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Northamptonshire Pension Fund

Pensions and the 2013 Actuarial Valuation – Morning session

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- Natalie Edelsten

- 13 November 2013

PUBLIC SECTOR

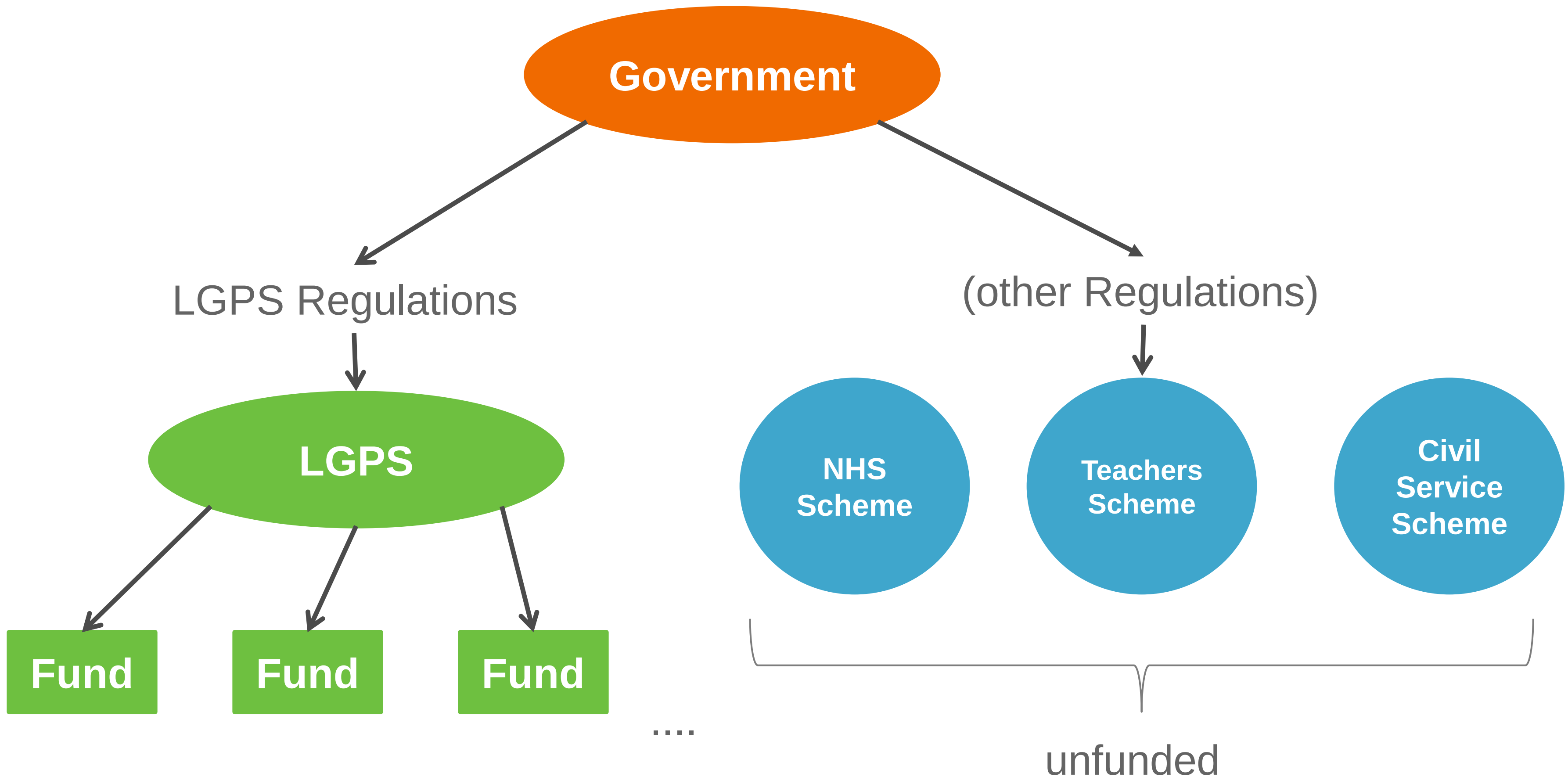
Agenda

- Background to the Pension Fund
- Background to the valuation
- Placing a value on the future cashflows
- Recap of 2010 valuation and what to expect
- Pooling for academies
- Employers' contribution rates
- Contribution rates – help is on the way

Please ask questions as we go along

Background to the Pension Fund

Public sector pension schemes



Local Government Pension Scheme

Administering Authority

Set by Fund Actuary

Employer

Contributions

Contributions

Benefits

Pension Fund

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

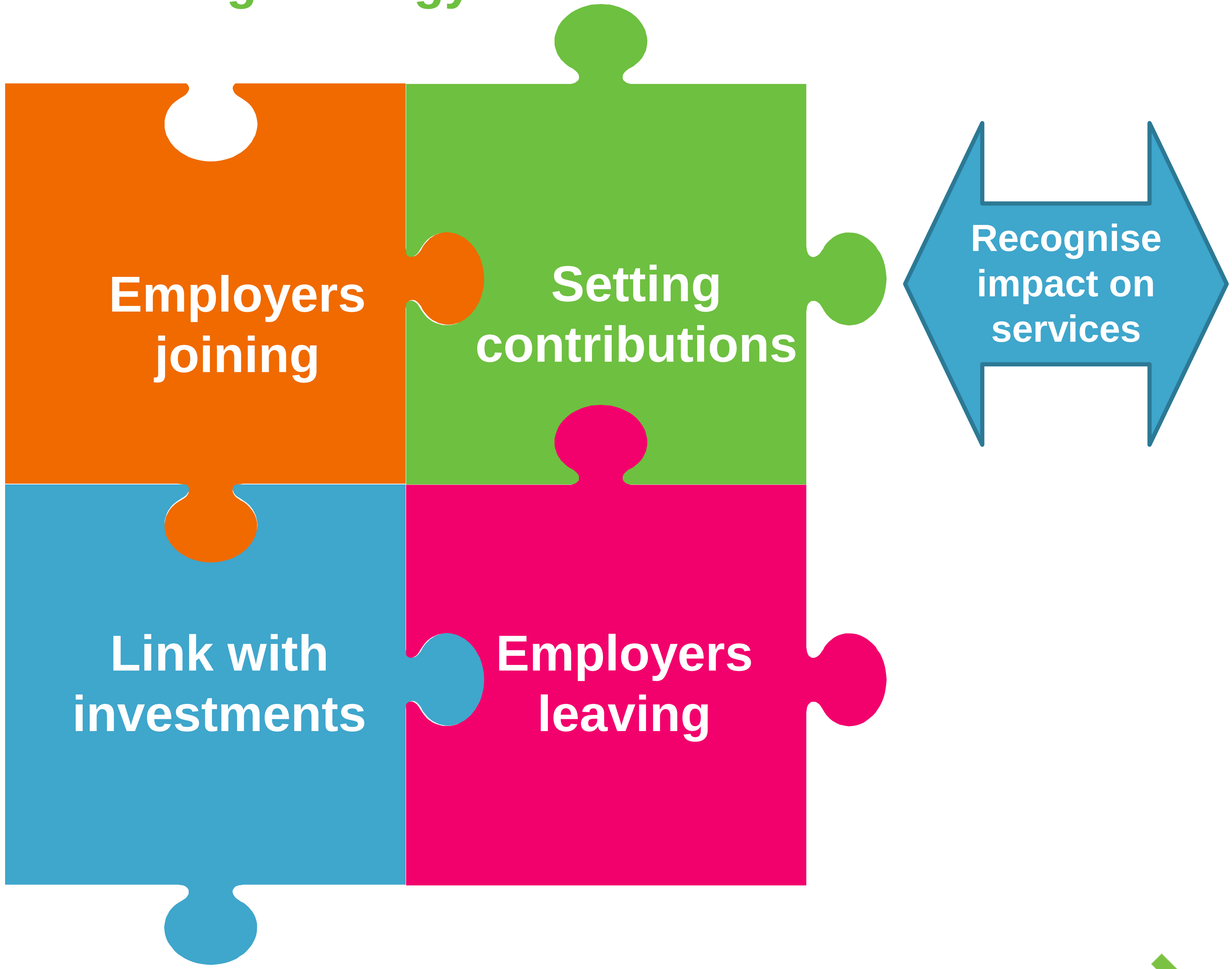
Why do we do a valuation?

- 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

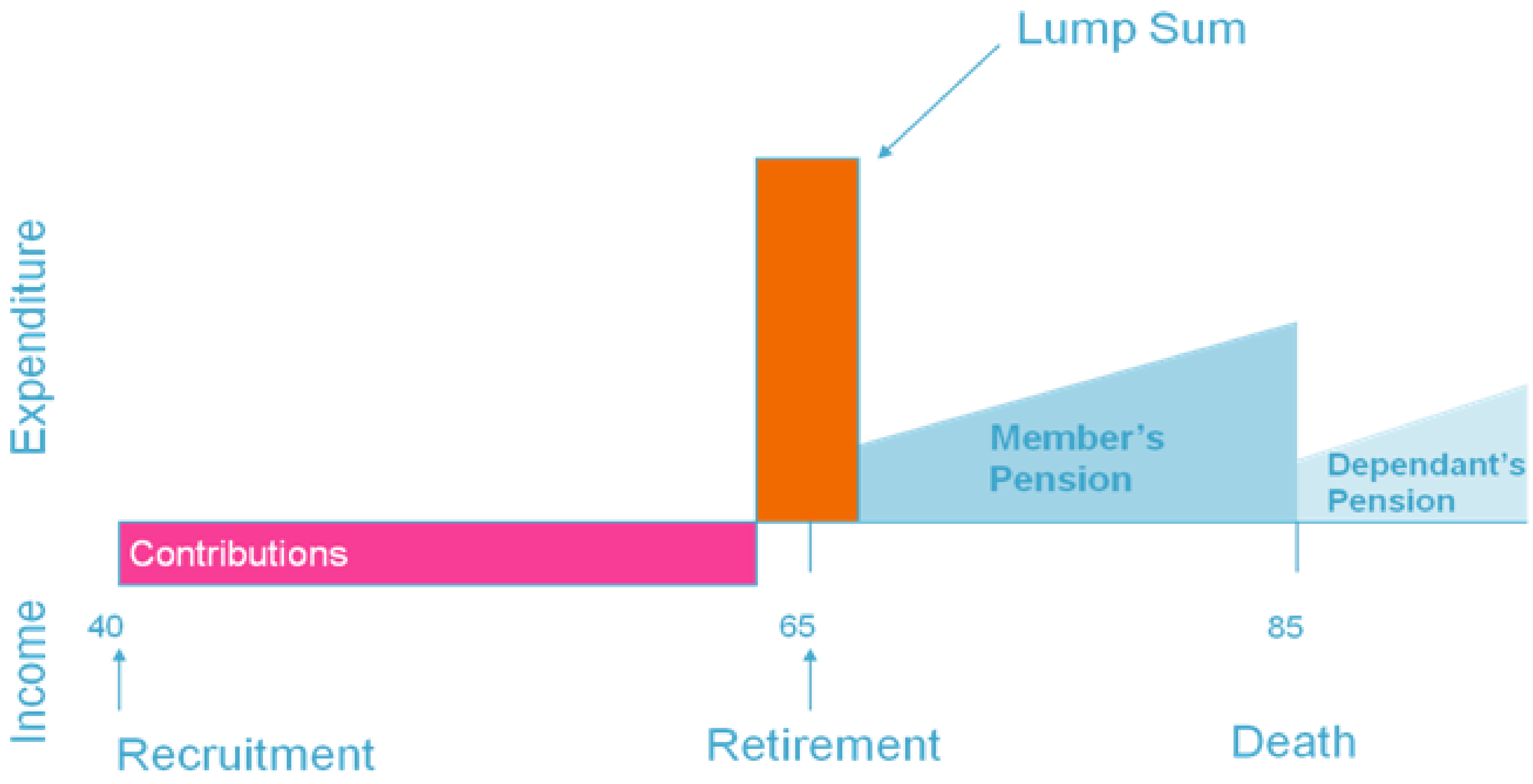
How the Fund works

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

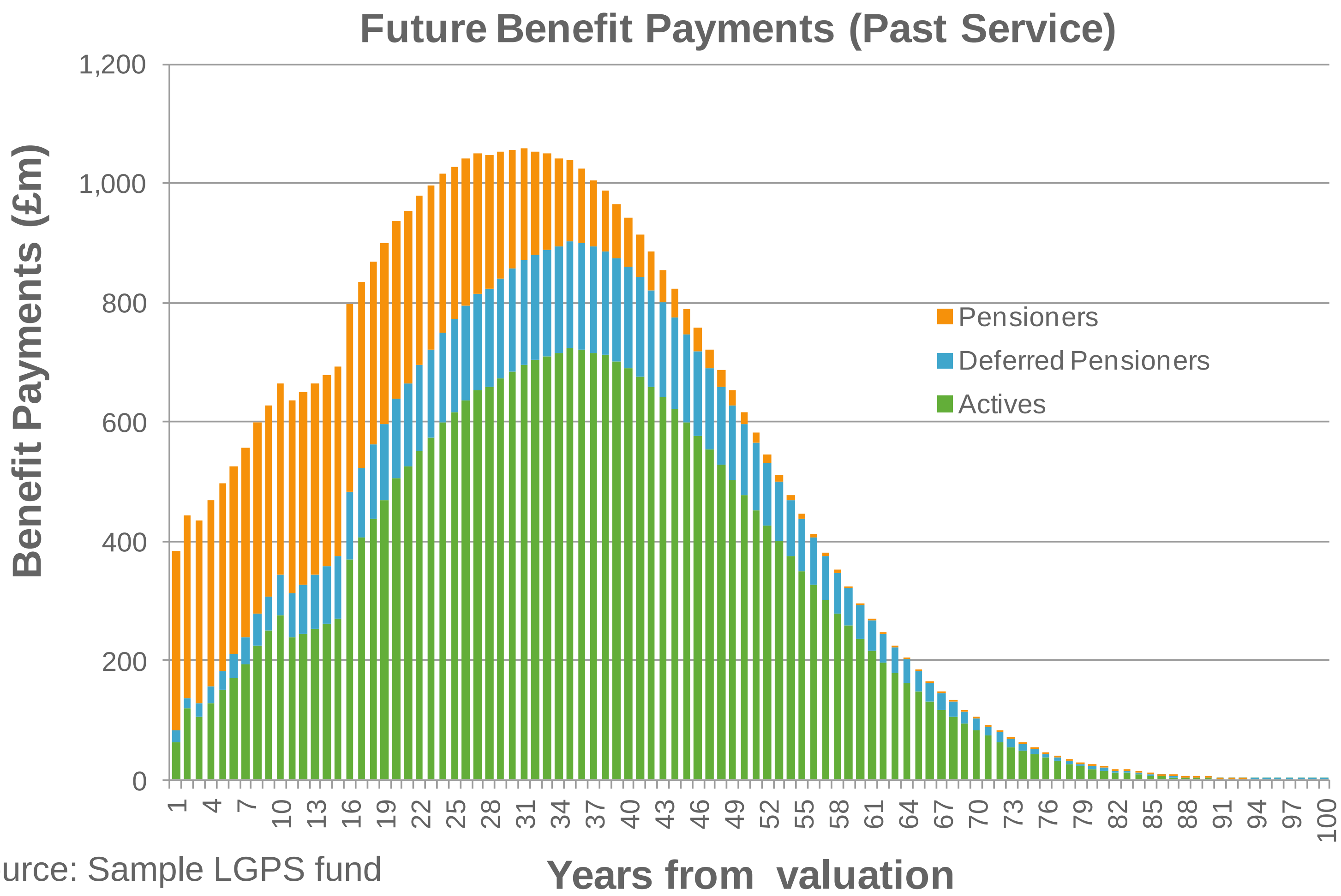
What is the Funding Strategy Statement for?



Valuing a single member



Valuing all members



Source: Sample LGPS fund

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

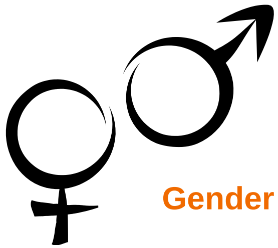
- There is no consistent measure of future CPI
- But there is for RPI

2010 valuation CPI = RPI – 0.5%

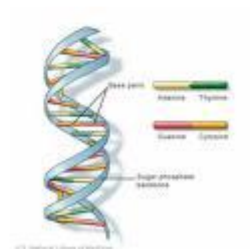
2013 Valuation CPI = RPI - 0.8%

What affects mortality/longevity?

Age



Gender



Genetics

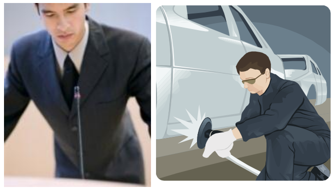
Health

Fitness

Wealth

Where you live

Smoker?



Blue or white collar?

Marital status

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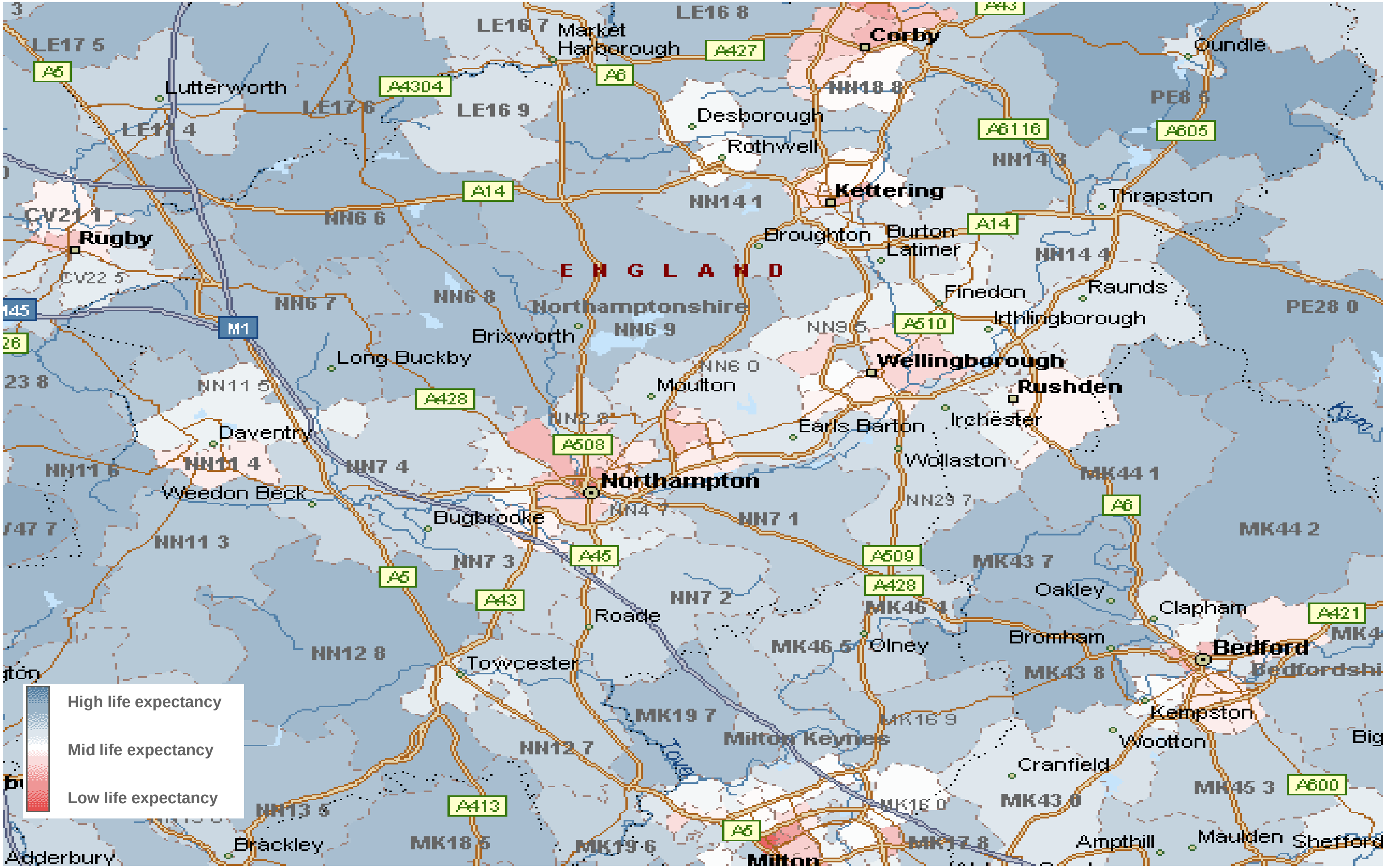
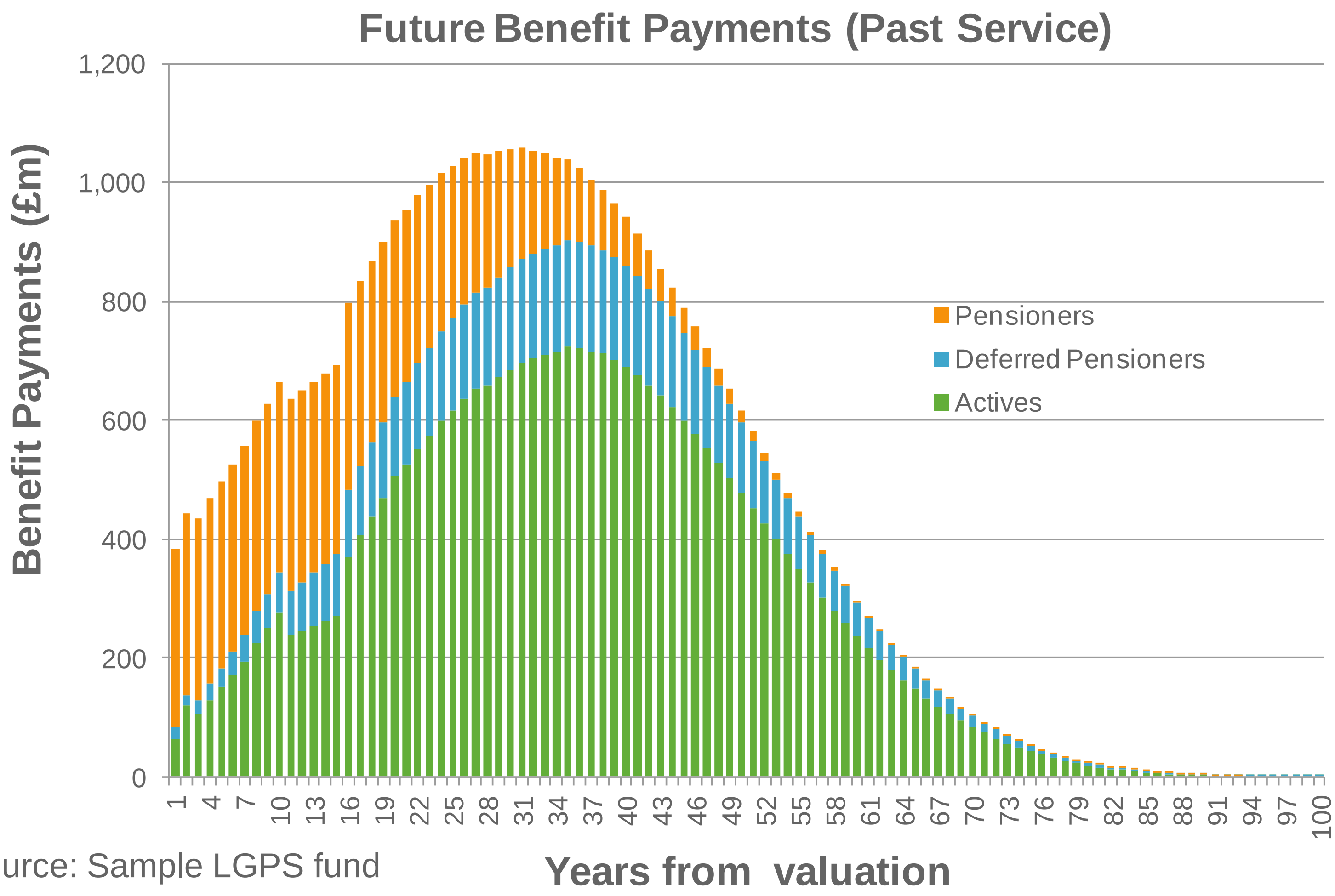
We are living longer – but local variation



Recap of 2010 valuation and what to expect

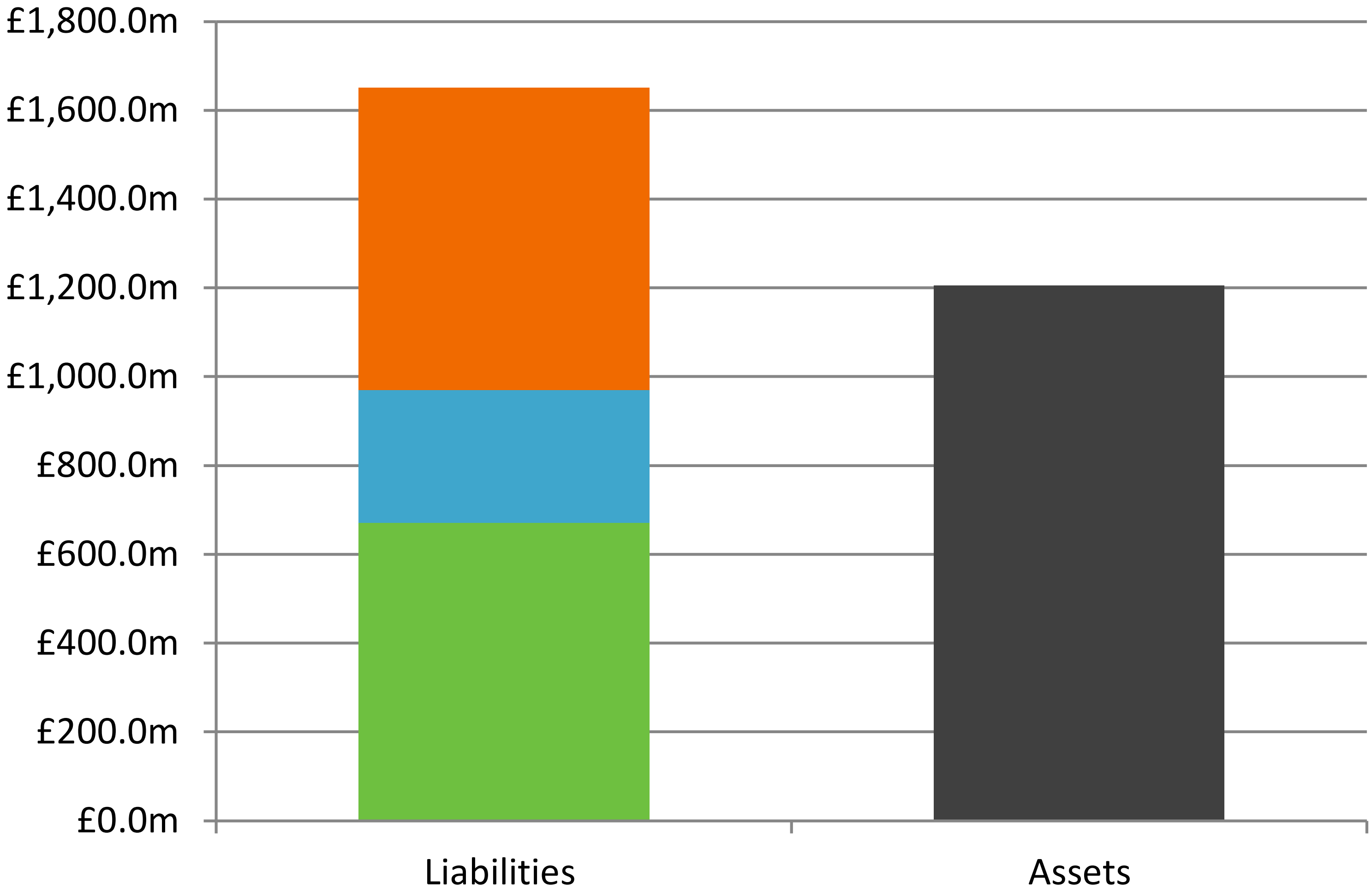
Valuing all members



Source: Sample LGPS fund

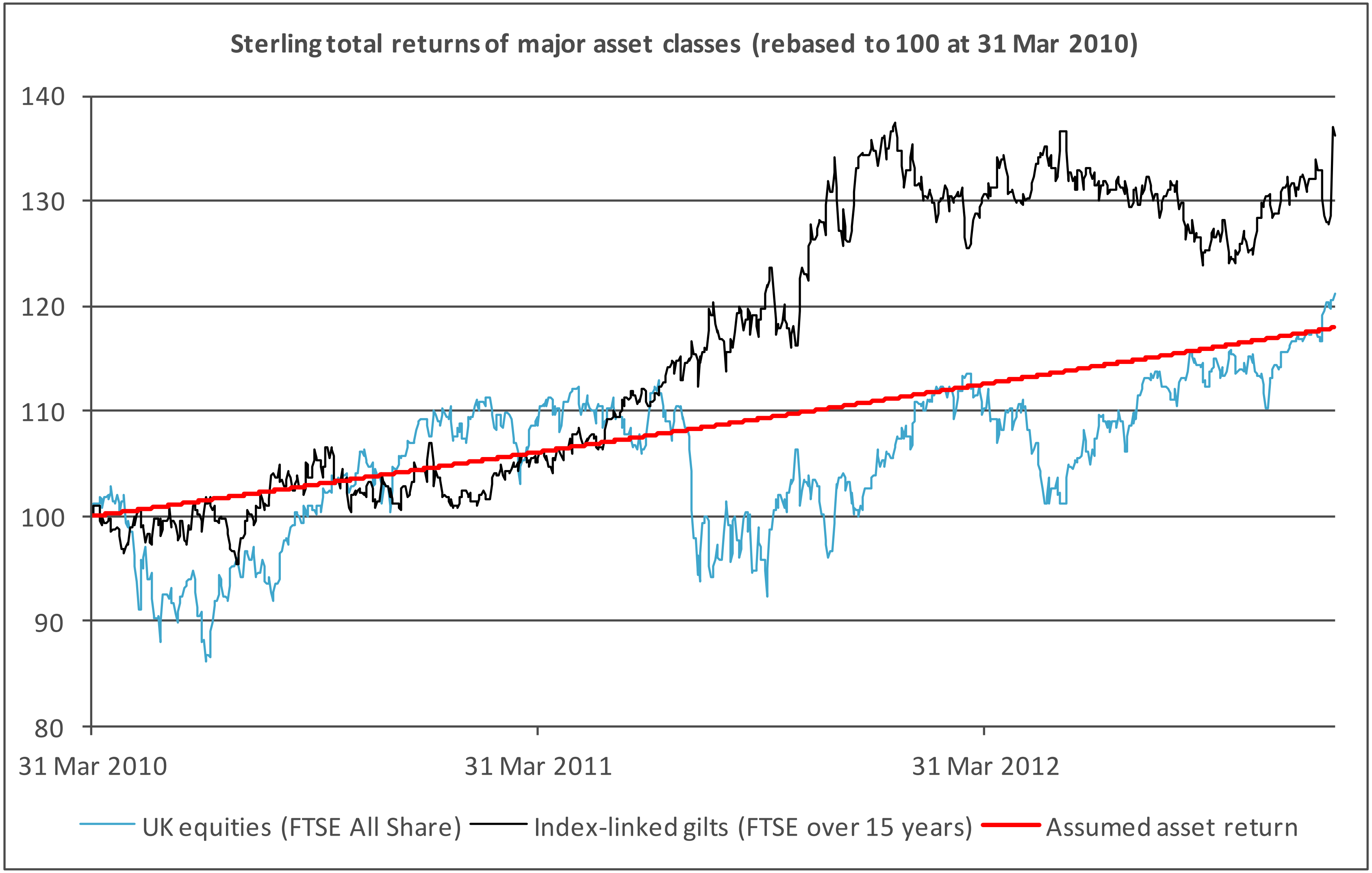
But we don't need all this money today!

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;
- Increases can be managed

Employers’ contribution rates

Employer contribution rates

Expressed as a % of pay

Future Service Rate

\+

Deficit Recovery

% of pay or lump sum amount

Monetary amounts - example

Deficit recovery
at 31 March
2013

10% of pay

Over 3 years

Deficit recovery = £10,000

Deficit recovery = £6,000

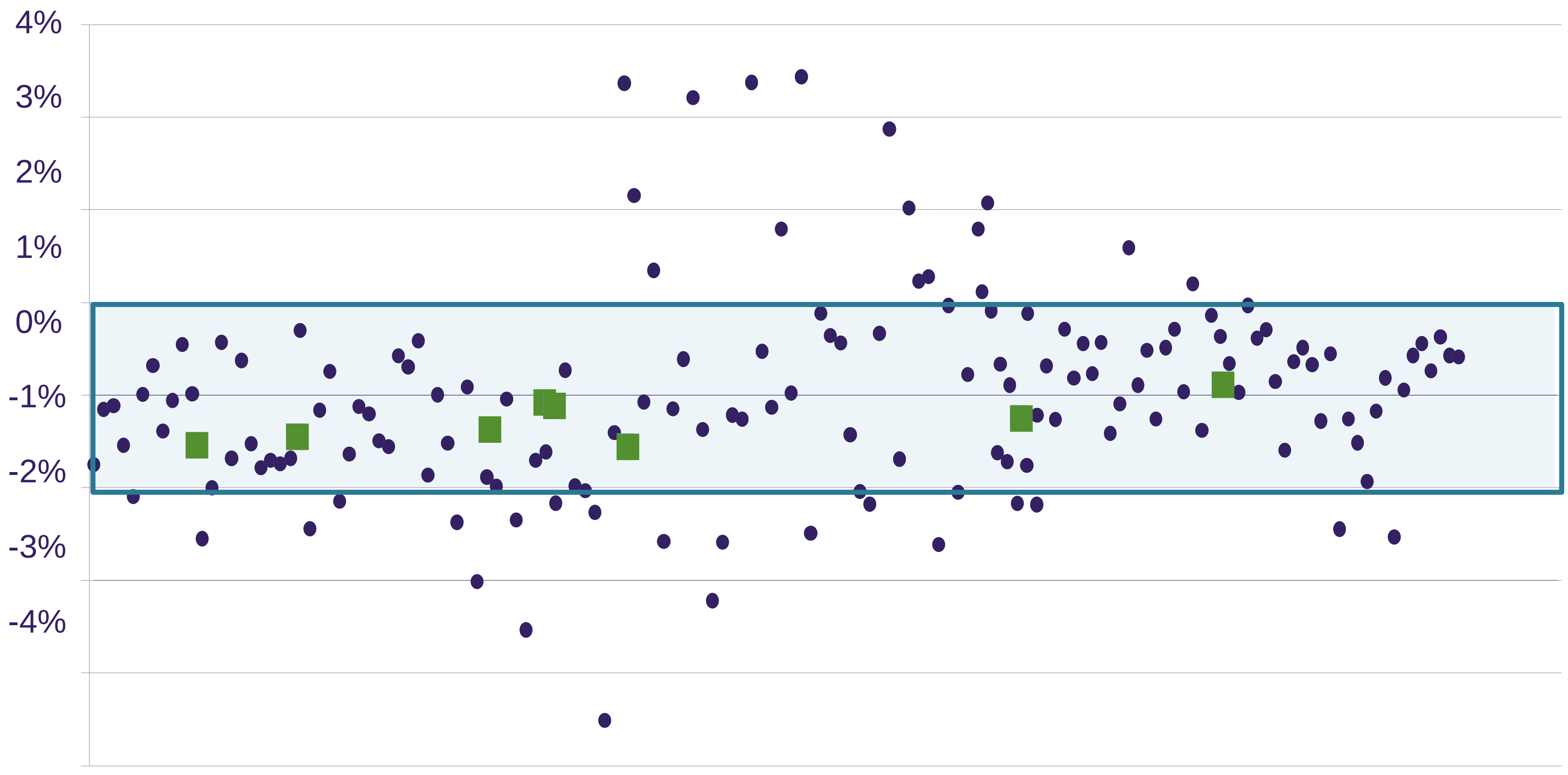
Monetary amounts protect from falling payroll

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

Pooling for academies

Academies – Current DCLG consultation

- DCLG consulting on pension options
- Government aim is stability of Academies' rates (vs Council rates) – considering enforced pooling
- Various misunderstandings about what pooling is, and why Academy rates can vary from the Council
- The Fund must balance the interests of all employers in a risk-based manner
- The risks of pooling either with the Council or other Academies need to be understood

Benefits of pooling

Mitigate risk

Reduce volatility

Smooth contributions

Risks and pitfalls

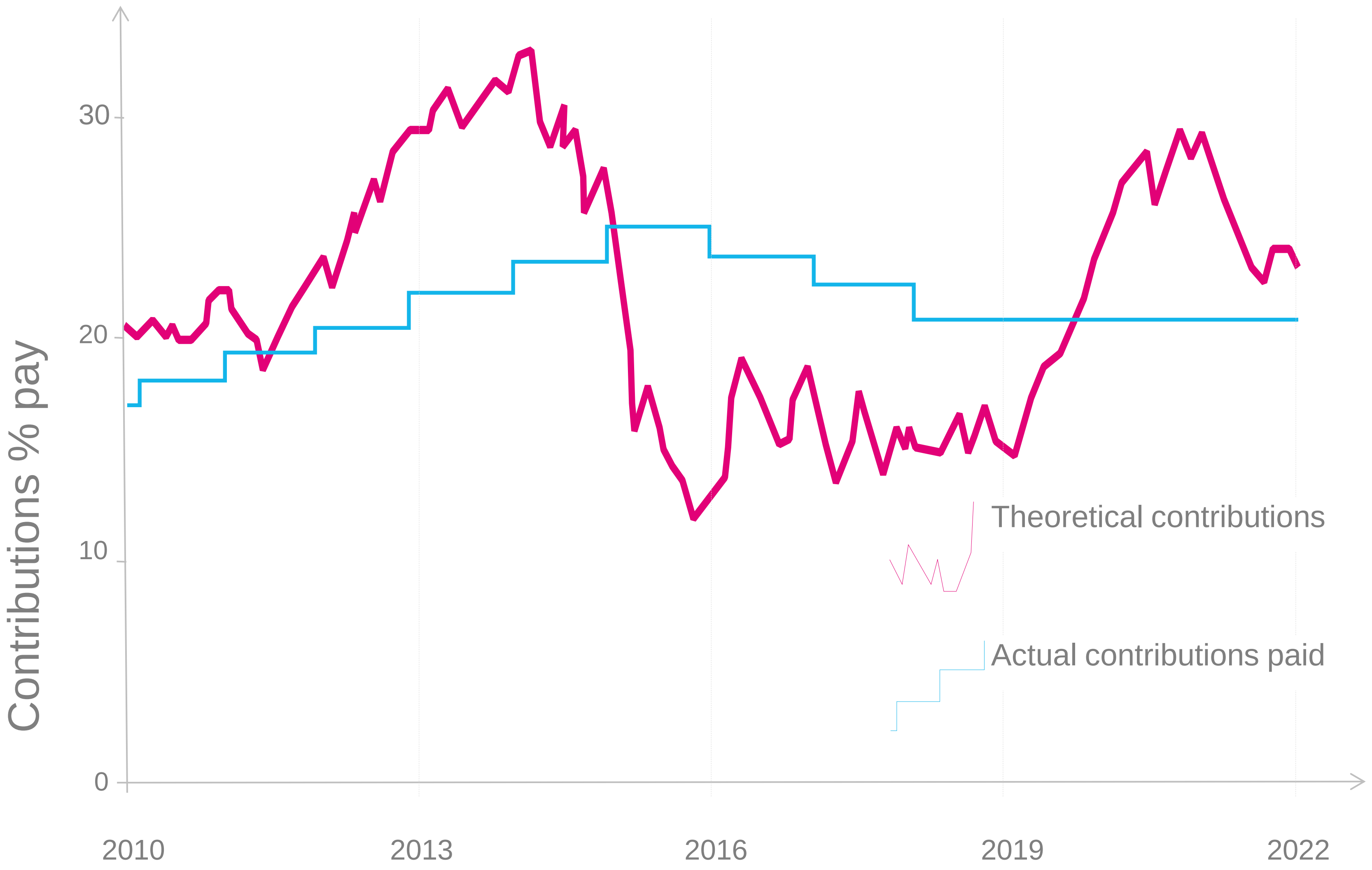
- Employers still responsible for their own position
  - Deficits / surpluses may grow unchecked
  - Cessation / failure
  - Volatility of individual positions
- Is everyone playing ball?
  - Awarding higher than average pay increases
  - Ill-health early retirements
- Is there a dominant player?
  - Are there a few big employers controlling experience

Contribution rates – Help is on the way for academies and colleges

Contribution rates 2013 – Key drivers

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

Stabilised contributions



Stabilisation of contribution rates

Academies

- Contribution rate will be broadly in line with County Council
- Future service rate will be a fixed percentage of pay
- Monetary amount will vary by +1% p.a. of 31 March 2013 payroll

Colleges

- +1% p.a. of the total rate being paid currently from 1 April 2014
- Deficits to be recovered by monetary amount

Valuation timetable

31 March 2013

Q3 2013

- Actuary does his sums

Q4 2013

- Valuation results and
- Update FSS

31 December 2013

Q1 2014

- Finalise valuation report

31 March 2014

New Rates Payable for 4 years

1 April 2014

to

31 March 2018

Take home messages

- Contribution rate increases will be managed by administering authority;
- Initial results will be issued in January;
- Keep in close touch with the Pensions Team!

Thank you

Any questions?