



Teesside Pension Fund Valuation Training

22 January 2020

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Presentation to Teesside Pension Fund

QAS Institute[®]
and Faculty
of Actuaries
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Agenda



What is a valuation?



Setting the assumptions



Funding strategy and uncertainties

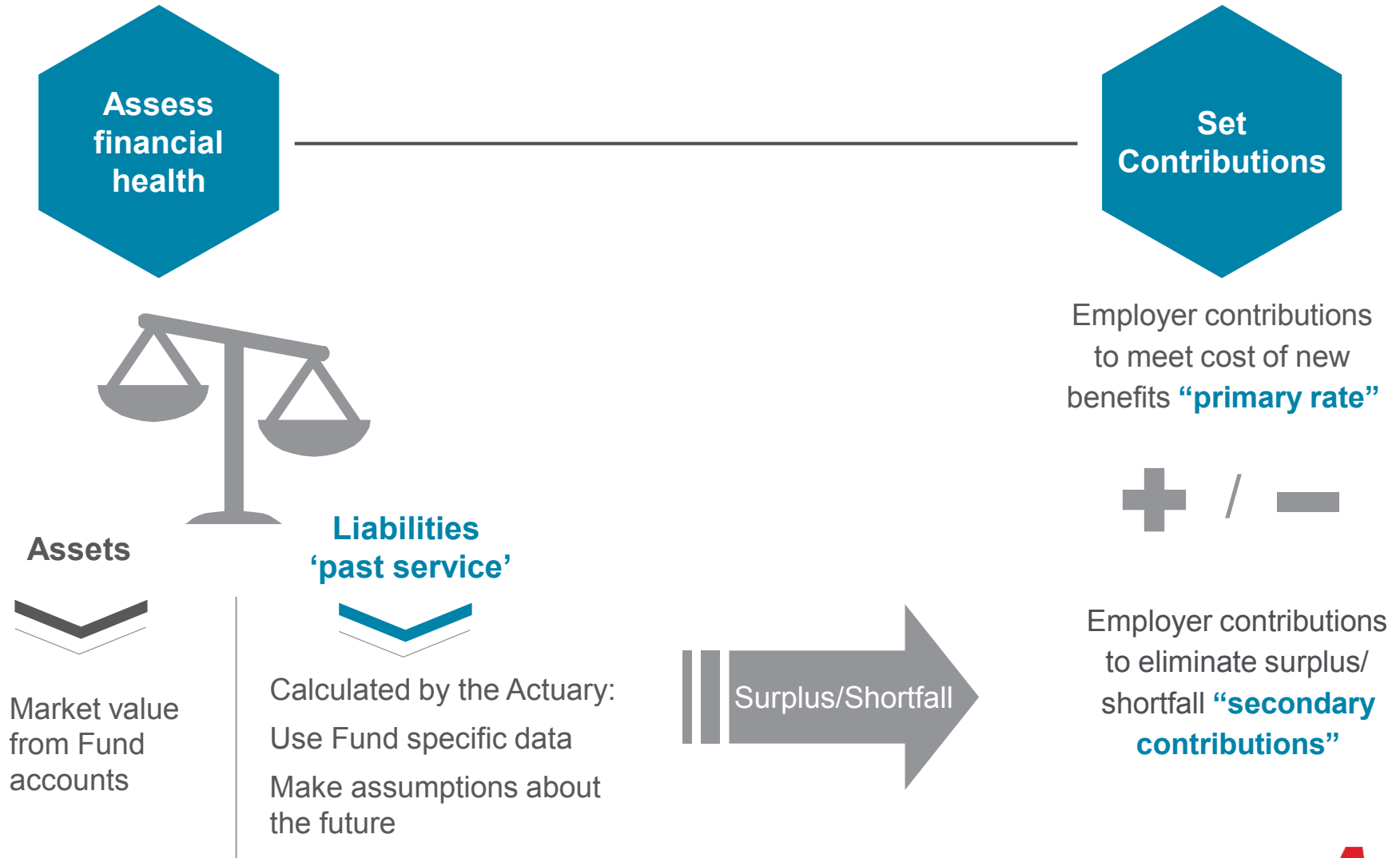


Timescales

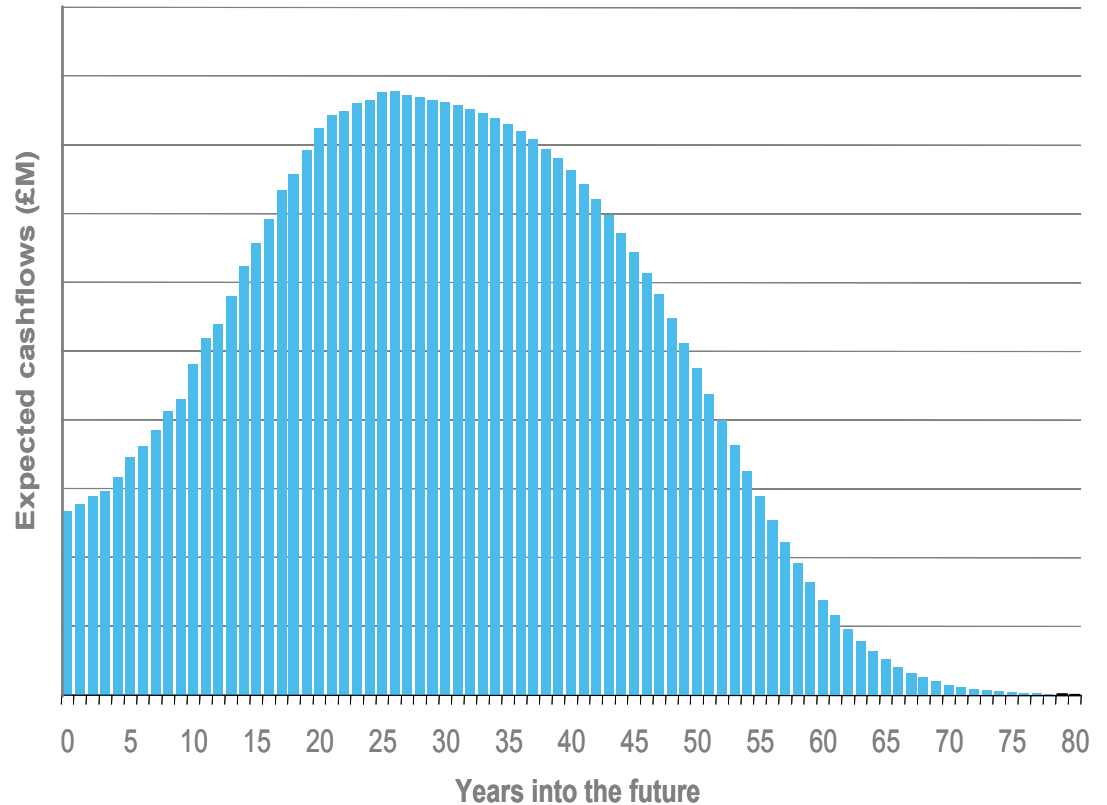


What is a valuation?

What is an actuarial valuation?



Valuing the liabilities



Sample fund, accrued liabilities only

Valuation assumptions are Fund-specific



Setting the assumptions

Assumptions

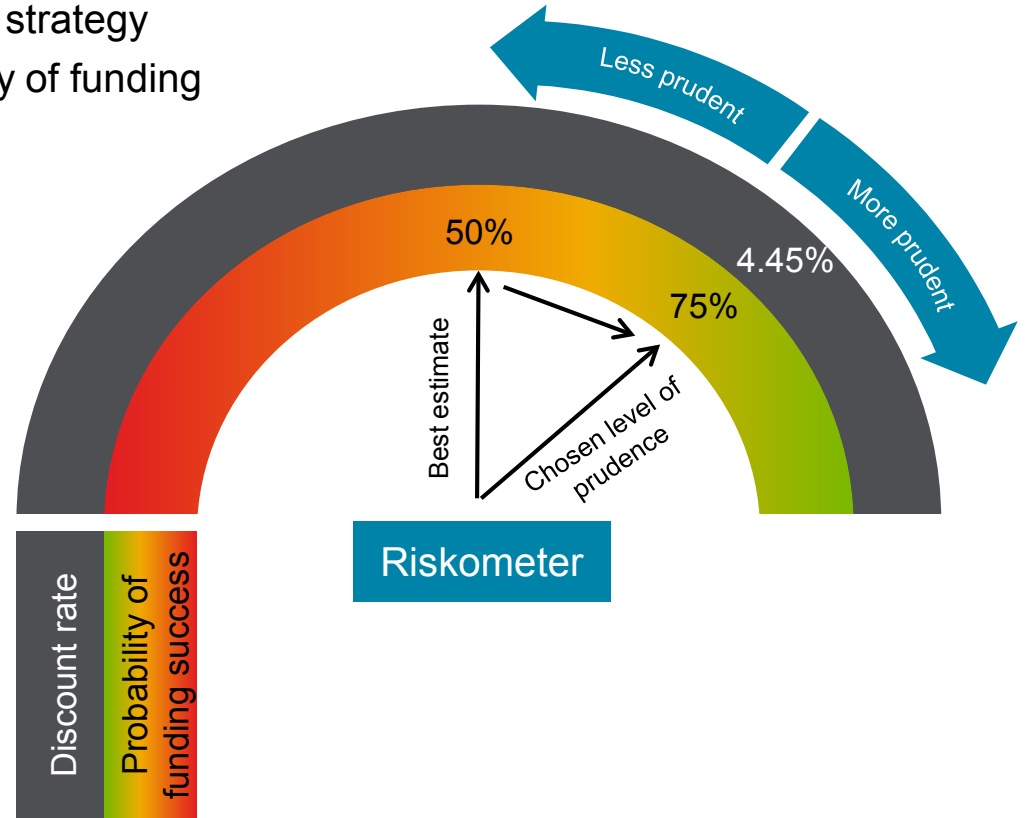


Setting the discount rate – secure long term bodies

- Expected returns based on your investment strategy
- Risk based - level of prudence - “probability of funding success”

Sensitivity to discount rate

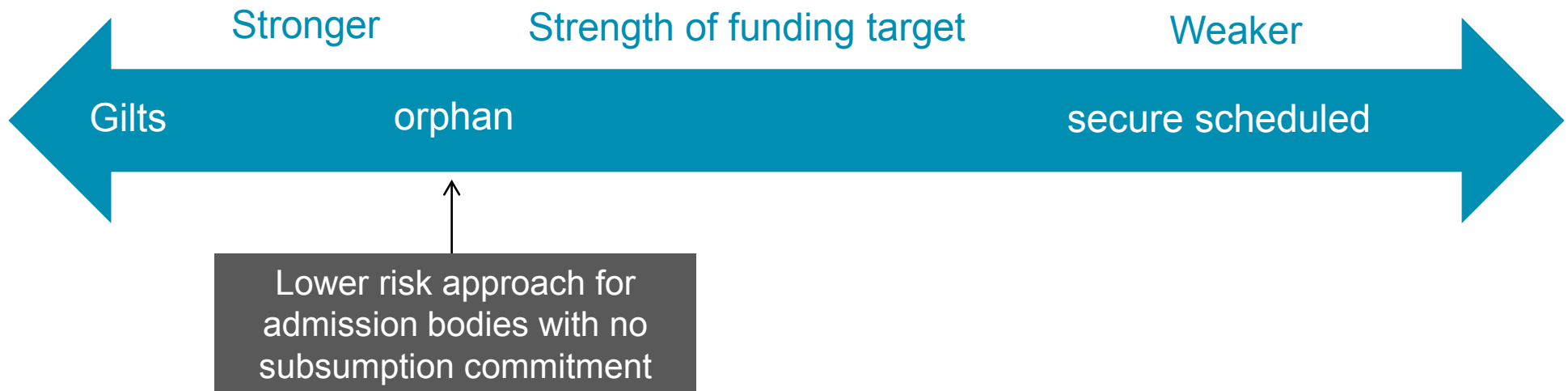
Discount rate	Cost now of paying £100 in 20 years' time
4.95%	£38 (10% lower)
4.45%	£42
3.95%	£46 (10% higher)



Supported by Aon's Capital Market Assumptions

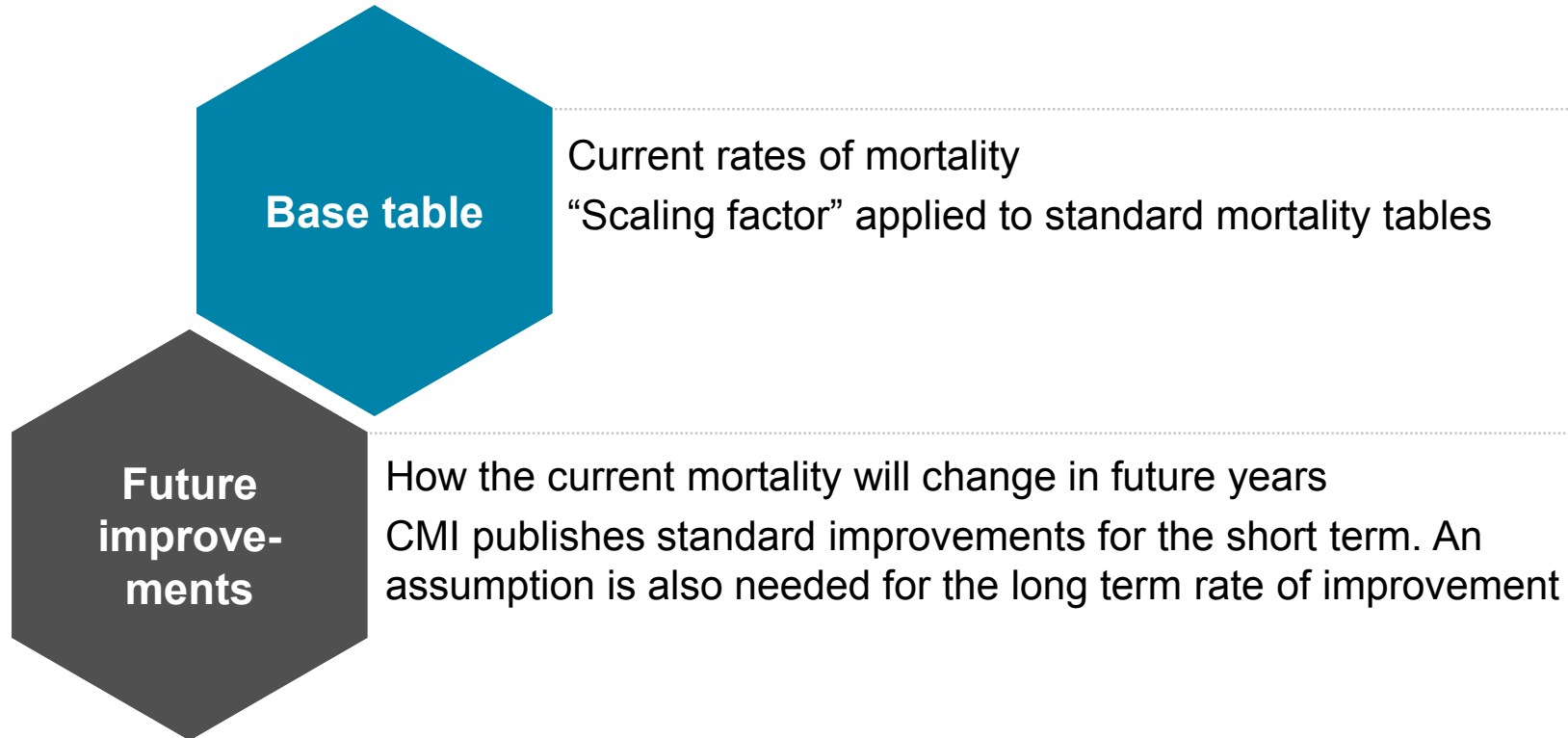
Setting the discount rate – different categories of employer

- Different employers have different characteristics
- Ongoing orphan funding target adopted for admission bodies with no subsumption commitment (to be phased in)



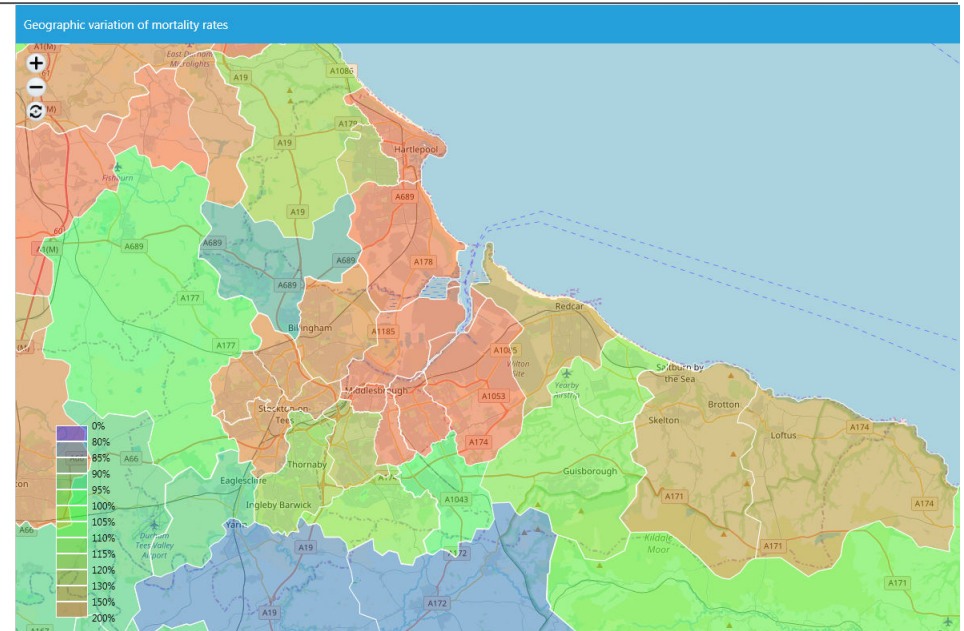
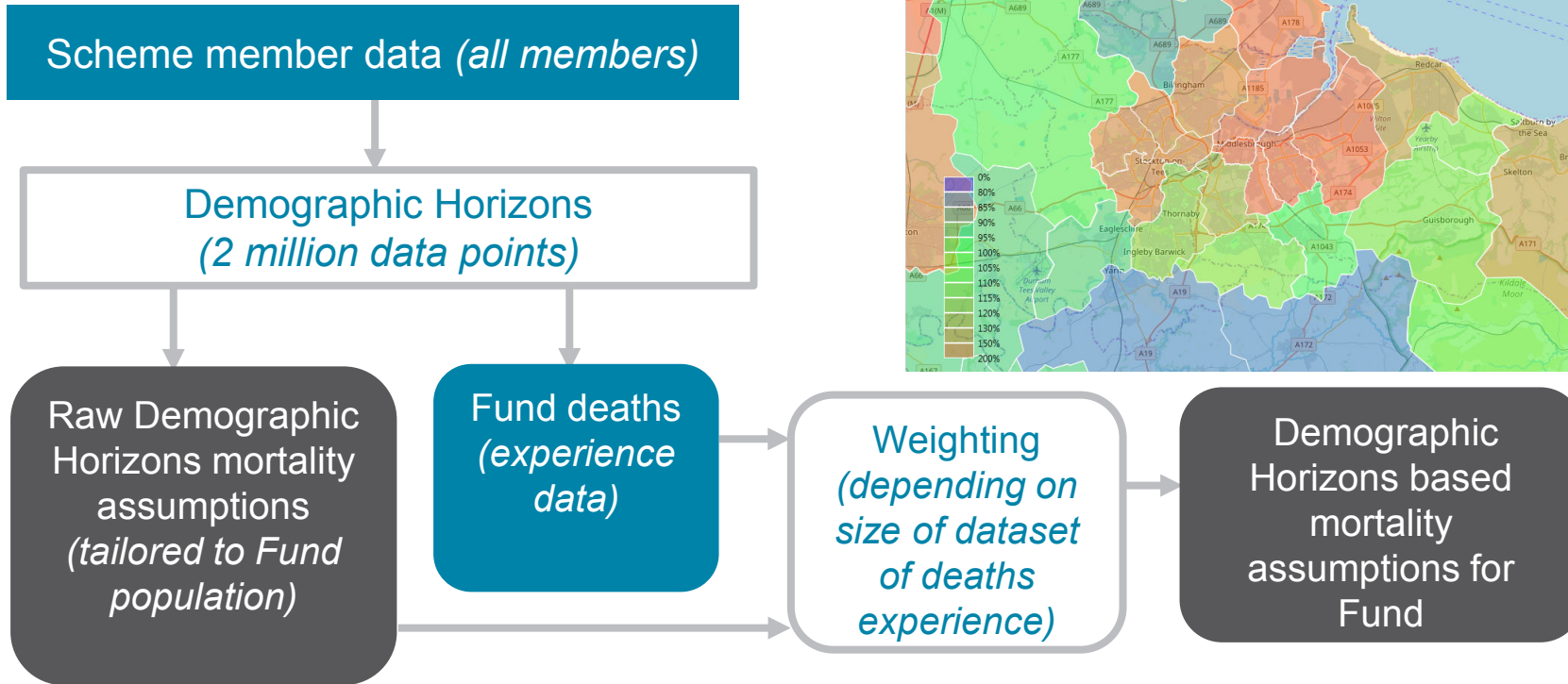
Setting the longevity assumption

There are two parts to the longevity assumption



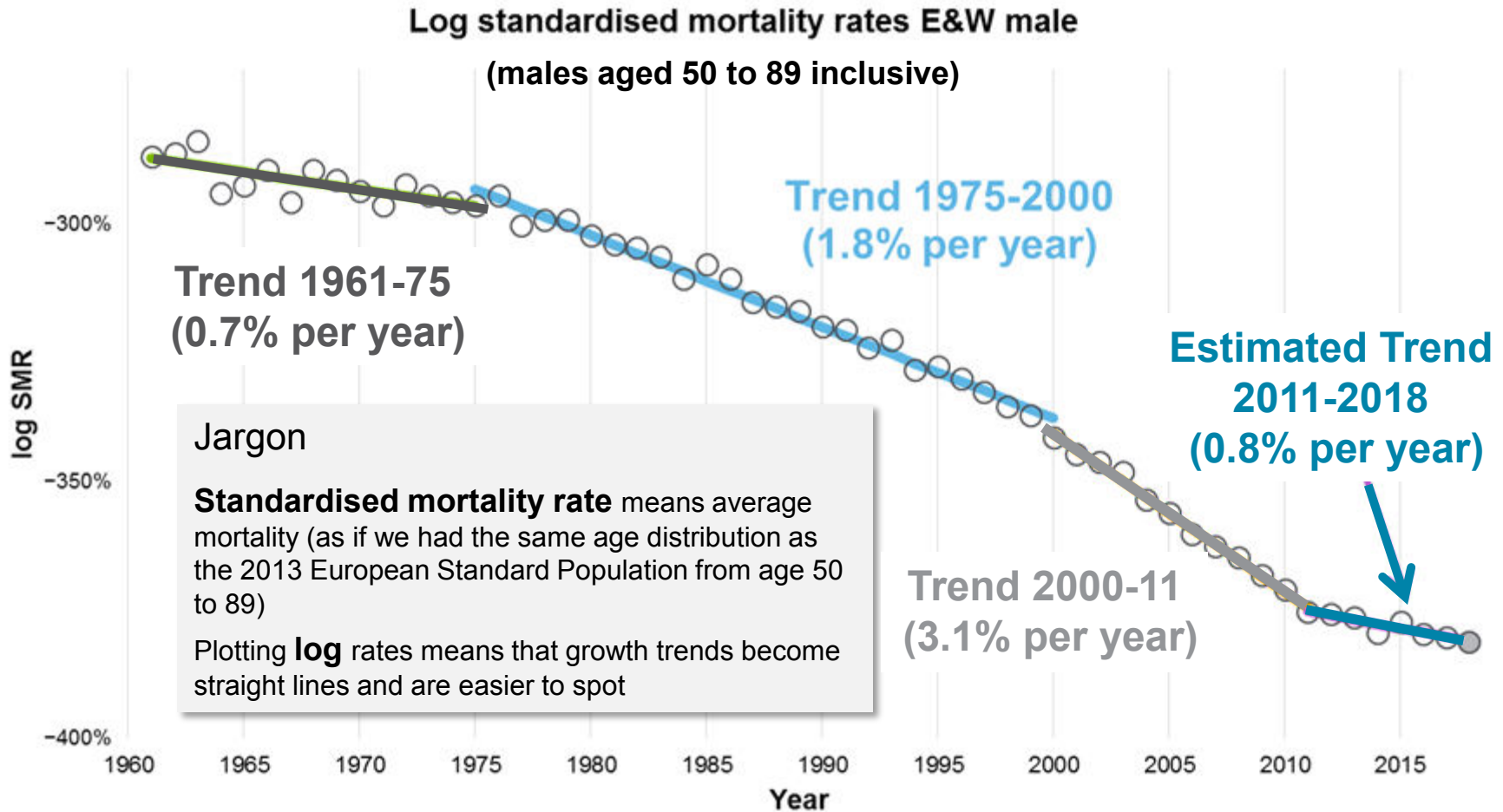
Longevity – base table

Longevity analysis using Demographic Horizons™



Analysis carried out on data to 31 March 2018

Longevity - historical national male mortality improvements



Calculations by Aon Hewitt using ONS and CMI data. $SMR = \frac{\sum_{x=50}^{89} \left\{ (deaths)_{xt} \times \frac{(std\ pop)_x}{(exposure)_{xt}} \right\}}{\sum_{x=50}^{89} (std\ pop)_x}$, where (std pop) is the European standard 2013 population.

Assumptions





Funding strategy and uncertainties

Funding strategy

Funding strategy varies between funds, and between employers within a fund.



Funding target

Long term funding of the liabilities



Recovery/spreading period

May depend on covenant of employer, terms of participation, etc.



Security

Guarantees, bonds



Pooling

Approach to pooling, risks shared



Smoothing mechanisms

For example stepping up of contributions

Documented in Funding Strategy Statement

Uncertainties at the 2019 valuation – benefit improvements



Cost management

- Package of benefit improvements agreed.
- Average cost to employers 0.9% pay.
- Process paused due to McCloud/Sargeant

- McCloud and Sargeant (Judges / Firefighters) cases deemed the transitional protections were age discrimination
- In LGPS, transitional protections are in the form of an underpin
- Government confirmed in July 2019 that they will make changes to all public sector schemes
- Advice from MHCLG / SAB that allowance must be made at the 2019 valuation

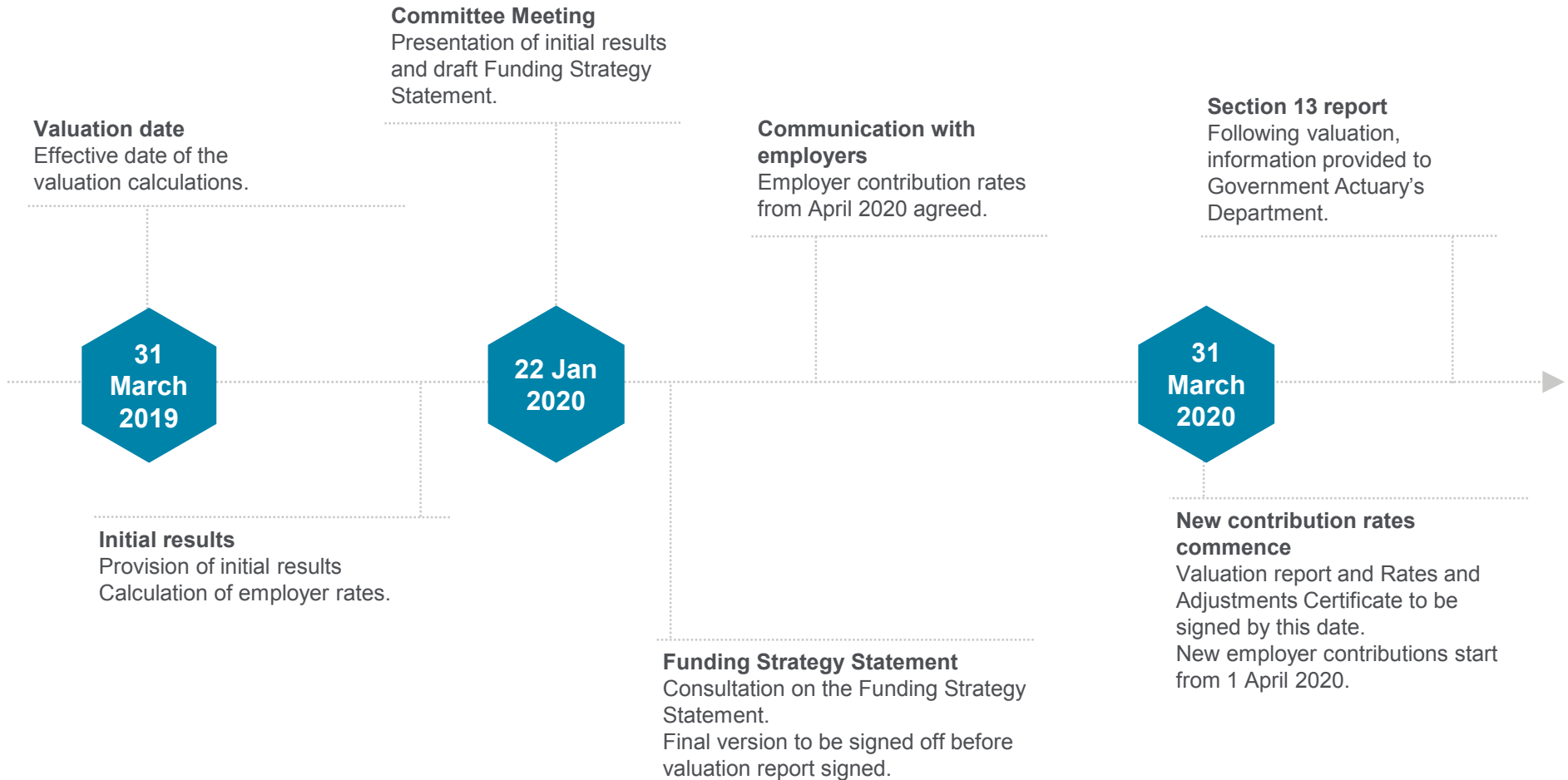


McCloud / Sargeant



Timescales

Timeline





Questions?

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