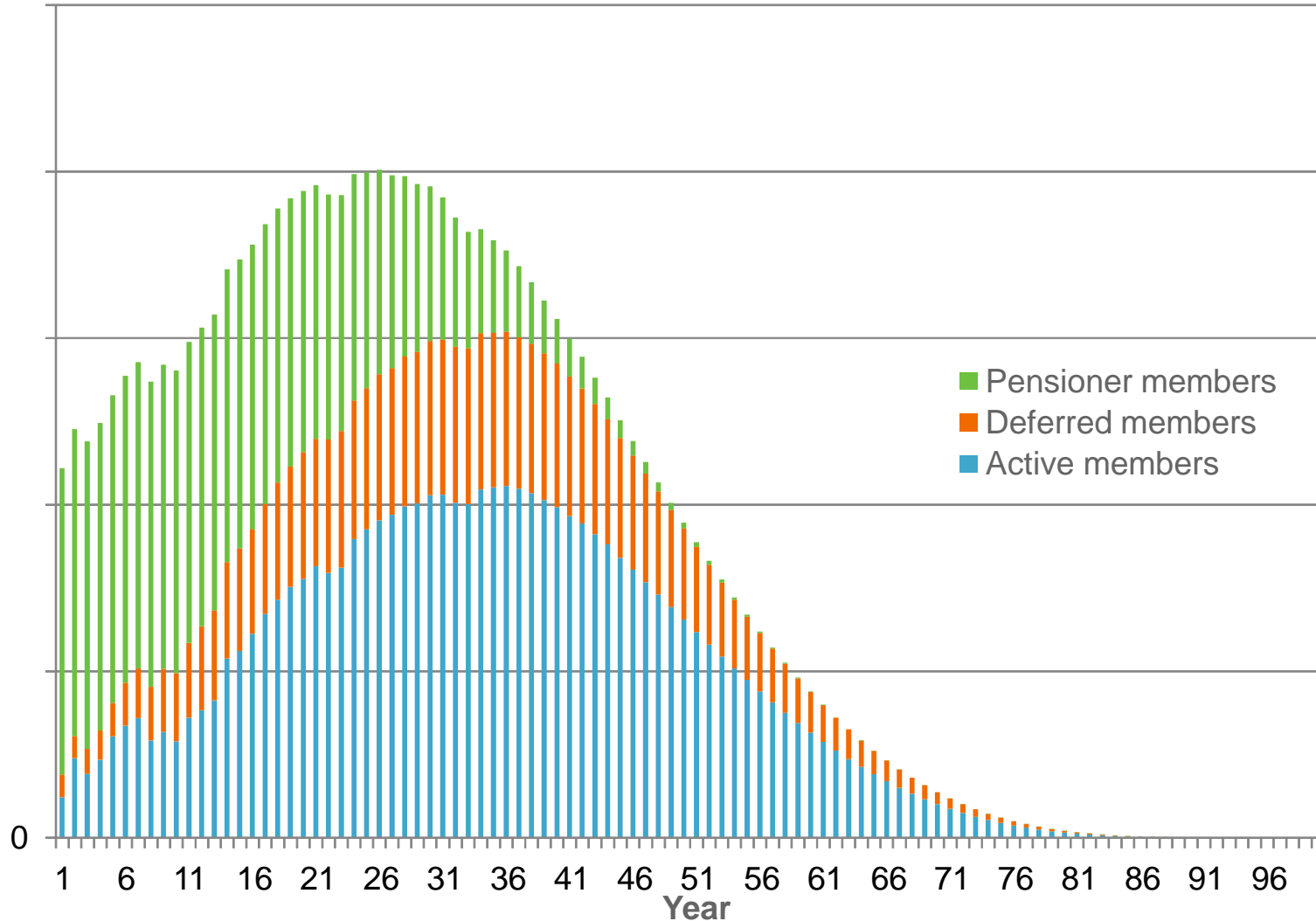
Central part of risk management of the Fund



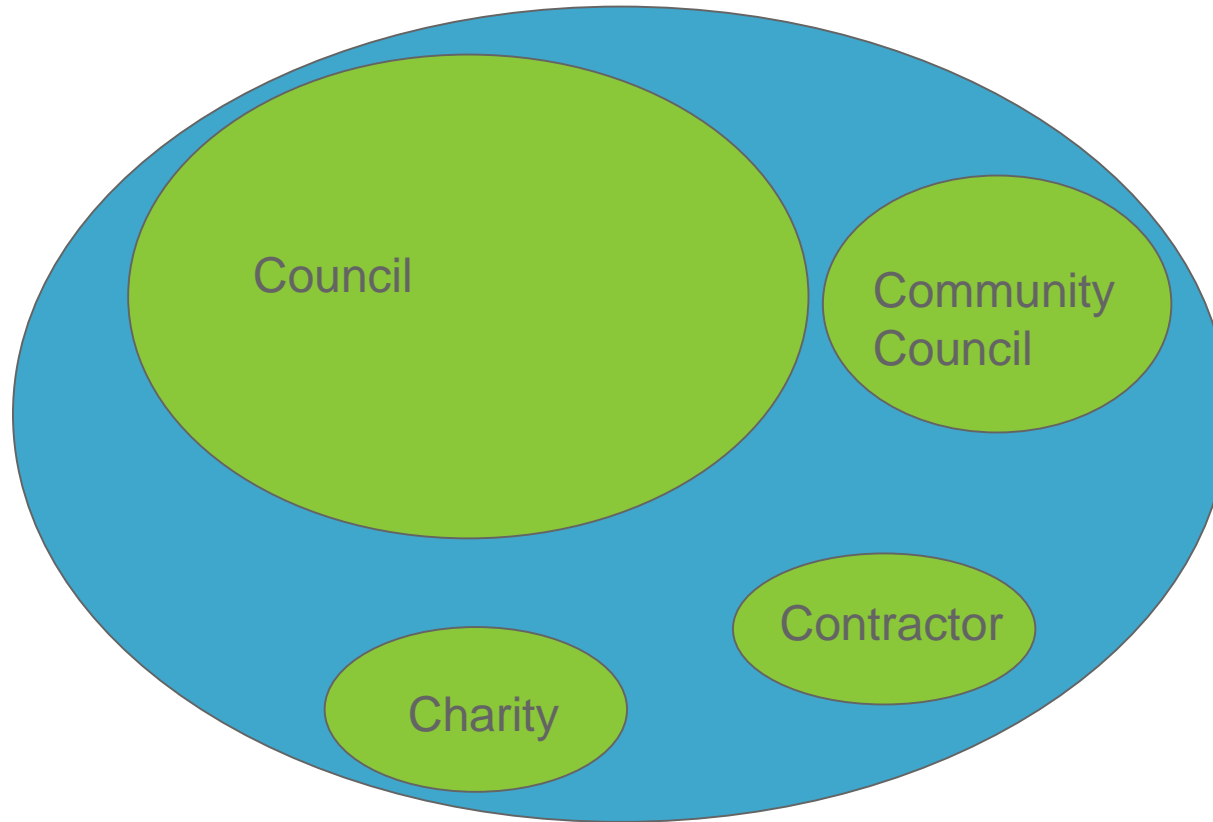
Valuing a single member



Projected pension payments



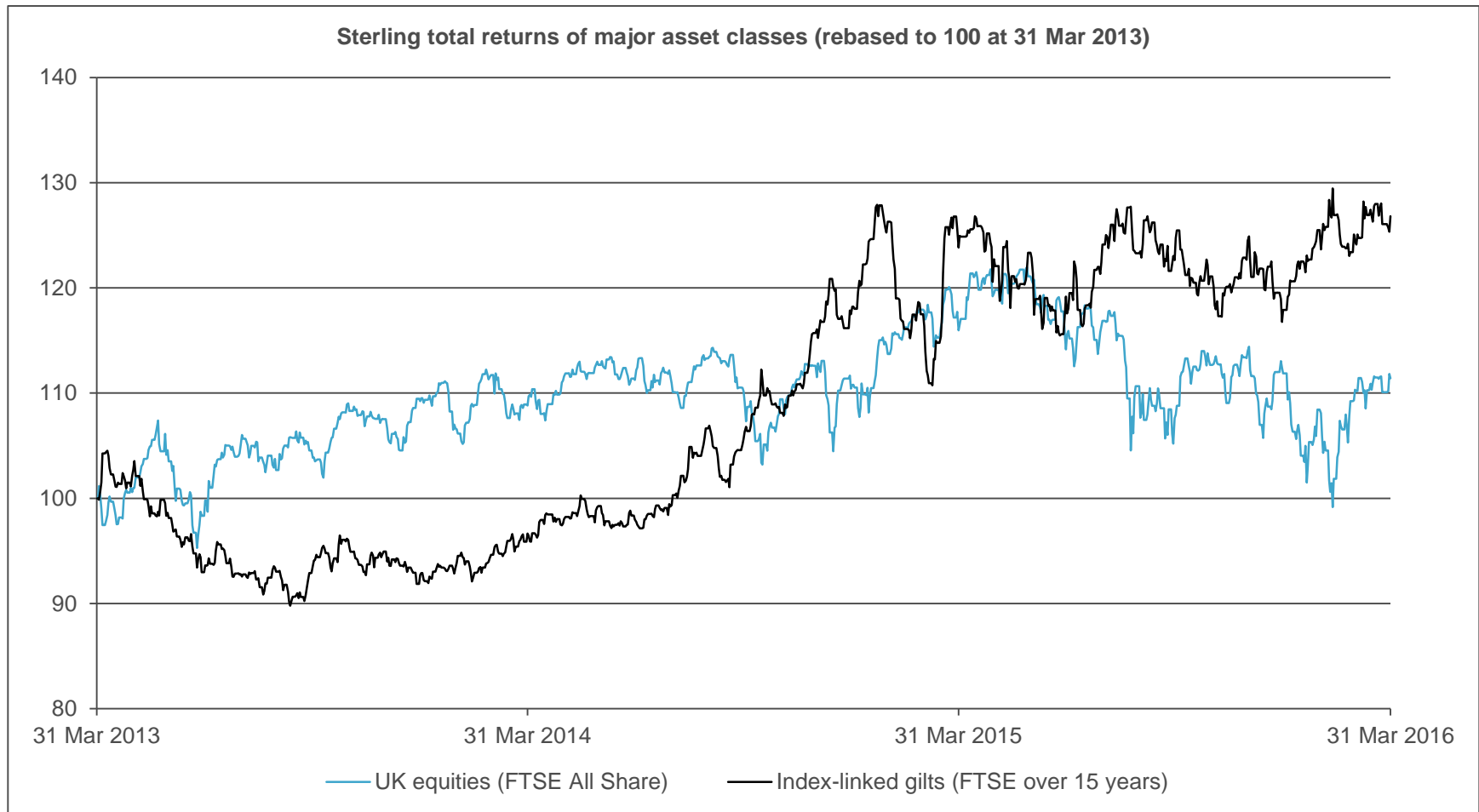
One big pot of assets















Ring-fenced employer assets and liabilities

Actuary calculates how much is notionally allocated to each every three years

Market conditions since 31 March 2013



Experience since 2013

| Key driver | Deficit | Contribution rate | |
|--|--|--|--|
| Market conditions (net discount rate) |  |  |  |
| Investment returns |  |  |  |
| Life expectancy |  |  |  |
| | | | |
| Overall Impact |  |  |  |

Possible 2016 valuation timeline

2015 & early 2016

Valuation discussions with Fund

May/June 2016

Data cleansed and submitted by Fund to actuaries.

October 2016

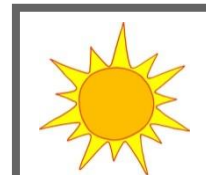
Initial results and assumptions discussed and agreed with Fund.

December 2016

Employer results and funding strategies agreed in principle.
Employer forum and surgeries held.

March 2017

Final valuation report signed off by 31 March 2017.



30 April 2016

Data submitted by employers.

July – September 2016

Actuarial calculations processed.

November 2016

Individual employer results calculated and issued. FSS consultation.

February 2017

End of employer consultation.
Final employer results and FSS agreed.

1 April 2017

New contributions start to be paid.

How your contributions will be set from April 2017



Setting our goals



What is our funding target?

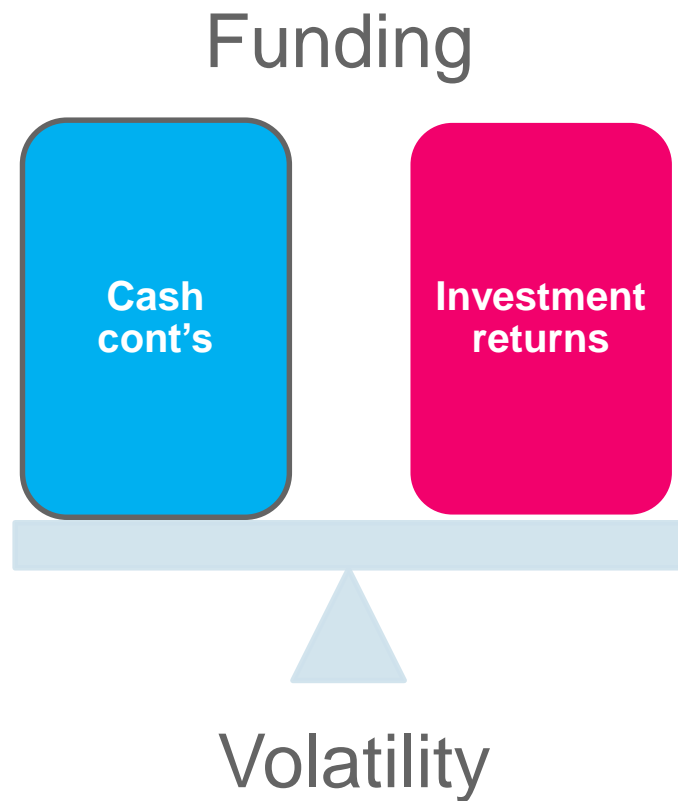


How long do we want to give ourselves to get to the target?



How sure do we want to be that we hit the target?

A balancing act

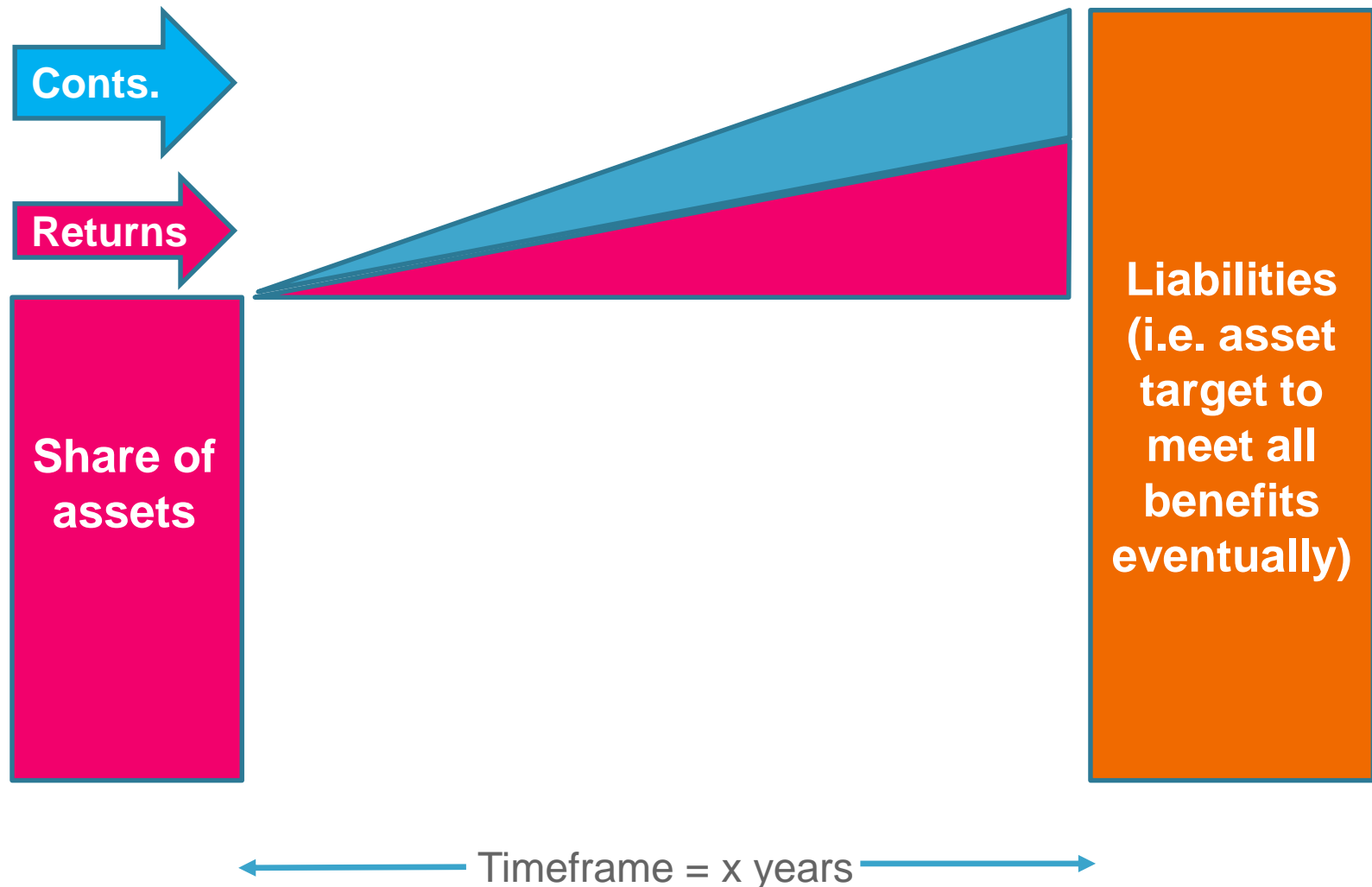


- Higher expected investment returns ...
- ... mean less cash cont's required from employers ...
- ... but also mean more risk to the Fund ...
- ... so we need to factor in strength of employer covenant.

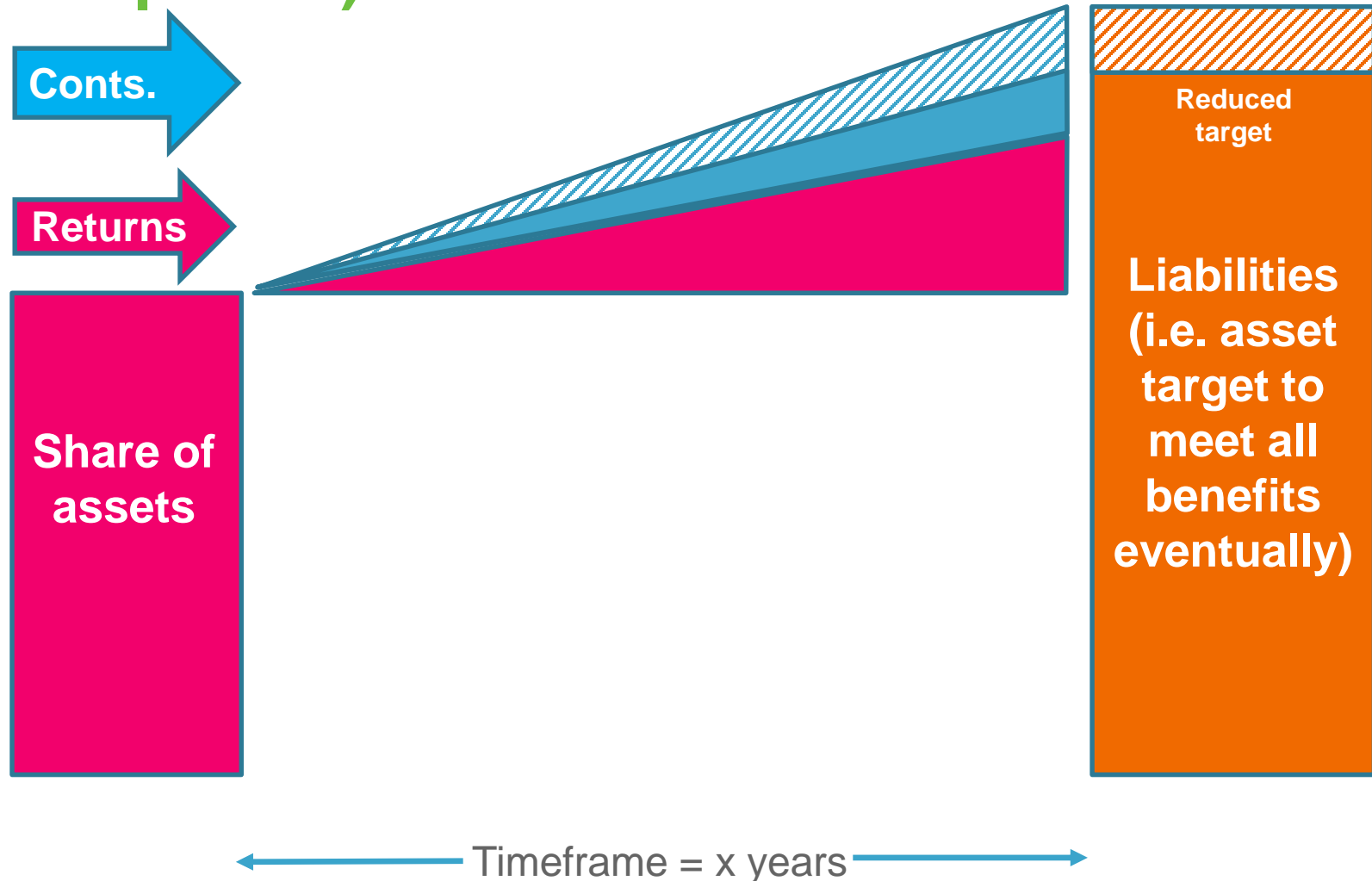
How to set a credible funding plan

| Feature | Implications for funding strategy |
|-------------------|--|
| Security | (eg charge on employer asset) Will allow greater flexibility around term of deficit recovery |
| Maturity | More mature employer = higher % payroll required (therefore better to pay deficit as £) |
| Term | Contractors aim to be fully funded by end of contract term |
| Planning to exit? | If a non-contractor is heading for cessation, then plan conts accordingly |
| Open or closed? | If closed to new entrants then allow for ageing of membership (usually higher conts) |
| Review triggers | Significant changes to employer or membership may trigger a review of conts |
| New employer | New employers will need starting assets and contribution rate calculated – how? |

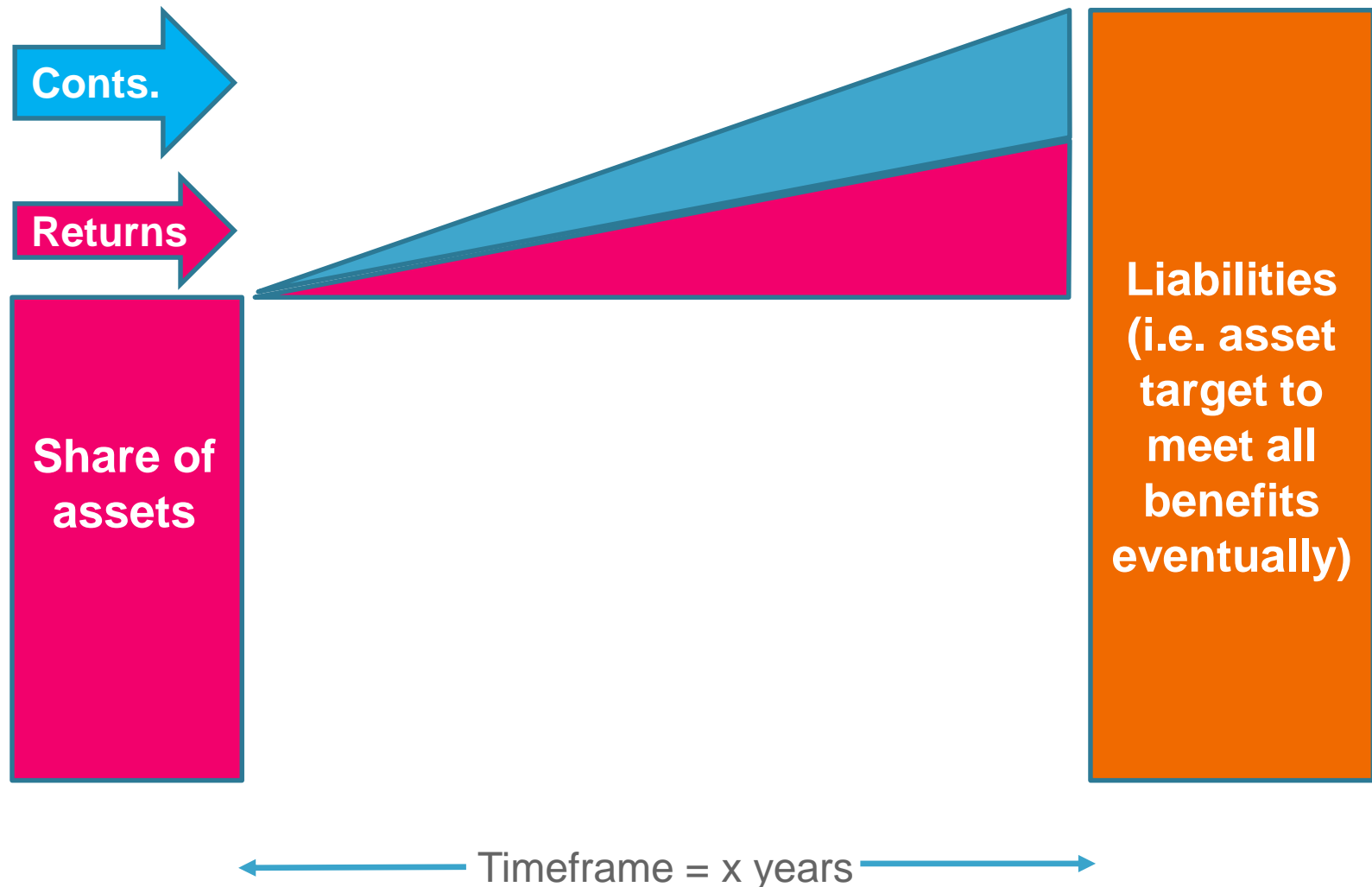
In principle



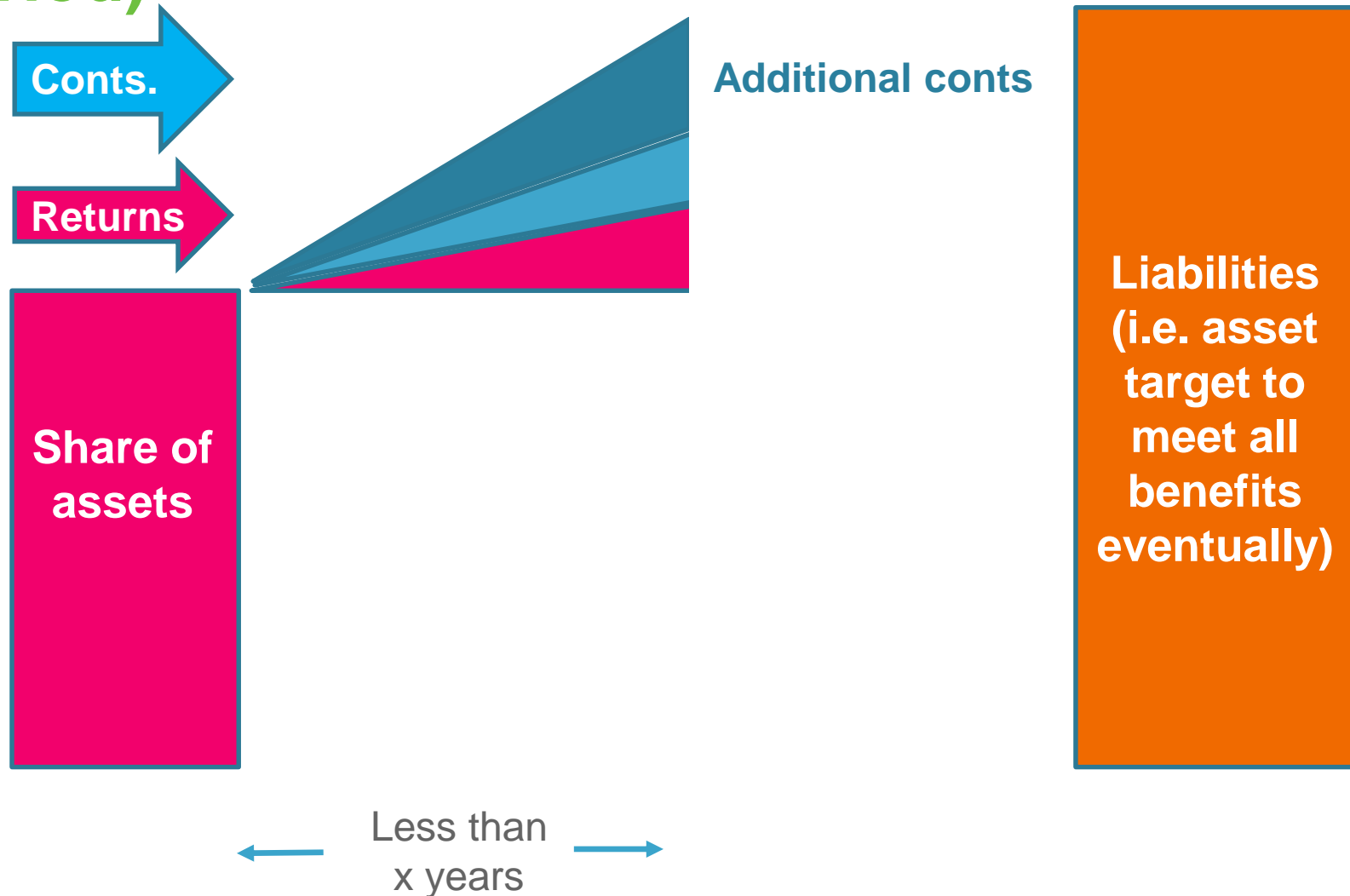
1. Varying the target (eg altered assumptions)



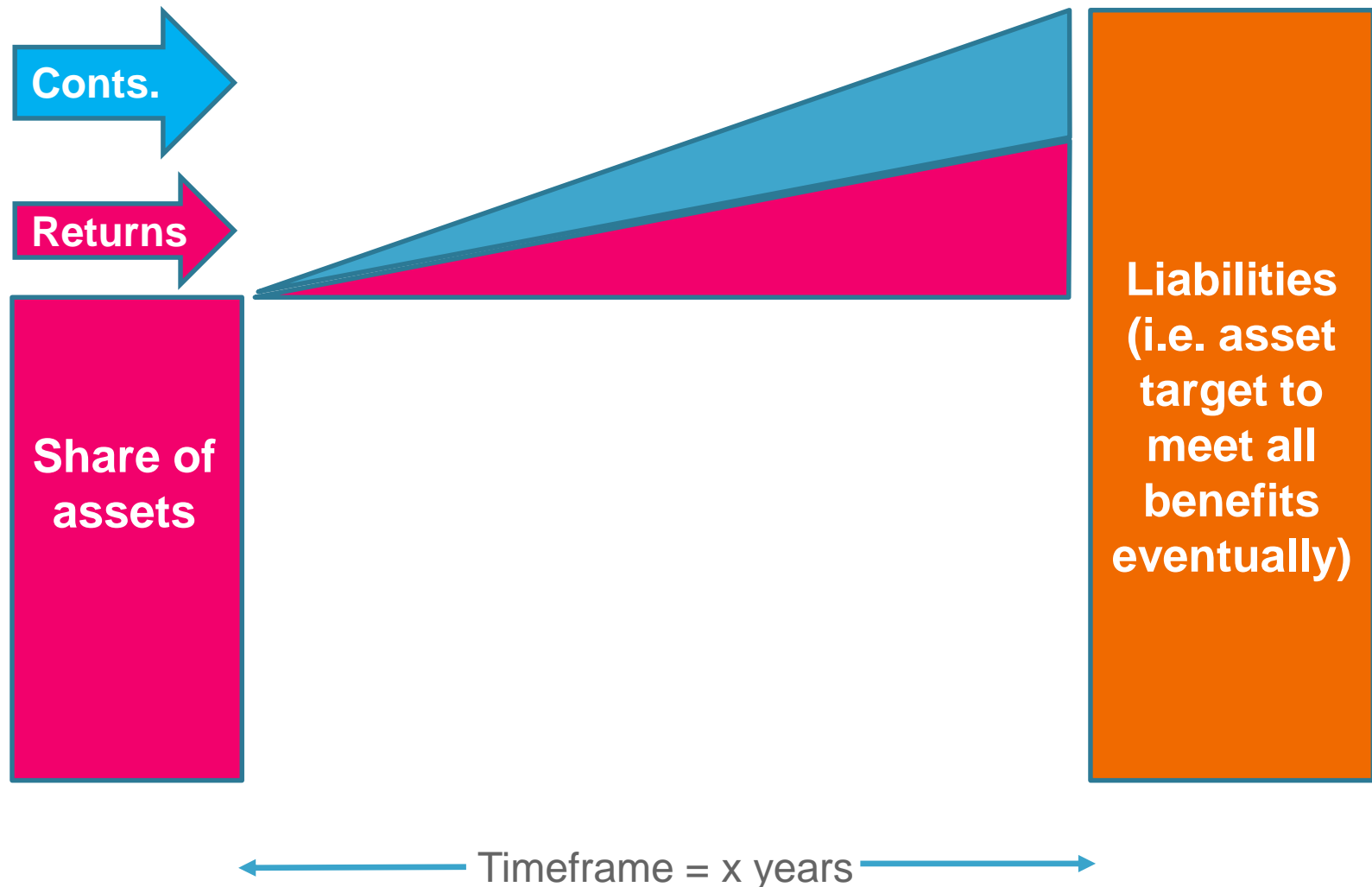
In principle



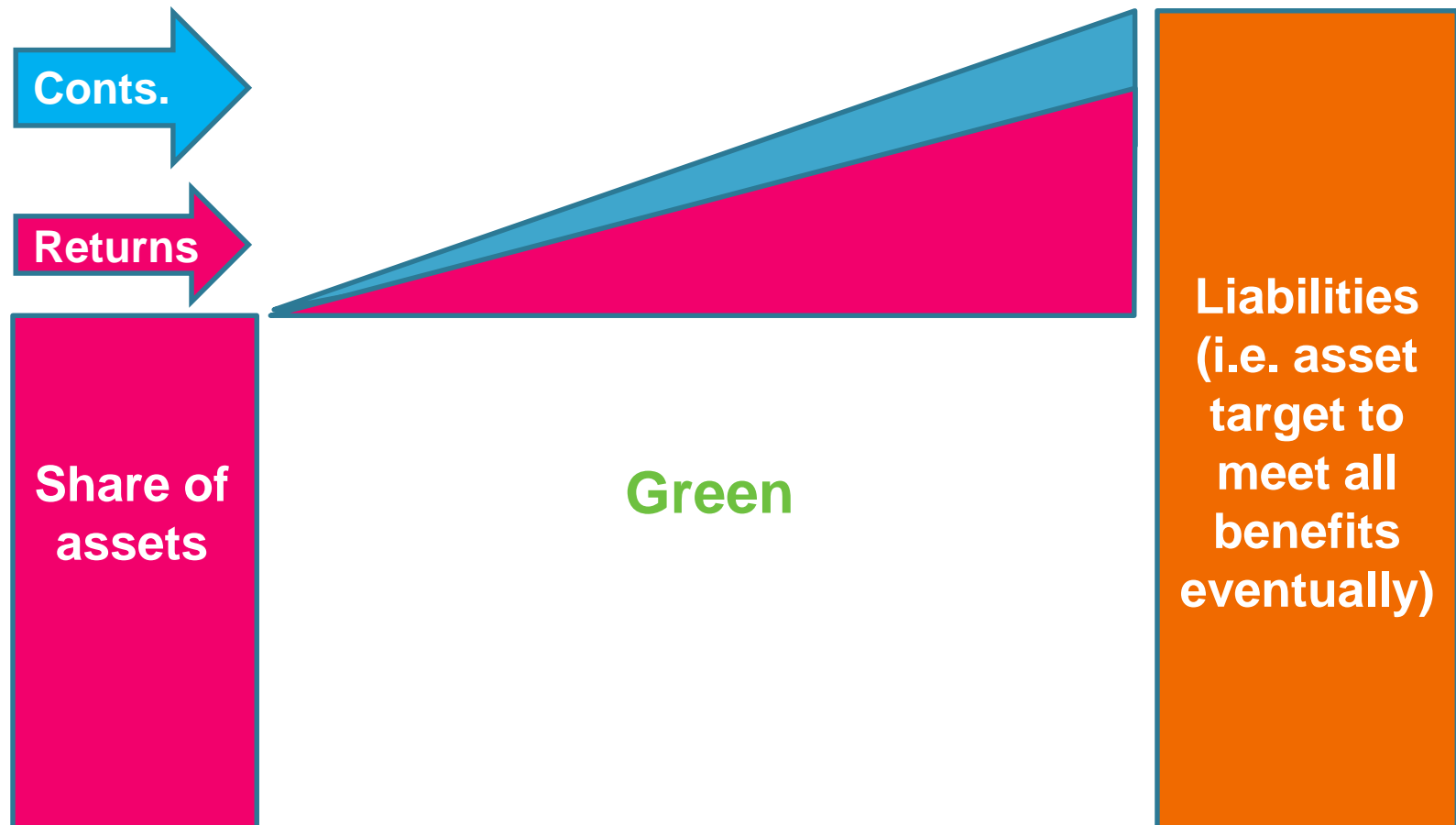
2. Varying the timeframe (deficit recovery period)



In principle

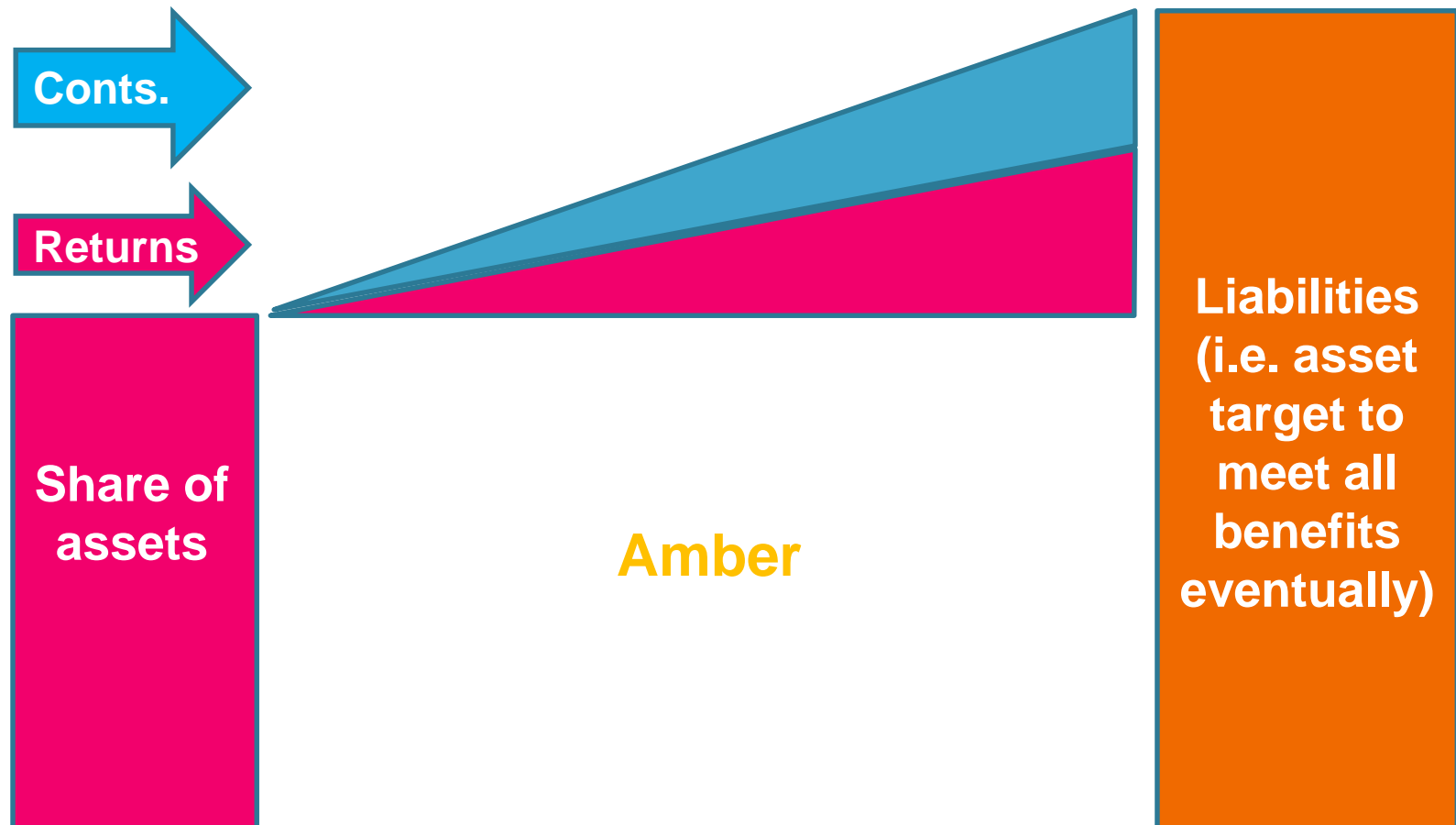


3. Varying the risk/probability - Green



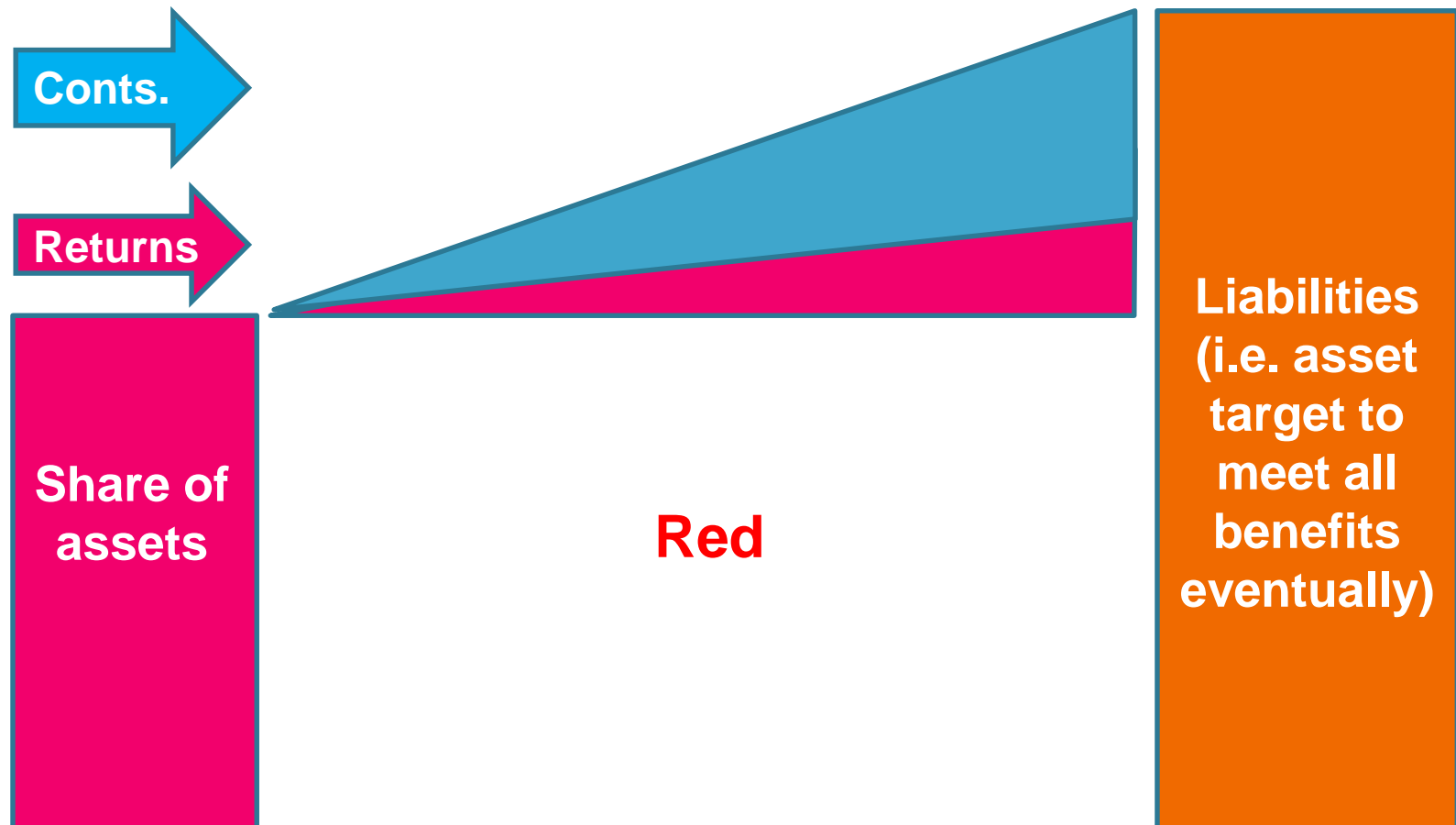
Employer profile links to contributions

3. Varying the risk/probability - Amber



Employer profile links to contributions

3. Varying the risk/probability - Red



Employer profile links to contributions

What you need to look out for



Concerned about contribution levels?

- Your obligation to current and former employees (and their dependants)
- Remember: cash conts generate investment returns, i.e. reducing your future cash cont obligations
- Enter into early discussions with Officers re:
 - Timing of contribution rises?
 - Suitable term of deficit recovery?
 - Provide security / guarantor?
- Relaxation in contributions requires the Fund to protect the other employers – “*quid pro quo*”

Understanding what changes your deficit (or your rate)



Salary increases

Contributions

Workforce restructuring



Outsourcings

Ill health retirements

Your actions have a reaction in your pension costs

FSS consultation with all employers in 2016

➤ Purpose

- establish a clear and transparent fund-specific strategy,
- how contributions are set for different types of employer,
- how contributions vary in different circumstances.

➤ Consider

- strength of employer covenant
- funding risks and controls
- inter-valuation monitoring

➤ What does it mean for you?



2016 valuation: what you need to do



- Speak to the LGSS team
 - Change in open/closed status
 - Affordability of contributions
 - Change in business/outsource
 - Exit planning
- Ensure all data provided is correct and up to date
- Watch out for communications
- Look out for Funding Strategy Statement (FSS) consultation

The scrutiny on the Fund is greater than ever



HM TREASURY



Public Service Pensions
(Record Keeping) Regulations

The Pensions
Regulator

Governance and administration of
public service pension schemes



Local Pension Board



Scheme Advisory Board



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