Staffordshire Pension Fund

2019 valuation update

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12 November 2019

This presentation has been prepared for discussion at the Staffordshire Pension Fund Employers AGM on 12 November 2019 only. It should not be used or relied upon for any other purpose.

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What are we going to cover?

1. Valuation introduction
2. Valuation assumptions – what's changed
3. Results – whole fund
4. Setting employer contribution rates
5. Results – employer level
6. Next steps
7. Hot topics

1. Valuation introduction

How the Fund works

Determined by investment strategy & manager performance

Determined by LGPS Regulations

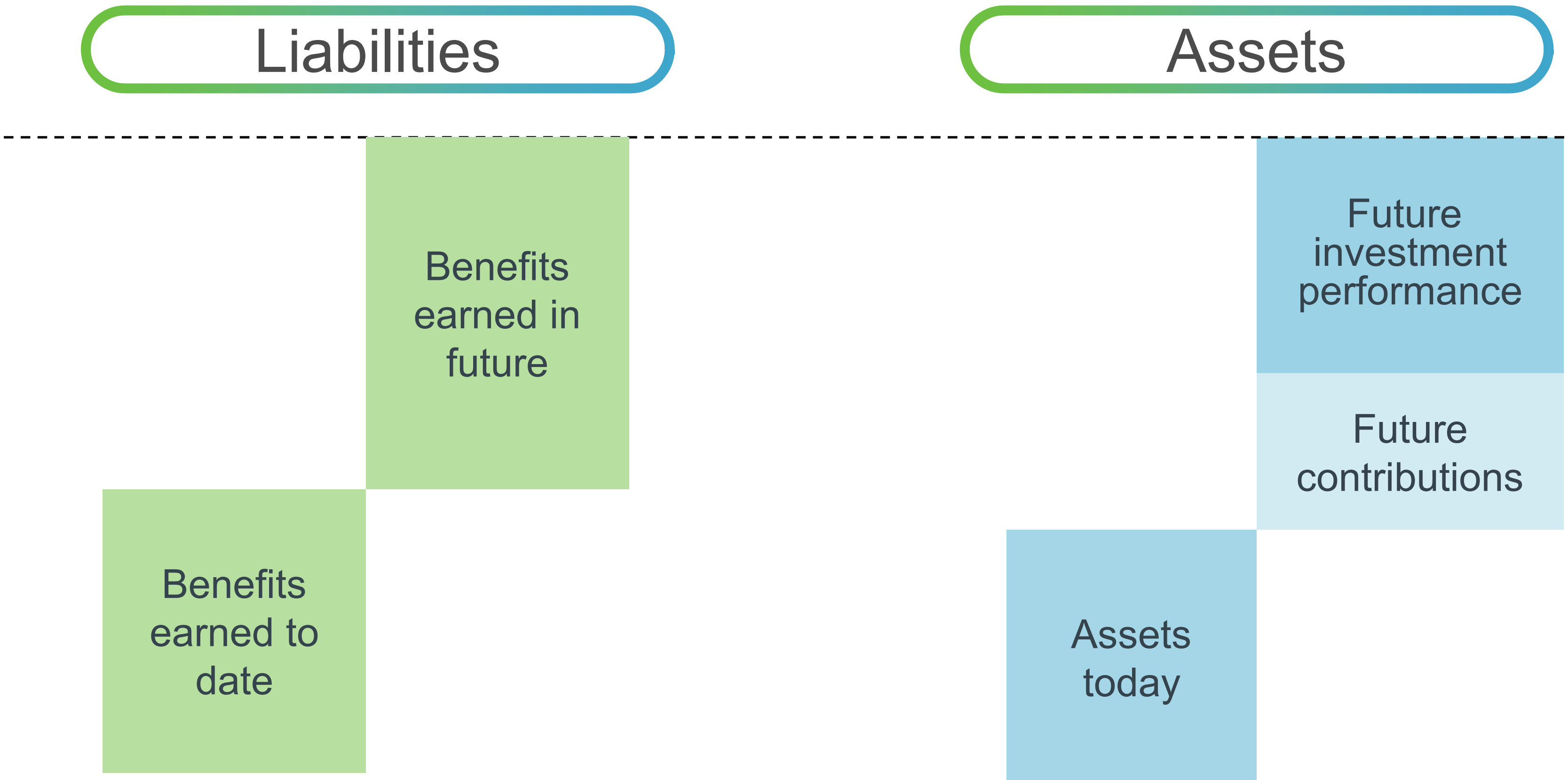
Must meet balance of cost over longer term

Why we do a valuation

- Calculate employer contribution rates
- Compliance with legislation
- Analyse actual experience vs assumptions
- Review Funding Strategy Statement
- Part of continual ‘health check’ on fund solvency

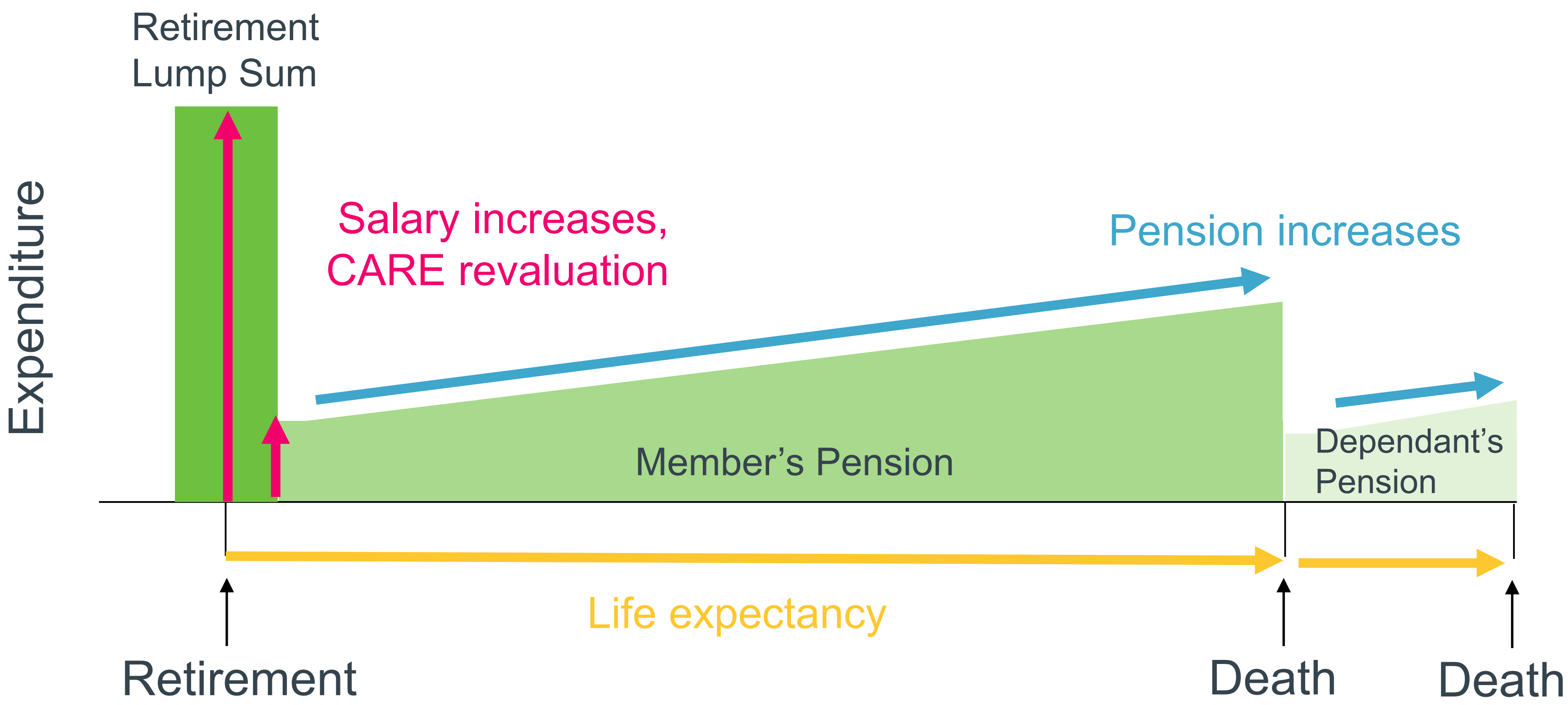
2. Valuation assumptions – what's changed

How to fund benefits



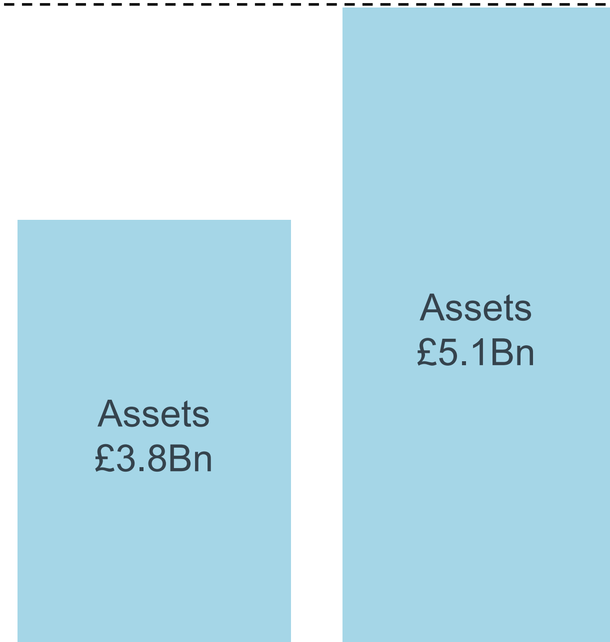
The purpose of a valuation is to review each of these sections and set a prudent plan to pay each member's benefits

Why do we need assumptions?



What has happened to the assets the Fund invests in between 2016-2019?

2016 | 2019 | Change | Impact



Contributions paid +

Investment returns c 37% 2016-19 +

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What has happened to the benefits you need to fund?

2019	Change	Impact
Benefits earned in future	Future pay increases	−
	Life expectancy	+
Liabilities (Benefits earned to date)	Pension indexation	−
	McCloud judgement	− ?

Falling life expectancy makes headlines

TheActuary
The magazine of the Institute & Faculty of Actuaries

Falling life expectancy to slash pension scheme liabilities

sky news

A lot of people in the City are getting very excited about death

"...£2bn windfall to the life sector."

MailOnline

British life expectancy falls by SIX MONTHS for men and women with experts blaming NHS cuts and a rise in dementia, diabetes and obesity

"...pension firms have already began to cash in on falling life expectancies."

THE WALL STREET JOURNAL.

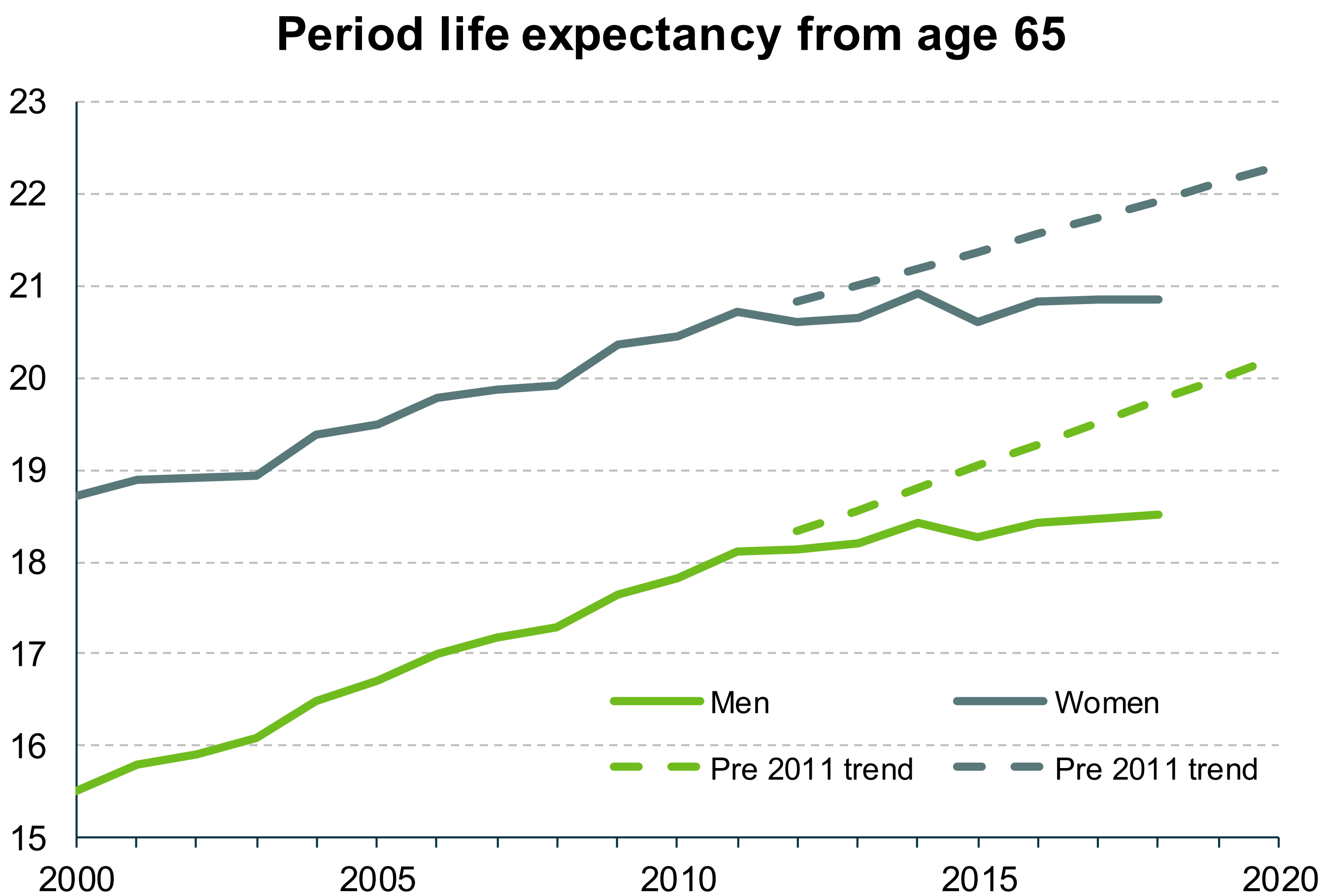
ome World U.S. Politics Economy Business Tech Markets Opinion Life & Arts

MARKETS | HEARD ON THE STREET

Life Was Short for Longevity Gains

Life expectancy at 65 is falling and that means cash windfalls for insurers

Is it fake news?



True for the general population…

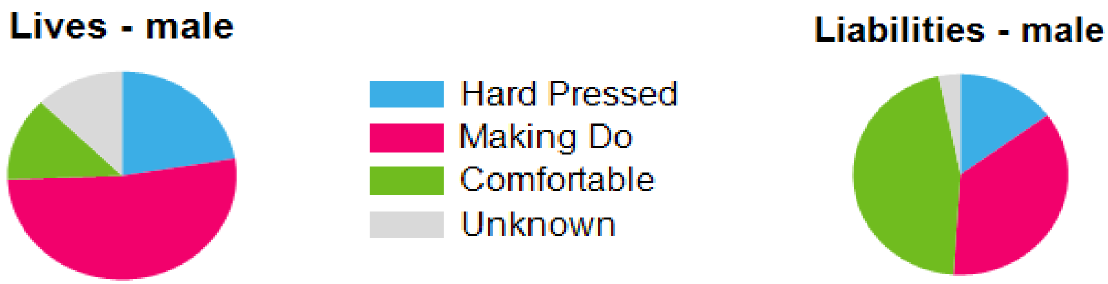
Not the same for everyone

Group	Annualised mortality improvement (age-standardised)		
	2001-2006	2006-2011	2011-2016
General Population	3.0%	2.6%	0.9%
Comfortable	2.0%	2.6%	1.5%
Making-Do	2.9%	2.9%	1.1%
Hard-Pressed	2.6%	3.1%	0.7%

Still improving

Slowing down

Typical LGPS Fund Profile



10-15% of members… …50% of liabilities

Less impact on your costs than the headlines suggest

McClouds on the horizon

- Legal ruling in June 2019 – age discrimination in 2014 reforms so benefits will be changed
  - We don't know exactly how – lots of uncertainty right now!
- What benefit structure to value in 2019?
  - Actuaries should value the current benefits*
- How will the Staffordshire Fund manage the risk over benefit structure uncertainty?
  - Slight increase to contributions for most employers led by increase in likelihood of meeting funding target
- Can funds revisit rates after the valuation once the case is resolved?
  - Yes
- What about employers leaving the fund?
  - If you leave the Fund before the case is resolved, you may be asked to pay more to cover the potential cost of improved benefits

* Advice from Scheme Advisory Board
http://lgpsboard.org/images/Other/Advice_from_the_SAB_on_McCloud_May_2019.pdf

3. Results– whole fund

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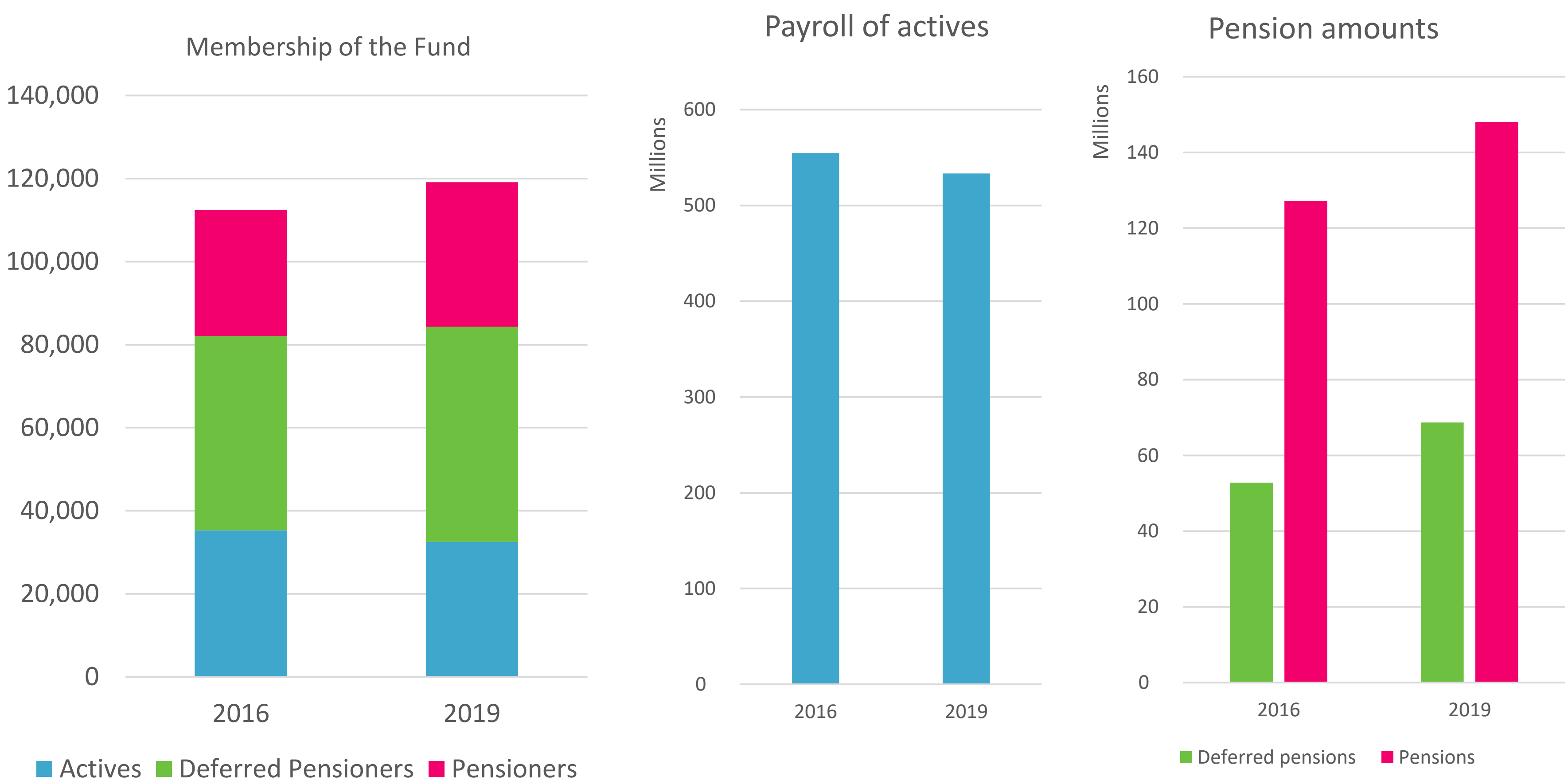
Membership ("liabilities")



The fund has continued to grow in size, increased requirements on the admin team

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Source: Hymans Robertson, Staffordshire Pension Fund

Whole Fund funding position

	2016 valuation (£m)	2019 valuation (£m)
Active liabilities	1,751	1,666
Deferred pensioner liabilities	971	1,180
Pensioner liabilities	2,091	2,359
Total liabilities	**4,813**	**5,204**
Assets	**3,753**	**5,131**
Surplus/(Deficit)	**(1,059)**	**(73)**
Funding level	**78%**	**99%**

Funding level shows a snapshot on one particular day, but funding pension benefits is a long term game

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Note: Table may not sum due to rounding   Source: Hymans Robertson, Staffordshire Pension Fund

What's changed since 2016?

Change in the surplus/deficit position	Assets (£m)	Liabilities (£m)	Surplus / (Deficit) (£m)
Last valuation at 31 March 2016	**3,753**	**4,813**	**(1,059)**
Cashflows			
Employer contributions paid in	419		419
Employee contributions paid in	107		107
Benefits paid out	(519)	(519)	0
Net transfers into / out of the Fund*	(11)		(11)
Other cashflows (e.g. Fund expenses)	(10)		(10)
Expected changes in membership			
Interest on benefits already accrued		571	(571)
Accrual of new benefits		487	(487)
Membership experience vs expectations			
Salary increases less than expected		(3)	3
Benefit increases less than expected		(1)	1
Early retirement strain (and contributions)	19	20	(1)
Ill health retirement experience		(19)	19
Early leavers greater than expected		(7)	7
Pensions ceasing greater than expected		(10)	10
Commutation greater than expected		(1)	1
Other membership experience		0	0
Changes in market conditions			
Investment returns on the Fund's assets	1,372		1,372
Changes in future inflation expectations		156	(156)
Changes in actuarial assumptions			
Change in demographic assumptions (excl. longevity)		(9)	9
Change in longevity assumptions		(198)	198
Change in salary increase assumption		0	0
Change in discount rate		(76)	76
This valuation at 31 March 2019	**5,131**	**5,204**	**(73)**

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Note: Table may not sum due to rounding   Source: Hymans Robertson, Staffordshire Pension Fund

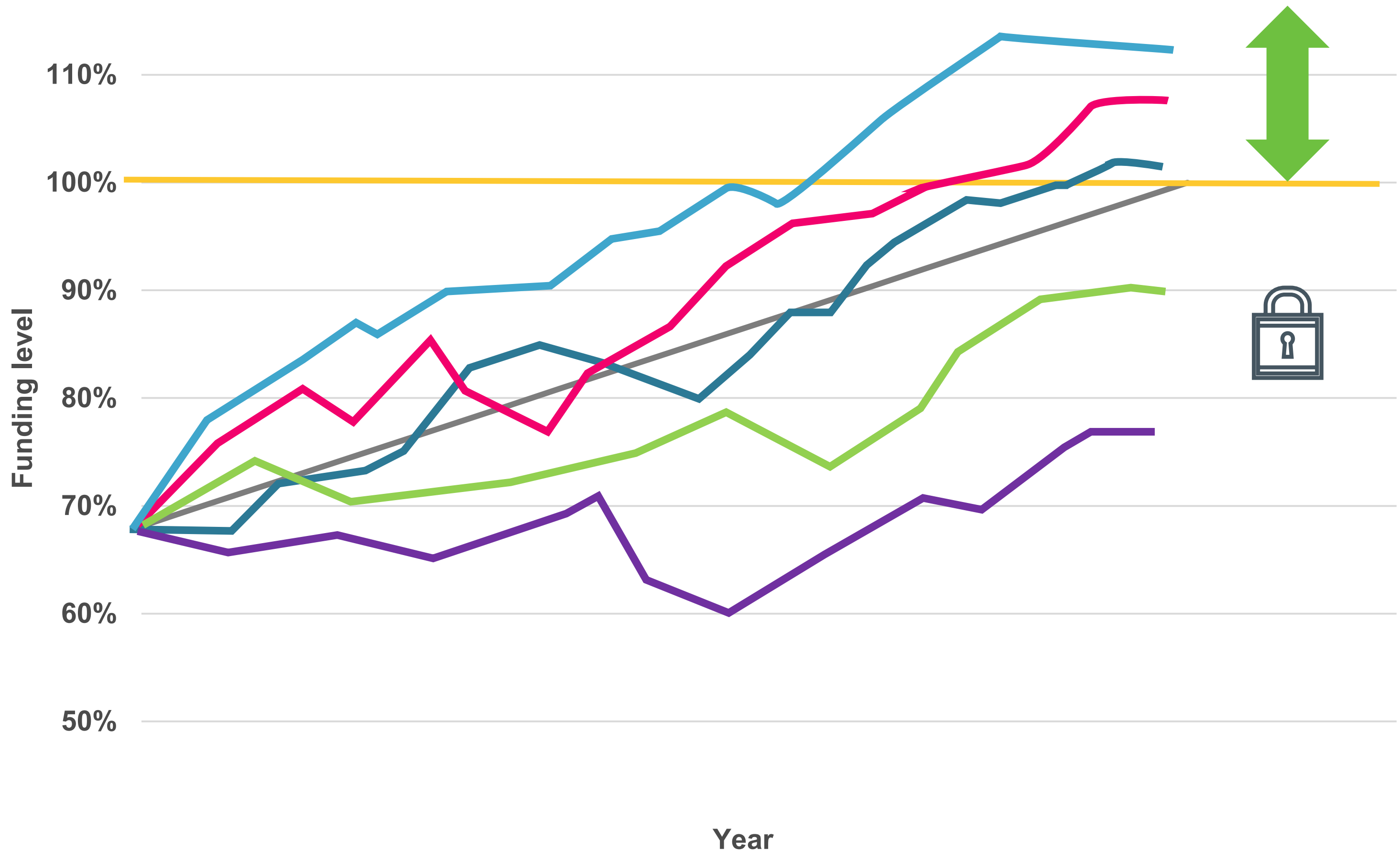
4. Setting employer contribution rates

Recap: how we calculate contributions

2013 and before	2016 onwards
What is the funding target?	What is the funding target?
How long do we want to give the employer to get to the target?	How long do we want to give the employer to get to the target?
What single set of assumptions are we going to use?	How sure do we want to be that the employer hits the target?

The method for setting contribution rates allows for future uncertainty and helps all stakeholders understand the risk inherent in funding plans

Test contributions under thousands of economic scenarios



Each scenario has different inflation, investment returns, interest rates etc

2019 valuation: funding strategy

Employer type	Funding target	Time horizon	Likelihood of success	Stabilised contributions
Councils, Police and Fire	Ongoing	Long	68%	Yes
Academies	Ongoing	Medium	68%	Yes
Colleges and Universities	Ongoing	Medium	75%	No
Transferee Admission Bodies	In line with letting employer	In line with letting employer	In line with letting employer	No
Community Admission Bodies	Cessation	Medium/Short	72% (open) 77% (closed)	No

Increased likelihood of success to allow for McCloud

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Summary of approach: Councils, Police and Fire Authorities

Currently	From 1 April 2020
Contributions stabilised	Stabilisation policy continues
Expectation from 2016 was that rates would go up at this valuation	Employers given option to freeze rates or move by steps of 1% p.a. or 2% p.a.*
Option to pay secondary rates as a single lump sum	Primary rates held at current levels so secondary rates must rise
	Option to pay secondary rate as a lump sum continues

*Balance between short term contributions and longer term risks

Summary of approach: Academies

Currently	From 1 April 2020
Contributions linked to council's pre-conversion rate	Link to council rate remains
Rates are 'stabilised' so can only change by a small amount each year	Continue with stabilised rates – step up by 1% of pay p.a.
All academies tracked individually	Primary rates held at current levels so secondary rates must rise
Academies were given one-off option to stabilise	All academies still tracked individually in line with intentions of Academies Act

Academies will pay their stabilised rate

Summary of approach : Colleges and Universities

Currently	From 1 April 2020
Rates set in line with Employer's own unique funding position	Rates still depend on Employer's own unique funding position.
Secondary rate will depend on the Employer's funding position	Minimum rate will be the primary contribution rate if there is a negative secondary rate
	Higher required likelihood of reaching funding target to allow for risks below

Changes to FE colleges over the last few years:

- No longer classified as public sector bodies
- Consultation on no longer offering LGPS membership
- Change to insolvency regime – treated more like private sector companies?

Summary of approach: Contractors

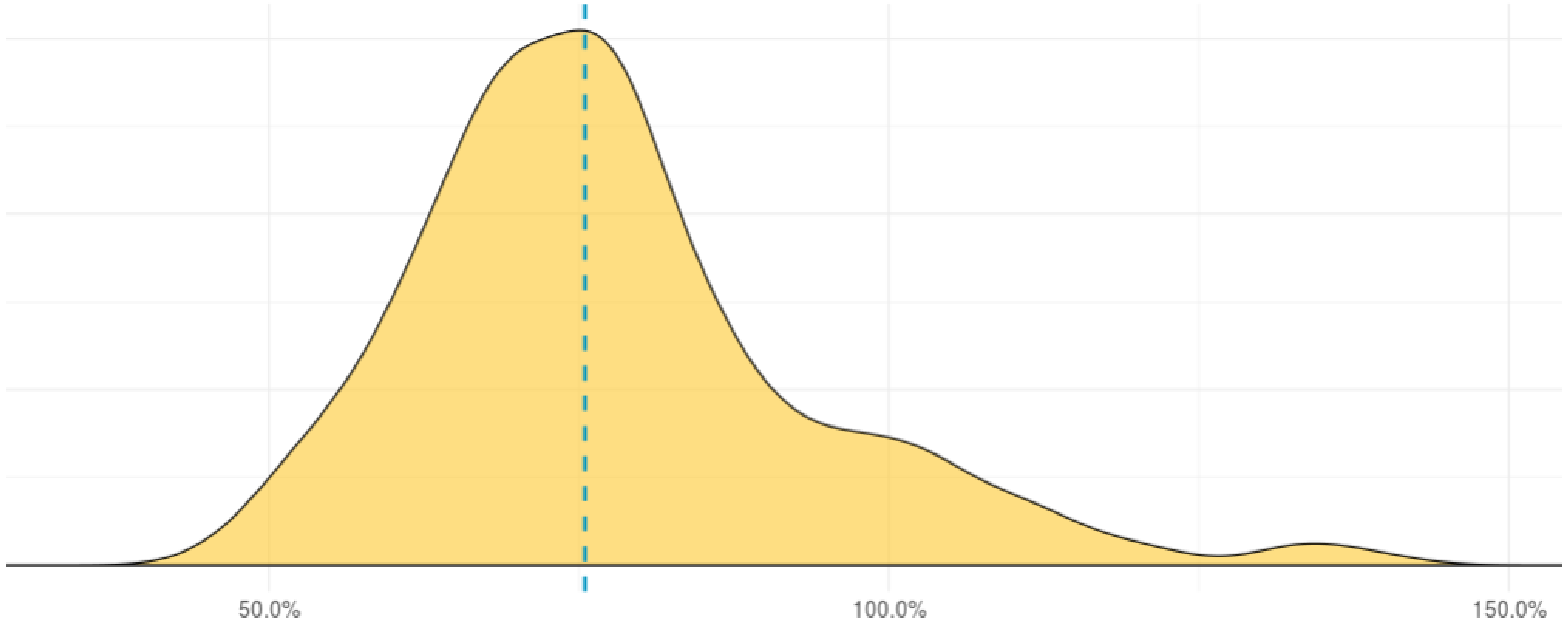
Currently	From 1 April 2020
Each contractor set up with assets and liabilities	Pass through preferred approach for new contracts?
Contractor's contributions vary at each valuation	Fixed rate agreed between employers Letting employer keeps most risks
Contractor bears all risks including investment risk and market risk	No cessation debt/credit at the end
At end of contract a cessation debt/credit must be paid	Most in surplus, so contributions can be set low from 2020

Where to find further information

You are being consulted on the new funding strategy – have your say!

5. Results – employer level

Range of employer funding levels



Most employers will see an improved funding level versus 2016, but there is a wide range

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Source: Hymans Robertson, Staffordshire Pension Fund

Results schedule (1)

2019 Valuation Employer Results Report Draft HYMANS ROBERTSON

Employer / **ABC Employer (123)**

Fund: Staffordshire Pension Fund **Page 1**

Addressee and purpose

This Employer Results Report is addressed to the Administering Authority for the purposes set out in Your Guide to the 2019 valuation. It may be shared with the employer or pool of employers noted above ("the Employer") but should not be shared with any other third parties without our prior written consent. Please note that Hymans Robertson LLP accept no liability to any third parties (including the Employer). The results in this report should be read in conjunction with the draft Funding Strategy Statement. The assumptions and methodology used to calculate employer contribution rates are set out in this document.

If you are the Employer, the purpose of this report is to give you advance notice of the recommended contributions payable from 1 April 2020 for planning purposes and to allow you check that the way these recommended rates have been calculated is appropriate to your circumstances and is in line with the draft Funding Strategy Statement. It also allows you to verify the cashflow and membership data used in our valuation calculations. This report has been prepared for the Administering Authority and does not provide advice to you as the the Employer.

If the Employer is a member of a funding pool within the Fund, the contribution rates, funding level and membership data shown in this report may relate to the pool as opposed to the individual employer. This will be indicated in the title of the relevant table.

The following Technical Actuarial Standards have been complied with to a proportionate degree in the preparation of this report: TAS 100, TAS 300.

Prepared by: Laura McInroy FFA Douglas Green FFA **29 October 2019**

Employer Contribution rates	Primary (% of pay)	Secondary (% of pay)	Secondary (£)	Total (% of pay)		Total (£)
Currently in payment 2019/2020	20.7%	-	£392,000	20.7%	plus	£392,000
Recommended for year end to 31 March 2021	23.0%	-1.6%	-	21.4%	plus	£0
Recommended for year end to 31 March 2022	23.0%	-1.6%	-	21.4%	plus	£0
Recommended for year end to 31 March 2023	23.0%	-1.6%	-	21.4%	plus	£0

The recommended contribution rates are the minimum rate required by the Fund. In most circumstances the Employer can pay additional contributions to improve their funding position but this should be referred to the actuary first. The Employer's final contribution rates will be certified in the Fund's Rates and Adjustment's Certificate, which must be published by 31 March 2020.
The Primary Rate includes an allowance of 0.6% for administration expenses. Employer contribution rates are additional to employee contributions.
The average employee contribution rate is 7.1% of pay.

Results schedule (2)

Funding strategy	Last Valuation 31 March 2016	This Valuation 31 March 2019
Funding target	100% funded on the ongoing participation basis	100% funded on the ongoing participation basis
Funding time horizon	15 years	15 years
Required likelihood of achieving target	70%	72%

The recommended contribution strategy gives a 72% likelihood that both past and future service benefits will be at least fully funded on the Fund's ongoing participation basis at the end of a 15 years time horizon. This funding strategy has been determined by the Administering Authority, taking into account the type of organisation the Employer is and the nature of its participation in the Fund. The approach to setting employer contribution rates, and the Employer's funding target, is explained further in the draft Funding Strategy Statement.

Investment strategy	Last Valuation 31 March 2016	This Valuation 31 March 2019
Investment strategy used in contribution rate assessment	Whole Fund	Whole Fund

Further details on the Employer's investment strategy is included in the Fund's Investment Strategy Statement.

Employer funding position	Last Valuation 31 March 2016 (£000)	This Valuation 31 March 2019 (£000)
Past service liabilities		
Employees - Final Salary	15,608	10,247
Employees - CARE	2,588	4,553
Deferred Pensioners	13,810	15,120
Pensioners	22,284	27,623
Total	54,290	57,543
Asset share	48,542	64,686
Surplus / (Deficit)	(5,748)	7,142
Funding Level	**89%**	**112%**

Please note, figures in tables throughout this document have been shown rounded. As a result, the sum of figures within tables may not add up due to rounding.

The assumptions underlying the funding position are summarised on Page 2.

Results schedule (3)

2019 Valuation Employer Results Report Draft

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Employer / Pool: **ABC Employer (123)**
Fund: Staffordshire Pension Fund

Page 2

Change in the Surplus / (Deficit) position	Assets (£000)	Liabilities (£000)	Surplus / (Deficit) (£000)
Last valuation at 31 March 2016	**48,542**	**54,290**	**(5,748)**
Cashflows			
Employer contributions paid in	3,782		3,782
Employee contributions paid in	861		861
Benefits paid out	(5,721)	(5,721)	0
Net individual transfers into / out of the Employer *	(447)		(447)
Other cashflows (e.g. Fund expenses)	(56)		(56)
Expected changes in liabilities			
Interest cost on benefits already accrued		6,688	(6,688)
Accrual of new benefits		3,658	(3,658)
Membership experience vs expectations			
Salary increases less than expected		(178)	178
Benefit increases less than expected		(14)	14
Early retirement strain (and contributions)**	99	443	(345)
Ill health retirement strain		(115)	115
Early leavers more than expected		(97)	97
Pensioner deaths more than expected		(758)	758
Commutation greater than expected		(176)	176
Impact of bulk transfers	0	0	0
Other membership experience		955	(955)
Changes in market conditions			
Investment returns on the Employer's assets ***	17,626		17,626
Changes in future inflation expectations		1,742	(1,742)
Changes in actuarial assumptions			
Change in demographic assumptions (exc. longevity)		(129)	129
Change in longevity assumptions		(2,198)	2,198
Change in salary increase assumption		0	0
Change in discount rate		(846)	846
This valuation at 31 March 2019	**64,686**	**57,543**	7,142

* We have not quantified the net liability resulting from net transfers in/out as we have insufficient data to do so

** Includes contributions credited to the Employer's assets as part of the Fund's ill health liability risk management solution

*** The investment return on the Employer's assets between 31 March 2016 and 31 March 2019 was 36.8%

ABC Employer (123)

Results schedule (4)

Actuarial assumptions underlying the funding position	Last Valuation 31 March 2016	This Valuation 31 March 2019
Financial		
Investment Return	3.8%	3.9%*
Salary Increases	2.6%	2.7%
Benefit increases and CARE revaluation (CPI)	2.1%	2.3%
Demographic		
Baseline longevity	Club Vita	Club Vita
Future improvements in longevity	CMI 2013, 1.25% long term	CMI 2018, 1.25% long term
Other demographic assumptions	available on request	available on request

*There is a 70% likelihood of the Fund's investments achieving at least an annual return of 3.9% p.a. over the next 20 years

Employer details	
Employer code	123
Employer name	ABC Employer
Funding pool	Scheduled
Employer type	Open
Open / closed to new members	

Employer membership data	Last Valuation 31 March 2016	This Valuation 31 March 2019
Employee members		
Number	166	110
Total Actual Pay (£000)	4820	3334
Total Accrued Pension (£000) (80ths)	737	319
Total Accrued Pension (£000) (60ths)	302	235
Total Accrued Pension (£000) (CARE)	189	334
Average Age (liability weighted)	50.1	50.1
Deferred pensioners		
Number	150	162
Total Accrued Pension (£000)	748	854
Average Age (liability weighted)	50.7	51.4
Pensioners		
Number	145	182
Total pensions in payment (£000)	1122	1477
Average Age (liability weighted)	64.1	65.3
Average duration of liabilities	19.5	18.1

6. Next steps

Next steps for employers

Review your rates

Read your Results Schedule…

…along with the draft Funding Strategy Statement (FSS)

Note new contribution rates applying from 1 April 2020

Speak to the team

Ask any questions

Give details of any changes in your circumstances

Respond to FSS consultation

2019 valuation timeline

Q4 18 – Q2 19
Pre-valuation work:
- Planning
- Long term employer modelling
- Committee review assumptions

July 2019
Data cleansed and submitted to actuary
Actuarial calculations processed

September 2019
Committee review whole fund results
Funding Strategy Statement (FSS) drafted

November / December 2019
Employers' AGM
FSS consultation

March 2020
Final report signed off by 31 March
Final FSS signed off by Committee

April - June 2019
Data submitted by employers

August - September 2019
Whole Fund results calculated

October 2019
Individual employer results calculated
Individual employer results schedules issued

December 2019
Pension Committee review draft FSS and employer results

1 April 2020
New employer contributions start to be paid

7. Hot topics

A. Early retirement on redundancy or efficiency

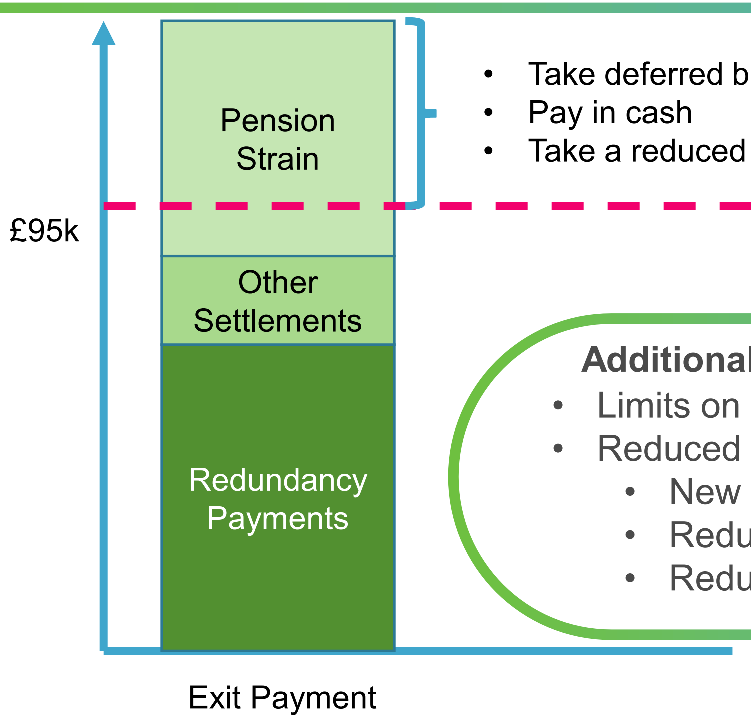
A member who is made redundant or leaves on the grounds of business efficiency at age 55 or over must take immediate payment of their LGPS benefits

What are the associated payments?

- Redundancy payment
- Pension strain payment paid to the Fund
- Other settlements

Public Sector Exit Payment Cap

- Total exit payments to an individual should not exceed £95k
- If they do the employer must **reduce** any of the elements that make up the exit payment so as not to exceed £95k
- The exit payment cannot be reduced below any statutory redundancy payment



- Take deferred benefit (Teachers only)
- Pay in cash
- Take a reduced pension

Additionally….

- Limits on re-employment for high earners
- Reduced limits for calculating exit payments:
  - New maximum redundancy settlements
  - Reduced entitlements near retirement
  - Reduced access to retirement options

Draft implementation

It is the government's intention that the cap will apply to the whole of the public sector, but is being implemented in two stages.

Stage one implementation

- local authorities (including schools)
- the UK Civil Service
- the NHS in England and Wales
- academy schools
- police forces (including civilian staff)
- Fire and Rescue Authorities

Currently not in scope

- a number of 'public sector' employers in the LGPS, including further/higher education and sixth form colleges
- current definition would also exclude all of the alternative service delivery vehicles, whether they are 'arms length', e.g. Community Interest companies

Potential impact on LGPS

Examples of roles & real voluntary redundancy schemes:

CAPPED

Trading Standard Manager
£44k 20 years

CAPPED

Adult Social Care Worker
£35k 30 years

CAPPED

HR staff
£28k 40 years

CAPPED

Planning Manager
£51k 15 years

Consultation closed 2 July 2019, awaiting outcomes

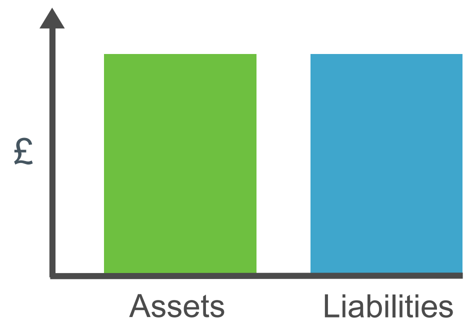
B. Exit credits

- Affects all cessations triggered from 14 May 2018
- Ceasing employers receive funding surplus in cash
- It must be processed within 3 months of cessation date
- Surpluses on some contracts may run into £m's (usually due to benevolent market conditions)
- Implications for funds and employers:
  - lack of transitional arrangements
  - refund is not taxable
  - is funding risk truly symmetrical?

Blunt instrument for trying to rectify fairness between awarding authority and contractor

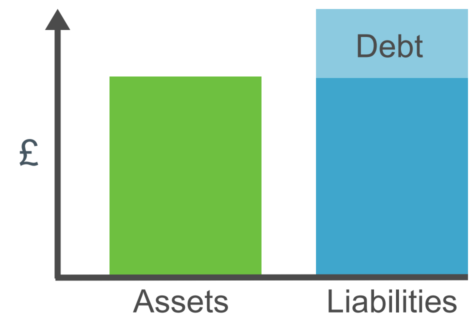
How does this work in practice?

Start of contract

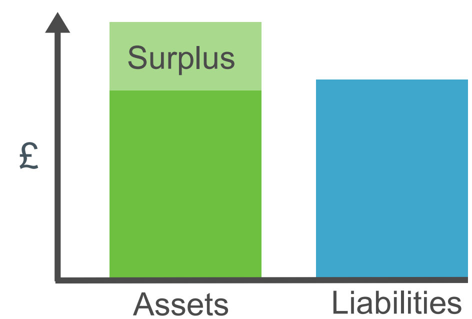


or

End of contract



Contractor pays debt



Awarding authority retains surplus

OR

Contractor receives surplus

Decision depends on who is liable for the risk and the terms of the contract

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Summary: Exit Credits

- MHCLG is proposing to amend the 2013 Regulations retrospectively
- To require an administering authority to take into account a scheme employer’s exposure to risk when calculating the value of an exit credit
- If the service provider has not borne any pensions risk, but has become entitled to an exit credit MHCLG considers that the exit credit should be assessed as nil

Thank you

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Life expectancies based on member data