

Northamptonshire Pension Fund



Pensions and the 2013 Actuarial Valuation – Afternoon session

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- Natalie Edelsten
- 13 November 2013

Agenda

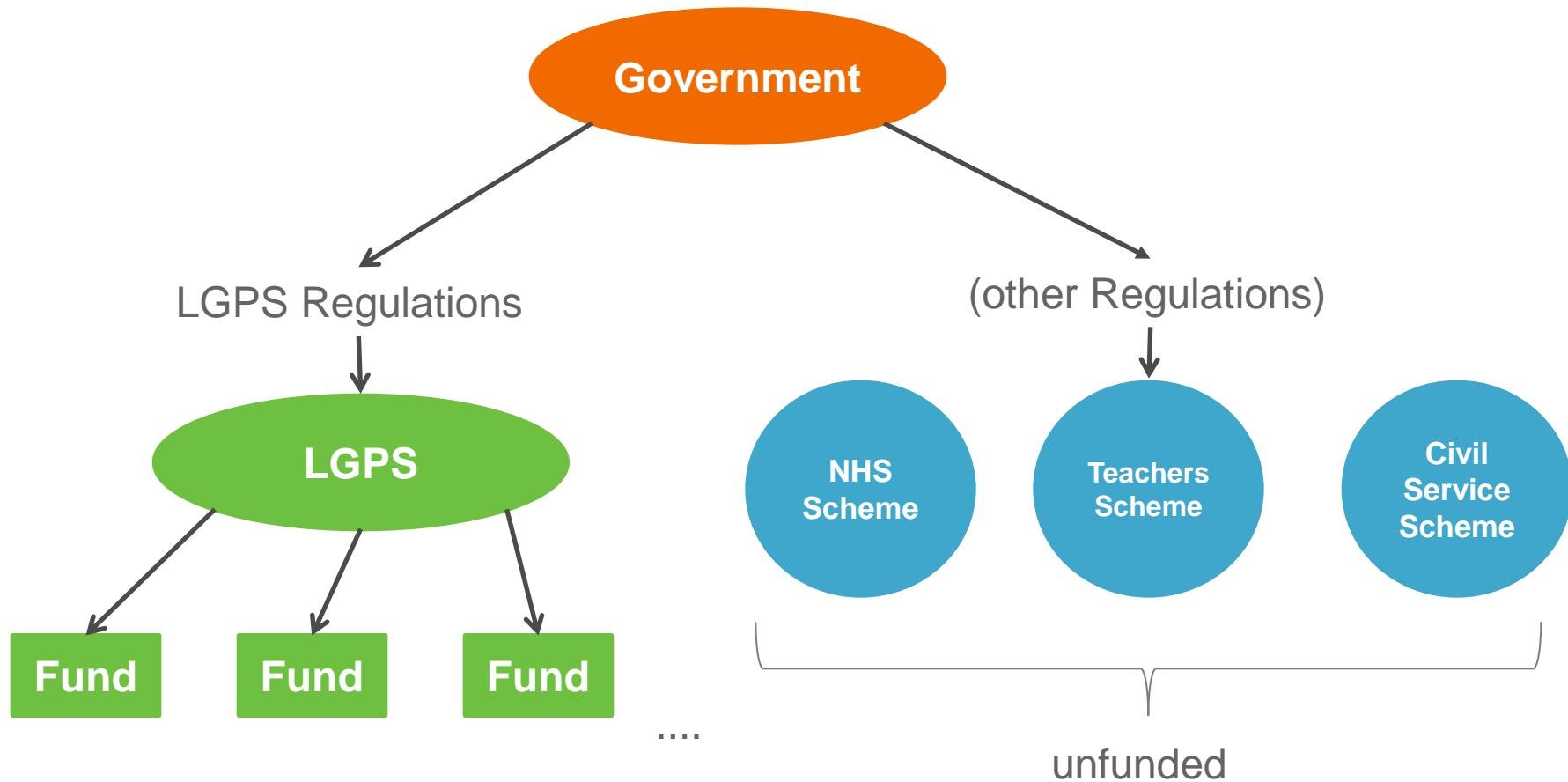
- Background to the Pension Fund
- Background to the valuation
- Placing a value on the future cashflows
- Recap of 2010 valuation and what to expect
- Employers' contribution rates

Please ask questions as we go along

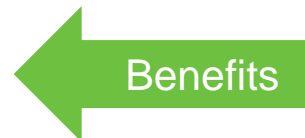
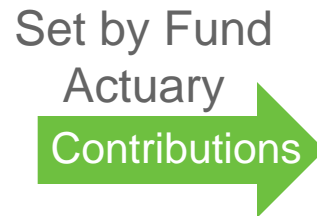


Background to the Pension Fund

Public sector pension schemes



Local Government Pension Scheme



Administering Authority



Northamptonshire Pension Fund

- More than 53,000 members
- Managing assets of £1,543m*
- Over 200 employers
- A few pensioners over 100!
- Shared resources and expertise with Cambridgeshire Pension Fund

*as at 31 March 2013



Background to the valuation

Why do we do a valuation?

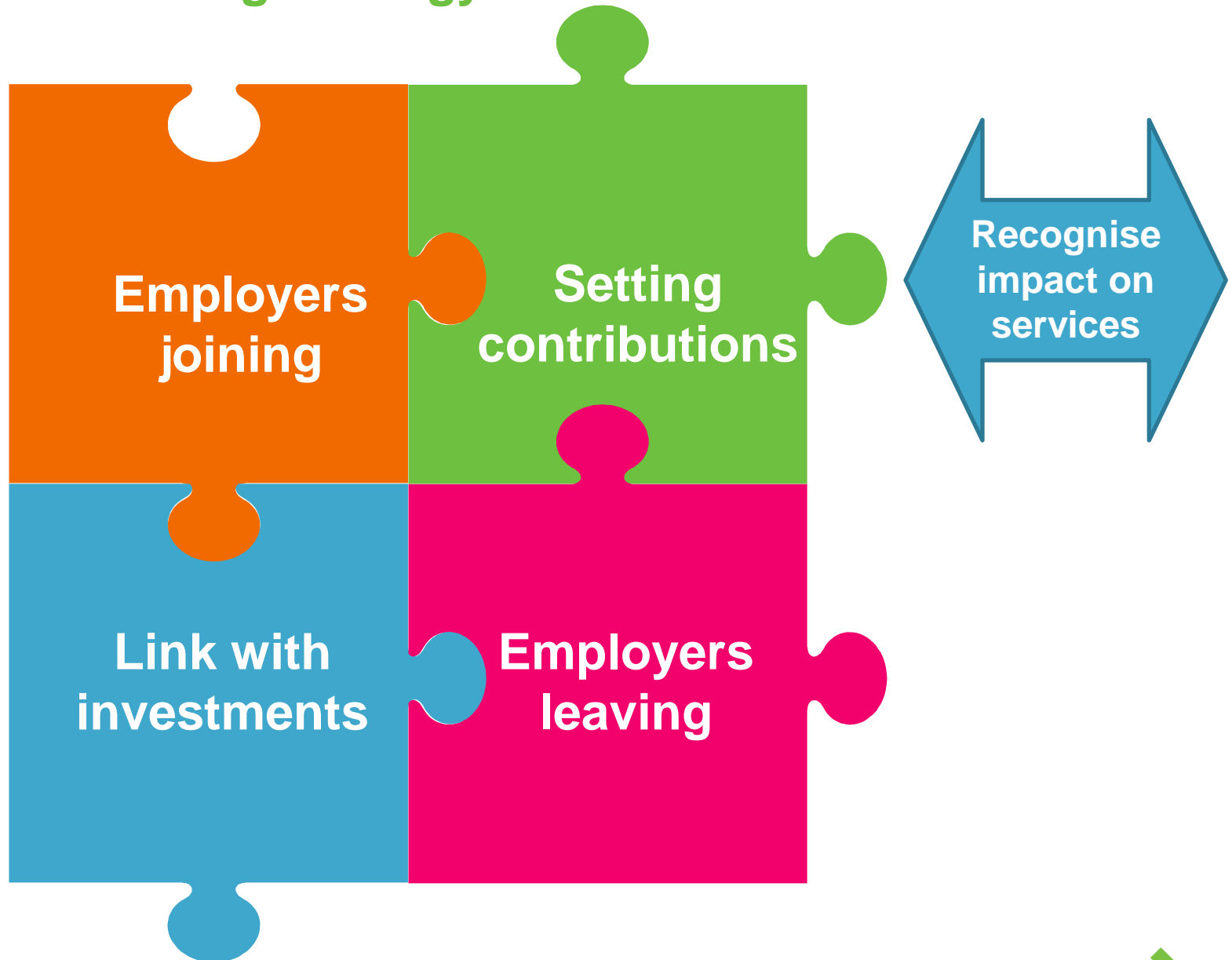
- We have to!
- Assess how well pension promises are covered
- Monitor experience vs. assumptions
- Recommend employer contribution rates for next 3 years
- Manage potential risks to the Fund & employers

How the Fund works

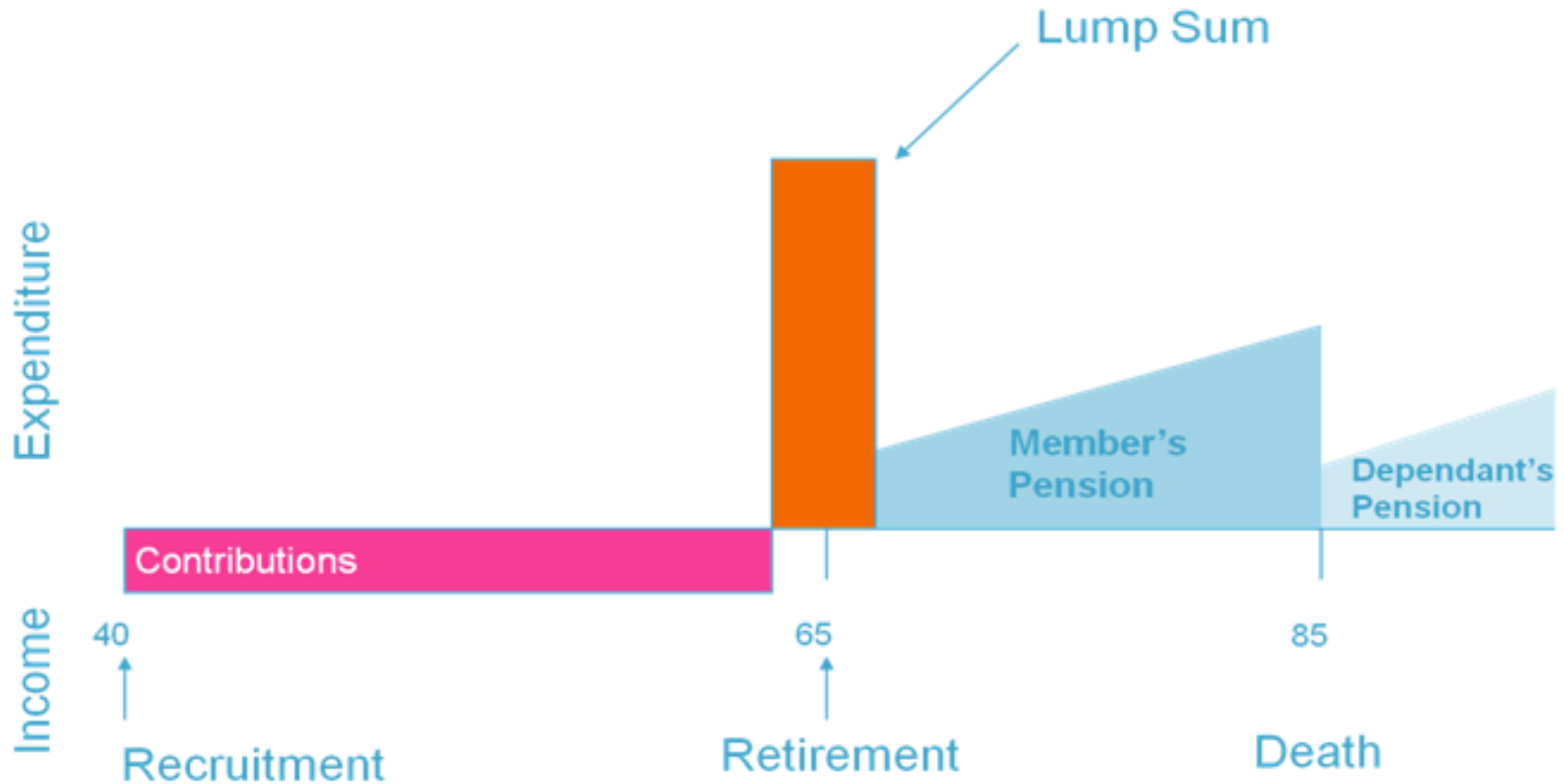


- a) Determined by investment strategy and manager performance
- b) Determined by LGPS Regulations
- c) Must meet balance of cost over longer term: valuation calculation

What is the Funding Strategy Statement for?

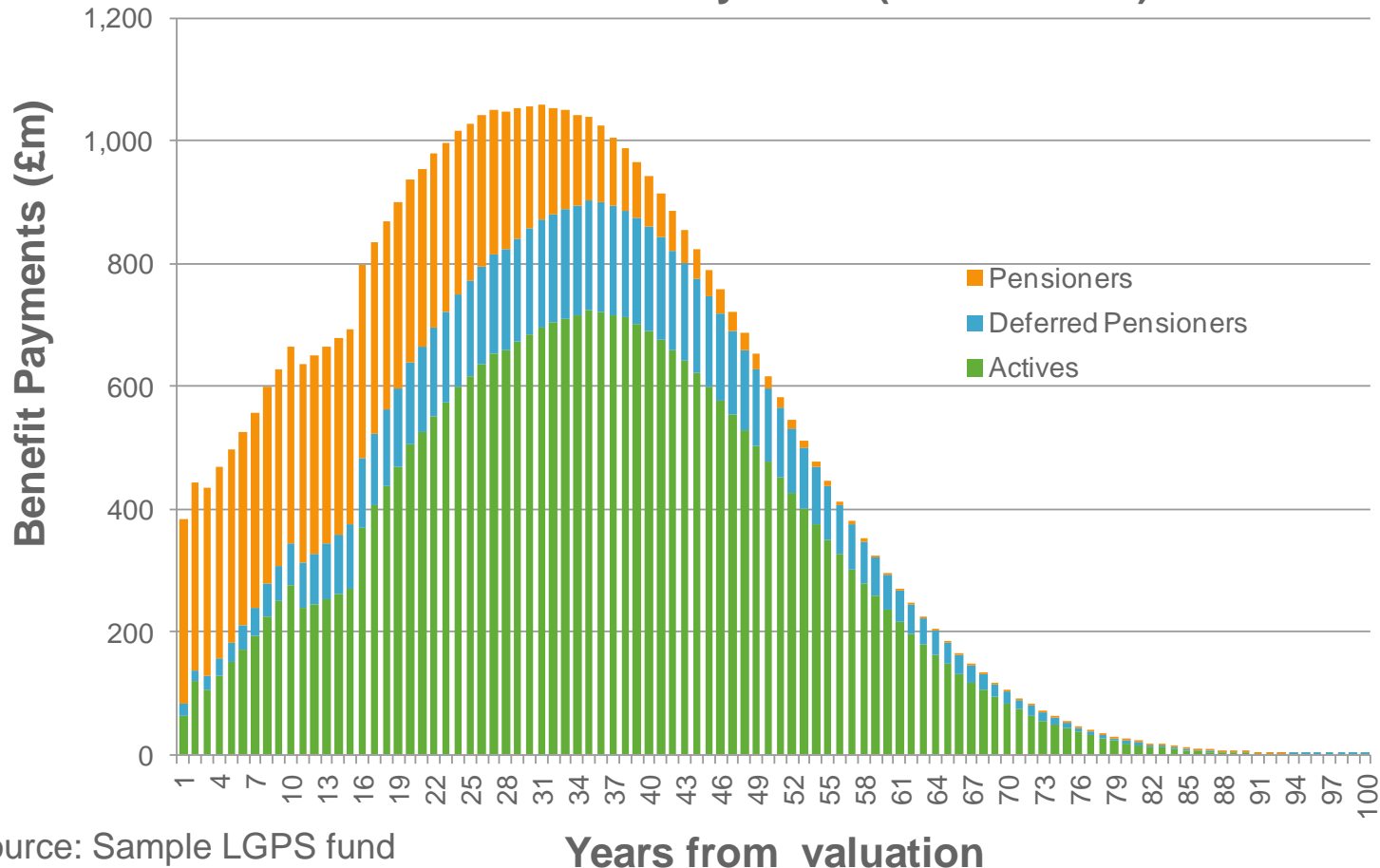


Valuing a single member



Valuing all members

Future Benefit Payments (Past Service)



But we don't need all this money today!



Placing a value on the future cashflows

Long term assumptions

➤ Financial

- Salary increases
- Pension increases
- Discount rate



➤ Demographic

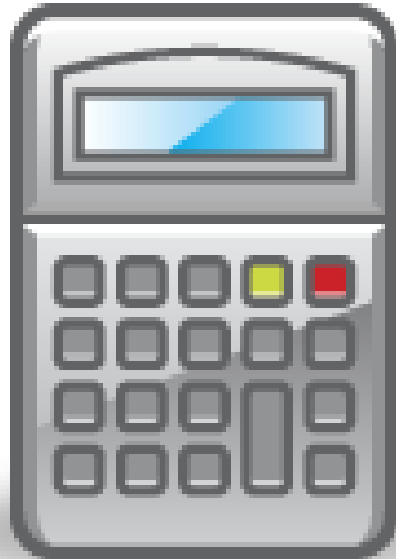
- Longevity
- Early leavers
- Retirement age
- Dependants



CPI

- There is no consistent measure of future CPI
- But there is for RPI

2010 valuation $CPI = RPI - 0.5\%$

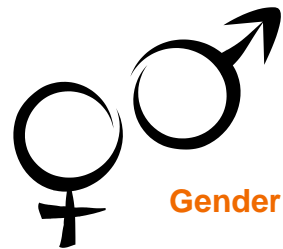


2013 Valuation $CPI = RPI - 0.8\%$

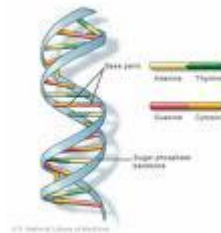
What affects mortality/longevity?



Age



Gender



Genetics



Health



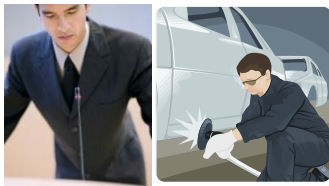
Fitness



Wealth



Where you live



Blue or white collar?



Marital status

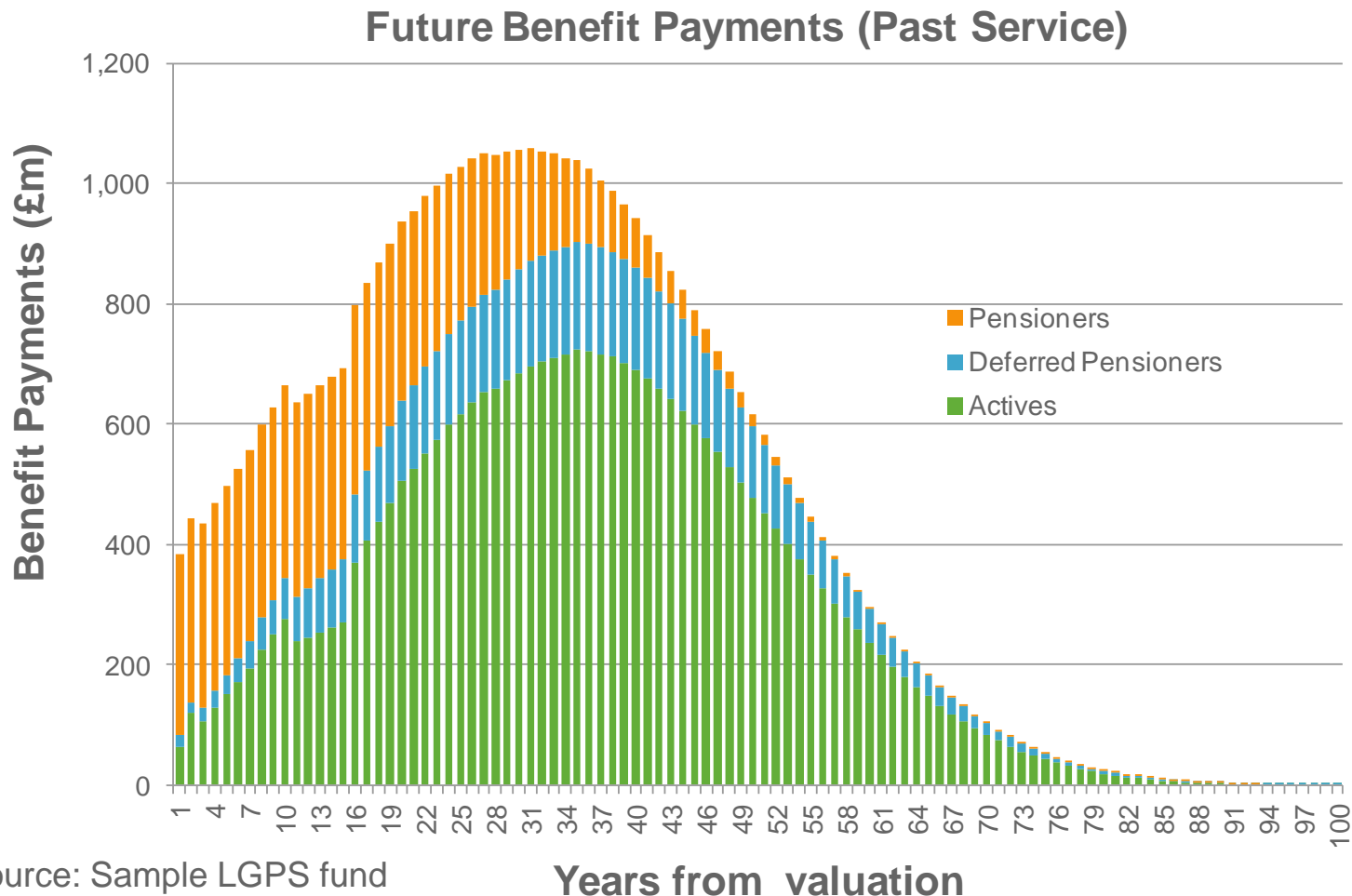


Smoker?



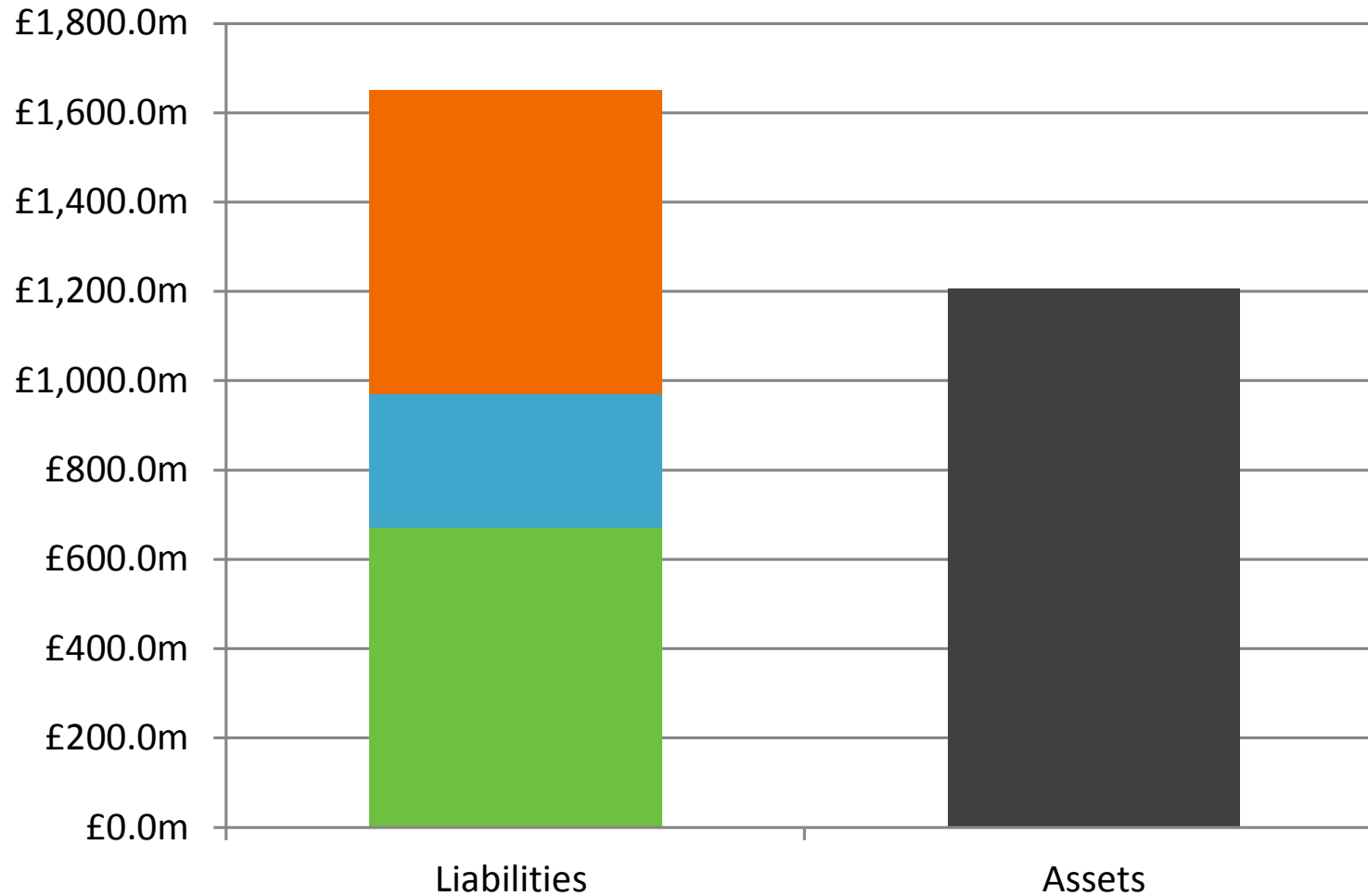
Recap of 2010 valuation and what to expect

Valuing all members



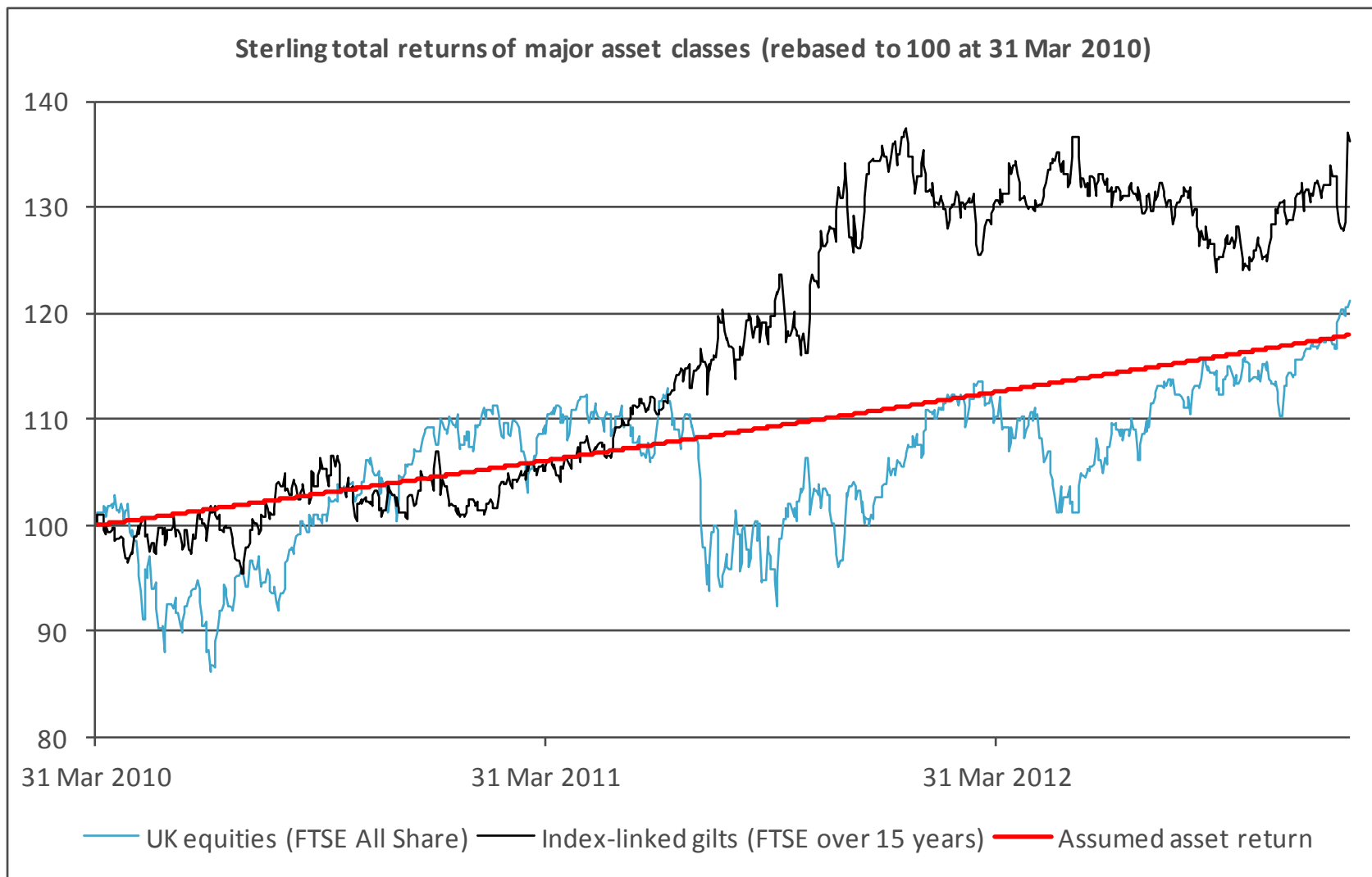
But we don't need all this money today!

Where we were






31 March 2010

Market movements since 2010



2010 to 2013

	2010 Valuation assumptions (p.a.)	Actual experience 2010 – 2013 (p.a.)	
Investment return	6.1%	8.0%	
Price inflation	3.3%	3.5%	
Salary Increases	5.3%*	1.7%	

*1% p.a. for 2 years

Where we are now – Draft results

	2010 Valuation	2013 Valuation (Draft results)
Funding level	73%	70%
Future service rate	16.2%	19.0%*
Deficit	£445m	£650m

*excluding expenses

What to expect

- Contribution rates will increase for most employers;
- Deficits will increase for most employers;
- Large variability between employers;



Employers' contribution rates

Employer contribution rates

Expressed as a % of pay

Future
Service
Rate



Deficit
Recovery

% of pay or lump sum amount

All employers are not the same

Term

Maturity

Security

Guarantor

Planning to
exit

Closed

Credible
funding
plans

Assessing employer covenant

➤ Issues

- What is risk of employer leaving Fund?
- What is risk to Fund if employer leaves?

➤ Employer risk

- Tax-raising powers
- Type of body (Scheduled, TAB, CAB)
- Open or closed to new entrants
- Guarantor in place?
- Financial strength
- Funding position/size of liabilities
- Heading to cessation?

Less secure & shorter-term employers

Challenge: protect the Fund

avoid pushing employers into insolvency

- Reconsider deficit recovery
- Seek additional security
- Understand the risks
- Assess the likelihood of meeting target funding

Monetary amounts - example

Deficit recovery
at 31 March
2013

10% of pay



Deficit recovery = £10,000






Over 3 years



Deficit recovery = £6,000

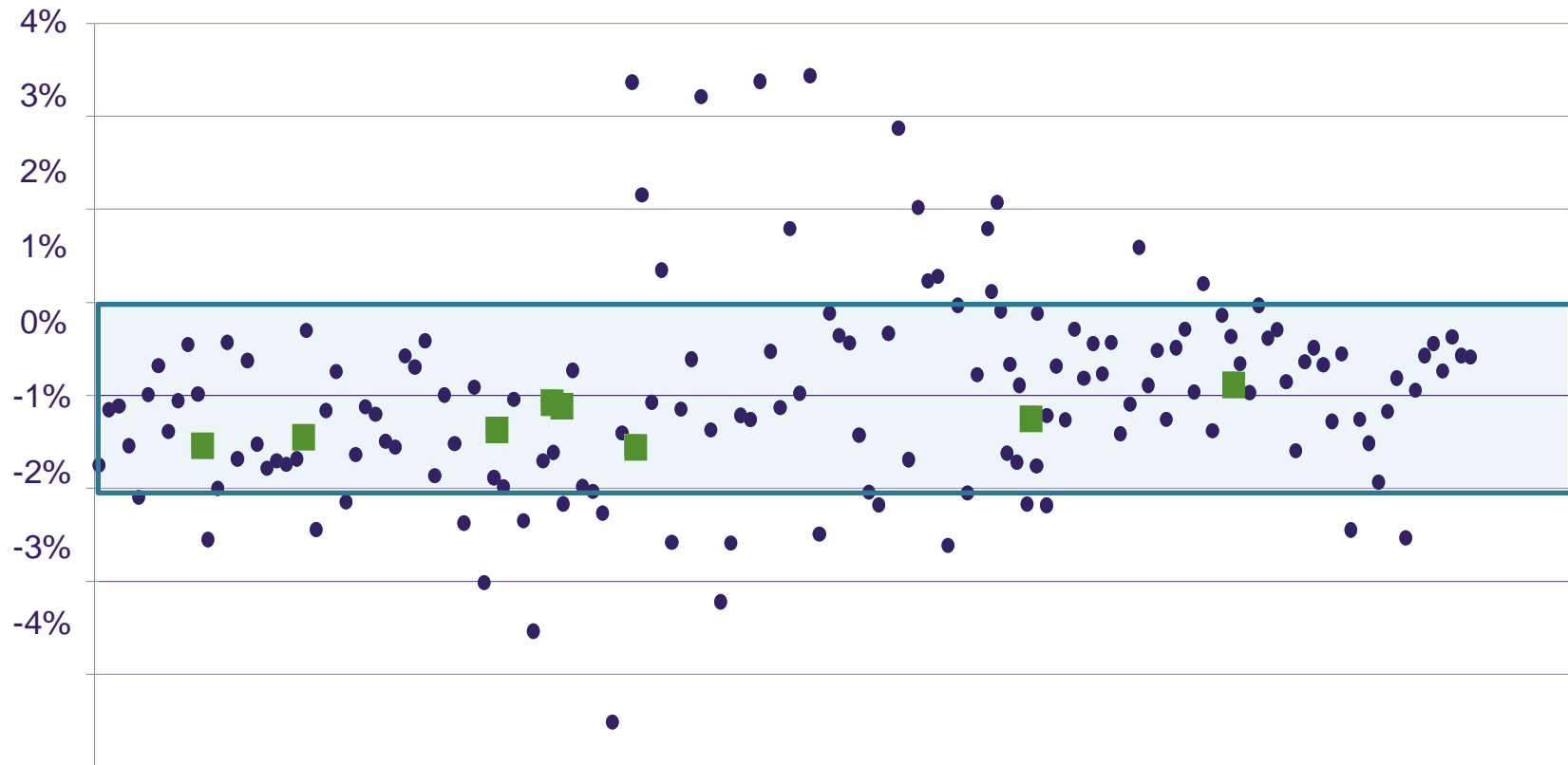
Monetary amounts protect from falling payroll

2014 Scheme: Funding impact

	Existing Scheme	New Scheme	
Benefit Type	Final Salary	CARE with CPI revaluation	
Accrual Rate	1/60 th	1/49 th	
Retirement Age	65	State Pension Age	
Member Contribution Rate	Average 6.5% Full-time equiv. pay	Average 6.5% Actual pay	
Vesting Period	3 months	2 years	






- Accrued rights protected (incl. retirement age, R85, final salary link)
- Existing scheme underpin for members within 10 years of NPA (age 65) at 1 April 2012
- Introduction of a “50/50” option to bolster LGPS participation

LGPS 2014



Effect of new scheme between 0% and 2% of pay for most but not all

Contribution rates 2013 – Key drivers

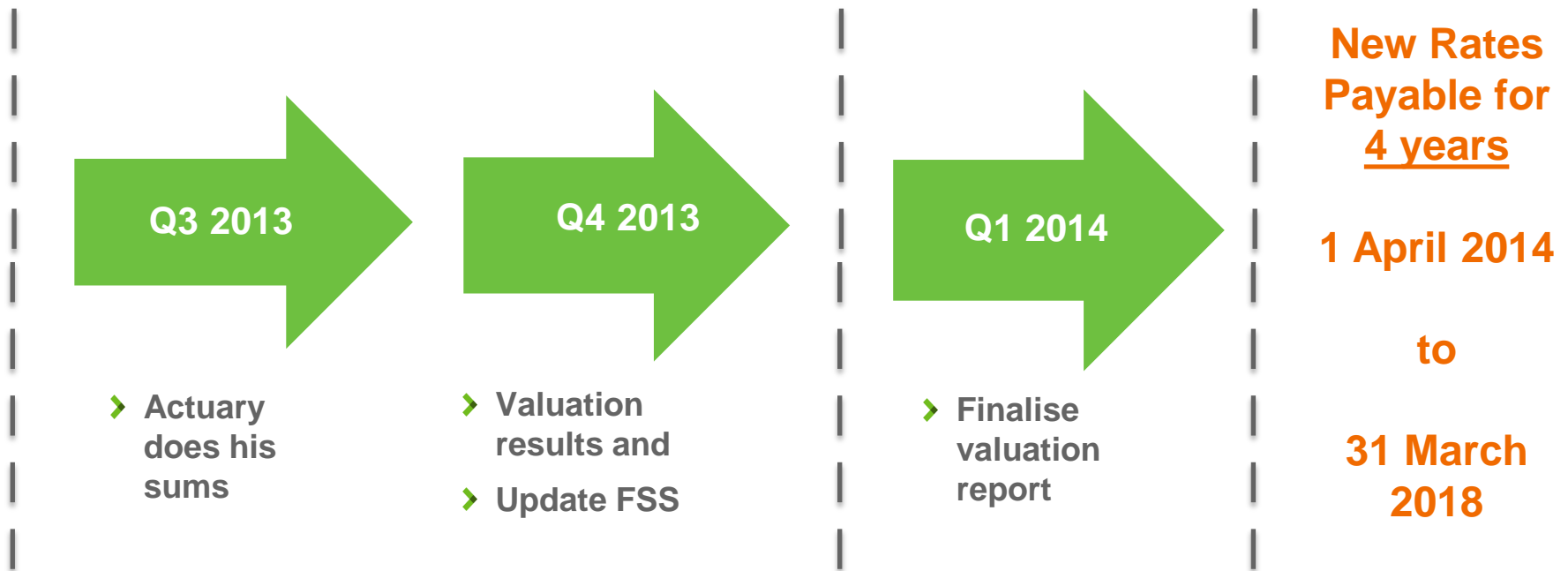
Key driver	Contribution rate	
Change in assumptions	↑	
Deficit	↑	
Life expectancy	↑	
New LGPS 2014	↓	
Overall Impact	↑	

Valuation timetable

31 March 2013

31 December 2013

31 March 2014



Take home messages

- Contribution rates will increase for most employers;
- Initial results will be issued in January;
- Keep in close touch with the Pensions Team!



Thank you

Any questions?