Agenda Item 05

Suffolk County Council Pension Fund

2013 valuation

- Peter Summers
- 5 December 2013

Agenda

- Valuation basics - a recap
- 2013 valuation – results
- Managing deficits and contribution rates

Valuation basics

Why do we do a valuation?

- Assess how well pension promises are covered
- Monitor experience vs. assumptions
- Set credible funding plans for employers
- Consider risks to the Fund & employers and how they might be monitored, mitigated and / or managed.

Central part of risk management of the Fund

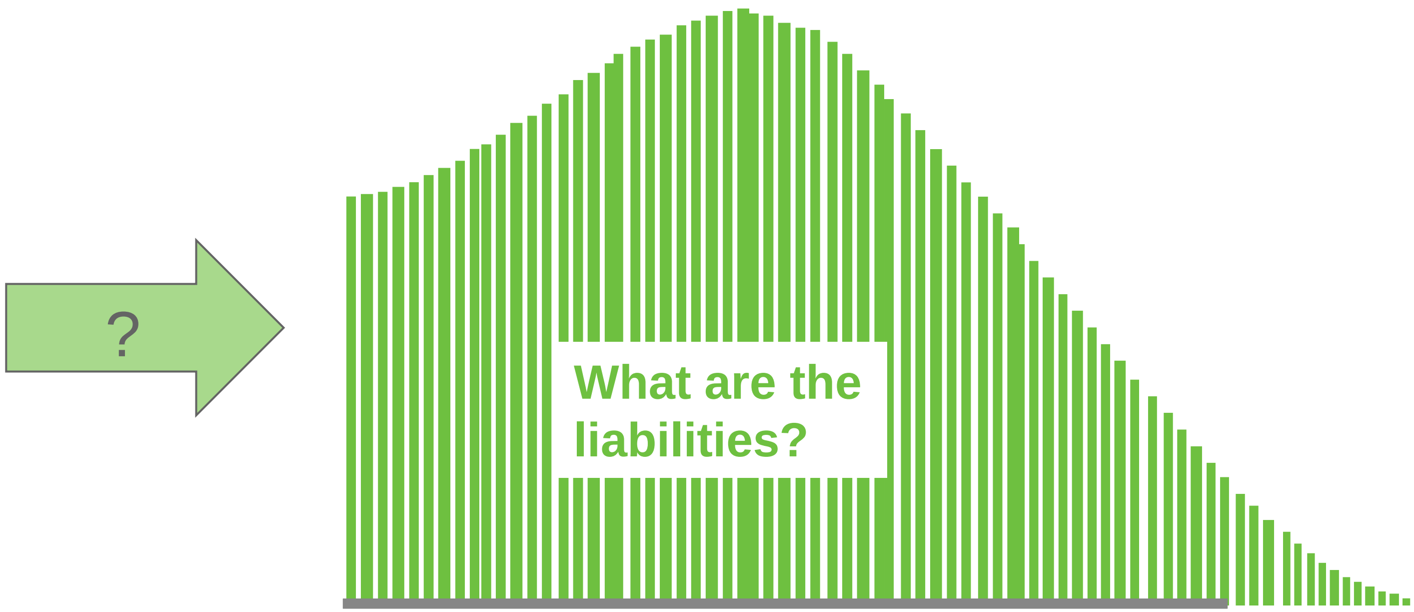
Valuation - the ultimate objective

- How much money does the Fund need, and how should it be invested, in order to be able to meet the promised benefits?

Assets

Which ones?

How is it done efficiently?



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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

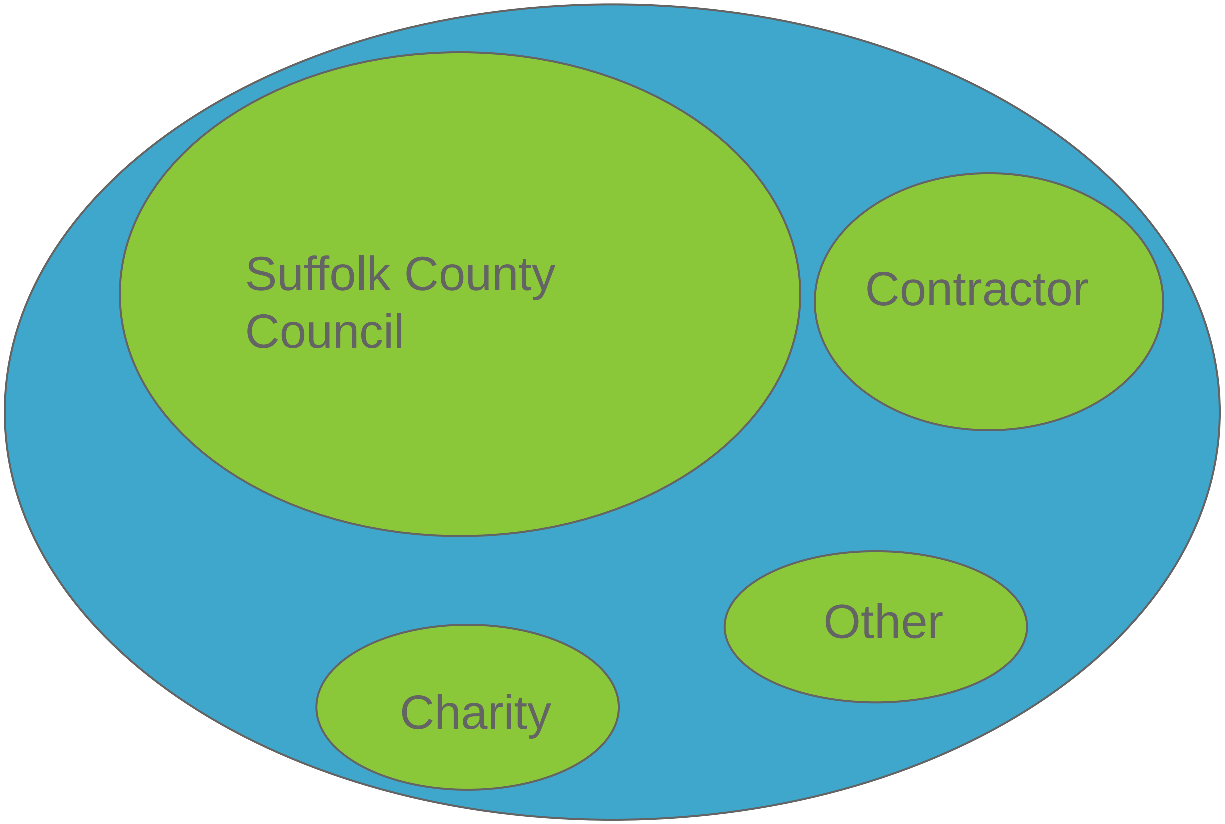
Demographic Assumptions

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

Consider:

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

One big pot of assets



Ring-fenced employer assets and liabilities

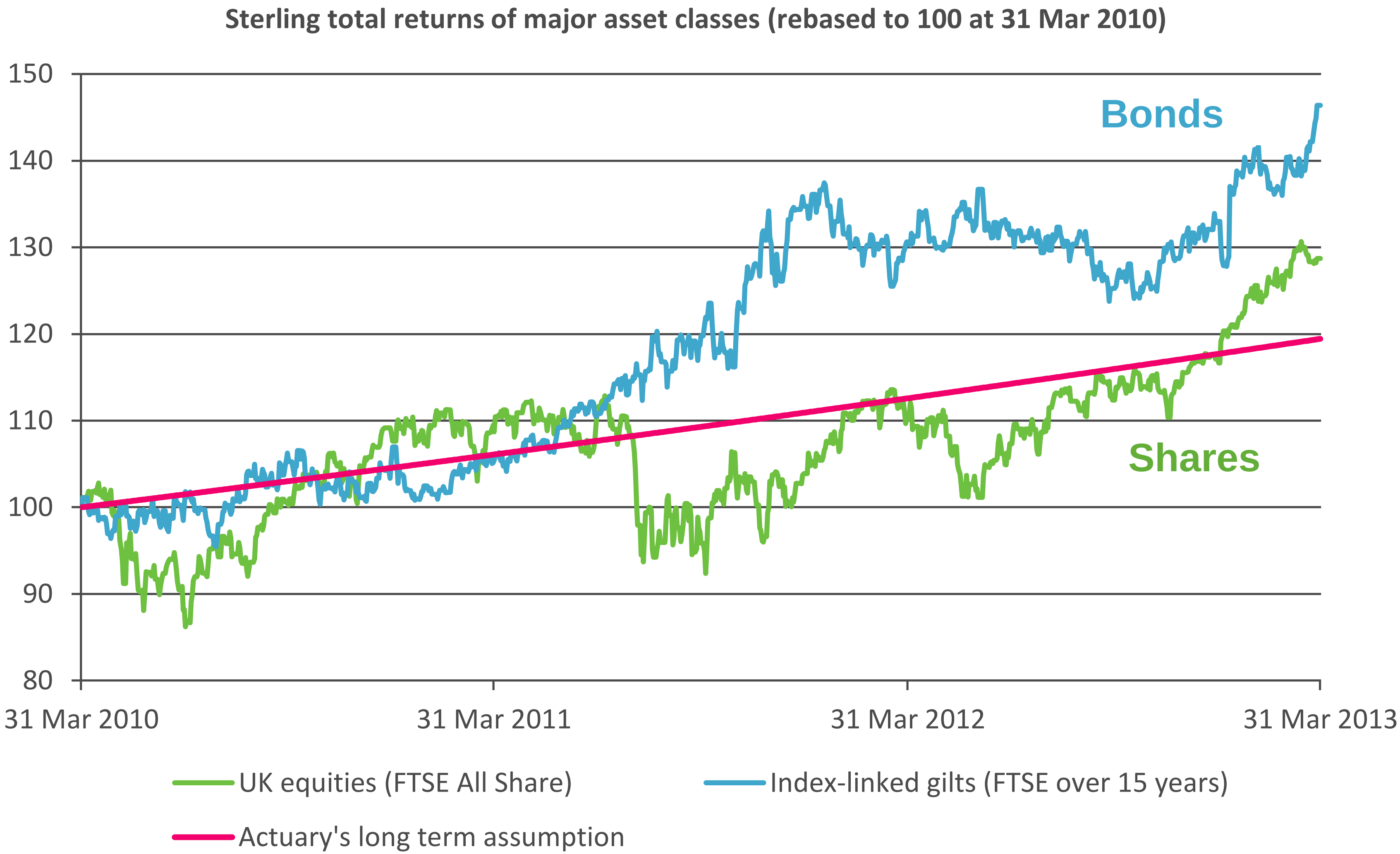
Actuary calculates how much is notionally allocated to each every three years

2013 valuation results

Where we were

Valuation Date	31 March 2010
Past Service Position	**(£m)**
Past Service Liabilities	
Employees	762
Deferred Pensioners	261
Pensioners	697
Total Liabilities	1721
Market Value of Assets	1415
Surplus / (Deficit)	**(306)**
Funding Level	**82%**

What has happened since - markets



What has happened since – assumption information

- Financial
  - RPI vs CPI gap
  - Long term general salary assumption
- Demographic
  - Fewer ill-healths
  - More withdrawals with lower service
  - Mortality “wait and see”

Assumptions: 2010 vs 2013

Valuation date	31 March 2010	31 March 2013
Financial assumptions	Ongoing funding basis as at 31 March 2010	Proposed funding basis as at 31 March 2013
Demographic assumptions	2010 valuation	2013 valuation
Pension increases (p.a.)	3.3%	2.5%
Long term salary increase (p.a.)	5.3%	4.3%
Discount rate (p.a.)	6.1%	4.6%
Assumed future life expectancy	VITA with improvements in line with the Medium Cohort and 1% underpin from 2010	VITA with improvements in line with CMI 2010 peaked 1.25%

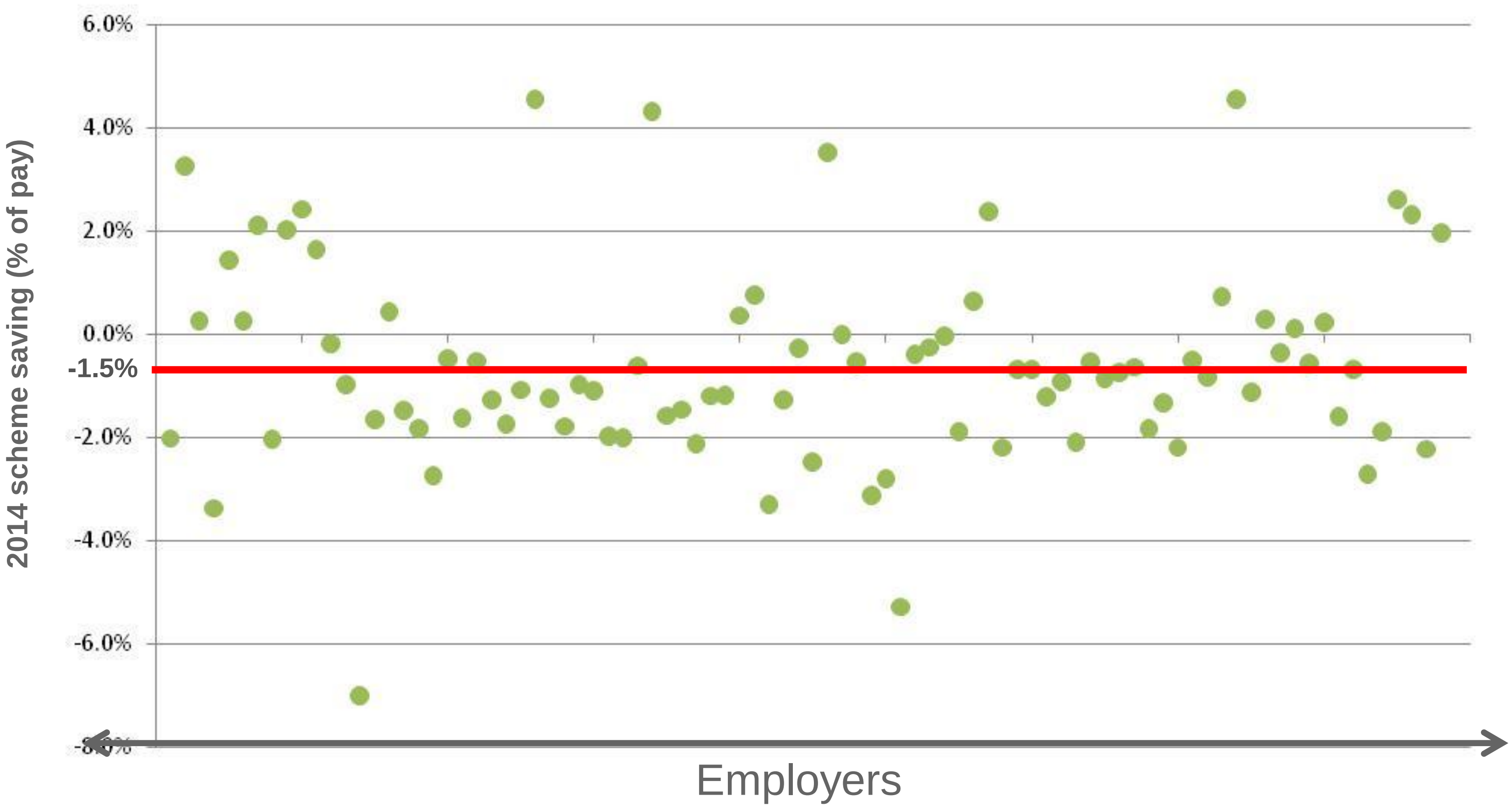
What has happened since - new scheme

Taken in isolation, impact on employers...

- No impact on existing deficits (past service)
  - Accrued rights to 2014 are protected
- Modest savings on new benefits (future service)
  - 2.3% of pay across whole fund, but…
- Savings will vary by employer:
  - Depends on membership profile
  - Changes to member contributions
  - Take up of “50/50” option

... but cannot take in isolation!

LGPS 2014: Employer costs - up or down?



Future service cost only!

Source: Hymans Robertson, based on a large LGPS fund.

What were we anticipating?

Compared against 2010 valuation:

- Funding levels *likely* to be slightly lower
- Deficits *likely* to be bigger
- Valuation contribution rates *likely* to be higher
- Results to vary *significantly* between employers

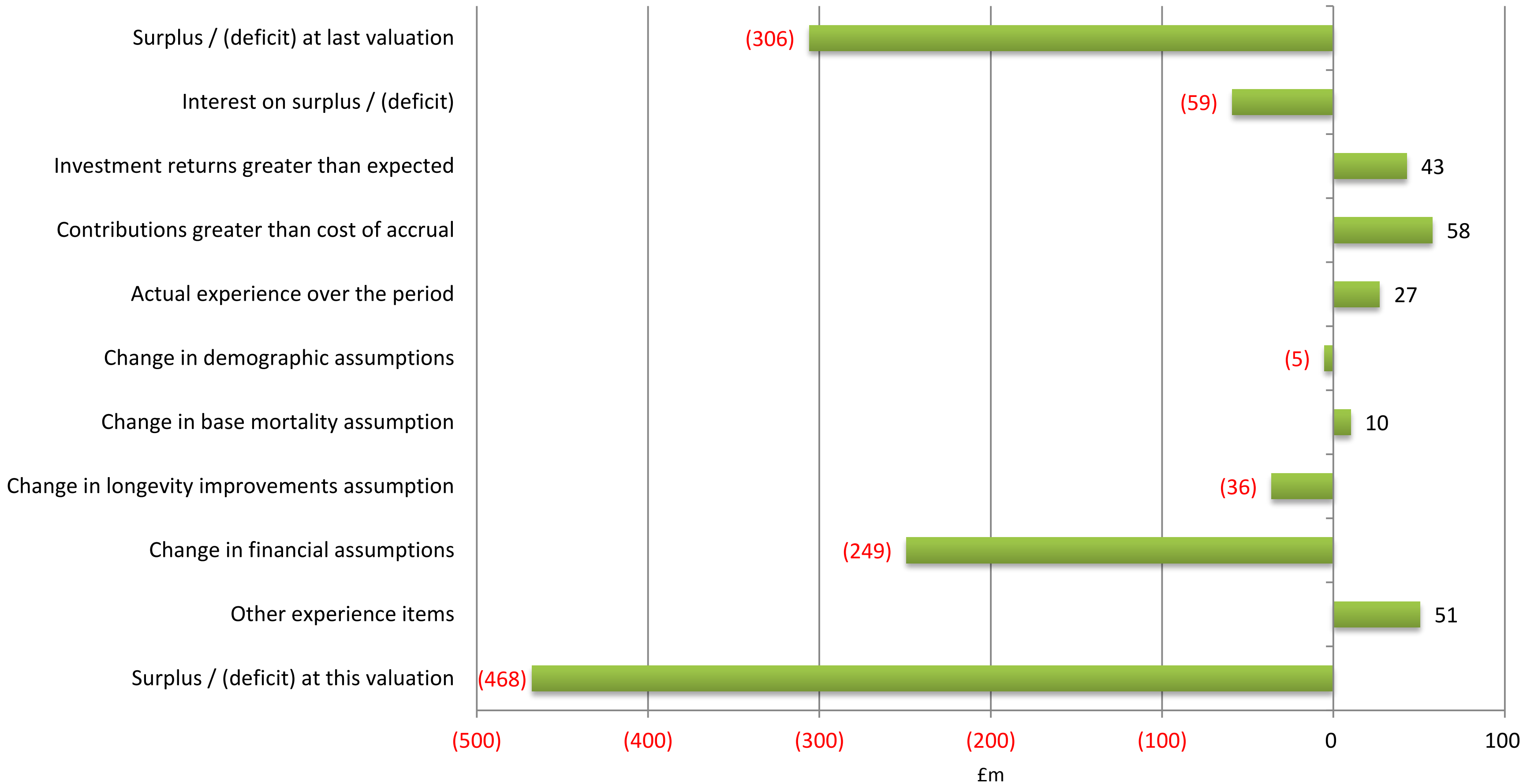
What we got - the outcome

Valuation Date	31 March 2010	31 March 2013
Past Service Position	***(£m)***	**(£m)**
Past Service Liabilities		
Employees	762	889
Deferred Pensioners	261	364
Pensioners	697	982
Total Liabilities	1,721	2,235
Market Value of Assets	1,415	1,767
Surplus / (Deficit)	**(306)**	**(468)**
Funding Level	**82.2%**	**79.1%**

Deficit Repayment

Valuation Date	31/03/2010 % of payroll	31/03/2013 % of payroll
Past Service Adjustment (20 years)	5.6%	8.2%

Bond yields driving deficit



Whole Fund Results – Contribution Rates

Benefits

Valuation Date	31 March 2010	31 March 2013
Future service rate	**% of pay**	**% of pay**
Employer future service rate (excl. expenses)	16.2%	19.6%
Expenses	0.4%	0.5%
Total employer future service rate (incl. expenses)	**16.6%**	**20.1%**
Employee contribution rate	6.6%	6.1%

Total Employer Cost

Valuation Date	31 March 2010	31 March 2013
Employer future service rate	16.6%	20.1%
Past service adjustment (20 years)	5.6%	8.2%
Total Employer Contribution Rate	22.3%	28.4%

Note that the 2013 employer cost shown above is the theoretical rate at whole fund level based on market conditions at 31 March 2013

Employers : managing deficits and contribution rates

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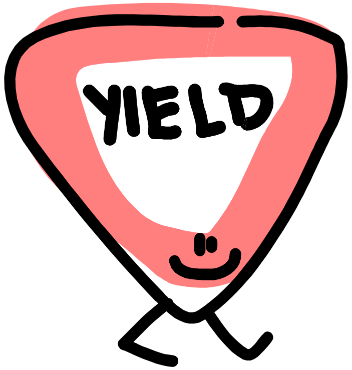
Managing deficits

- Investment returns

- Contributions

- Yield reversion



All employers are not the same

Term

Maturity

Security

Guarantor

Closed

Planning to exit

Credible funding plans

Pay growth

Focus on 3 types of employers

- Secure employers
- Less secure employers
- Academies

Secure employers

- Long term horizon
- Stabilisation overlay policy
- Modelling of long term funding outcomes
- Liaison with these employers underway

Less secure & shorter-term employers

Challenges

- protect the fund

- avoid pushing employers into insolvency

- Contribution rate stability
- Seek additional security
- Understand the risks
- Assess the likelihood of meeting target funding

Academies

- Long running saga of schools leaving LEAs
- Key pension questions
  - what deficit is it fair to transfer to them?
  - how quickly to recoup from them?
- Most academies just want low rate!
- Developments : DfE “guarantee” ; CLG pooling consultation
- Current SCC view : no change to approach

Next steps

- Funding Strategy Statement consultation
- Analysis of employer results
- Analysis of risks to the Fund from employers
- Liaison with employers by officers/actuary
- Target for agreed contribution rates end of January

Thank you

Any questions?