Northamptonshire Pension Fund

Employer Forum

- Geoff Nathan
- Jamie Clark
- 29 November 2016

HYMANS ROBERTSON

What are we going to cover?

Northamptonshire Fund in the LGPS

Valuation overview

Inter –valuation experience

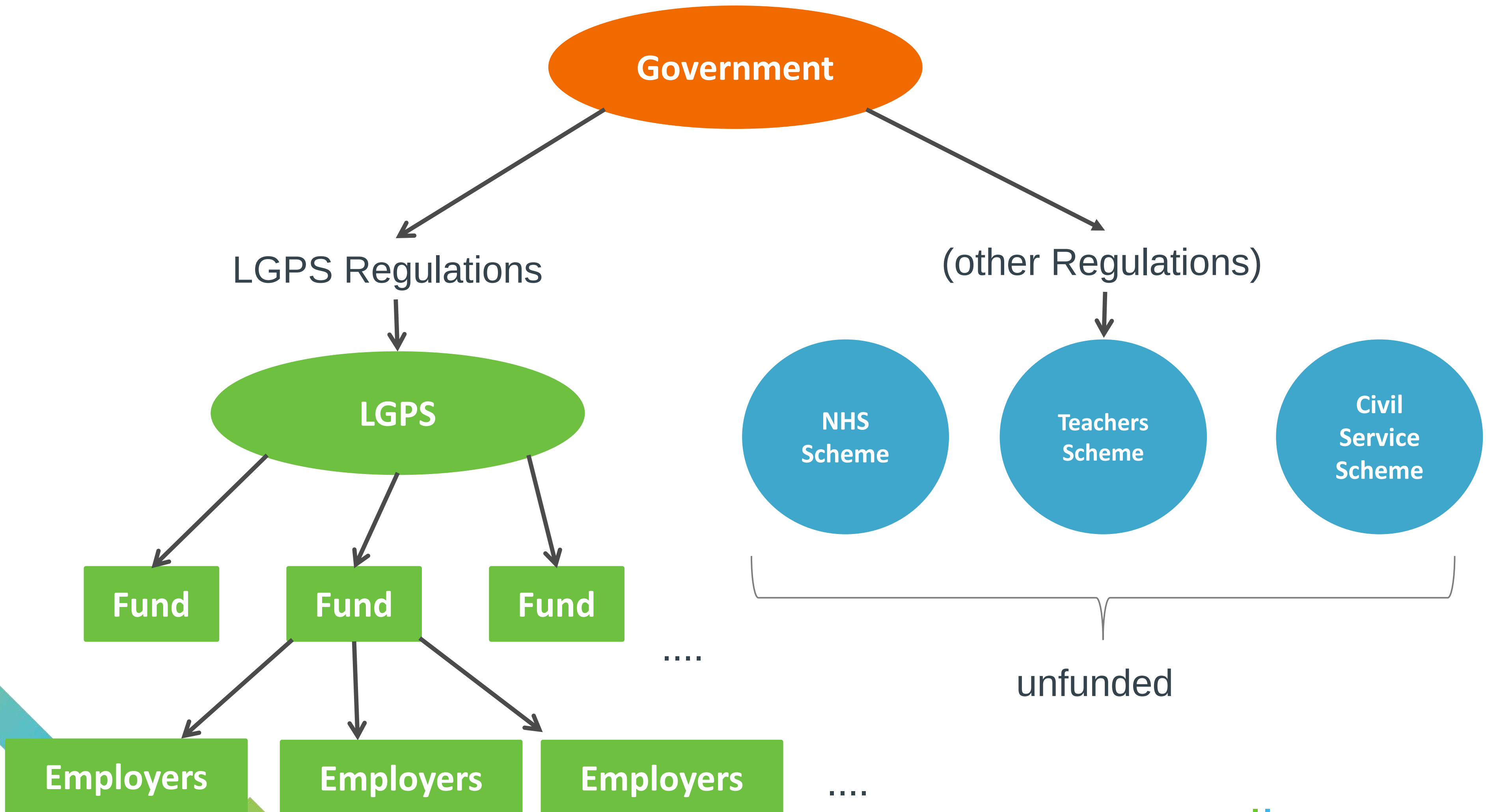
Whole Fund results

Employer funding strategies

Results Schedules

The Northamptonshire Fund in the LGPS

Public sector pension schemes



HYMANS ROBERTSON

Local Government Pension Scheme

lgps

Administering Authority

Employer

Set by
Fund Actuary

Contributions

Set by
Regulations

Contributions

Set by
Regulations

Benefits

Pension Fund

The evolving LGPS benefits

	Pre - 2008	2008 - 2014	Post - 2014
Basis	Final Salary	Final Salary	Career Average Revalued Earnings
Accrual	80th	60th	49th
Added cash	3/80th	-	-
Pension age	60 – 65	65	State Pension Age
Pension increases	RPI	RPI (CPI from 2011)	CPI
National cost control?	No	No	Yes

... and lots of protections too.

Northamptonshire Pension Fund

- More than 65,000 members
- Managing assets of £1,871m*
- Over 400 employers

*as at 31 March 2016

Valuation overview

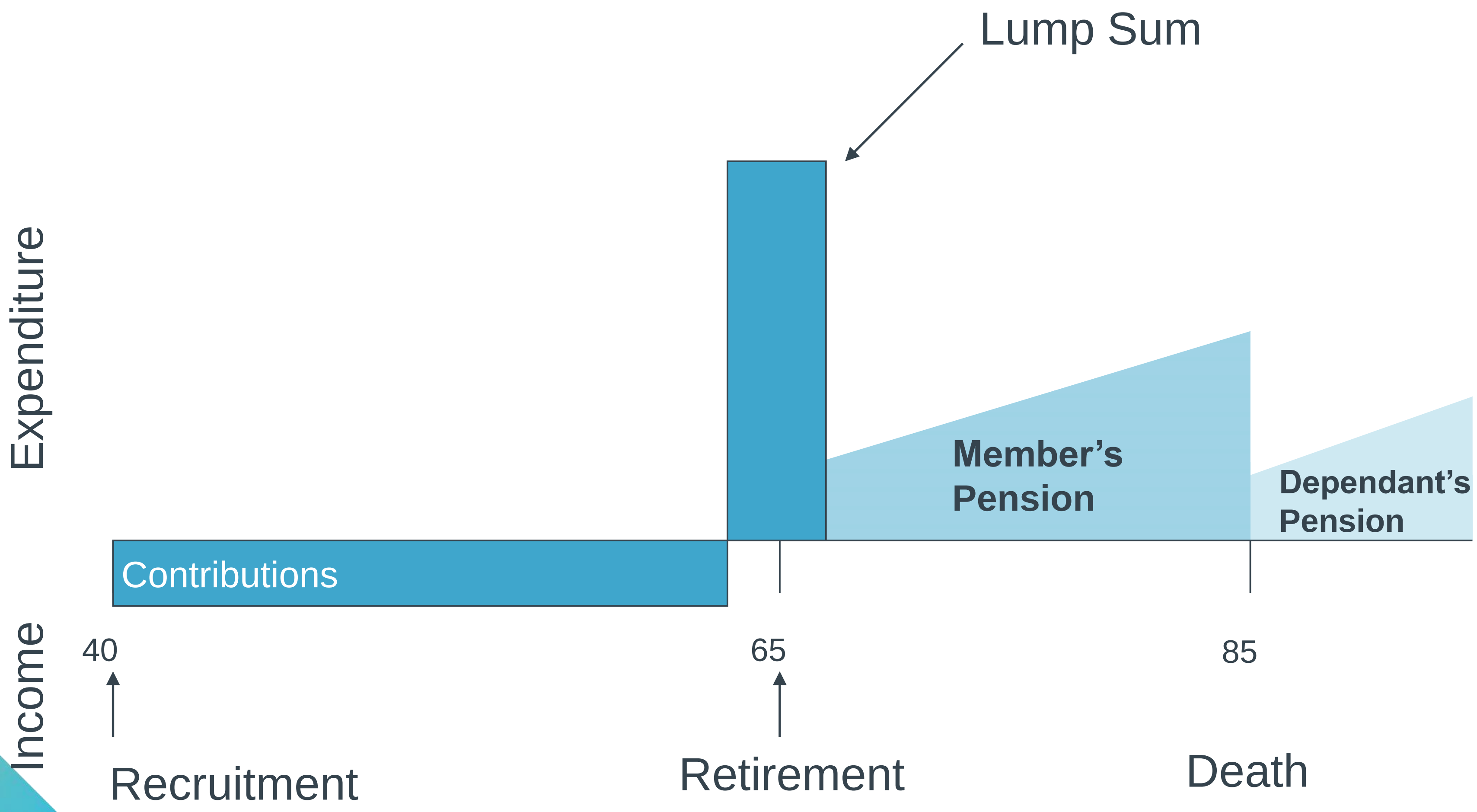
HYMANS ROBERTSON

Why do we do a valuation?

- Compliance with legislation
- Set employer contribution rates
- Determine money needed to meet accrued liabilities
- Calculate solvency (“funding level”)
- Monitor experience vs. assumptions
- Manage risks to Fund and employers

Review the Funding Strategy Statement (FSS)

Promise now, pay later



Valuation - the ultimate objective

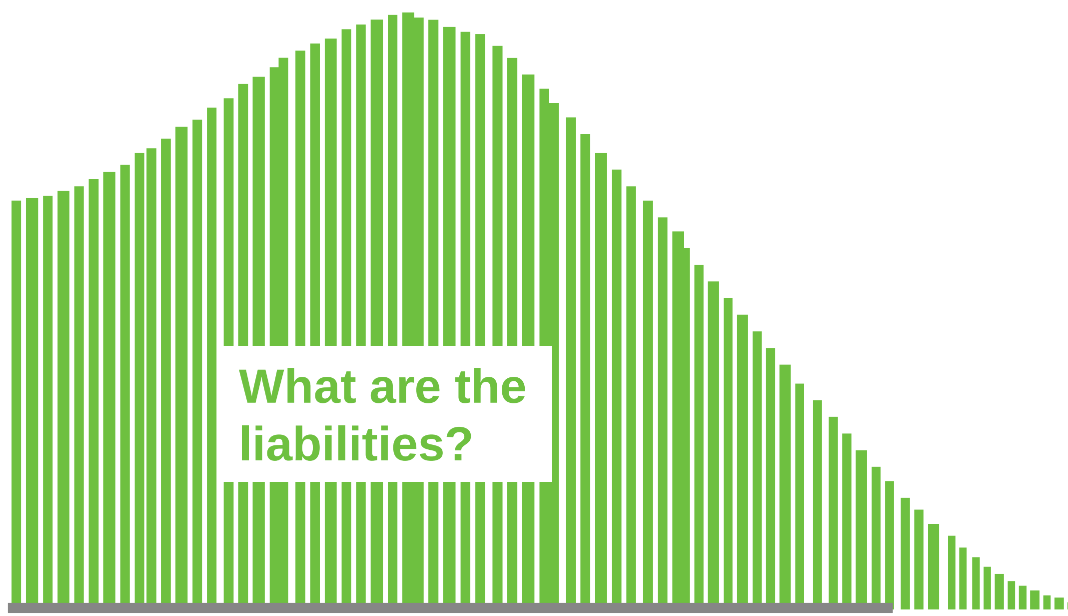
- How much money does the Fund need, and how should it be invested, in order to be able to meet the promised benefits?

Assets

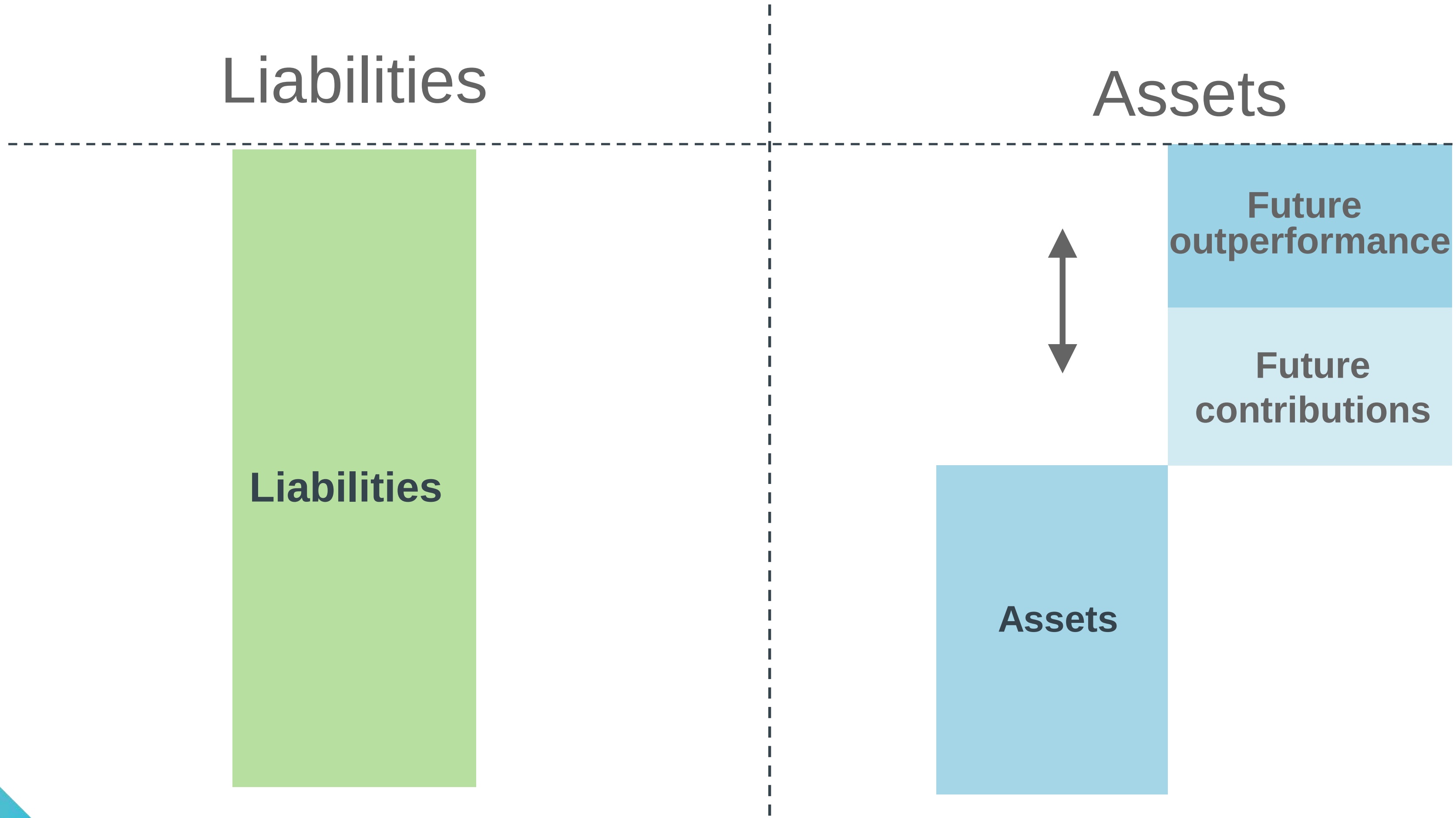
Which ones?

How is it done efficiently?

?

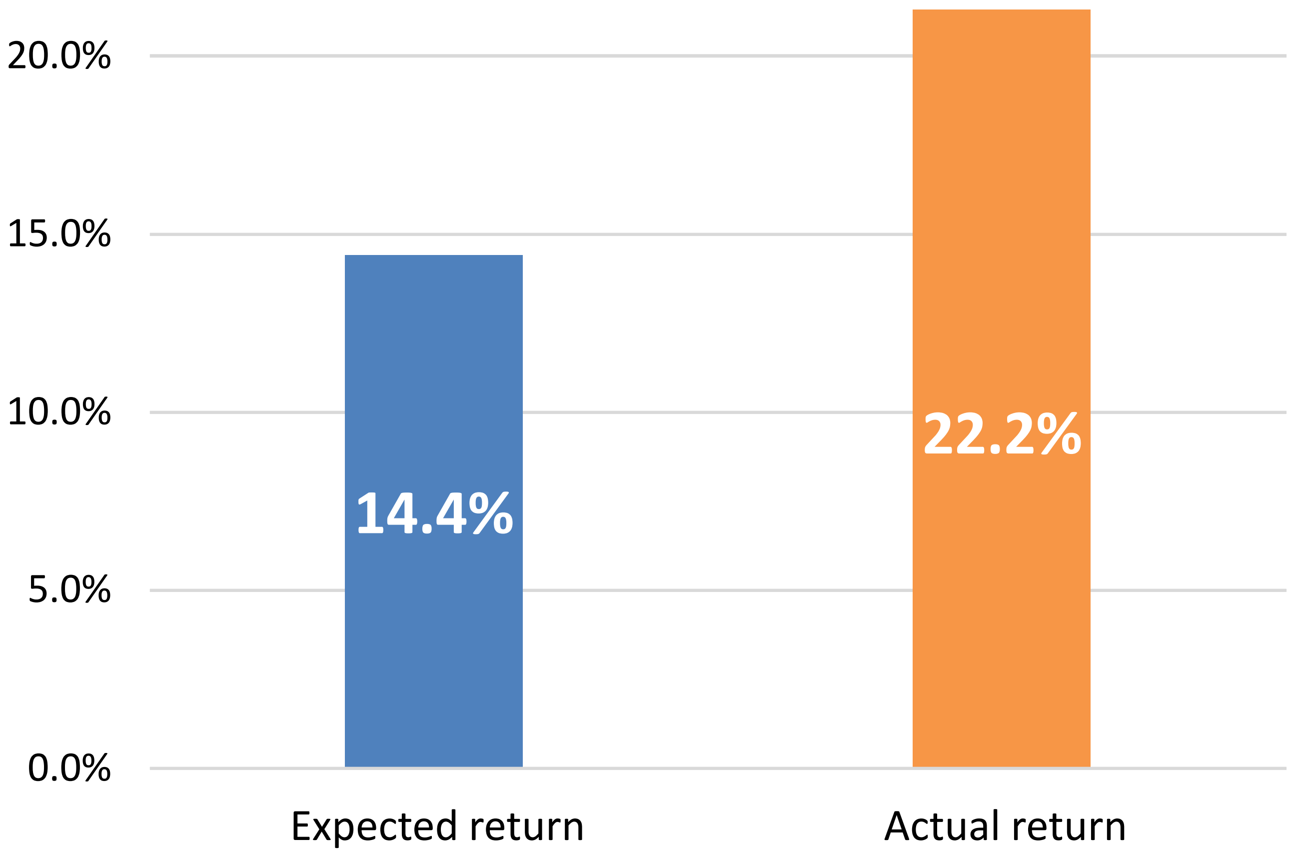


Meeting the objective



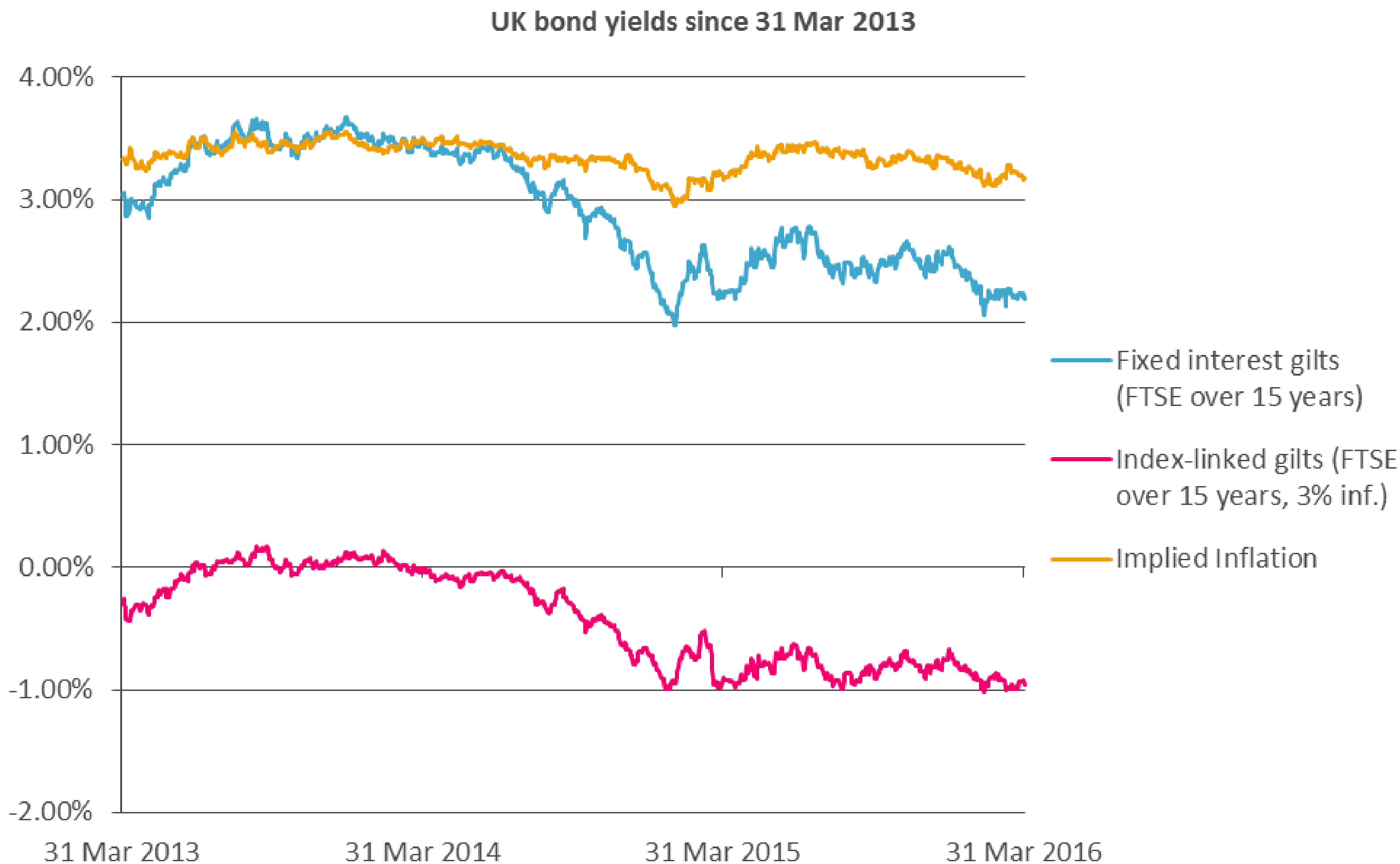
Inter-valuation experience

Investment return vs expected



.... asset returns have been stronger than expected

Experience since 2013 (yields)



Falling bond yields have increased liabilities…

HYMANS ROBERTSON

Membership experience

- **Pay growth**
  - Lower than expected
  - Does vary across employers
- **Pension increases** (pension increase orders)
  - Expected 2.5% p.a. (7.7%)
  - Actual 2.7%, 1.2%, 0.0% (3.9%)
- **Movements**
  - Fewer ill health retirements than expected
  - Fewer early leavers than expected
- **50:50 take-up**
  - Lower that expected

HYMANS ROBERTSON

Whole Fund results

Changes to the 2016 valuation financial assumptions

1. Asset Outperformance Assumption (AOA)
   – Increase to 1.8% p.a. (from 1.6% p.a.)
2. Salary growth assumption
   – Continued public sector pay freeze
   – Run off of pre2014 final salary linked liabilities
   – Reduce post freeze increases to RPI
3. RPI / CPI gap
   – Increase to 1.0% p.a. (from 0.8% p.a.)

Key assumptions for funding target

	2013 valuation	2016 valuation	Derivation of assumption
Discount rate (assumed future investment return)	4.6%	3.9%	Change in approach: Gilts plus prudent asset out-performance assumption (AOA) At 2013: AOA = 1.5% p.a. At 2016: AOA = 1.7% p.a.
Long term pay growth	4.3%	2.4%	Change in approach: At 2013: RPI + 1.0% At 2016: RPI - 0.7%
Pension increases (CPI)	2.5%	2.1%	Change in approach: At 2013: CPI = RPI - 0.8% At 2016: CPI = RPI - 1.0%
50:50 take up	10%	5%	Lower than anticipated take up
Longevity	ClubVITA with CMI 2010 model for future improvements	ClubVITA with CMI 2013 model for future improvements	2013 not 2015 in order to remove volatility experienced in last two years

Impact of discount rate

Whole fund valuation results

	31 March 2013	31 March 2016
Active	817m	724m
Deferred	429m	585m
Pensioner	945m	1,079m
Total liabilities	**2,191m**	**2,388m**
Assets	**1,545m**	**1,871m**
Deficit	**(646m)**	**(517m)**
Funding level	71%	78%

Increase in funding level, and reduction in deficit, at the 2016 valuation

Why has the funding position changed?

Analysis		(£m)
Surplus / (deficit) at 31 March 2013		**(646)**
Interest on surplus / (deficit)	(93)	
Investment returns greater than expected	102	
Contributions greater than cost of accrual	41	
Membership experience over the period	114	
Change in demographic assumptions	(4)	
Change in base mortality assumption	33	
Change in longevity improvements assumption	1	
Change in financial assumptions	(23)	
Impact of LGPS 50/50 take up	(14)	
Other experience items	(28)	
Surplus / (deficit) at 31 March 2016		**(517)**

HYMANS ROBERTSON

Employer Funding Strategies

What is the Funding Strategy?

- *The funding strategy is set out in the Funding Strategy Statement (FSS)*

- *"The FSS focuses on how employer liabilities are measured, the pace at which liabilities are funded, and how employers or pools of employers pay for their own liabilities."*

- *"The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies."*

The FSS is the Northamptonshire Pension Fund's funding blueprint

Why is the FSS important to employers?

- The FSS helps employers understand
  - how their contributions are calculated;
  - how these are fair by comparison to other employers in the Fund; and
  - in what circumstances the employer might need to pay more.

Setting funding targets at 2016

Understand employers

100% funding

Timeframe varies depending on profile and circumstances

Based on Employer’s Risk Profile

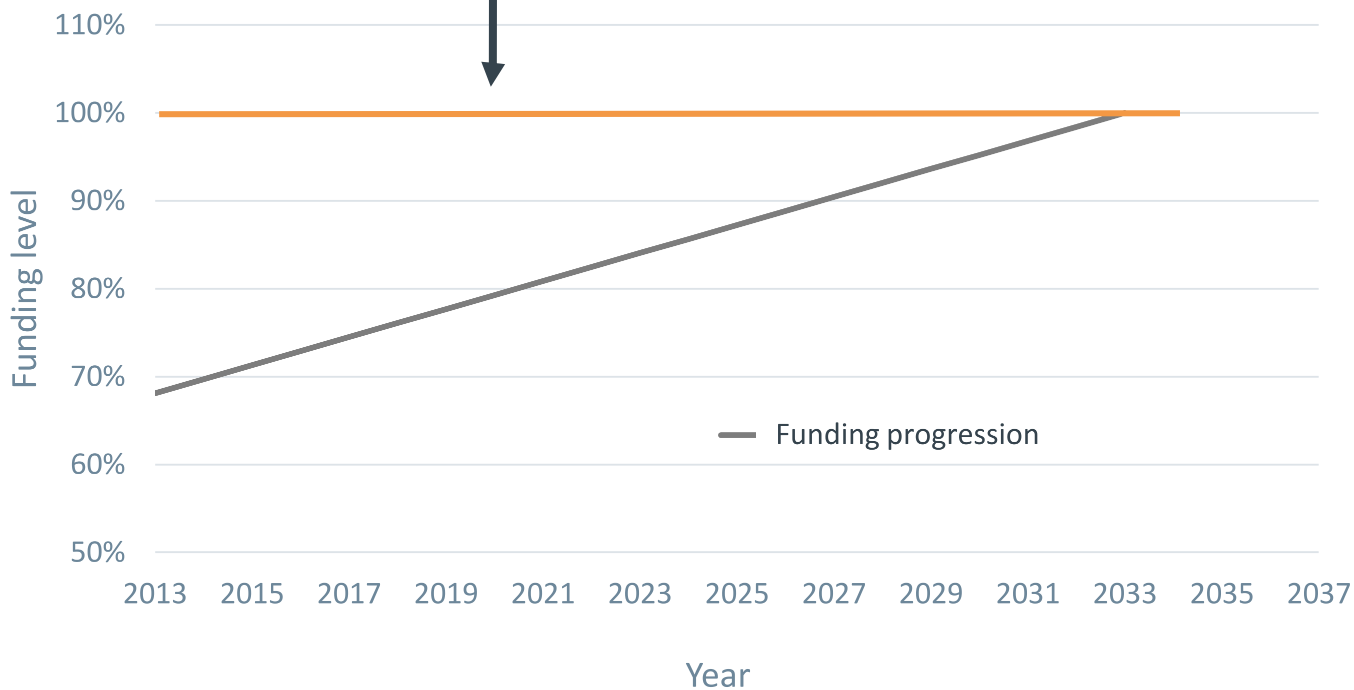
Funding Strategy Statement review

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Local Authorities**	**Colleges, Housing Associations etc**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Maximum time horizon – Note (c)	20 years	20 years	20 years	20 years	Shorter of: Future Working Lifetime of employees, and 15 years	Shorter of: Future working lifetime of employees, and outstanding contract term
Probability of achieving target – Note (e)	TBC *(66%)*	TBC *(75%)*	TBC *(66%)*	TBC *(80%)*	TBC *(80%)*	TBC *(70%)*
Primary rate approach	(see Appendix D – D.2)					
Secondary rate – Note (d)	Monetary Amount	Monetary Amount	Monetary Amount	% of payroll or monetary amount	Monetary amount	% of payroll or monetary amount
Phasing of contribution changes	Eligible for stabilisation arrangement See Note (b)	Eligible for stabilisation arrangement See Note (b)	Eligible for stabilisation arrangement See Note (b)	3 years	3 years	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. Reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Historic approach to funding plans

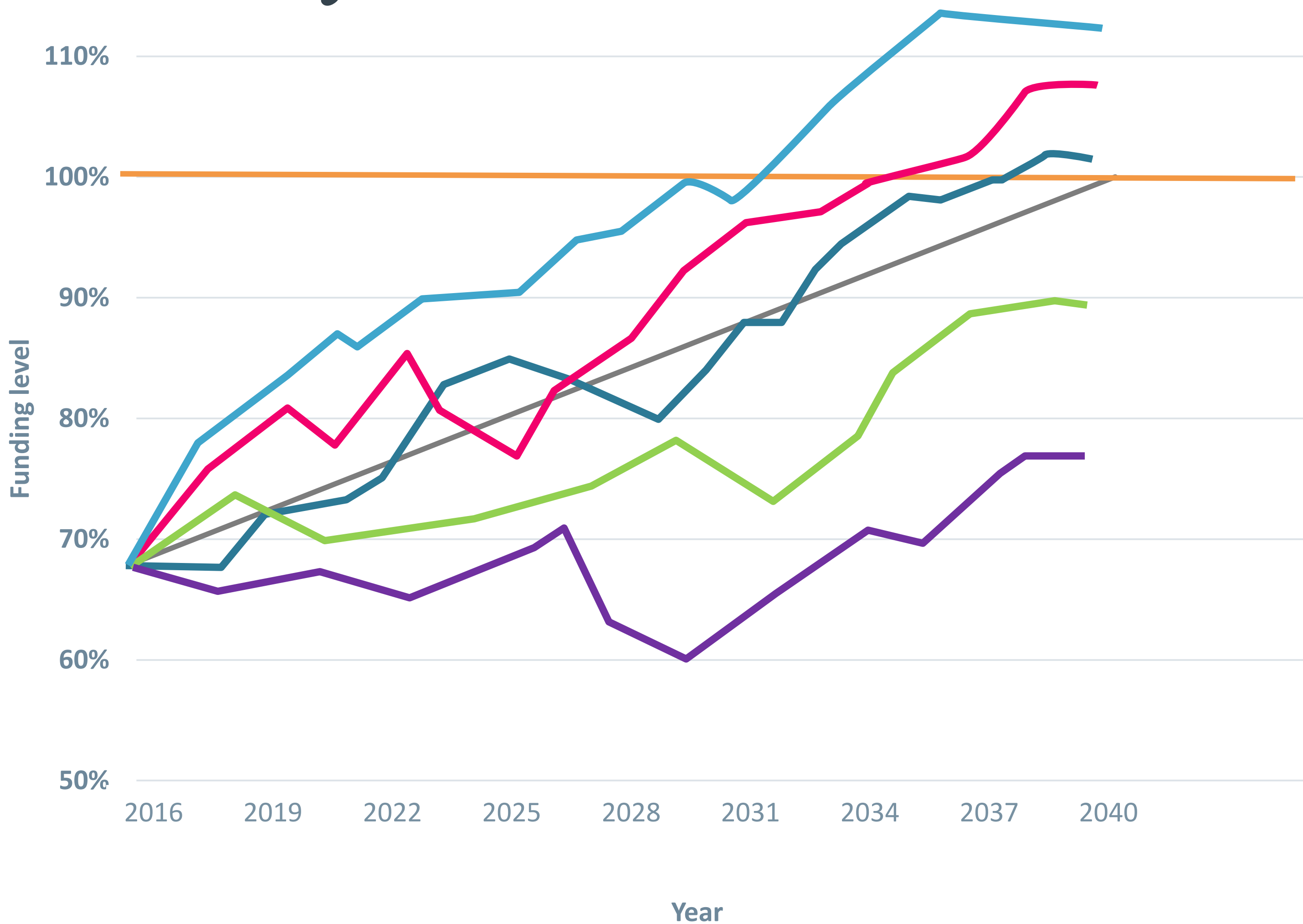
Actuary & Fund agree one set of assumptions

Actuary calculates contribution rates



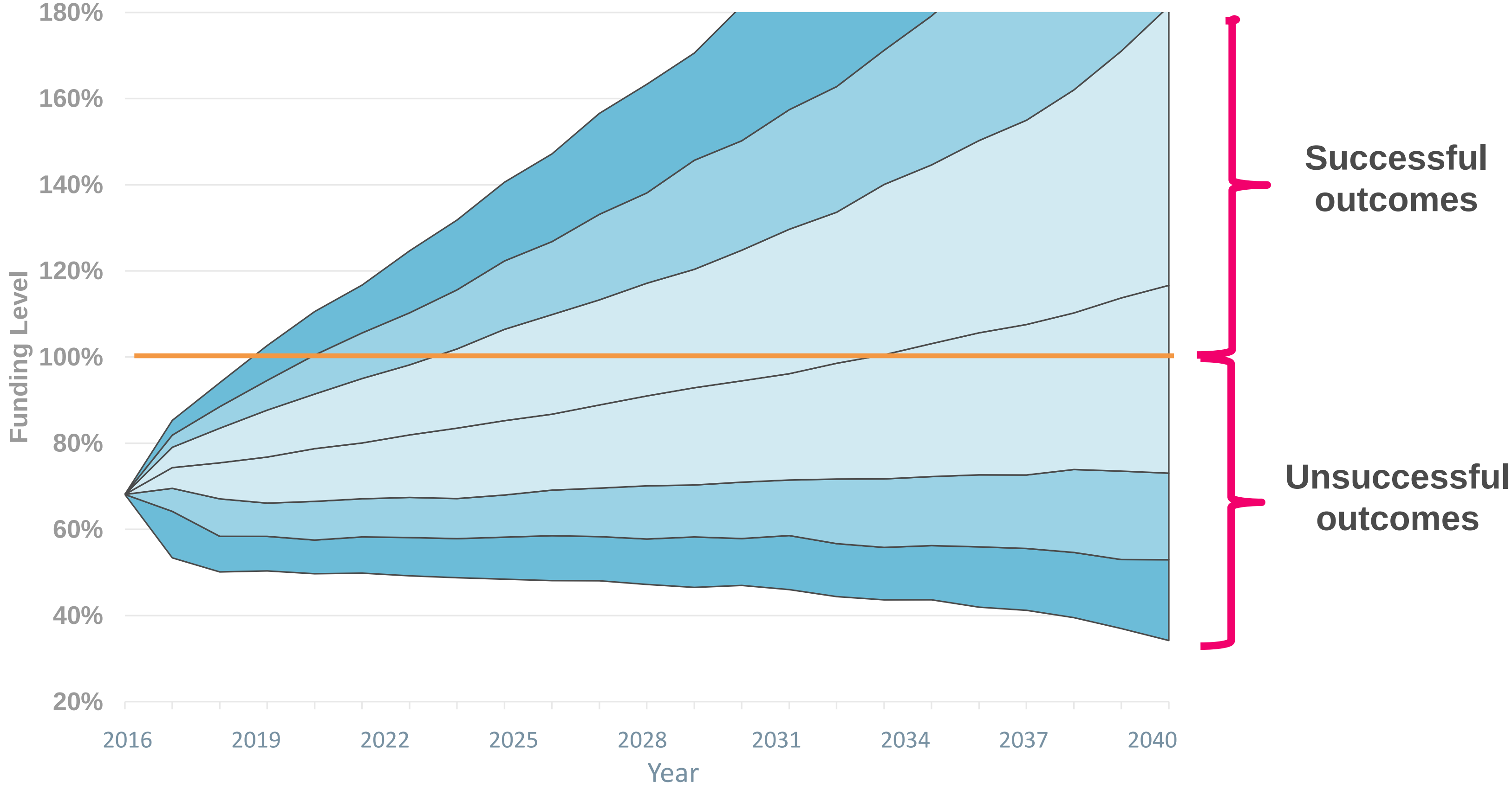
Based on the assumption that future conditions are certain

Risk based approach: recognise uncertainty



HYMANS ROBERTSON

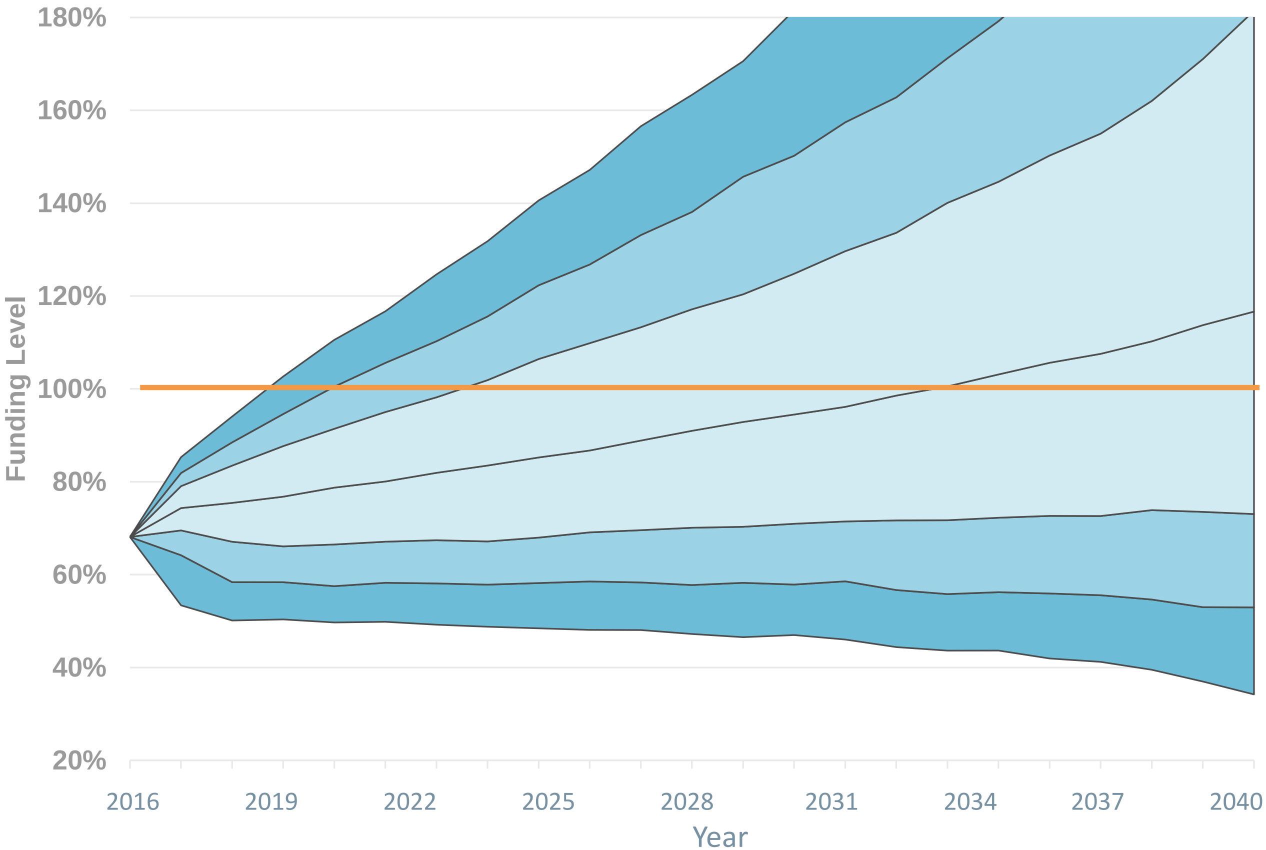
Setting employer contribution rates



HYMANS ROBERTSON

Source: Hymans Robertson, sample fund

Setting employer contribution rates



70% of outcomes above 100% funding

HYMANS ROBERTSON

Source: Hymans Robertson, sample fund

Two elements to contribution rates

Expressed as a % of pay

Cost of future benefits

"Primary Rate"

+

Monetary amount in most cases

Adjustment to target full funding

"Secondary Rate"

Why pay monetary deficit amounts?

Deficit recovery:
10% of pay

Payroll of £100,000

Over 3 years

Payroll of £60,000

Deficit recovery = £10,000

Deficit recovery = £6,000

Deficit does not reduce in line with falling payroll
Monetary amounts ensure the deficit is still repaid

Why doesn't everyone pay the same rate?

Term

No actives

Maturity

Size

Security

Guarantor

Planning to exit

Closed to new entrants

Funding level

Employers are a diverse group with different objectives

Risk-based approach for all employers

Contribution Stability Mechanism	Risk-based approach Prob of success = 66%	Risk-based approach Prob of success = 70%	Risk-based approach Prob of success = 80%
↑	↑	↑	↑
Low risk employers	Local Authorities /Academies?	Other Admitted Bodies	Community Admitted Bodies/ Designated Employers

What this looks like in practice

Employer	Funding target	Recovery period	Risk category	Likelihood of success
Employer A	Ongoing	17 years	Low	66%
Employer B	Ongoing	17 years	Medium	75%
Employer C	Ongoing	10 years	High	80%
Employer D	Gilts	5 years	High	70%[1]
Employer E	Ongoing	3 years	Low	66%

Notes:

1. Charge on assets, reduction in likelihood of success from 80% to 70% to reflect additional security

- Help all parties understand approach to setting contribution rates (including SAB and DCLG)

Transparent approach to funding plans

Valuation results schedule

Fund	Northamptonshire Pension Fund
Administering Authority	Northamptonshire County Council
Employer	
Pool (if applicable)	Individual
Employer code/Pool Name	
Open/Closed	Closed
Employer Type	CAB

2016 Valuation Results - Balance Sheet

Funding Position Relative to Employer Funding Target	Ongoing Funding Basis 31 March 2013 (£000)	Ongoing Funding Basis 31 March 2016 (£000)
Past Service Liabilities		
- Active Members (Final salary)	3,000	4,000
- Active Members (CARE)	-	1,000
- Deferred Pensioners	1,500	2,000
- Pensioners	4,500	7,000
Total	**9,000**	**14,000**
Asset Share	**7,750**	**12,500**
Surplus / (Deficit)	**(1,250)**	**(1,500)**
Funding Level	**86%**	**89%**

Valuation results schedule

2016 Valuation Results

	% of payroll		£(000) p.a.
Rate paid in 2016/2017	22.4%		-

Contribution Rates	**Primary Rate** **Cost of New Benefits Accruing** **% of payroll**	**plus**	**Secondary Rate** **Deficit (Surplus) Repayment** **£(000) p.a. ***
2016 Valuation Rate	29.3%	plus	50
Recommended Contribution Rates			
2017/18	24.7%	plus	56
2018/19	27.0%	plus	62
2019/20	29.3%	plus	69

*These monetary amounts will increase in line with our salary growth assumption.

The cost of providing LGPS pension benefits is dependent on many uncertain factors including the investment performance of the Fund's assets. To reflect the uncertainty, employer contribution rates have been set by modelling the contributions required to fund the benefits under 5000 different economic scenarios. The likelihood that the 2016 Valuation Contribution Rate above will pay for both benefits accruing and return the employer to a fully funded position over a period of 7 years is 80%.

Further details of how contribution rates have been calculated are included in the Employer Results Report and the Funding Strategy Statement

The Primary Rate includes an allowance of 0.7% for administration expenses.

Valuation results schedule

Data

Membership Statistics	Numbers		Actual Pay / Pension (£000)		CARE Pot (£000)[1]
	31 March 2013	31 March 2016	31 March 2013	31 March 2016	31 March 2016
Actives	83	62	2,194	1,852	74
Deferred Pensioners	14	30	55	87	-
Pensioners	22	32	145	200	-

[1] CARE Pot for deferred and pensioner members is included in the pension figures

Membership Statistics	Average Age[2]		Duration
	31 March 2013	31 March 2016	31 March 2016
Actives	52.2	53.5	21.9
Deferred Pensioners	51.0	51.4	23.1
Pensioners	63.6	65.4	12.7

[2] Weighted by liability

Assumptions

Financial Assumptions	Ongoing Funding Basis 31 March 2013	Ongoing Funding Basis 31 March 2016
Discount Rate		
- Pre Retirement	4.6%	4.0%
- Post Retirement	4.6%	4.0%
Salary Increases	4.3%	2.4%
Pension Increases / CARE revaluation	2.5%	2.1%

Any questions?