



Teesside Pension Fund Pension Board Training

Actuarial valuation as at 31 March 2016

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Presentation to Teesside Pension Fund

Aon Hewitt | Retirement & Investment
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- Valuation process
- Experience and assumptions
- 2016 whole of Fund results
- Post valuation date movements
- Funding strategy – external influences / additional oversight
- Next steps

What is an actuarial valuation?



Assets

(usually) taken at market value as per Fund accounts

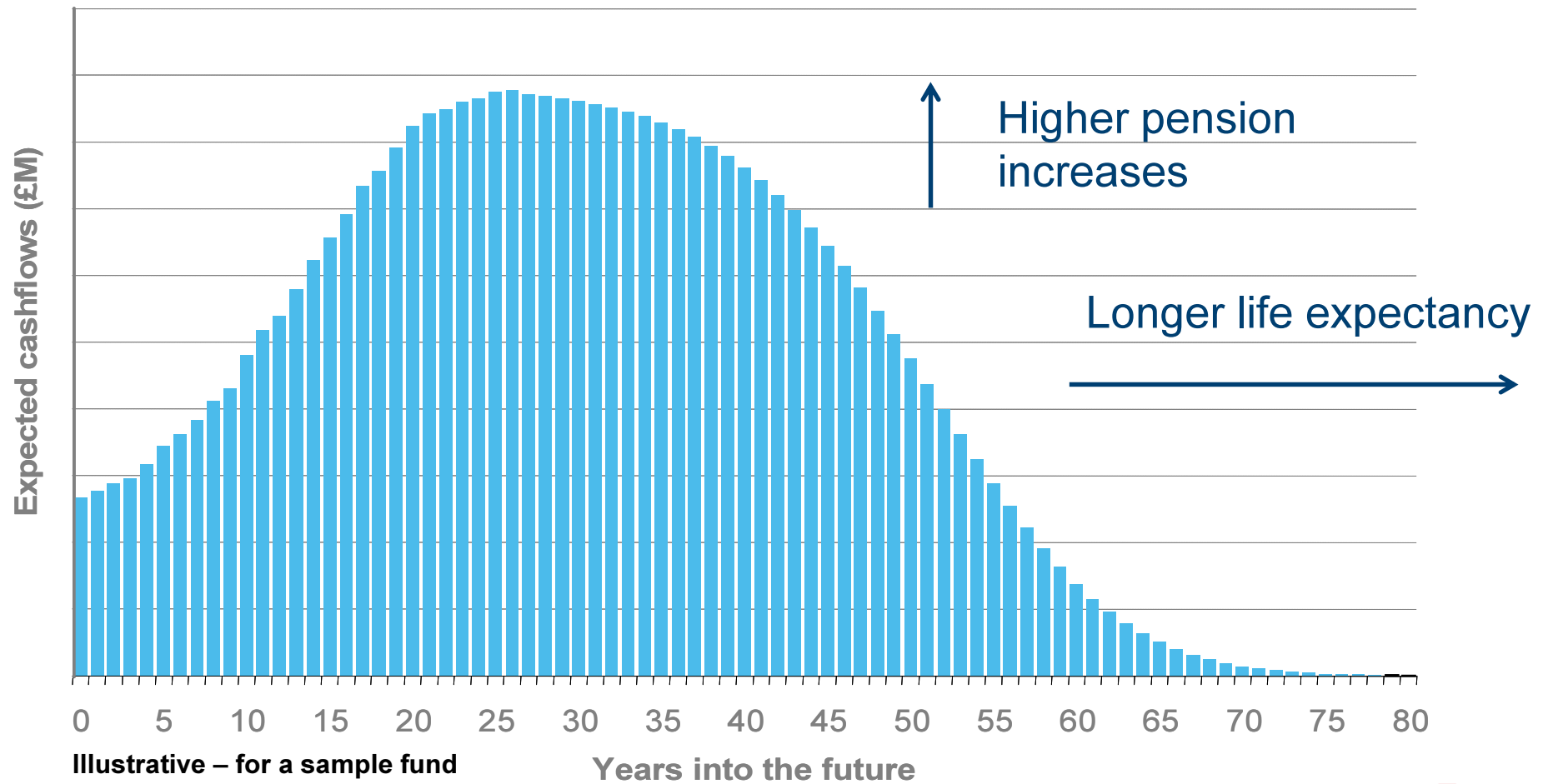
Liabilities

To place a value on the liabilities the actuary needs to:

- Make use of Fund specific data
- Make some assumptions about the future
- Carry out some calculations

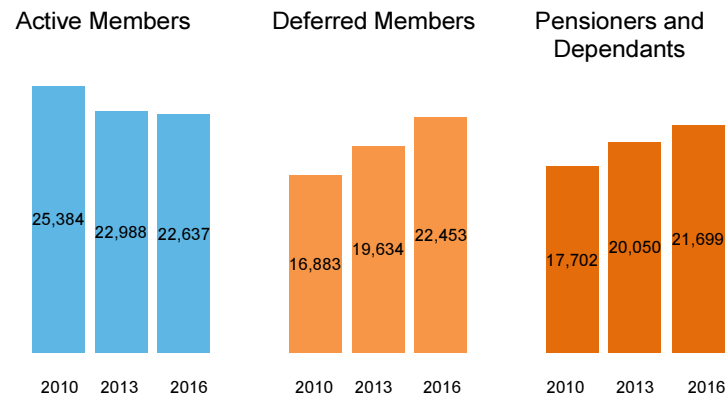
What are we valuing?

- Estimating what benefits will be paid, and when (accrued benefits only)

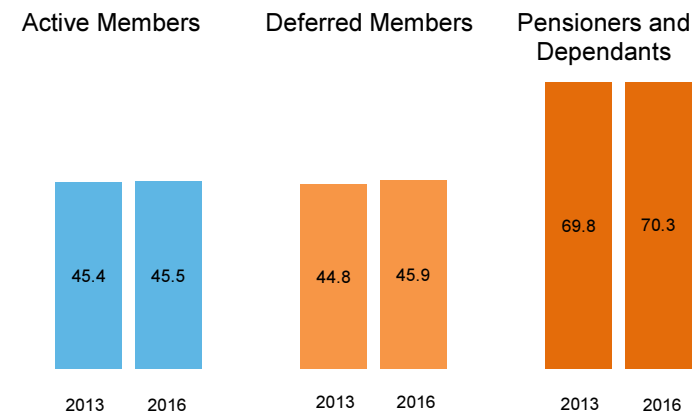


Membership data

Number of members



Average ages



- Maturing profile
 - falling active membership, increasing non-active membership

Summary of key financial assumptions

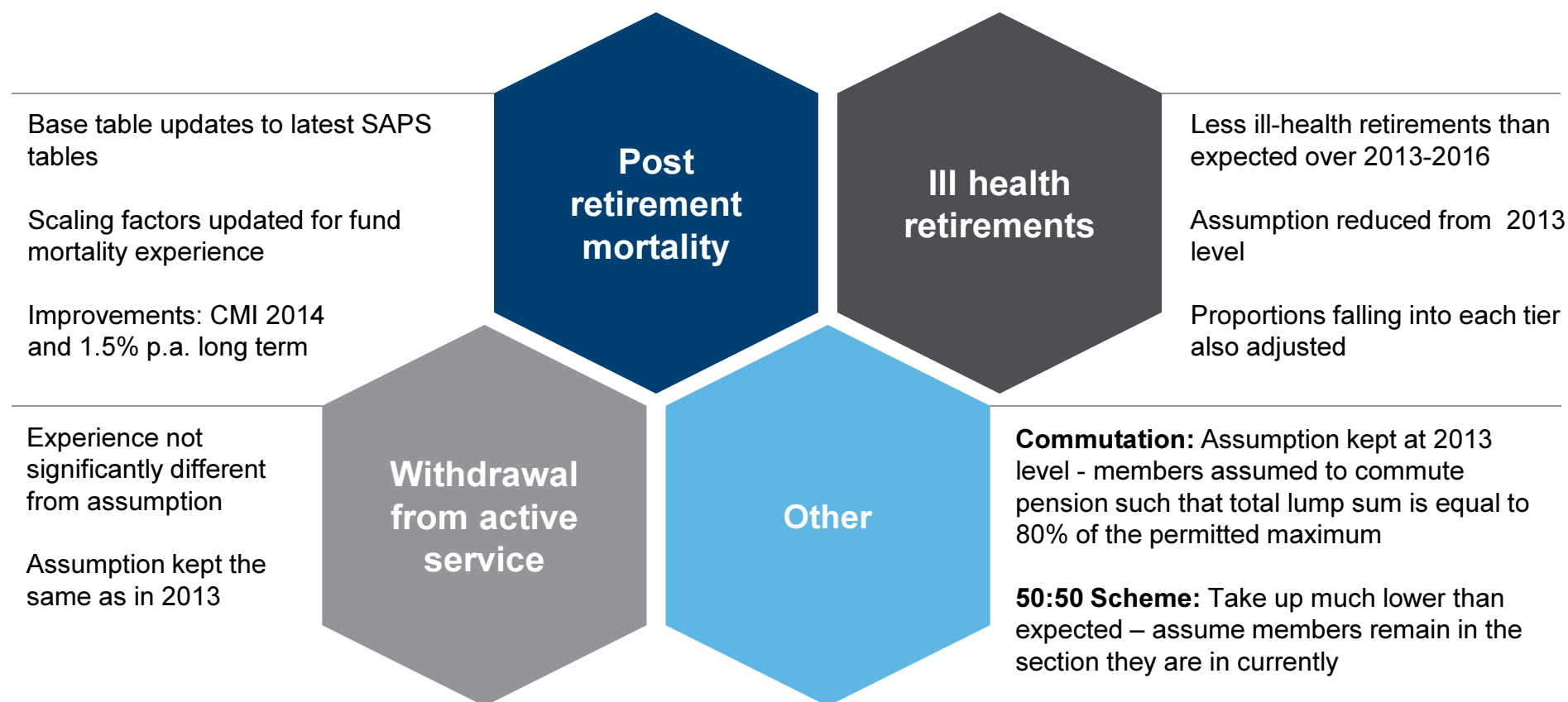
Pay and pension increase assumptions set to be best estimate

% p.a.	2013 assumption	2016 assumption
Discount rate	5.4%	4.7%
CPI pension increases	2.4%	2.0%
Pay growth ⁽¹⁾	3.9%	3.0%

(1) plus an age-related promotional pay scale

Summary of key demographic assumptions

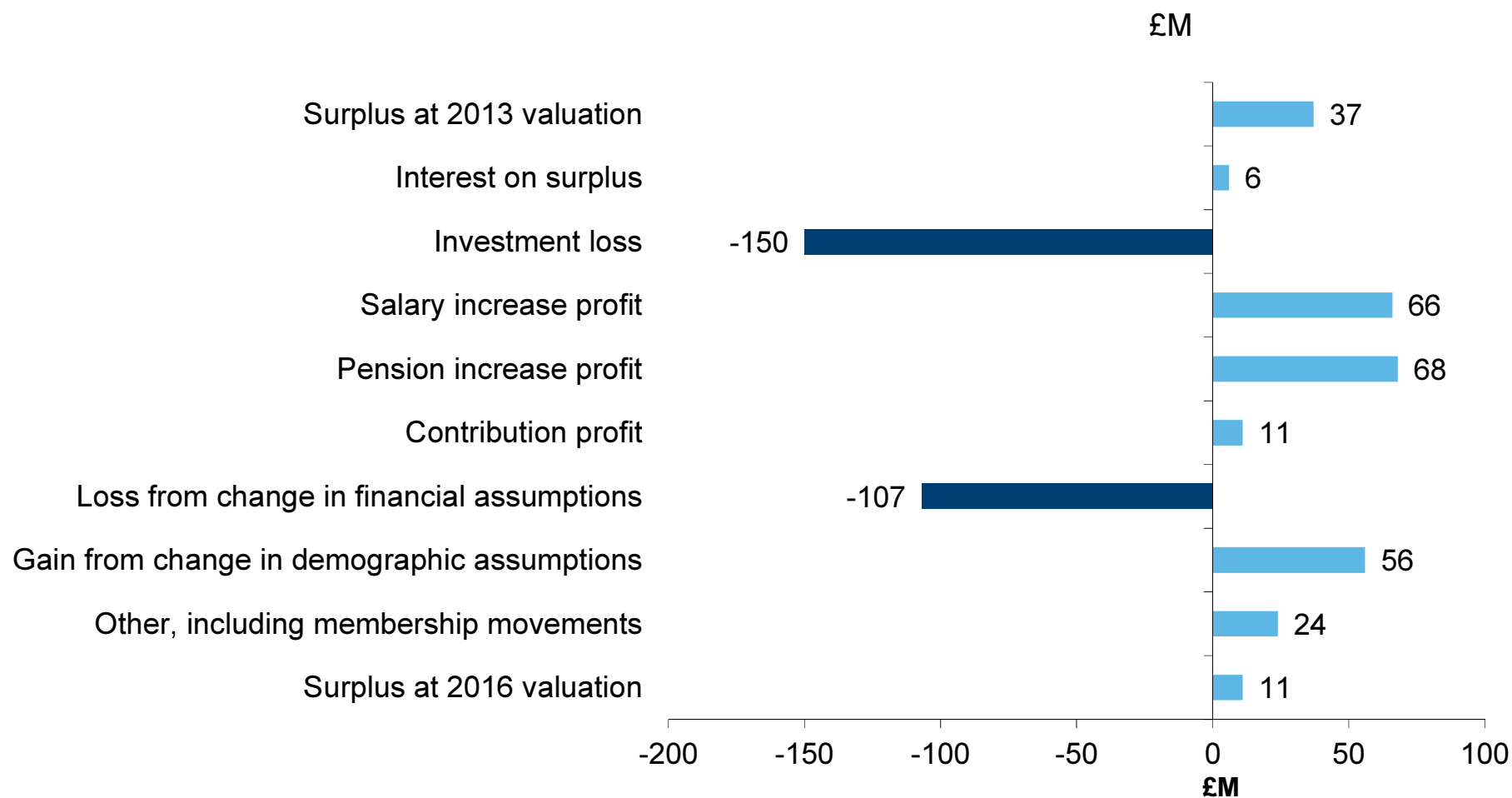
Demographic assumptions best estimate informed by Fund experience



Whole fund past service position

	2013 valuation (£M)	2016 valuation (£M)
Value of past service benefits for:		
Actives	1,206.6	1,142.0
Deferreds	433.3	529.2
Pensioners	1,279.4	1,450.8
Value of liabilities	2,919.3	3,122.0
Value of assets	2,956.3	3,133.1
Past service surplus/(deficit)	37.0	11.1
Funding ratio	101%	100%

Change in funding position



Whole Fund future service rate

	2013 valuation	2016 valuation
Total cost of benefits accruing ¹	20.8%	22.2%
Less member contributions	(6.4%)	(6.5%)
Employer “primary” contribution rate	14.4%	15.7%

Increase in cost of benefits due to:

- Fall in the discount rate after allowing for inflation (this is geared since member conts fixed)
- Change in assumption for 50/50 option (due to very low take-up)
- Increase in average age of active members

(1) Includes an allowance for death-in-service lump sum benefits and administration expenses

Employer contributions

- Whole fund is in surplus – spread over 20 years this would reduce the contribution rate by 0.1% pay
- Individual employer positions will vary depending on their own membership profile

Post-valuation experience



- Very positive investment returns
- CPI to 30 September 2016 was 1%
- Expected returns have fallen
- Future expectations of CPI may be rising?

- The valuation is carried out as at 31 March 2016, but professional guidance requires us to comment on experience since the valuation date

We don't know if/how GAD will allow for post-valuation events in assessing fund valuations and solvency/long-term cost efficiency

Key roles in the valuation

Administering Authority

- Manage the valuation process in consultation with the Fund Actuary
- Ensure compliance with LGPS Regulations
- Prepare and maintain the Funding Strategy Statement (FSS)

Fund Actuary

- Provide advice on funding strategy and preparation of FSS
- Carry out actuarial valuation calculations
- Issue actuarial valuation report, including Rates & Adjustments Certificate setting out employers' contribution rates

Local Pension Board

- Act in accordance with Local Pension Board Terms of Reference
- Advisory role to Administering Authority
- Assist Administering Authority to ensure compliance with LGPS Regulations and other legislation relating to governance and administration of the scheme

External influences / oversight

Public
Service
Pensions
Act 2013

New requirement of long-term cost efficiency.
Section 13 – GAD report on LGPS valuations:

- Not inconsistent with other LGPS valuations
- Regulatory requirements of solvency and long-term cost efficiency are met (10 metrics for each)
- Dry run on 2013 valuations

Incorporates *requirement* to set contributions to ensure long-term cost efficiency in LGPS Regs
Desirability of maintaining constant contributions refers to primary (future service) rate only

Regulation
62 LGPS
Regs 2013

Scheme
Advisory
Board

Scheme Advisory Board (SAB) oversight – standardised basis results and other KPIs.
Cost control mechanisms – early indications are that SAB process may recommend changes to benefits (also HMT process to consider)

Next Steps



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