

London Borough of Hackney Pension Fund

Employer Forum

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- 22 February 2017

What are we going to cover?

The Hackney Fund in the LGPS



Valuation overview



Inter –valuation experience



Whole Fund results



Employer funding strategies



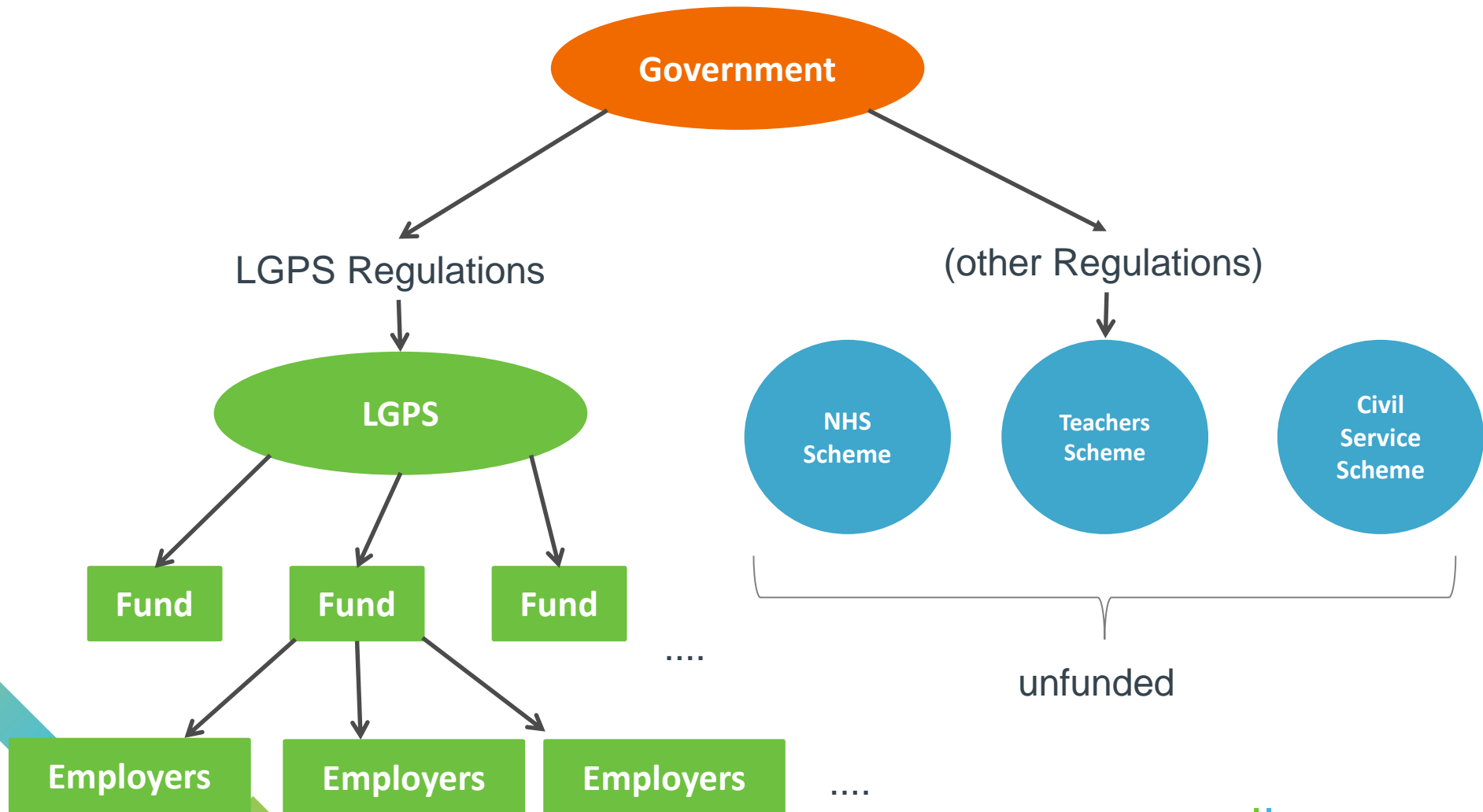
Results Schedules





The Hackney Fund in the LGPS

Public sector pension schemes



Local Government Pension Scheme



Set by
Fund Actuary

Contributions



Set by
Regulations

Contributions



Set by
Regulations

Benefits

Administering Authority



The London Borough of Hackney Pension Fund



- Almost 23,000 members
- Managing assets of £1,172m*
- Around 30 individual employers

*as at 31 March 2016



Valuation overview

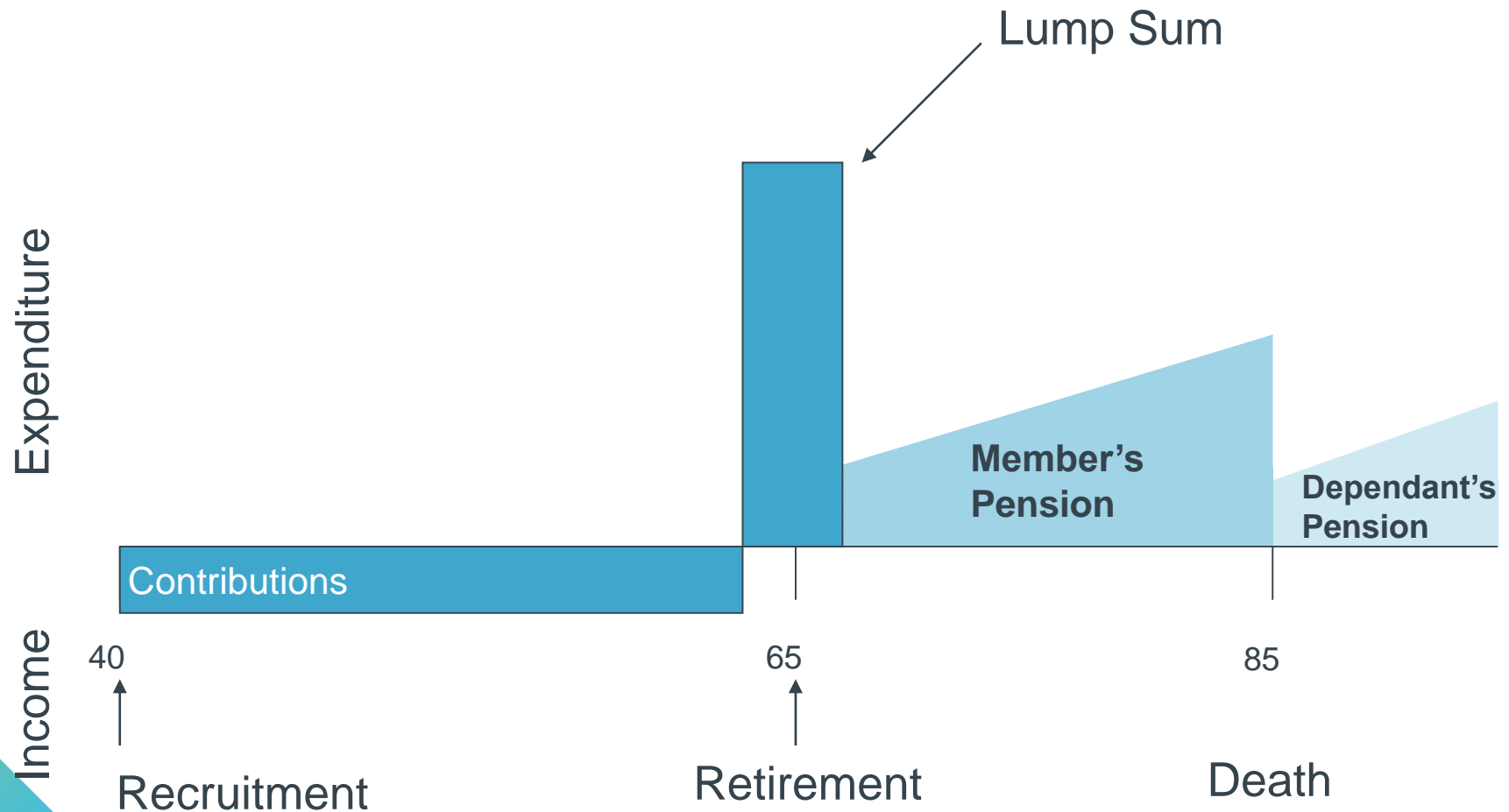
Why do we do a valuation?



- Compliance with **legislation**
- Set **employer contribution rates**
- Determine money needed to meet accrued liabilities
- Calculate solvency (“**funding level**”)
- Monitor experience vs. assumptions
- Manage risks to Fund and employers

Review the Funding Strategy Statement (FSS)

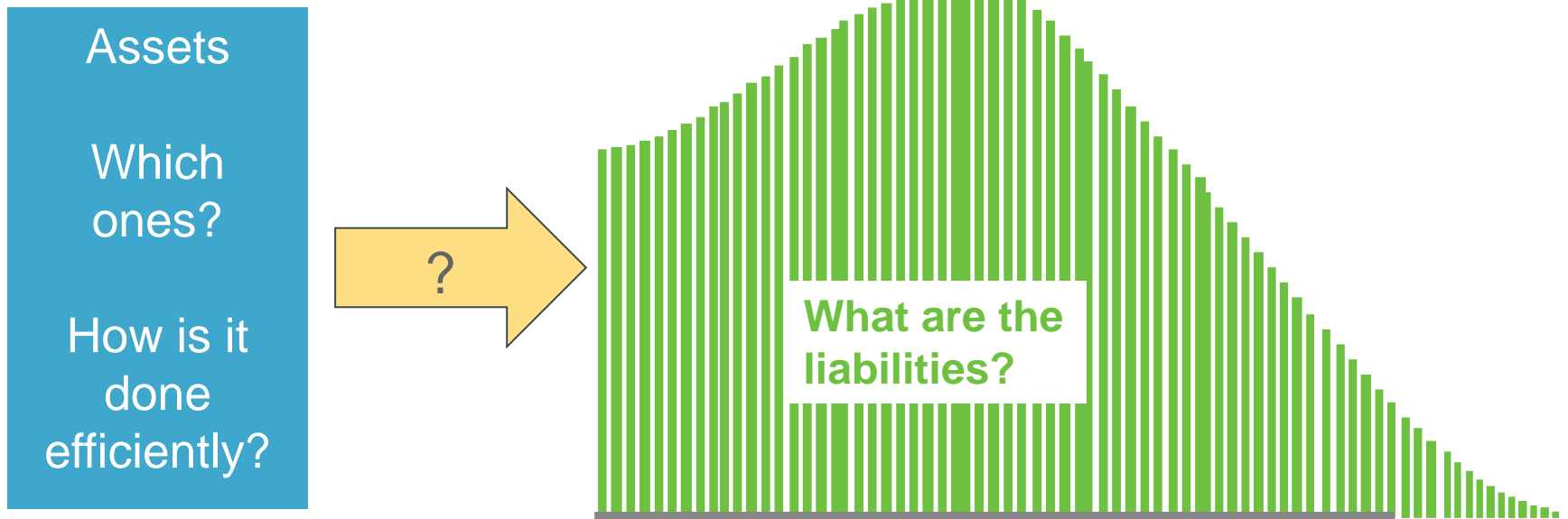
Promise now, pay later



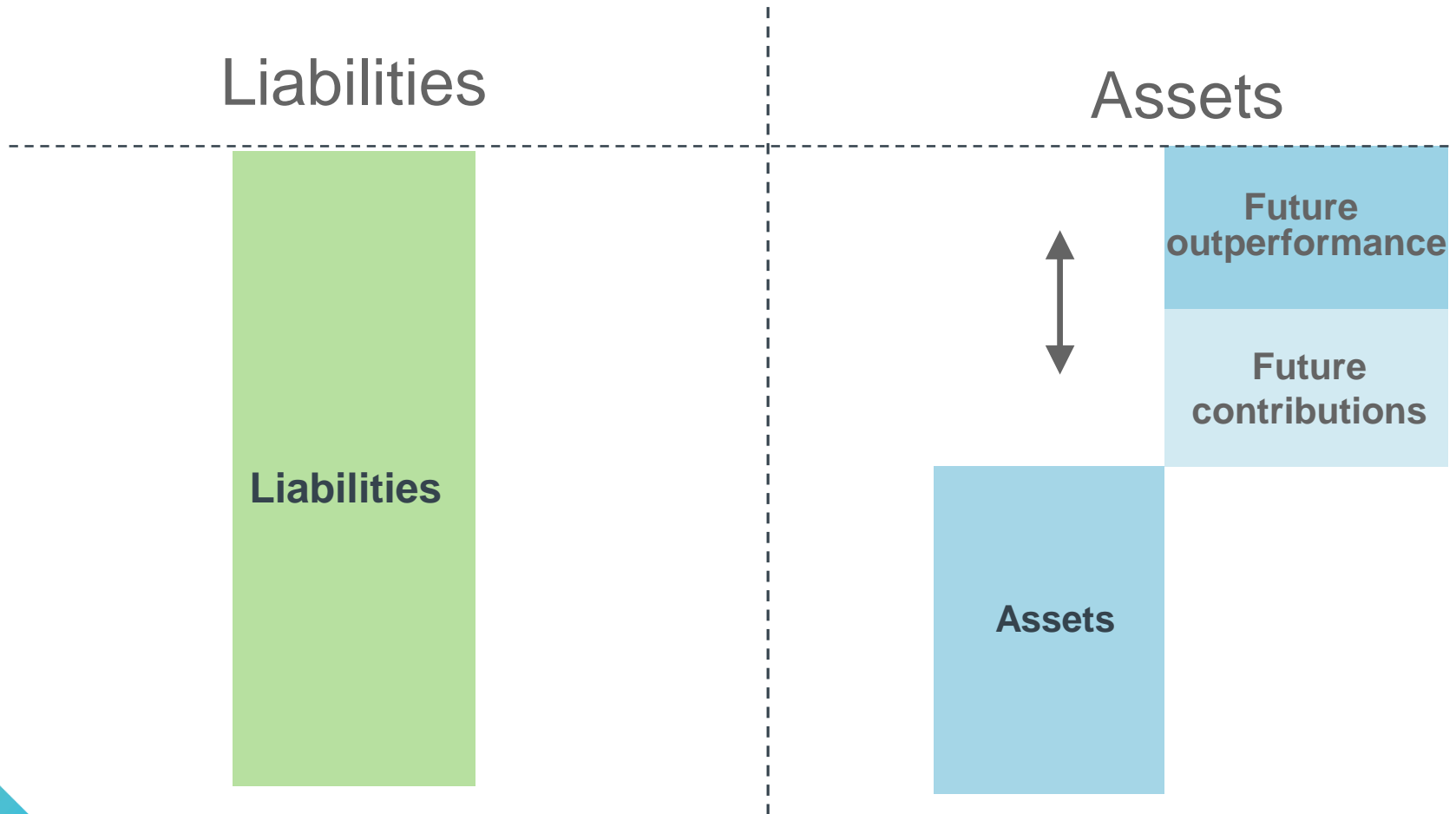
Valuation - the ultimate objective



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



Meeting the objective





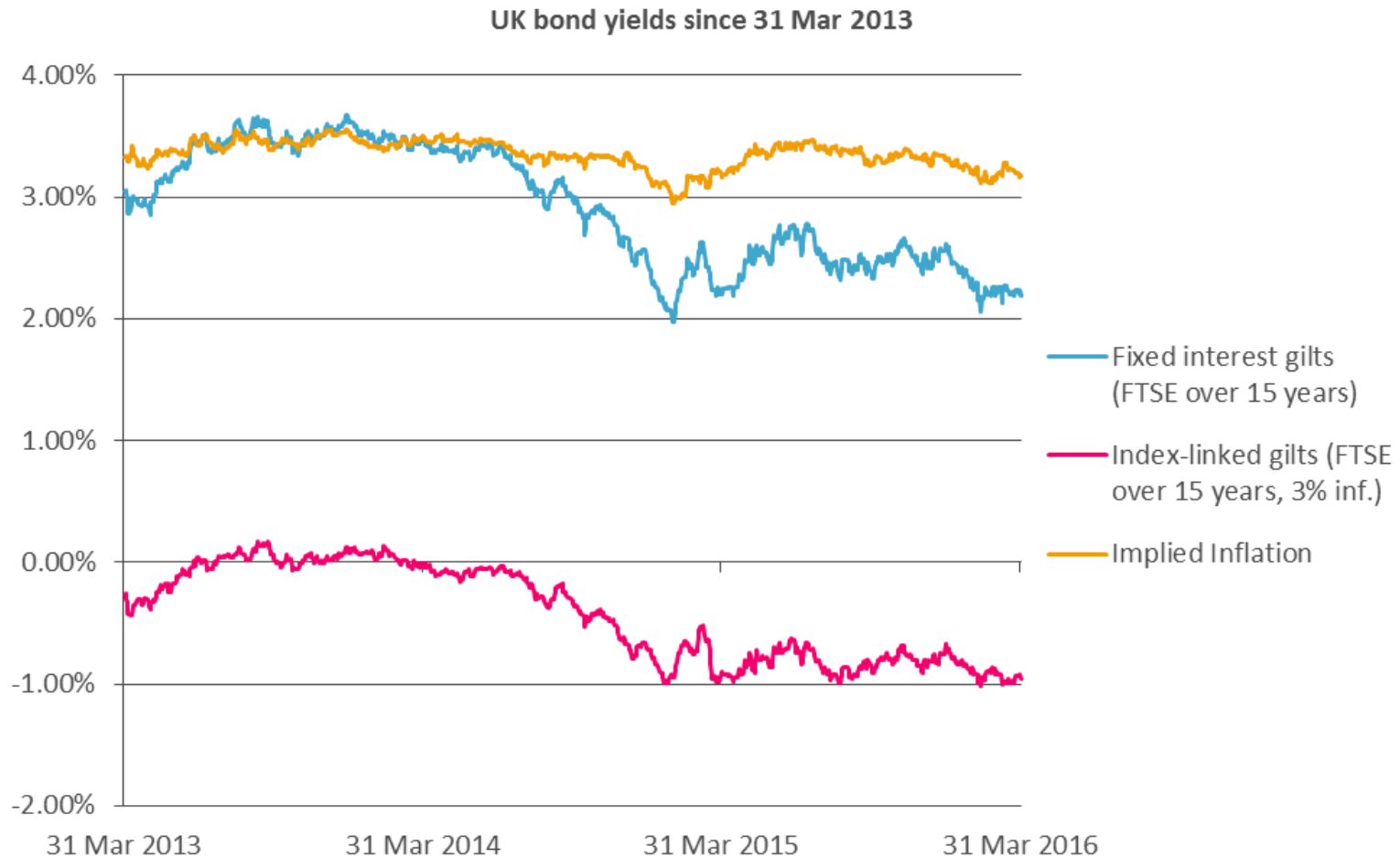
Inter-valuation experience

Investment return vs expected



...asset returns have been stronger than expected

Experience since 2013 (yields)



Falling bond yields have increased liabilities...

Membership experience

- **Pay growth**
 - Lower than expected
 - Does vary across employers
- **Pension increases** (pension increase orders)
 - Expected 2.5% p.a.
 - Actual 2.7%, 1.2%, 0.0%
- **Movements**
 - Fewer ill health retirements than expected
 - Fewer early leavers than expected
 - Fewer pensioner deaths than expected
- **50:50 take-up**
 - Lower than expected



Whole Fund results

Changes to the 2016 valuation financial assumptions



1. Asset Outperformance Assumption (AOA)
 - Increase to 1.65% p.a. (from 1.45% p.a.)
2. Salary growth assumption
 - Continued public sector pay freeze
 - Run off of pre2014 final salary linked liabilities
 - Reduce post freeze increases to RPI
3. RPI / CPI gap
 - Increase to 1.0% p.a. (from 0.8% p.a.)

Key assumptions for funding target



	2013 valuation	2016 valuation	Derivation of assumption
Discount rate (assumed future investment return)	4.45%	3.85%	Change in approach: Gilts plus prudent asset out-performance assumption (AOA) At 2013: AOA = 1.45% p.a. At 2016: AOA = 1.65% p.a.
Long term pay growth	4.3%	3.3%	Change in approach: At 2013: RPI + 1.0% At 2016: RPI + 0.2%
Pension increases (CPI)	2.5%	2.1%	Change in approach: At 2013: CPI = RPI - 0.8% At 2016: CPI = RPI - 1.0%
50:50 take up	10%	5%	Lower than anticipated take up
Longevity	ClubVITA with CMI 2010 model for future improvements	ClubVITA with CMI 2013 model for future improvements	2013 not 2015 in order to remove volatility experienced in last two years

Impact of discount rate



20 years

Whole fund valuation results



	31 March 2013	31 March 2016
Active	403m	423m
Deferred	382m	440m
Pensioner	575m	658m
Total liabilities	1,360m	1,522m
Assets	954m	1,172m
Deficit	(405m)	(349m)
Funding level	70%	77%

Increase in funding level, and reduction in deficit, at the 2016 valuation

Why has the funding position changed?



Analysis	(£m)
Surplus / (deficit) at 31 March 2013	(405)
Interest on surplus / (deficit)	(57)
Investment returns greater than expected	14
Contributions greater than cost of accrual	77
Membership experience over the period	74
Change in demographic assumptions	4
Change in base mortality assumption	16
Change in longevity improvements assumption	(0)
Change in financial assumptions	(40)
Impact of LGPS 50/50 take up	(8)
Other experience items	(25)
Surplus / (deficit) at 31 March 2016	(349)



Employer Funding Strategies

What is the Funding Strategy?



- *The funding strategy is set out in the Funding Strategy Statement (FSS)*
- *“The FSS focuses on how employer liabilities are measured, the pace at which liabilities are funded, and how employers or pools of employers pay for their own liabilities.”*
- *“The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies.”*

The FSS is the Hackney Pension Fund’s funding blueprint

Why is the FSS important to employers?



- The FSS helps employers understand
 - how their contributions are **calculated**;
 - how these are **fair by comparison** to other employers in the Fund; and
 - in what circumstances the employer might need to **pay more**.

Setting funding targets at 2016



Understand employers



100% funding



Timeframe varies depending on
profile and circumstances



Based on Employer's Risk Profile

Funding Strategy Statement review



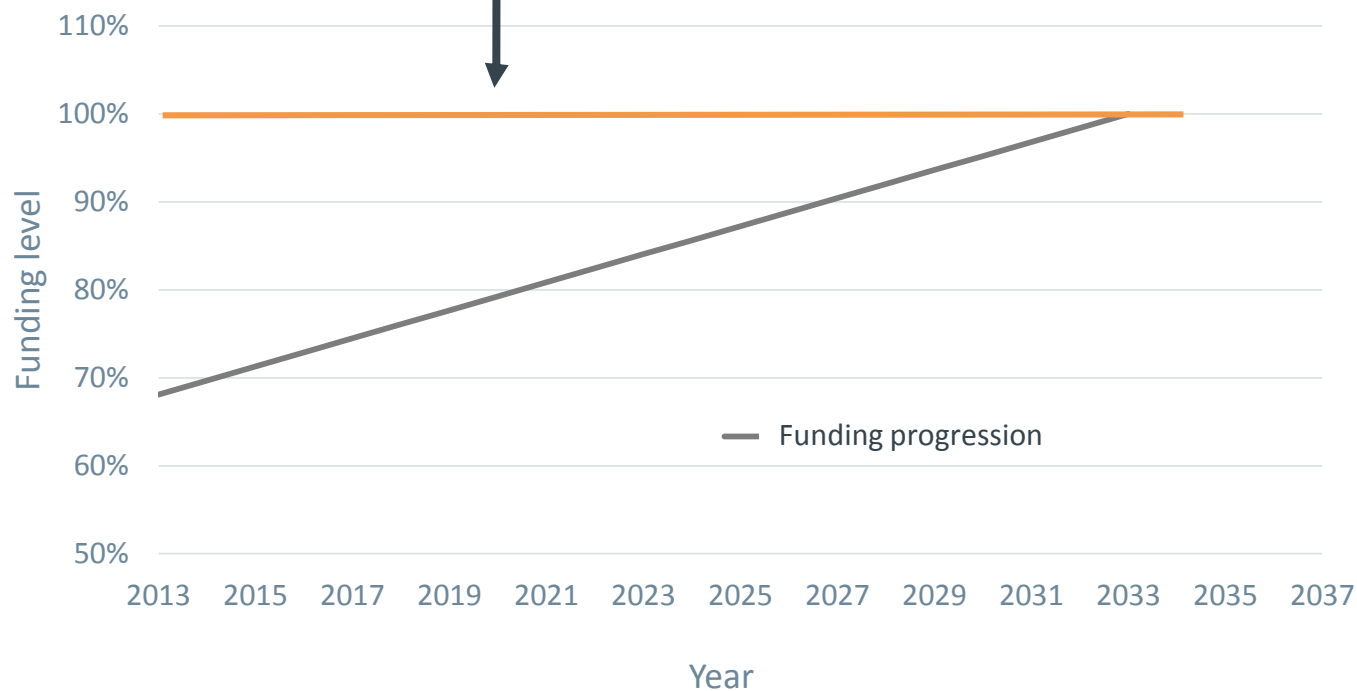
Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities	Academies	Colleges	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	15 years	10 years	15 years	15 years	Outstanding contract term
Secondary rate – Note (d)	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount	Monetary amount	% of payroll or monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Reductions will be permitted by the Admin Authority by spreading the surplus over a 3 year period or by steppe decreases		Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	66%	66%	66%	75%	75%	70%
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	3 years
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	Note (g)	n/a	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j) .			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (i) .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Historic approach to funding plans



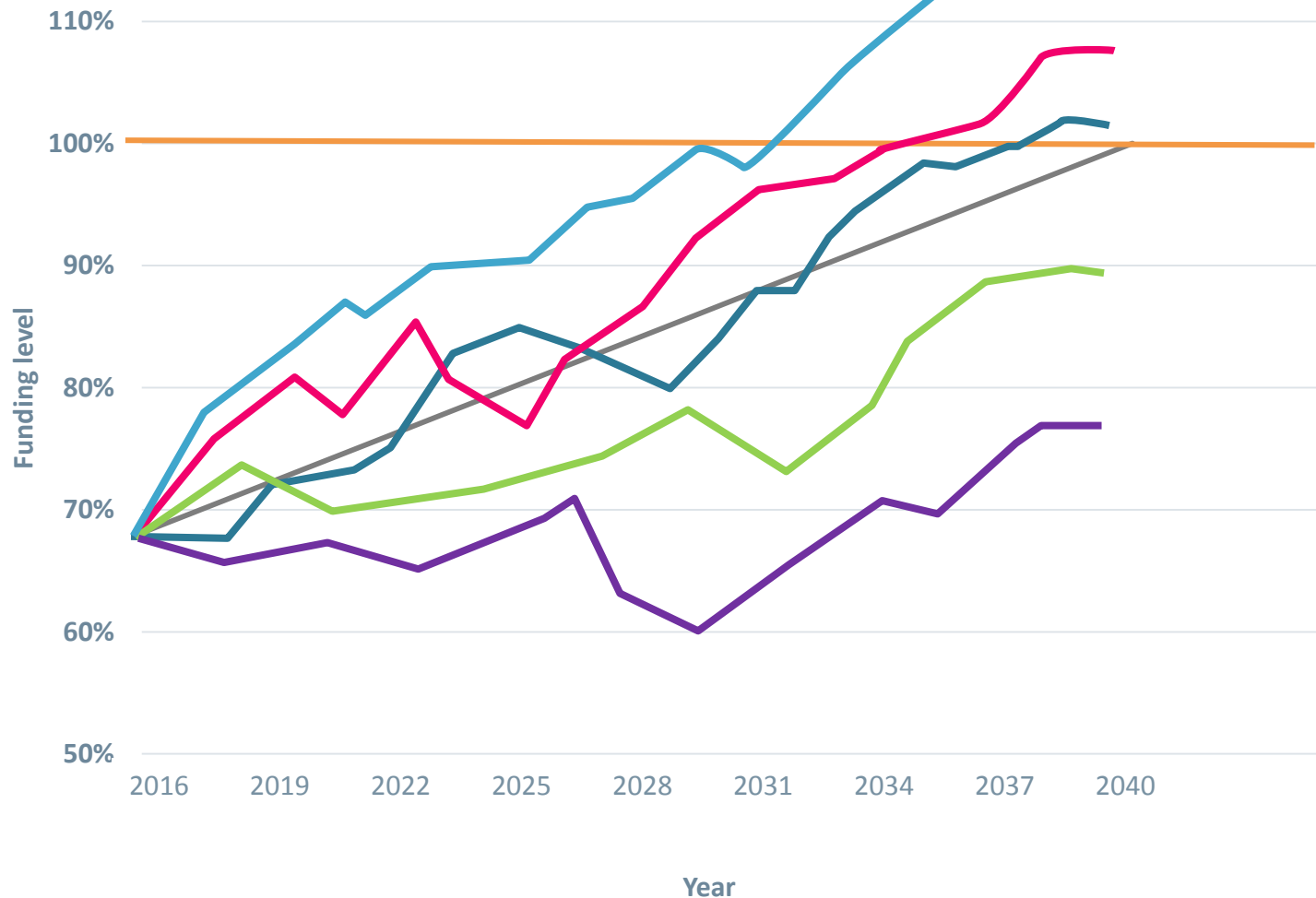
Actuary & Fund
agree one set of
assumptions

Actuary calculates
contribution rates

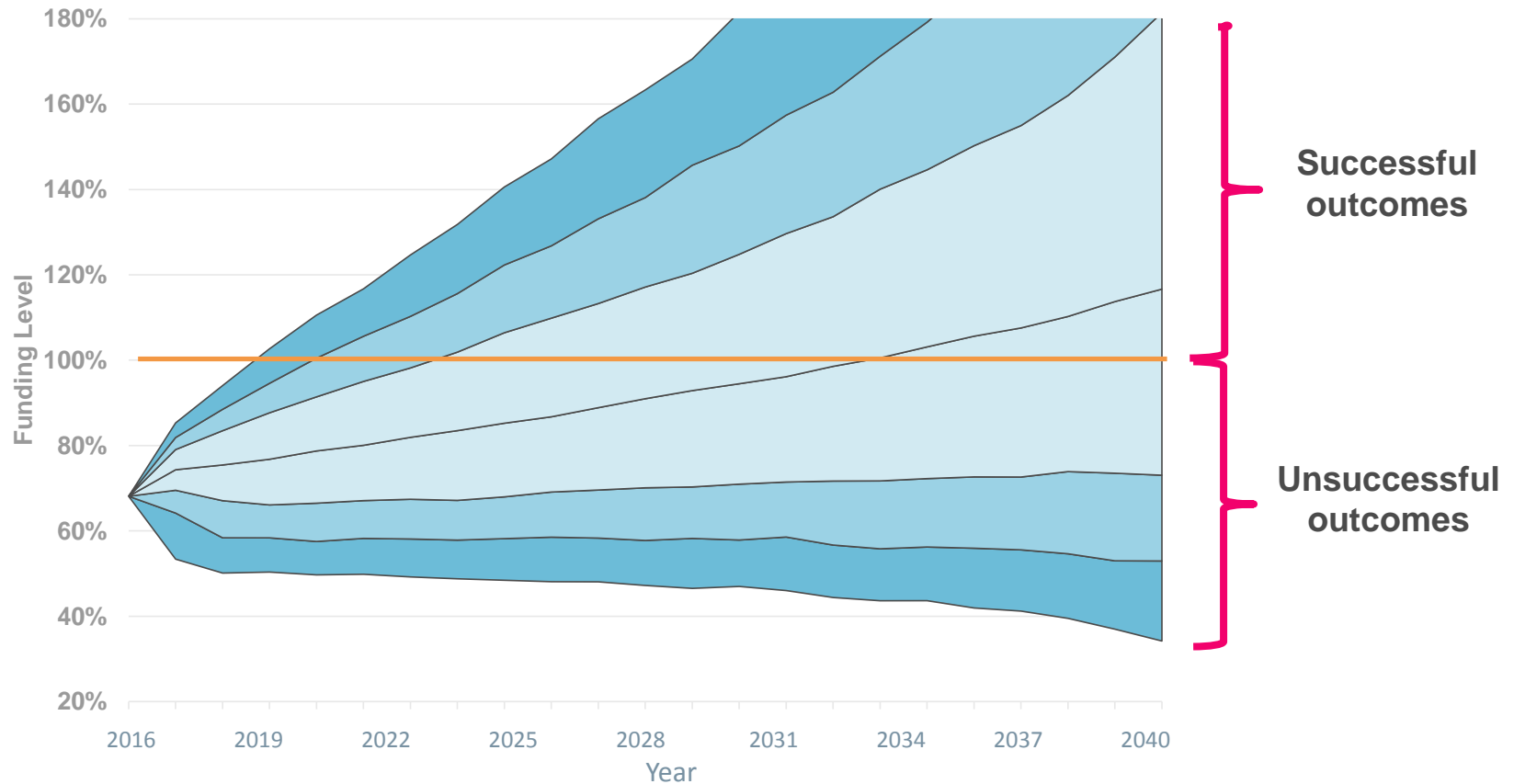


Based on the assumption that future conditions are certain

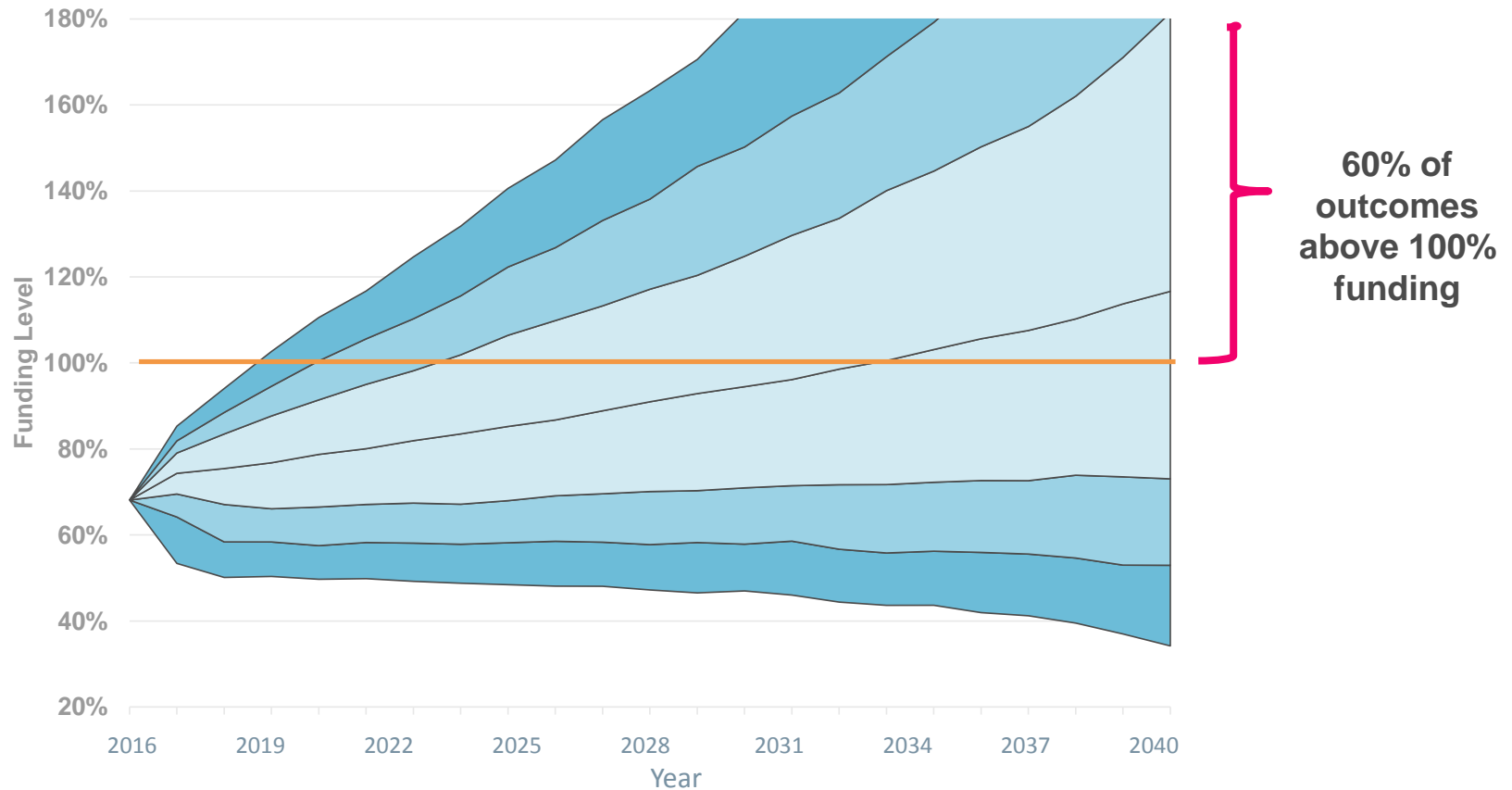
Risk based approach: recognise uncertainty



Setting employer contribution rates



Setting employer contribution rates



Two elements to contribution rates



Expressed as a % of pay

Cost of
future
benefits

“Primary Rate”



Can be monetary or % of pay

Adjustment to
target full
funding

“Secondary Rate”

Why doesn't everyone pay the same rate?



Term

No actives

Maturity

Size

Security

Guarantor

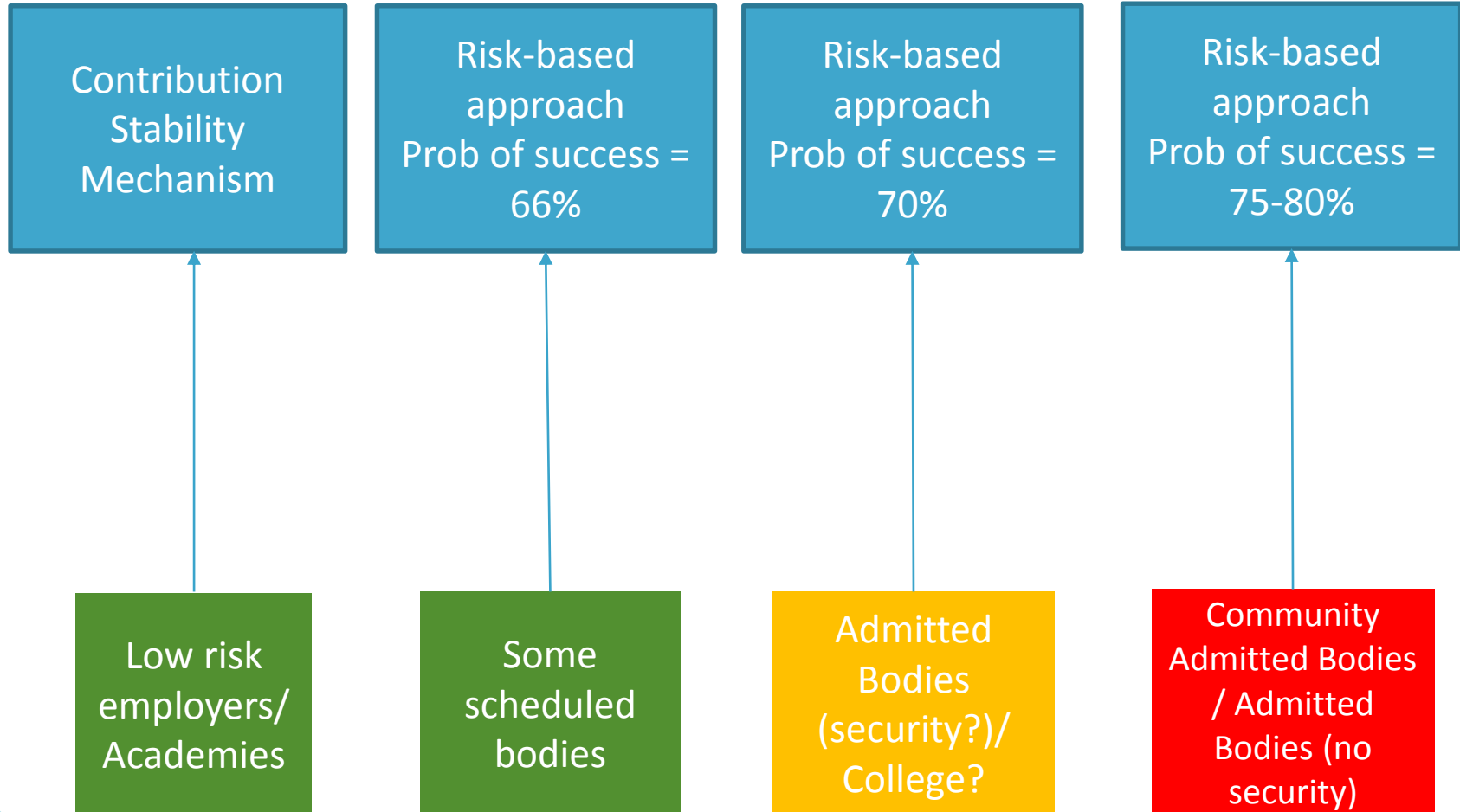
Planning to
exit

Closed to
new entrants

Funding level

Employers are a diverse group with different objectives

Risk-based approach for all employers



Valuation results schedule



Fund	London Borough of Hackney Fund
Administering Authority	London Borough of Hackney
Employer	
Pool (if applicable)	Individual
Employer code/Pool Name	
Open/Closed	Closed
Employer Type	CAB

2016 Valuation Results - Balance Sheet

Funding Position Relative to Employer Funding Target	Ongoing Funding Basis 31 March 2013 (£000)	Ongoing Funding Basis 31 March 2016 (£000)
Past Service Liabilities		
- Active Members (Final salary)	3,000	4,000
- Active Members (CARE)	-	1,000
- Deferred Pensioners	1,500	2,000
- Pensioners	4,500	7,000
Total	9,000	14,000
Asset Share	7,750	12,500
Surplus / (Deficit)	(1,250)	(1,500)
Funding Level	86%	89%

Valuation results schedule

2016 Valuation Results

	% of payroll	£(000) p.a.
Rate paid in 2016/2017	22.4%	-

Contribution Rates	Primary Rate		Secondary Rate	
	Cost of New Benefits Accruing		Deficit (Surplus) Repayment	
	% of payroll	plus	£(000) p.a. *	
2016 Valuation Rate	29.3%	plus	60	
Recommended Contribution Rates				
2017/18	24.7%	plus	20	
2018/19	27.0%	plus	40	
2019/20	29.3%	plus	60	

*These monetary amounts will increase in line with our salary growth assumption.

The cost of providing LGPS pension benefits is dependent on many uncertain factors including the investment performance of the Fund's assets. To reflect the uncertainty, employer contribution rates have been set by modelling the contributions required to fund the benefits under 5000 different economic scenarios. The likelihood that the 2016 Valuation Contribution Rate above will pay for both benefits accruing and return the employer to a fully funded position over a period of 7 years is 80%.

Further details of how contribution rates have been calculated are included in the Employer Results Report and the Funding Strategy Statement

The Primary Rate includes an allowance of 0.7% for administration expenses.

Valuation results schedule



Data

Membership Statistics	Numbers		Actual Pay / Pension (£000)		CARE Pot (£000) ¹
	31 March 2013	31 March 2016	31 March 2013	31 March 2016	31 March 2016
Actives	83	62	2,194	1,852	74
Deferred Pensioners	14	30	55	87	-
Pensioners	22	32	145	200	-

¹ CARE Pot for deferred and pensioner members is included in the pension figures

Membership Statistics	Average Age ²		Duration
	31 March 2013	31 March 2016	31 March 2016
Actives	52.2	53.5	21.9
Deferred Pensioners	51.0	51.4	23.1
Pensioners	63.6	65.4	12.7

² Weighted by liability

Assumptions

Financial Assumptions	Ongoing	Ongoing
	Funding Basis 31 March 2013	Funding Basis 31 March 2016
Discount Rate		
- Pre Retirement	4.45%	3.85%
- Post Retirement	4.45%	3.85%
Salary Increases	4.3%	3.3%
Pension Increases / CARE revaluation	2.5%	2.1%

Thank you