Warwickshire County Council Pension Fund

Pensions Committee: 2013 valuation – results

> John Wright

> Robert Bilton

> 10 February 2014

# Where we were

Valuation Date	31 March 2010
Past Service Position	**(£m)**
Past Service Liabilities	
Employees	627
Deferred Pensioners	157
Pensioners	544
Total Liabilities	1,328
Market Value of Assets	1,099
Surplus / (Deficit)	**(229)**
Funding Level	**83%**

What has happened since

Risk	Actual	Expected	Difference	Impact
Asset return				
Over 3 year period	27.2%	20.5%	6.7%	Positive
Annual	8.4%	6.4%	2.0%	
Pre-retirement experience				
Early leavers	4291	1677	156%	Positive
Ill health retirements	98	269	-64%	Positive
Salary increases (p.a.)*	2.5%	5.7%	-3.3%	Positive
Post-retirement experience				
Pension increases	3.5%	3.0%	0.5%	Negative
Amount of pension ceasing over 3 year period (£m)	2.88	3.45	-17%	Negative

Risk	2010	2013	Difference	Impact
Fixed interest gilts	4.5%	3.0%	-1.5%	Negative
Index linked gilts	0.7%	-0.3%	-1.0%	Negative
Inflation (RPI)	3.8%	3.3%	-0.5%	Positive

Bond yields & interest driving the deficit
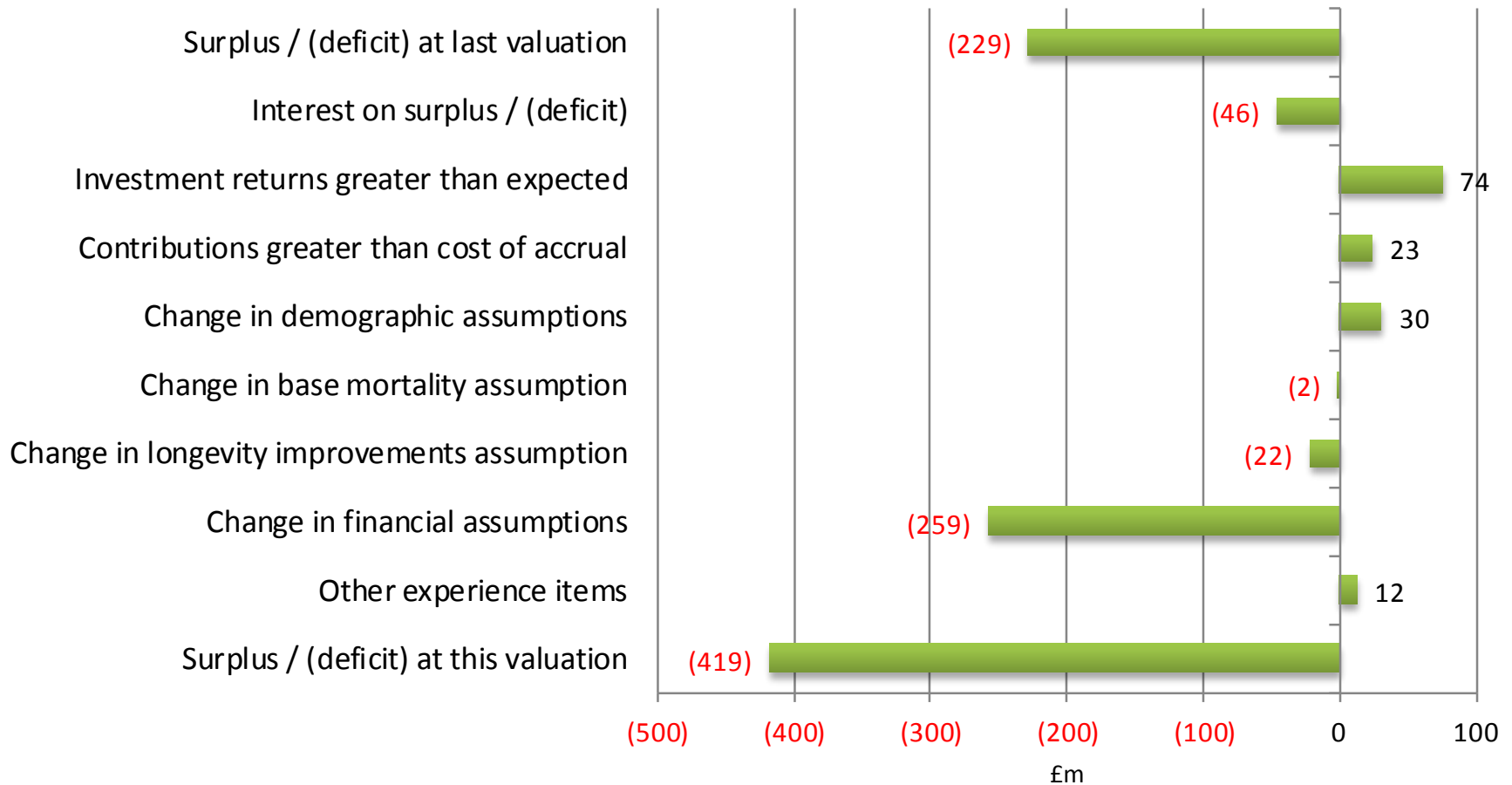
Similar issues affecting cost of benefits
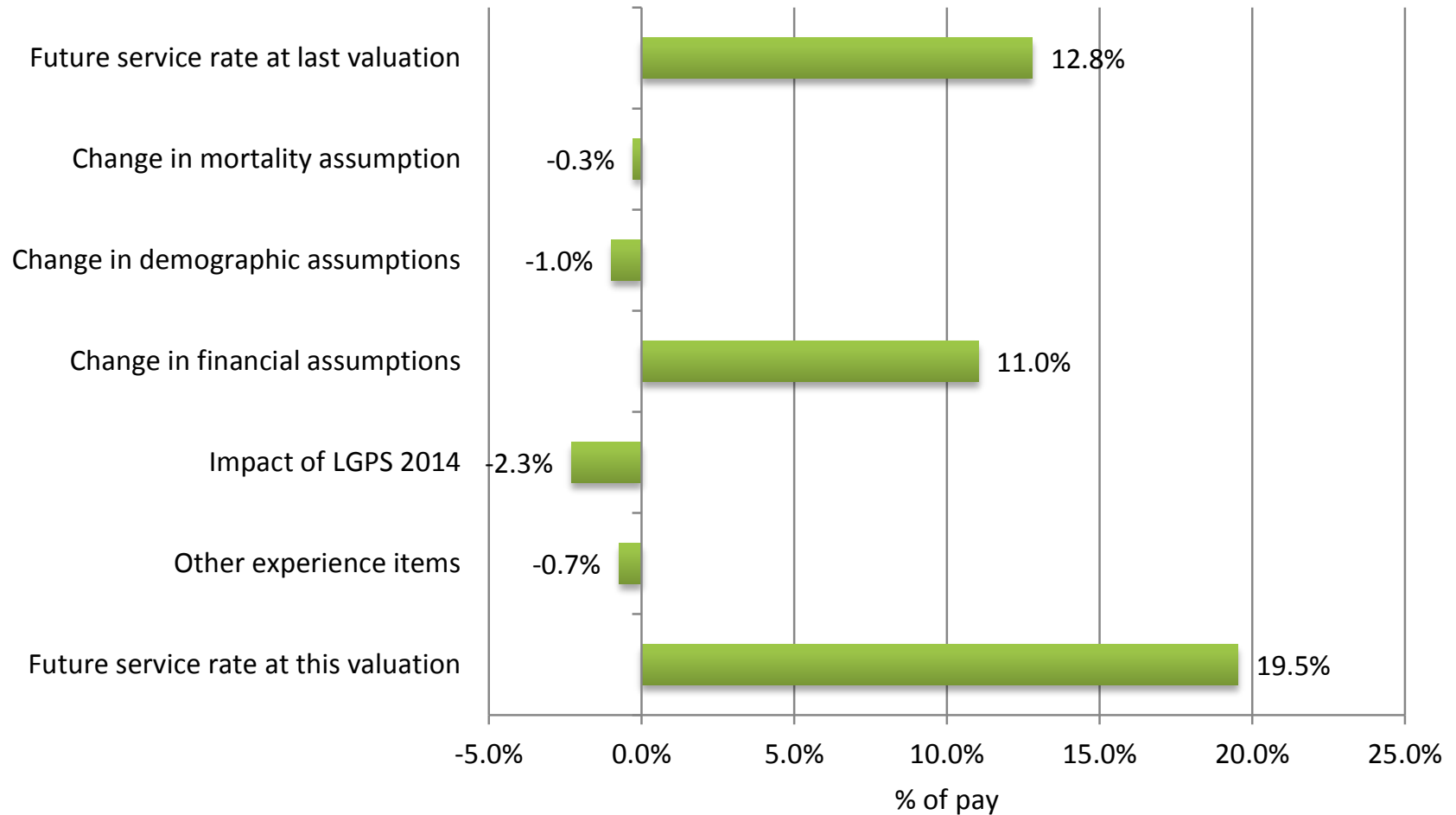
The financial assumptions item includes 4.2% of pay due to a change of approach where the future service rate is calculated on the same assumptions as the past service liabilities. Mercer used a higher discount rate at 2010 to calculate this figure.

Valuation Assumptions

Financial assumptions	31 March 2010		31 March 2013	
	Nominal	Real	Nominal	Real
Discount Rate – pre retirement	7.0%*	4.0%	4.6%	2.1%
Discount Rate – post retirement	5.5%*	2.5%	4.6%	2.1%
Salary Increases**	5.0%	2.0%	4.3%	1.8%
Price Inflation / Pension Increases	3.0%	-	2.5%	-

* For the purpose of future service rates, 6.75% p.a. was used

** Excluding promotional increases

Assumed life expectancy at age 65	Actives & Deferreds		Current Pensioners	
	Male	Female	Male	Female
2010 valuation - baseline	17.8	21.1	18.2	20.5
2010 valuation - improvements	22.8	25.9	21.9	23.6
2013 valuation - baseline	19.4	22.1	19.5	21.8
2013 valuation - improvements	24.3	26.7	22.4	24.4

Valuation Results

Valuation Date	31 March 2010	31 March 2013
Past Service Position	*(£m)*	*(£m)*
Past Service Liabilities		
Employees	627	718
Deferred Pensioners	157	300
Pensioners	544	780
Total Liabilities	1,328	1,798
Market Value of Assets	1,099	1,379
Surplus / (Deficit)	**(229)**	**(419)**
Funding Level	**83%**	**77%**

Valuation Date	31 March 2010	31 March 2013
Total contribution rate	**% of pay**	**% of pay**
Future service rate (incl. expenses)	12.8%	19.5%
Past service adjustment (20 year spread)	4.8%	9.6%
Total employer contribution rate	**17.6%**	**29.2%**

Contribution Rate Strategies

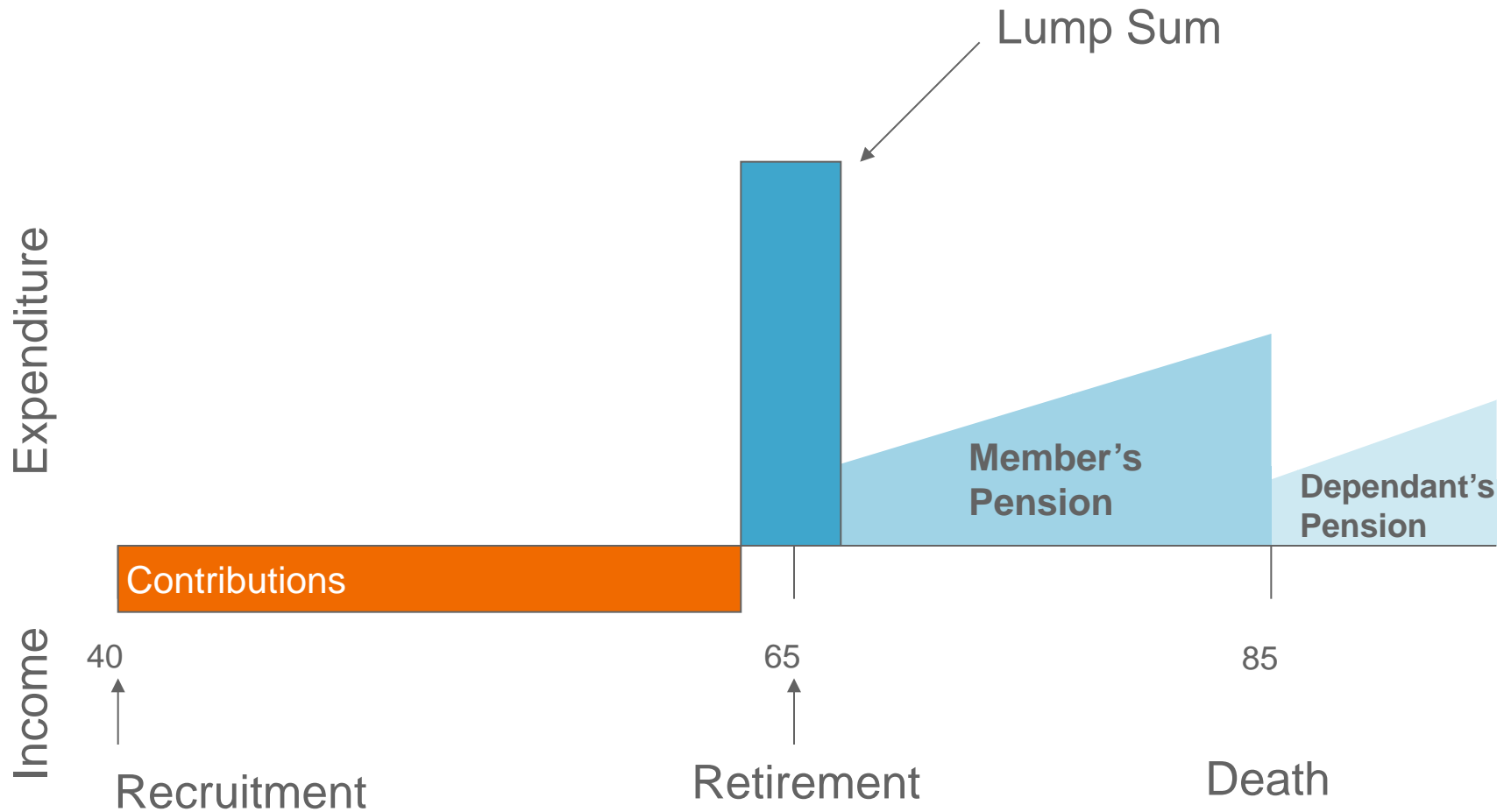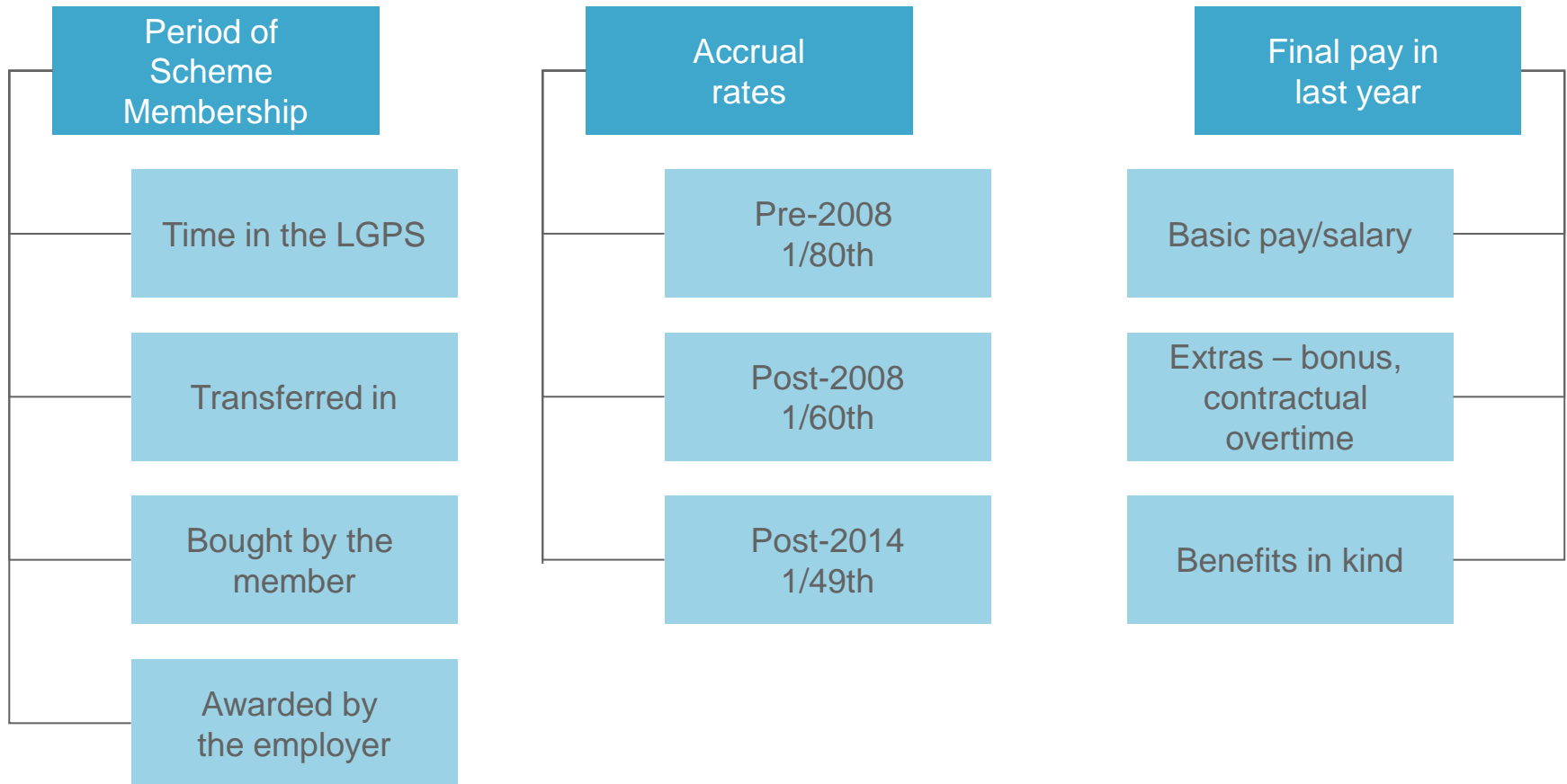| Type of employer	Scheduled Bodies		Community Admission Bodies		Transferee Admission Bodies
Sub-type	Local Authorities and Police	Colleges, other FE establishments and Academies	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation		Ongoing, but may move to "gilts basis"		Ongoing, assumes fixed contract term in the Fund
Future service rate	Projected Unit Credit approach			Attained Age approach	Projected Unit Credit approach if open to new entrants, Attained Age approach otherwise
Stabilised rate?	Yes	Risk based model			No
Maximum deficit recovery period	19 years	19 years	19 years	Future Working Lifetime, subject to 19 years maximum	Outstanding contract term
Deficit recovery payments	Monetary	Monetary	Monetary	Monetary	Monetary
Treatment of surplus (where applicable)	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate unless fully funded on a gilts basis			Reduce contributions by spreading the surplus over the remaining contract term where appropriate.
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	None	None

Thank you

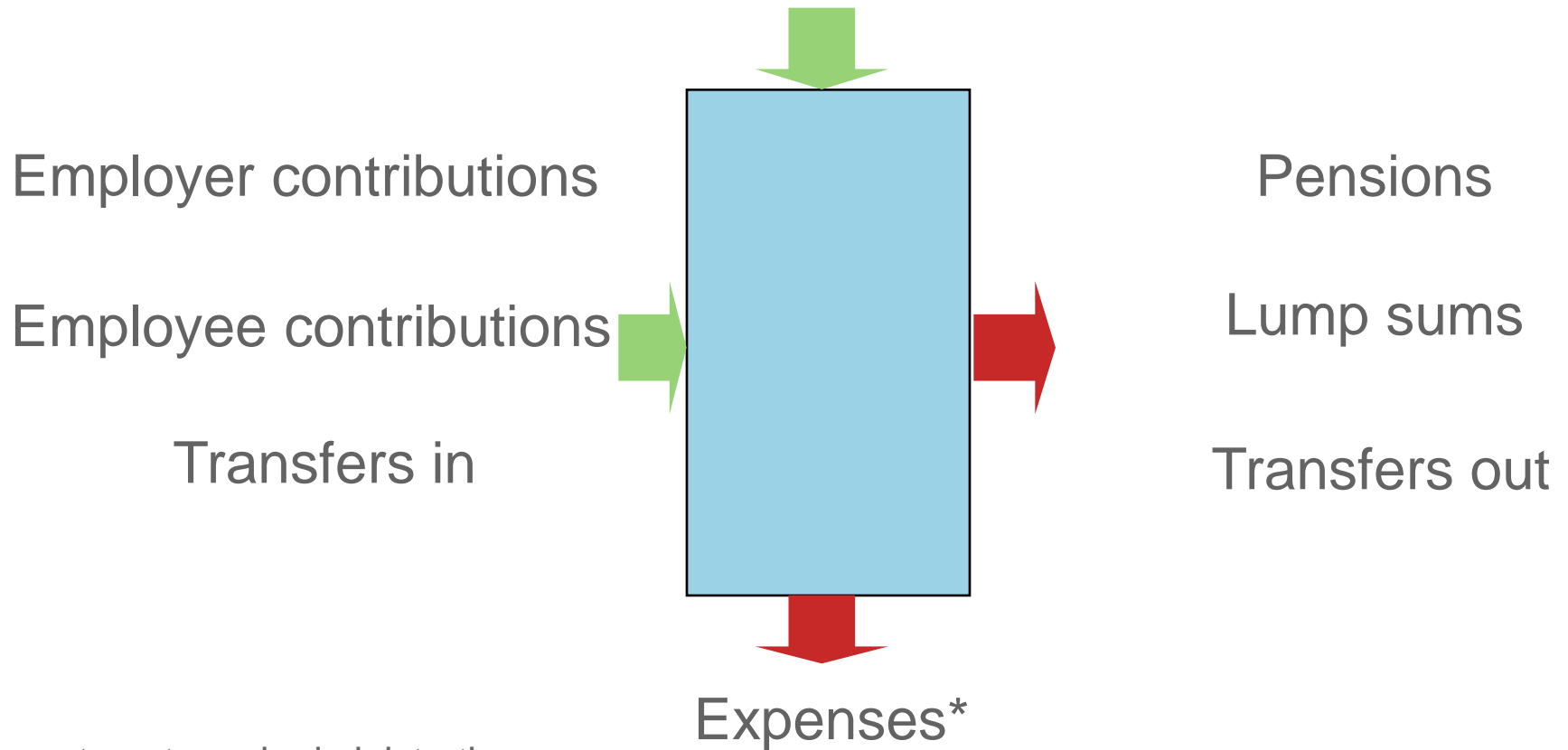Any questions?

Pension Fund Basics

Promise now, pay later

Lump Sum

Expenditure

Income

Contributions

Member's Pension

Dependant's Pension

40

65

85

Recruitment

Retirement

Death

Scheme benefits – the building blocks

Period of Scheme Membership
- Time in the LGPS
- Transferred in
- Bought by the member
- Awarded by the employer

Accrual rates
- Pre-2008 1/80th
- Post-2008 1/60th
- Post-2014 1/49th

Final pay in last year
- Basic pay/salary
- Extras – bonus, contractual overtime
- Benefits in kind

How the fund works

Investment income/growth**

Employer contributions

Employee contributions

Transfers in

Pensions

Lump sums

Transfers out

Expenses*

* Investments and administration
** Income and growth

One big pot of assets
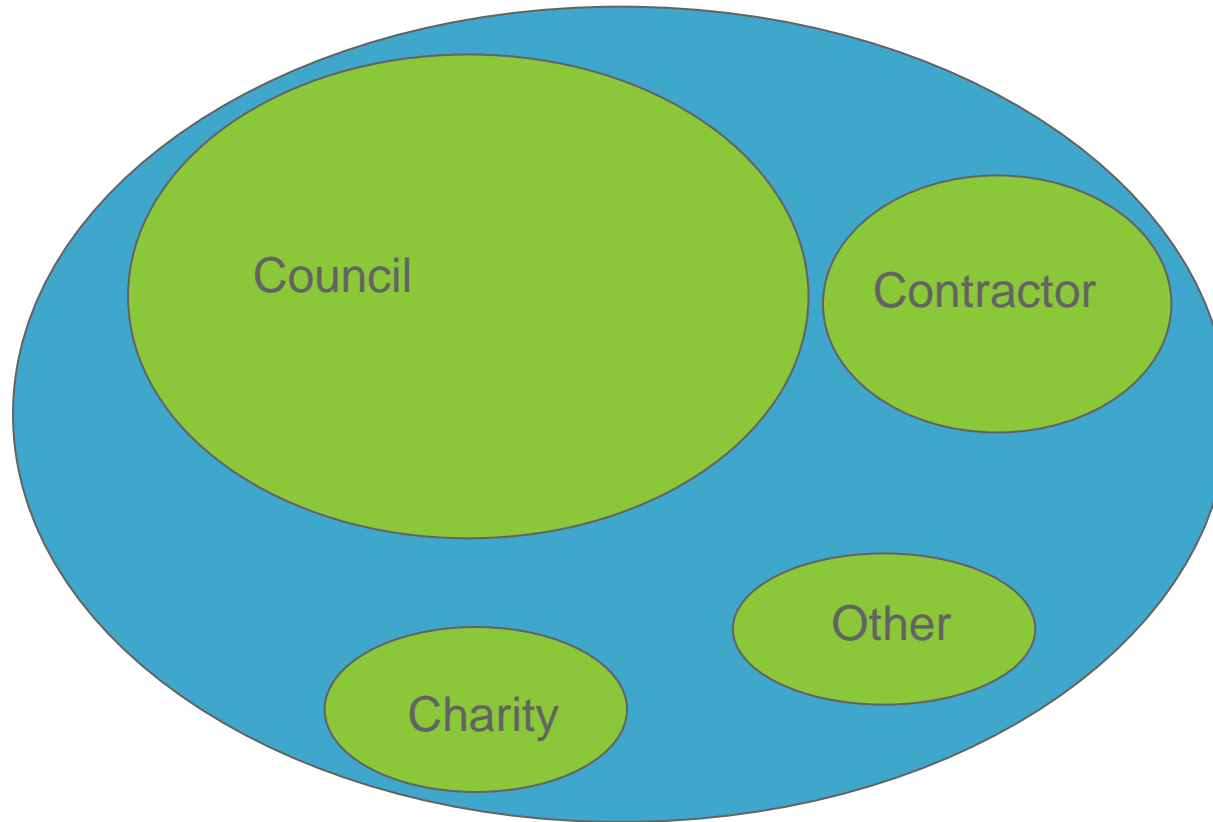
Ring-fenced employer assets and liabilities

Actuary calculates how much is notionally allocated to each every three years

Valuing the Fund

Why do we do a valuation?

> Assess how well pension promises are covered

> Monitor experience vs. assumptions

> Set credible funding plan

> Consider potential risks to the Fund & employers

Central part of risk management of the Fund

Approach

Measure

- Assets and liabilities valued on market conditions

- Ensure transparency and consistency

- Understand deficit

- Appreciation of risk

Manage

- Balance affordability and risk

- Recognise risk posed by different employers

- Consider term of participation

Fund valuation - assumptions

Amounts paid and probability of payment

Financial Assumptions

- Inflation
- Pay increases
- Pension increases
- Investment return

Consider:

- Economic outlook
- Actual Fund assets
- Historical pay growth
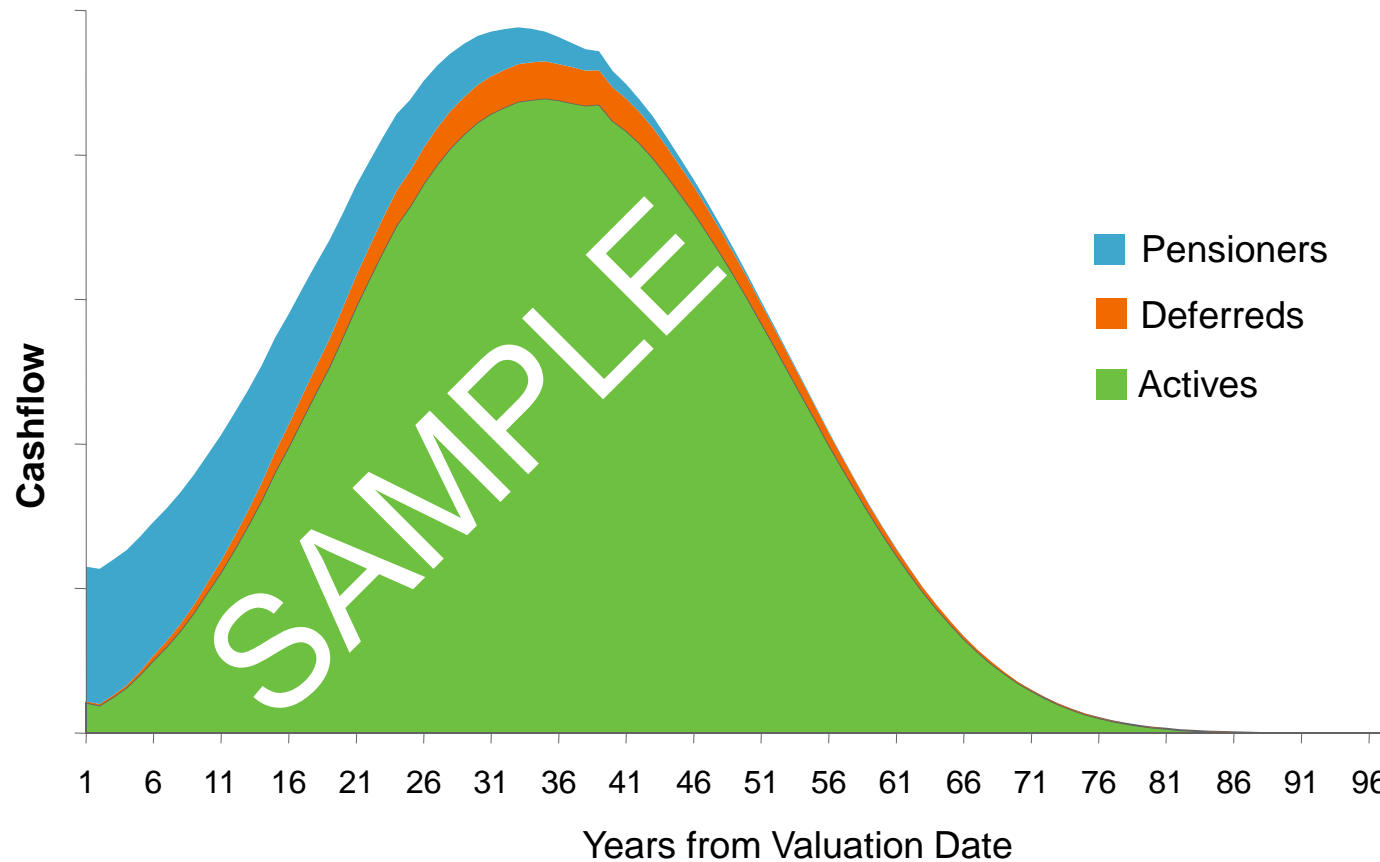
Demographic Assumptions

- Life expectancy
- Retirement age and cause
- Withdrawals
- Marriage statistics

Consider:

- Population trends
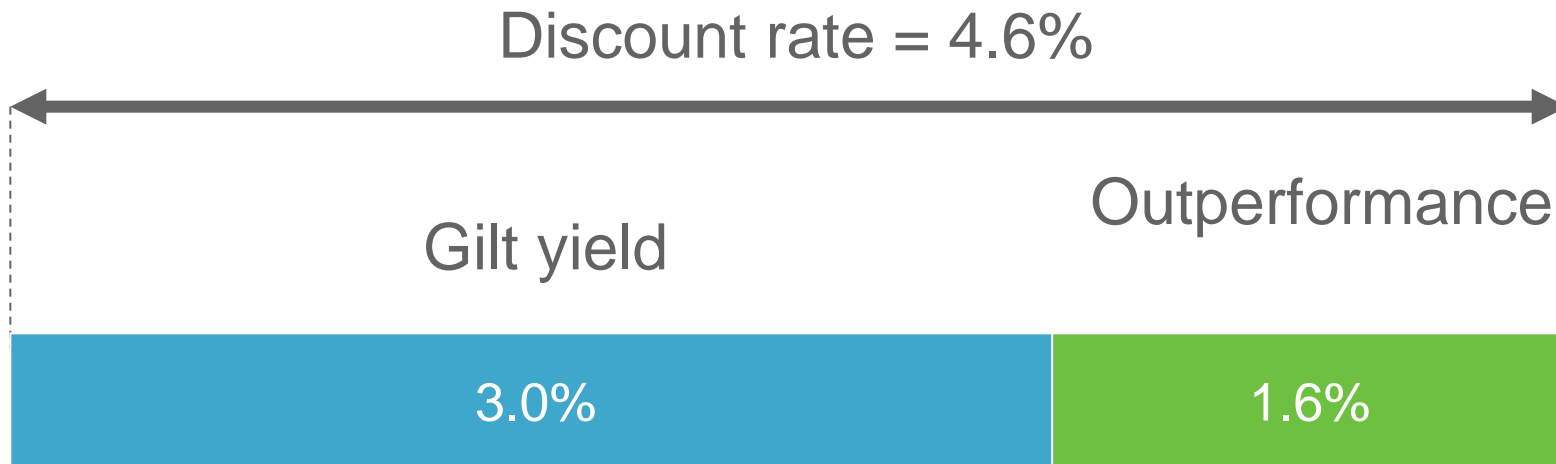- Members' lifestyle factors
- Past Fund experience

Valuing the whole Fund

Future Cash Flows (Past Service)

Legend:
- Pensioners
- Deferreds
- Actives

X-axis: Years from Valuation Date
Y-axis: Cashflow

Source: Hymans Robertson LLP , sample fund

Value today of £100 in 10 years time

Future Inflation	In 10 years £100 grows to	Assumed future investment return	How much cash do I need today
Zero	£100	7%	£48
3%	£134	7%	£65
3%	£134	5%	£80

Higher inflation, lower future investment return, need more cash today

Value of Pension Fund Liabilities:
How much money do I need today?

30 years

£1,000 p.a.

60   90

Capitalised cost ignoring interest   = £30,000

Capitalised cost allowing for interest[1]   = £14,100

Capitalised cost allowing for interest and inflation[2] = £20,100

[1,2] Assume 6% investment return and 3% inflation

.. and allow for probability of survival