Royal Borough of Kingston Upon Thames Pension Fund

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» 9 September 2014
Agenda

1. The role of the actuary
2. 2013 Valuation Results
3. LGPS Like for Like Analysis
4. Funding Update
The role of the Fund Actuary

- New employer calculations
- Cessation valuations
- Accounting standards (FRS17/IAS19)
- Outsourcing and bulk transfers
- Triennial valuation
- Funding strategy statement
- Other ad hoc advice
- Risk management
- Individual member calculations

......... all on behalf of administering authority
The pensions promise – valuing a single member

Recruitment Retirement Death Death

Contributions

Lump Sum

Income

Expenditure

25 65 85 95

Contributions Member’s Pension Dependant’s Pension
 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 all members

Future Benefit Payments (Past Service)

Source: Sample LGPS fund

But we don’t need all this money today!
Agenda

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Why do we do a valuation?

- Compliance with **legislation**
- Recommend **contribution rates**
  - Common rate
  - Individual employer rates
- Determine money needed to meet accrued liabilities
- Calculate solvency ("funding level")
- Monitor experience vs. assumptions
- Manage risks to Fund

Review the Funding Strategy Statement (FSS)
Market conditions

UK gilt yields since 31 Mar 2010

Discount rate: 6.8%
Salary Increases: 5.3%
Pension increases: 3.3%

Discount rate: 4.6%
Salary Increases: 4.3%
Pension increases: 2.5%

Fixed interest gilts (FTSE over 15 years) Implied Inflation
Index Returns

Sterling total returns of major asset classes (rebased to 100 at 31 Mar 2010)

UK equities (FTSE All Share)
Overseas equities (FTSE World ex-UK)
Expected benchmark return on Plan assets
Discount rate unwinding
Assets & Liabilities

Funding Level: 2010 72.6% 2013 70.5%

2010
- Liabilities £200m
- Assets £600m
- Deficit £145m

2013
- Liabilities £400m
- Assets £800m
- Deficit £210m

Funding Level: 72.6% 70.5%

- Assets
- Pensioner
- Deferred
- Active
Deficit Progression

- **2010 valuation**
  - Interest on surplus/(deficit): £145m
  - Investment returns more than expected: £32m
  - Contributions greater than cost of accrual: £10m
  - Change in mortality assumption: £28m
  - Change in demographic assumptions: £12m
  - Change in financial assumptions: £11m
  - Experience: £50m

- **2013 valuation**
  - £210m
Common Contribution Rate

Past Service Adjustment

Employer Future Service Rate

- 2010: 14.7%
- 2013: 31.4%

- 2010: 7.5%
- 2013: 20.5%
Employer Future Service Rate Progression

- Change in mortality assumption: -0.2%
- Change in demographic assumptions: -1.4%
- Change in financial assumptions: 7.6%
- Experience: 1.9%
- Impact of LGPS 2014: -2.1%
- 2013 valuation: 20.5%
- 2010 valuation: 14.7%
5,000 scenarios gives a distribution of outcomes

More than 50% chance meet funding objective

Source: Hymans Robertson LLP, comPASS, sample fund
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How do the published 2013 valuation results compare between Funds?
Like-for-like reveals the true picture....
Like-for-like vs Published

Like-for-like comparison

Like-for-like rank (1 = highest funding level)

Published rank (1 = highest funding level)
Like-for-like funding level versus contributions in payment

Funding level by contribution levels

Average contribution rate in payment p.a.
Required asset return

Required asset return p.a. for 20 years

Like-for-like ranking (1 = highest like-for-like funding level)
Summary of Like-for-like Results

» Strong position relative to other LGPS Funds

» Credible funding plan in place
  » Not overly reliant on future asset returns
  » Relatively short “implied” deficit recovery period

» Not likely to come under scrutiny from DCLG/SAB
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1. The role of the actuary
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Market conditions

UK gilt yields since 31 Mar 2013

- Discount rate: 4.6%
- Salary Increases: 4.3%
- Pension increases: 2.5%

- Discount rate: 5.1%
- Salary Increases: 4.5%
- Pension increases: 2.7%


Fixed interest gilts (FTSE over 15 years) Implied Inflation
Index returns

Sterling total returns of major asset classes (rebased to 100 at 31 Mar 2013)

UK equities (FTSE All Share)  Overseas equities (FTSE World ex-UK)
Expected benchmark return on Plan assets  Discount rate unwinding
Funding Update – March 2014

- 2013
  - Liabilities: £400m
  - Assets: £600m
  - Deficit: £210m

- 2014
  - Liabilities: £400m
  - Assets: £600m
  - Deficit: £162m

Funding Level:
- 2013: 70.5%
- 2014: 76.9%
Deficit Progression – 2013 to 2014

31 March 2013 valuation
-£210m

Interest on surplus/(deficit)
-£10m

Investment returns more than expected
£17m

Change in yields and inflation
£36m

Contributions greater than cost of accrual
£5m

31 March 2014 update
-£162m
A word of caution ...

UK gilt yields since 31 Mar 2013

Discount rate: 5.1%
Salary Increases: 4.5%
Pension increases: 2.7%

Discount rate: 4.6%
Salary Increases: 4.3%
Pension increases: 2.5%

Discount rate: 4.5%
Salary Increases: 4.3%
Pension increases: 2.5%

- Fixed interest gilts (FTSE over 15 years)
- Implied Inflation
... but perhaps not all bad news

Sterling total returns of major asset classes (rebased to 100 at 31 Mar 2013)

- UK equities (FTSE All Share)
- Overseas equities (FTSE World ex-UK)
- Expected benchmark return on Plan assets
- Discount rate unwinding

Dates:
- 31 Aug 2014
- 31 Mar 2014
- 31 Mar 2013
- 30 Sep 2013
- 31 Mar 2013
Thank you

Any questions?