

Actuarial Update

Staffordshire Pension Fund

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23 February 2021

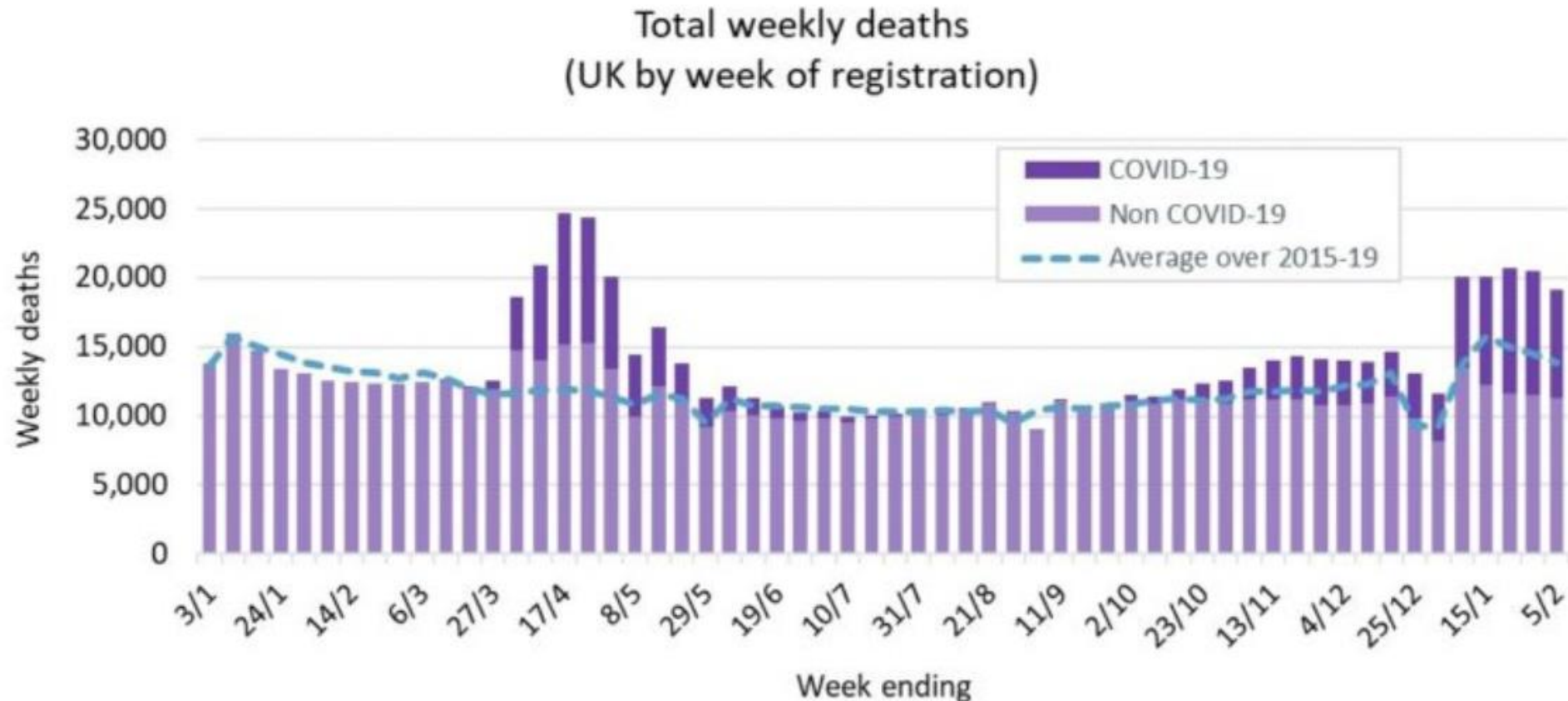


Agenda

1. Covid-19 and longevity
2. FRS102/IAS19 Accounting
3. McCloud and Goodwin cases
4. Regulatory update

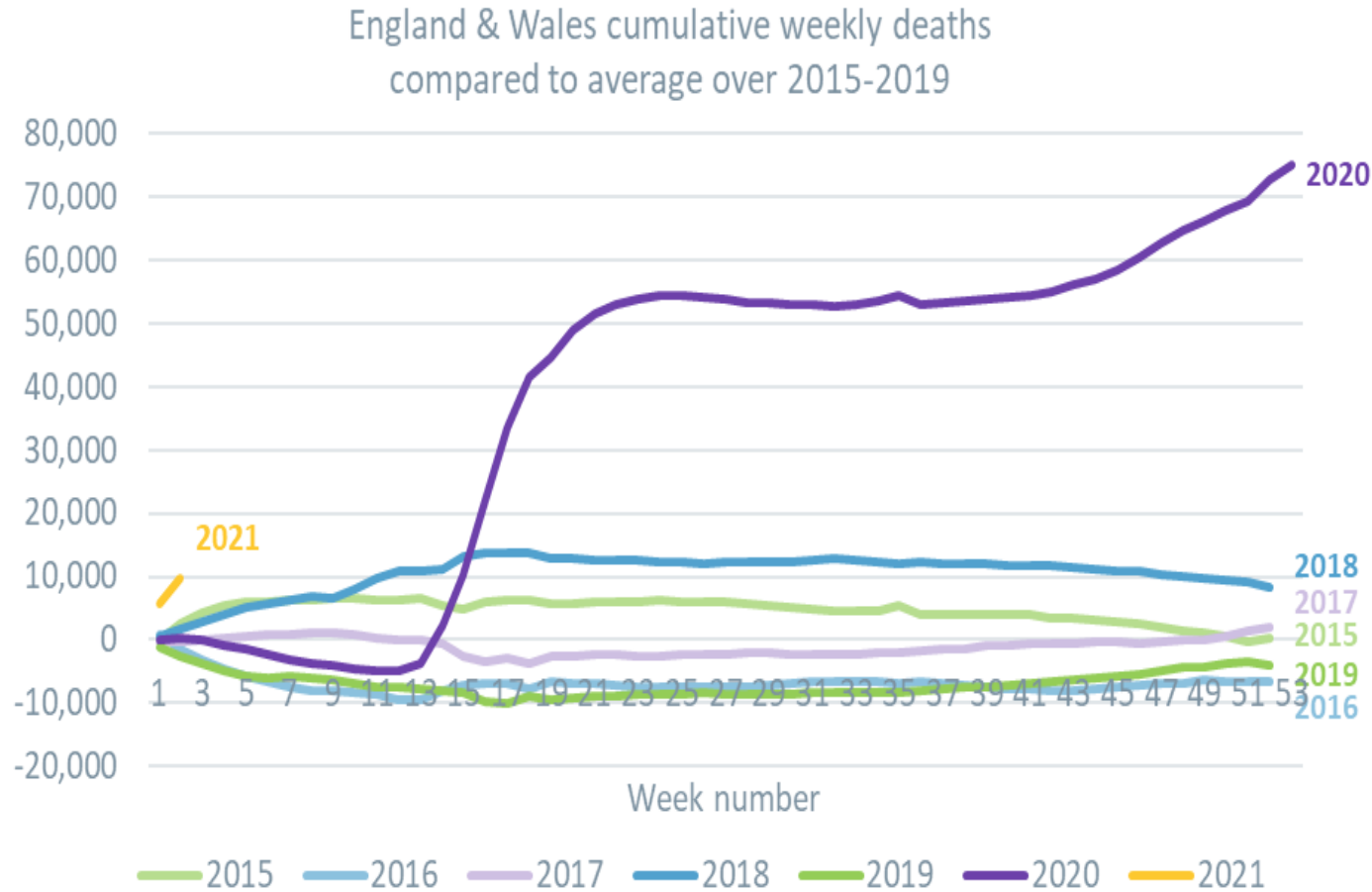
1. Covid-19 and Longevity

Significant 'excess deaths'



Weekly figures for Scotland use a different definition of weeks, running from Monday to Sunday rather than Saturday to Friday. The chart above is based on using the Scottish data for the week ending on the Sunday immediately after the date shown on the horizontal axis.

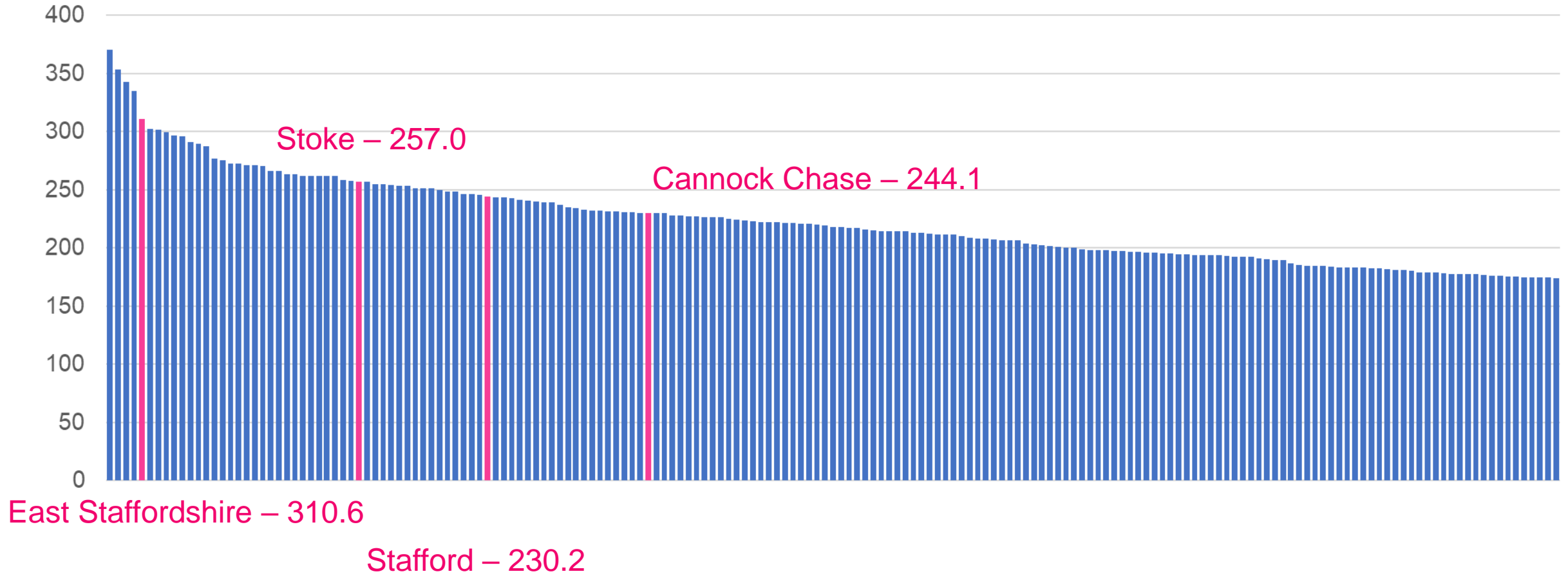
National longevity impact – short term



Source: Club Vita's analysis of ONS data to 15 January 2021

Staffordshire worse affected than average

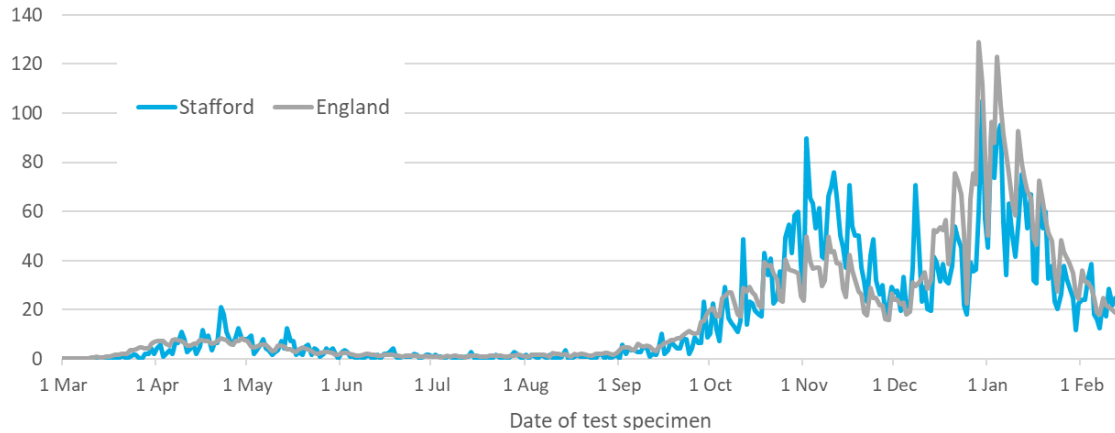
Covid-19 deaths per 100,000 population (by UK council area)



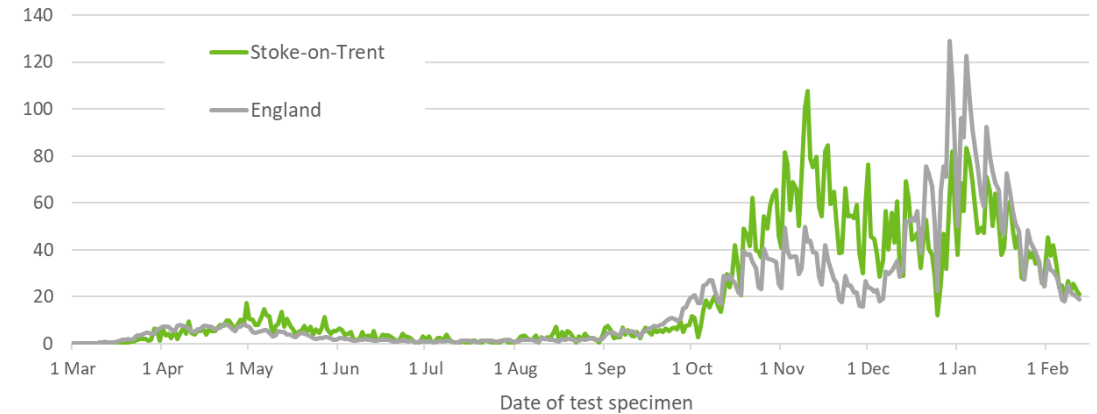
Deaths within 28 days of a positive COVID-19 test result
Source: <https://coronavirus.data.gov.uk/deaths> Data to 15 February 2021.

History of Staffordshire cases over 2020

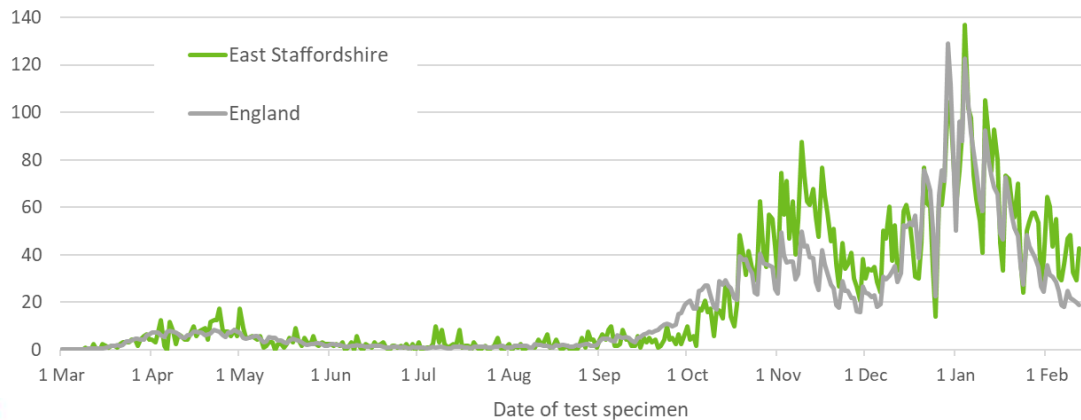
Laboratory confirmed new COVID-19 cases
Per 100,000 lives



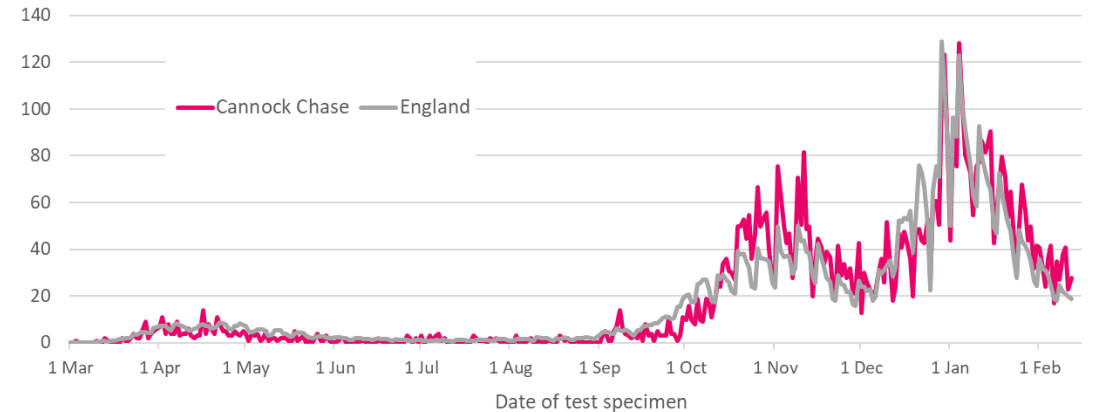
Laboratory confirmed new COVID-19 cases
Per 100,000 lives



Laboratory confirmed new COVID-19 cases
Per 100,000 lives



Laboratory confirmed new COVID-19 cases
Per 100,000 lives



Longevity impact – long term

Lower longevity improvements

Global recession

Long-term COVID effects

Existing health worsening

New virus strain emerging

Higher longevity improvements

Survivorship bias

Changed social behaviour

Reduced air pollution

Reduction in smoking

Impact will be analysed at next formal valuation in 2022

Impact on funding level



Source: Output from 3DA Tool for a sample LGPS Fund.

Covid-19 - Summary

- Impact on mortality will be seen at next valuation
- Market movements were significant but (so far) funding positions will have mostly recovered
- Get in touch with the Fund if you think your long-term business outlook has been affected particularly badly

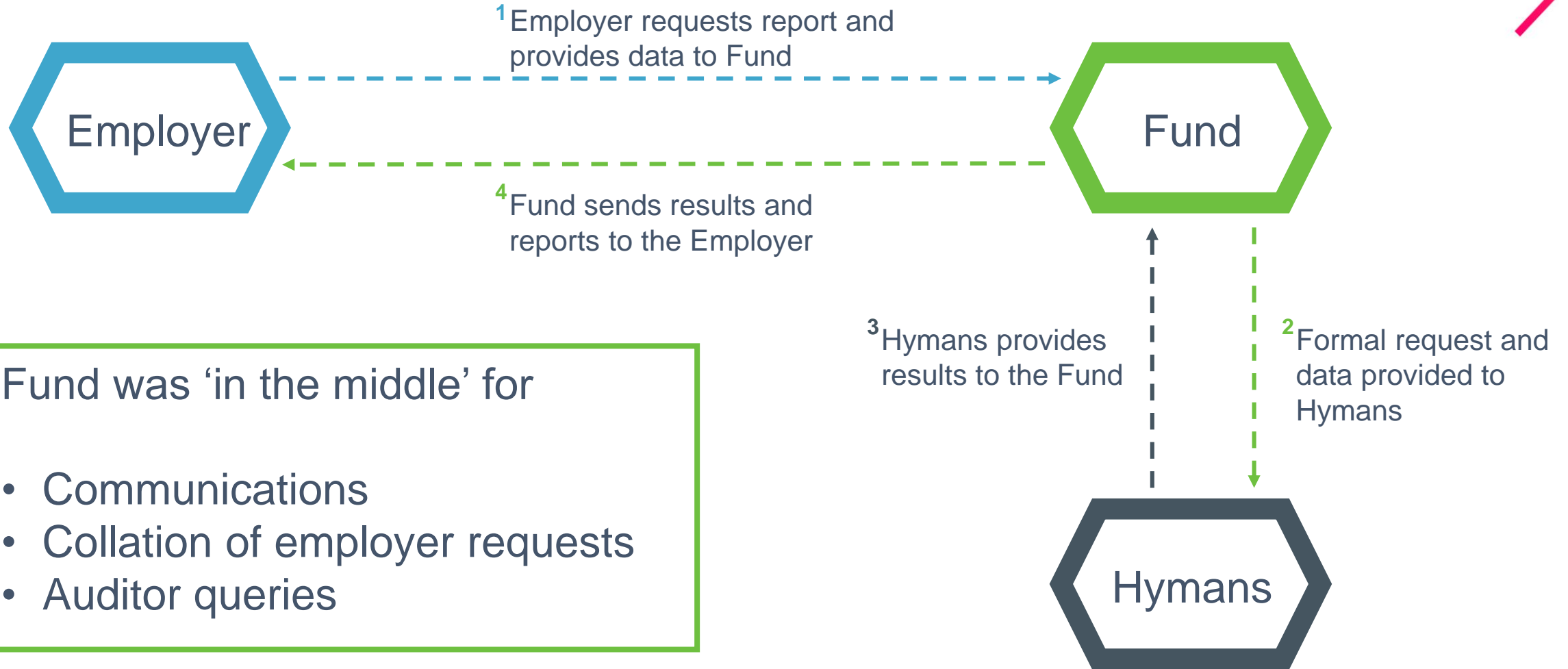
Not recommending any changes to contributions

Fund monitors employers planning to exit

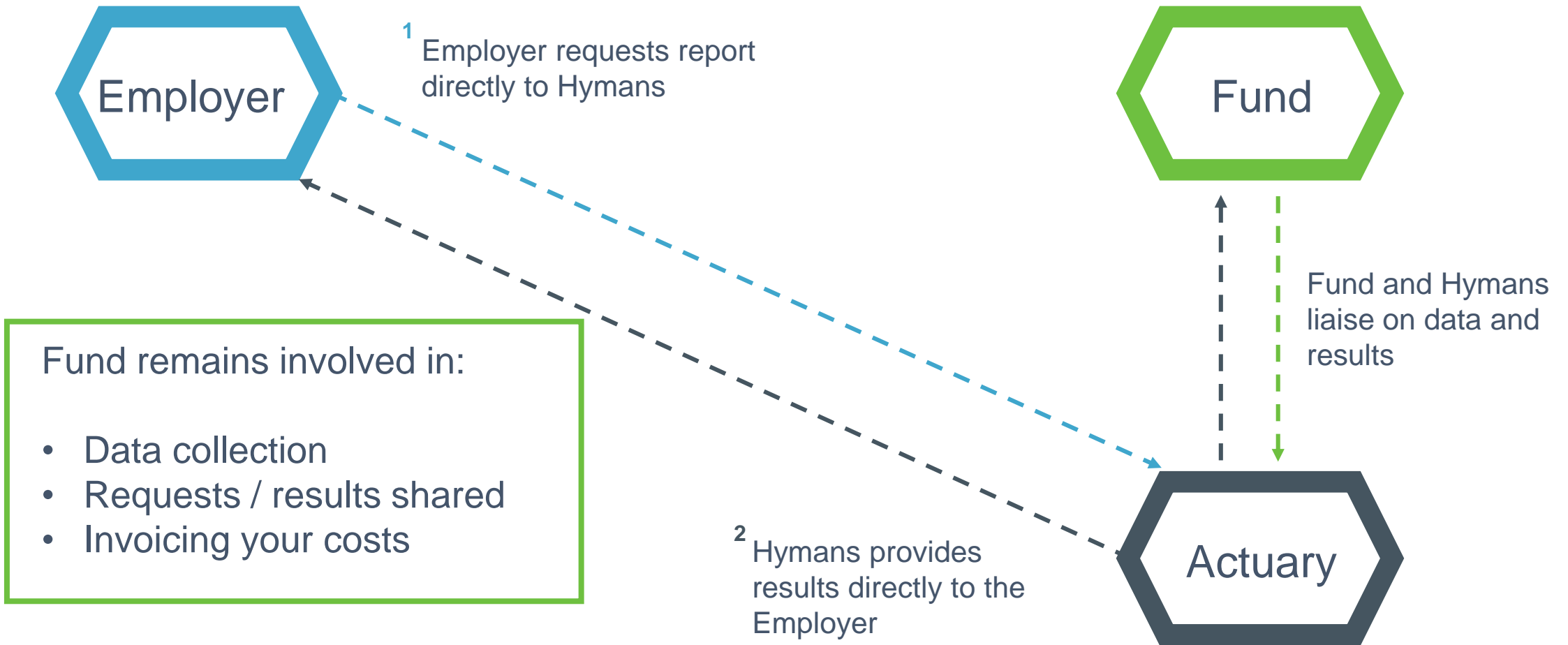
2. FRS102 / IAS19 Accounting



Previous accounting process



New accounting process



Streamlined process to save time and resources for all

Accounting Portal

100 HYMANS  ROBERTSON

31 March 2021 Accounting

Request form for provision of IAS19 / FRS102 results

* Required

Employer information

This form relates to the accounting disclosure requirements your organisation has arising from the Local Government Pension Scheme (LGPS). To provide you with the most effective service this year, we are requesting information from and directly providing you a copy of your results. We will continue to share your request and your results with the relevant LGPS pension fund.

Please complete the information below, noting some fields are not mandatory.

If you have any questions or require any assistance with this form, please contact us at LGPSCentralAccountingTeam@hymans.co.uk

1. In which LGPS pension fund does your organisation participate for this requested report? *

Please note, if you participate in more than one fund please complete a separate request form for each fund.

Staffordshire Pension Fund

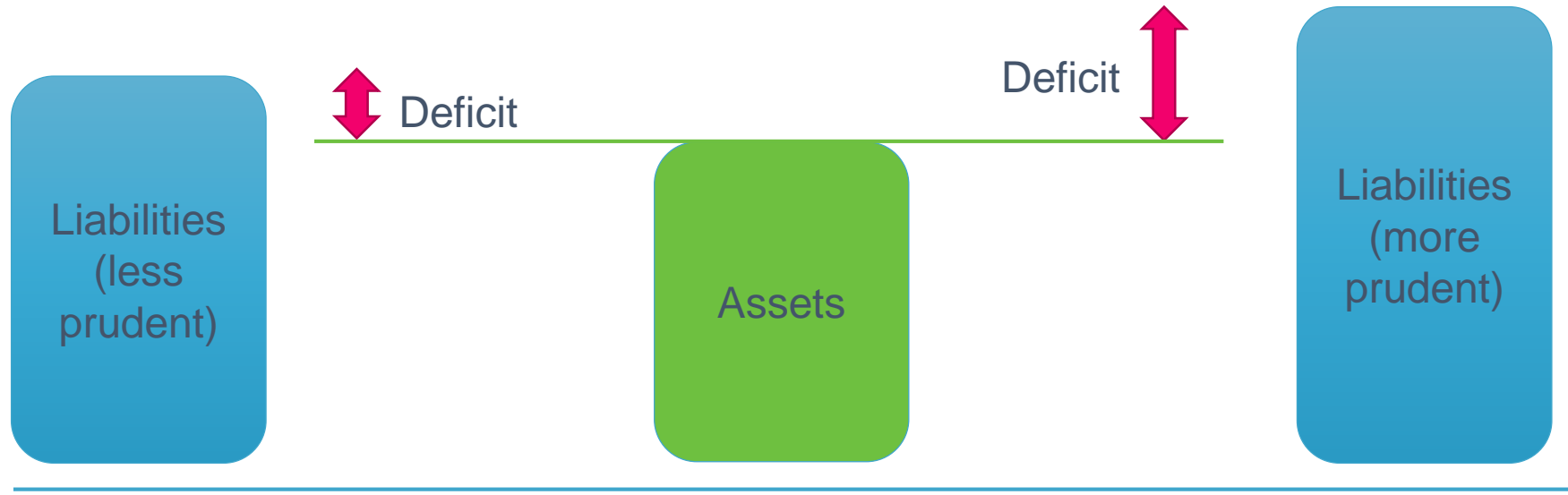


- Streamlined process
- Direct engagement between Hymans and employers
- First step in new process – Portal will be “one-stop shop”

Handling auditor queries

- You can request summary paper and/or assumptions advice
- Automatic allowance for updated longevity
- Re-designed report and results schedule
- We can issue report & results schedule direct to your auditor
- Your report fee covers the cost of queries to be handled direct by Hymans Robertson (in most cases)

What is my deficit?



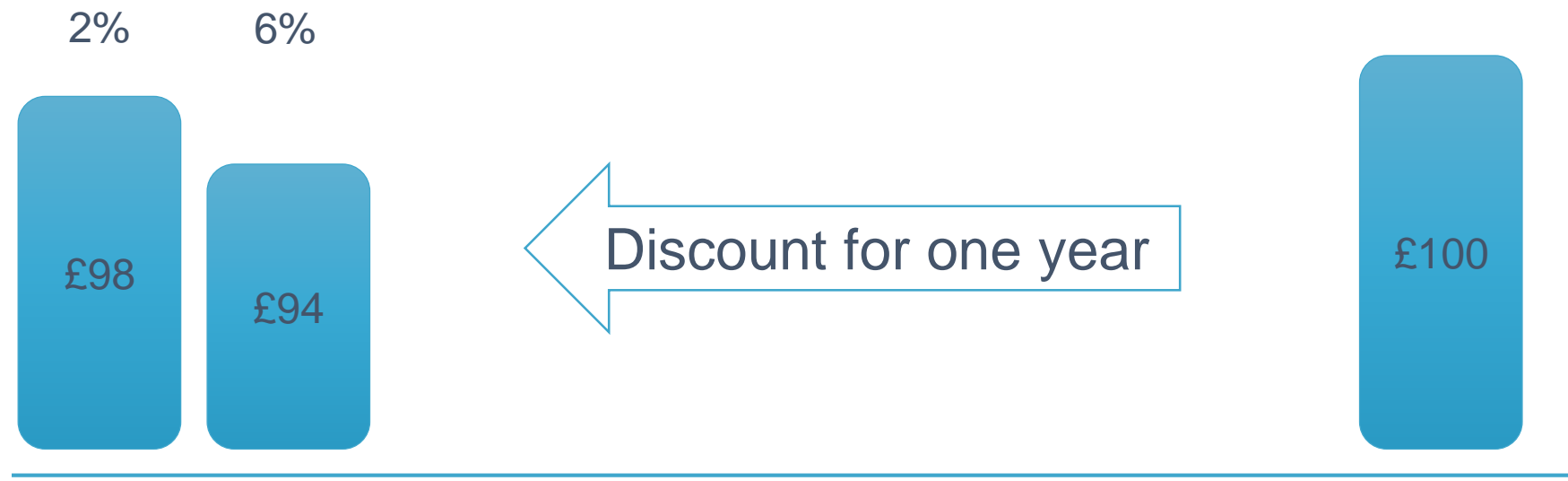
- Deficit = shortfall of assets vs liabilities/obligations
- Liabilities = actuarial value of future benefit payments
- Actuarial value depends on assumptions made about the future

How do Funding and Accounting differ?

	Triennial Funding Valuation	IAS19 / FRS102 Accounting
Purpose	To set cash contributions	For inclusion in employer accounts
Assumptions	Set by the Fund	Responsibility of the employer (but some elements prescribed by FRS102 / IAS19)
Assumed invest return (Discount rate)	Based on the Fund's prudent expectation of future investment returns	Based on high quality corporate bond yields on the accounting date
Methodology	Based on full membership data	Projection from last funding valuation (31 March 2019)

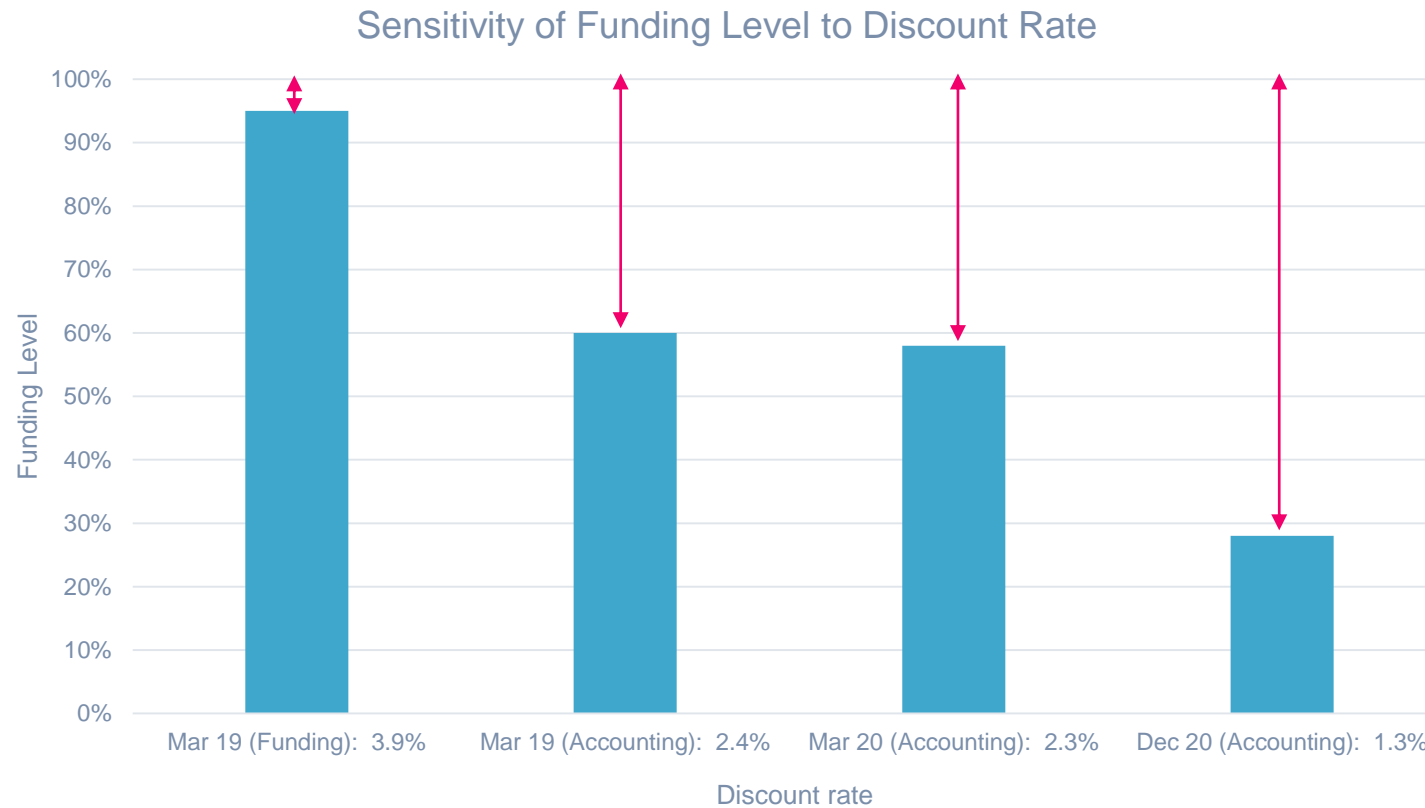
The difference in discount rate (assumed investment return) is the single biggest impact on different results

Why does assumed investment return matter?



- Different assumptions give different answers
- A **higher** assumed return gives a **lower** present liability value, and therefore a **lower** deficit
- (and vice versa)

Impact of low corporate bond yields

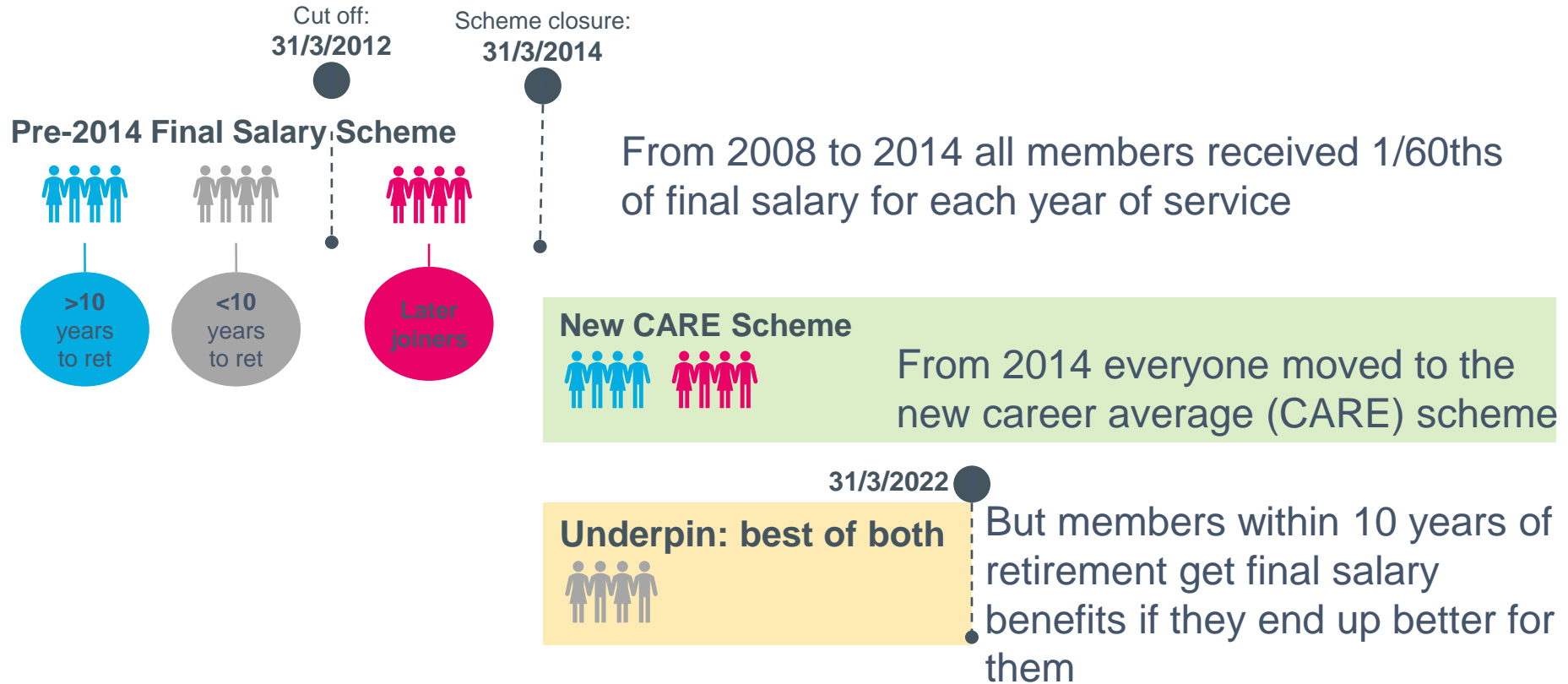


Discount rate alone is biggest driver in size of liabilities

Source: Sample LGPS employer with a duration of 20 years.

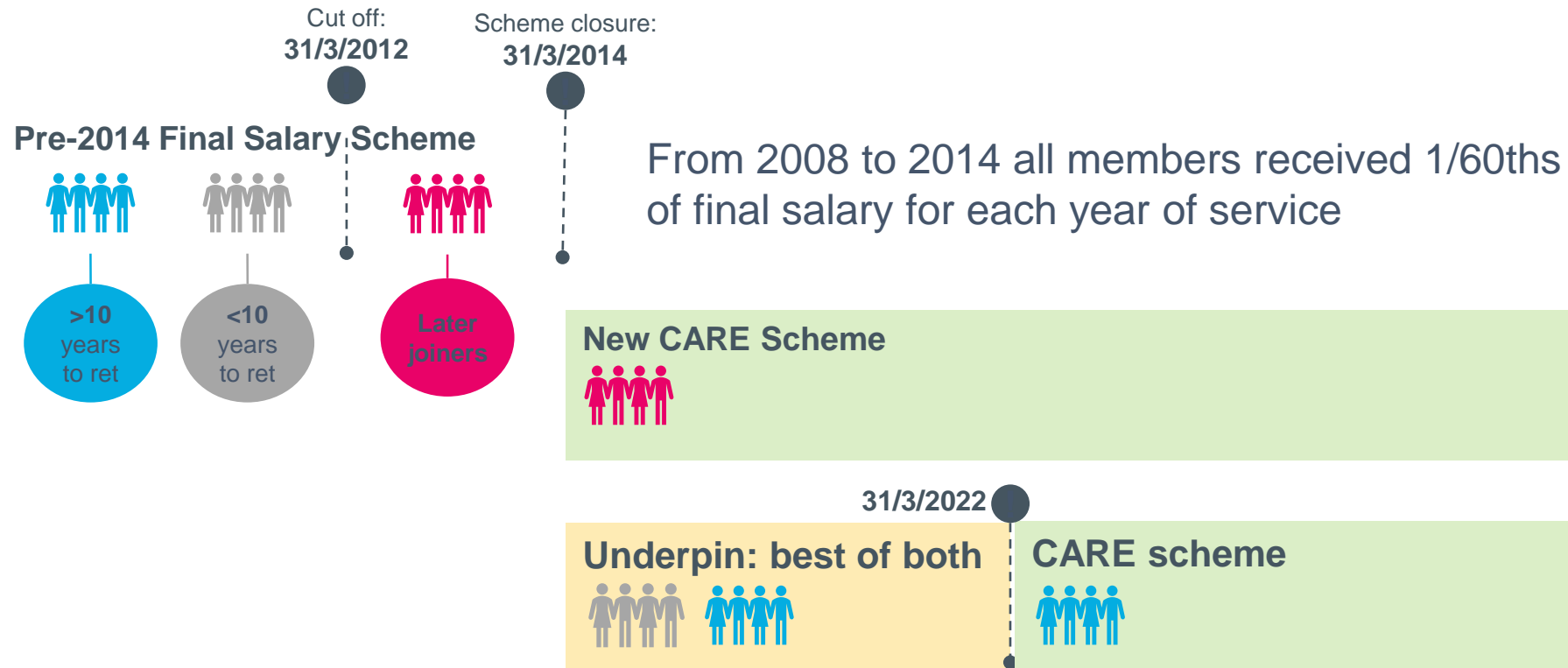
3. McCloud and Goodwin cases

LGPS before McCloud



Older members were given the underpin to prevent them losing out from the new CARE benefits

LGPS after McCloud (not 100% confirmed yet)



McCloud extends the underpin to everyone in the scheme in 2012
Joiners after that date do not see any change

The impact of McCloud



Members

- Some increase in benefits, most will see no difference
- Possible tax implications
- Understanding what the changes mean



Fund

- Administering an underpin is a significant challenge which will last for years
- Additional data may be required from employers
- Helping members understand their benefits
- Significant pressure on resources

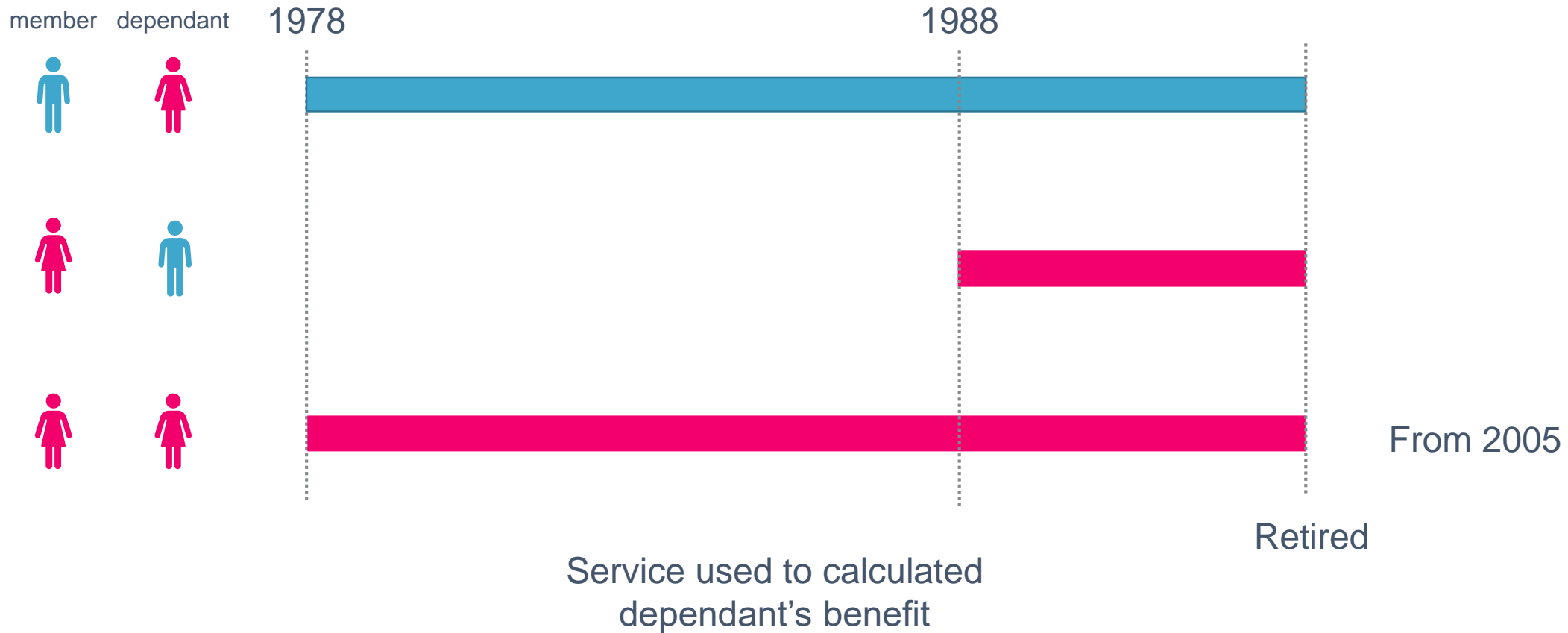


Employers

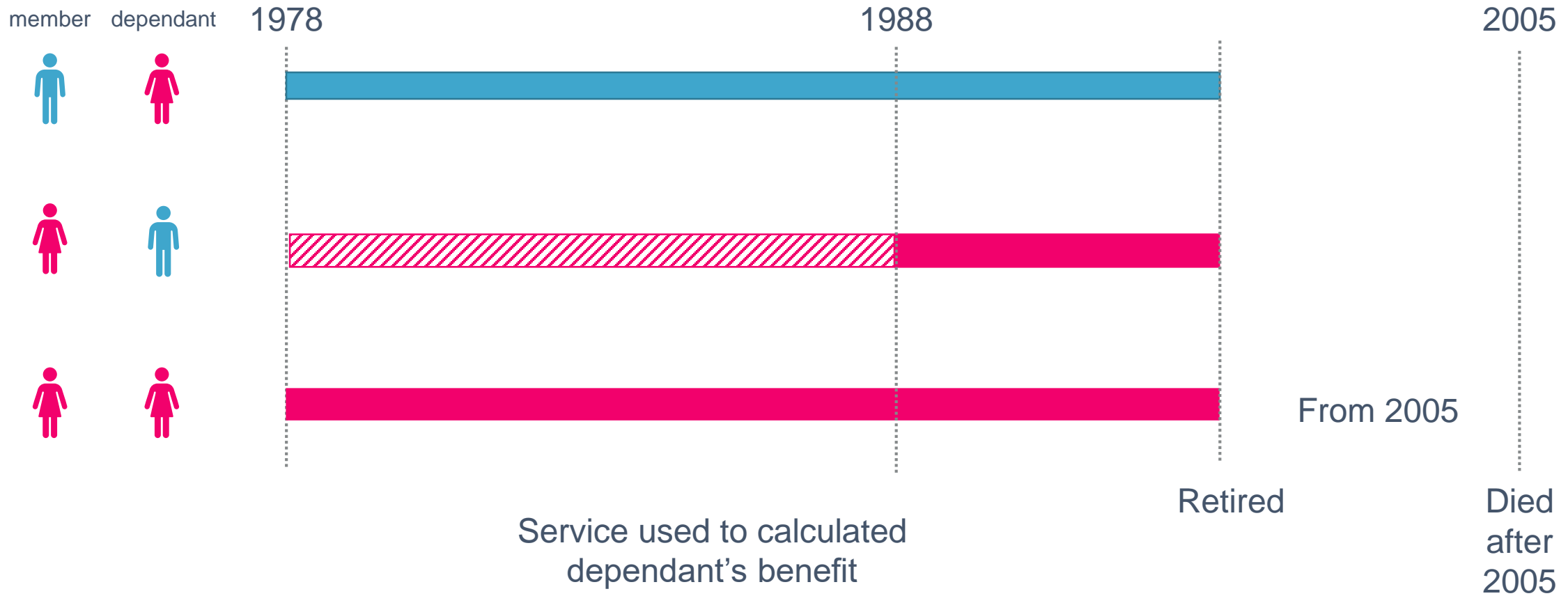
- **May need to submit historical membership and payroll data to Fund**
- **Liabilities: increase of 0.1% for whole fund, but individual employer's impact could be nil or could be say 1% of liabilities**
- **Contributions: already built in some allowance at 2019 valuation – no intention to review before 2022 valuation**
- **Accounting: each employer agreed approach with auditor in 2020**

What is Goodwin?

What service is counted when calculating a dependant's pension?



What is the remedy?



The impact of Goodwin



Members

- Husbands of deceased female members may see an increase to their benefit, and backdated payments
- No change to current actives, deferreds or other pensioners



Fund

- Significant admin work to find affected members & calculate backdated payments
- Significant pressure on resources at the same time as McCloud



Employers

- **Liabilities:** increase of <math><0.1\%</math> for whole fund, but individual employer's impact could be nil or could be more
- **Contributions:** no intention to review before 2022 valuation
- **Accounting:** each employer agreed approach with auditor in 2020

But no formal word on LGPS remedy yet

4. Regulatory update



Employer flexibilities

- New LGPS regulations introduced 23 September 2020
- Funding Strategy Statement being updated to state Fund policies

Contribution review

Cessation payments

Managed exit

Current Regs

Can only change cont rate at triennial valuation

Employer pays cessation debt in a single lump sum

Employer must cease if no active members left

Potential issue

Circumstances change, ideally conts change too

Employer could struggle to pay all at once

“Can’t afford to stay, can’t afford to leave” cases

New Regs solution

Fund instigates if “significant change” to employer’s liabilities or covenant (or at employer’s request if it meets the cost)

Fund has discretion to allow spread of payments over a few years

Fund has discretion to allow a “Deferred Debt Agreement”: employer continues paying conts even with no actives

Exit pay reform

(a) £95k cap

- Introduced 4 November 2020
- No transition
- All public sector incl councils, police & fire, academies
- Not colleges or admission bodies
- Limit size of exit package incl pension early ret strain cost
- **Collides with LGPS Regs**

(b) Wider LG exit pay reform

- Q1 2021? Not in force yet
- Propose 6 months transition
- All public sector employers ... but only in LGPS
- Forced member choice between redundancy pay & immediate full pension
- **Addresses £95k cap Regs collision, but not in place yet**

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On pause due to
Judicial Reviews:
£95k cap revoked
on 12 Feb 2021

Exit pay reform: what do you need to do?

- If you are not a local authority or academy: **No action**
else:
- If no redundancies since 4 Nov 2020: **No action**
else:
- If redundancies valued < £95k: **No action**
else
- **Speak to Fund officers in the first place**

Thank you

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