

HEALTH WEALTH CAREER

# CLWYD PENSION FUND

## 2018 INTERIM FUNDING REVIEW AND EMPLOYER COSTS

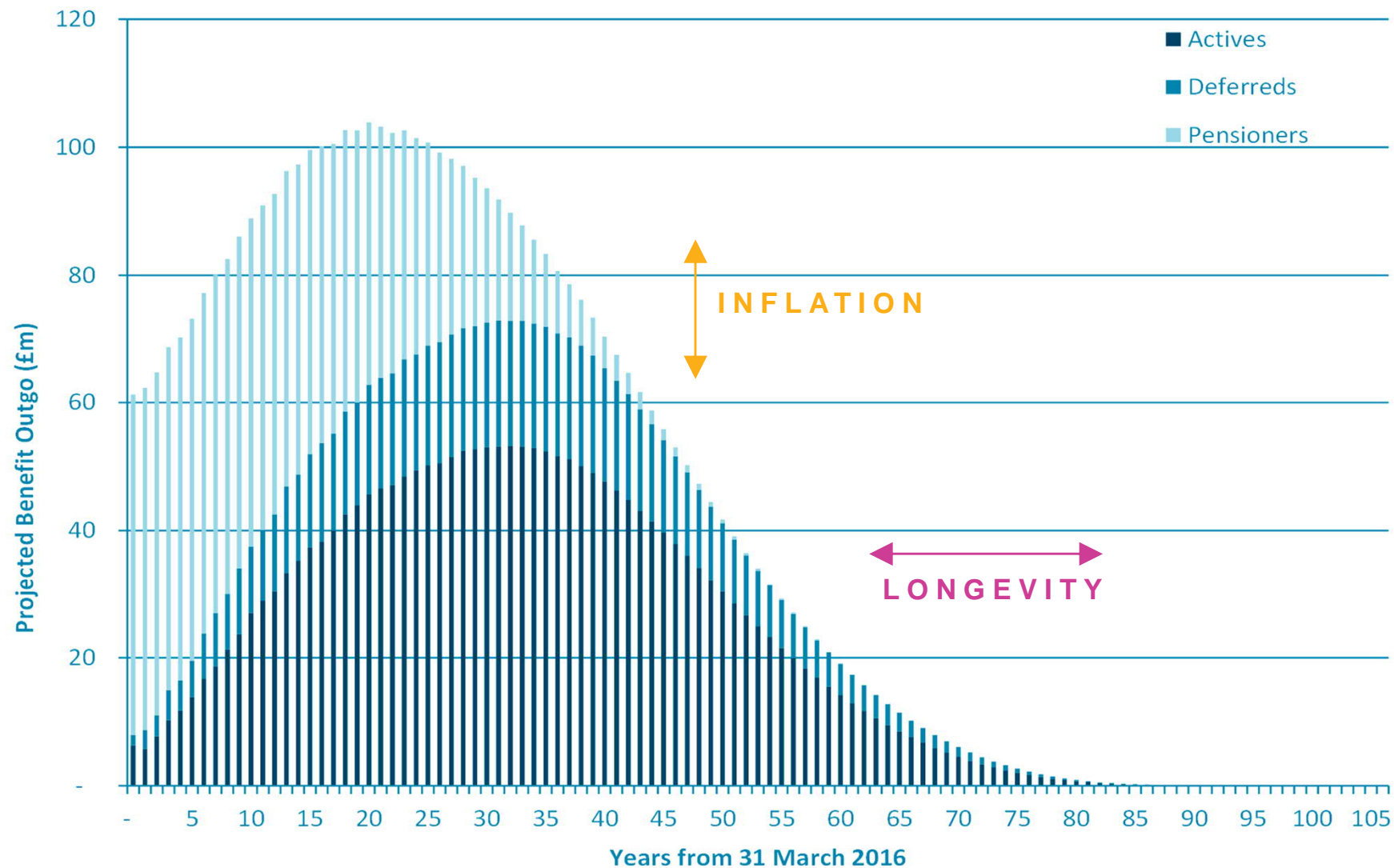
NOVEMBER 2018

# 2018 FUNDING REVIEW AGENDA

- 1 What is an Actuarial Valuation and Recap of the 2016 Valuation Results and Current Funding Strategy
- 2 What has changed since 2016?
- 3 2018 Funding Review Results and Sensitivities
- 4 Conclusions and Next Steps

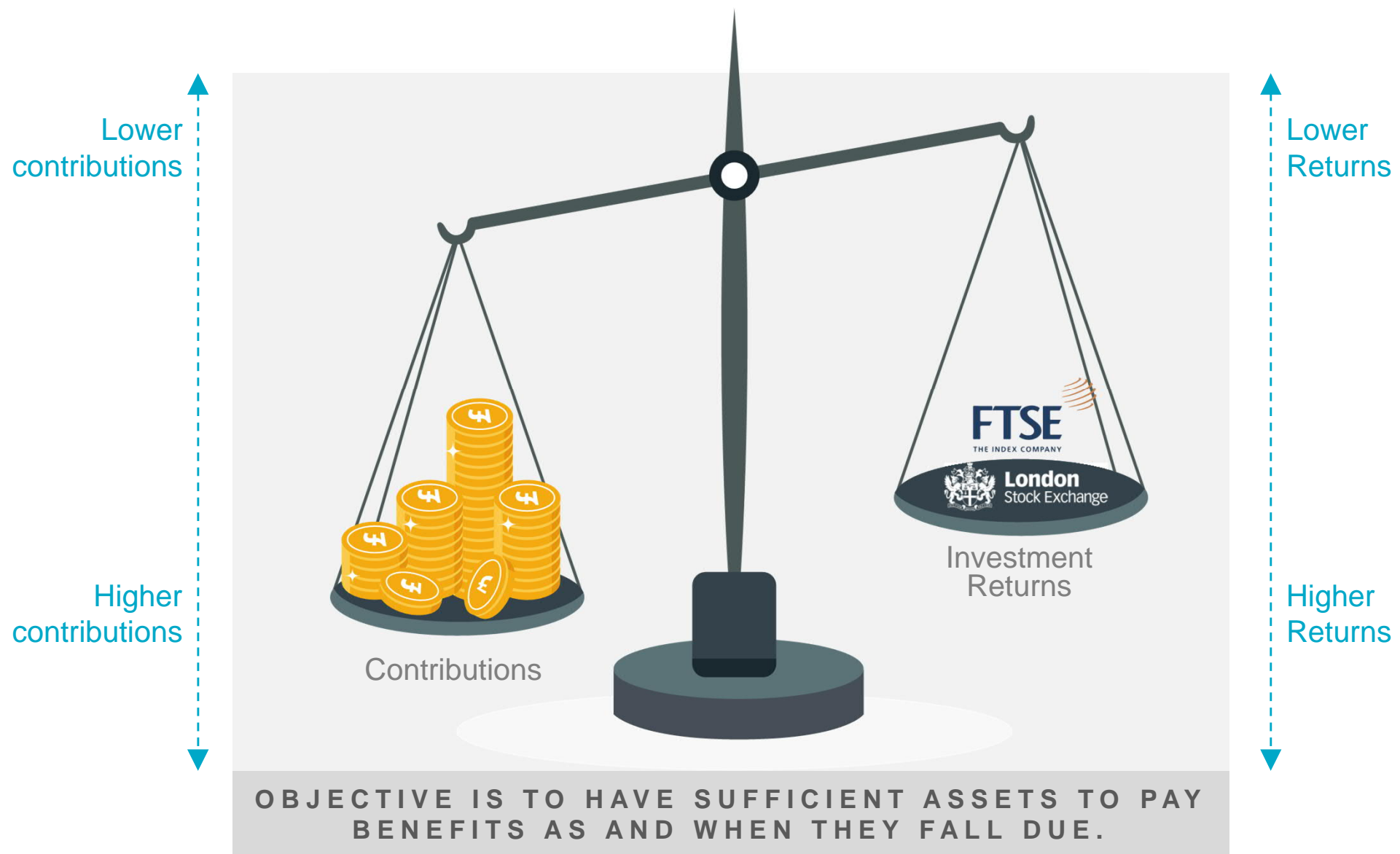
# WHAT IS AN ACTUARIAL VALUATION

## LIABILITIES...IT'S ALL ABOUT THE CASHFLOWS



# WHAT IS AN ACTUARIAL VALUATION

## FINANCING THE BENEFITS



# RECAP OF 2016 VALUATION

## KEY FUNDING STRATEGY PARAMETERS



Discount rates explicitly linked to real returns versus CPI

Past service =  $\text{CPI} + 2\%$

Future service =  $\text{CPI} + 2.75\%$



Short term pay growth – 1% per annum for four years

Long term pay growth –  $\text{CPI} + 1.25\%$  per annum



Demographic assumptions all based on scheme specific analysis

Mortality – built in further prudence to the future long term improvement rates

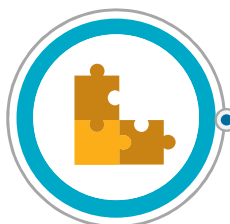
Removal of the 50/50 allowance for future costs

Introduction of an ill health captive for smaller employers



Reduced the deficit recovery period (subject to affordability)

Average of 15 years across the Fund



Employers were given the option to prepay deficit contributions and phase in any increases

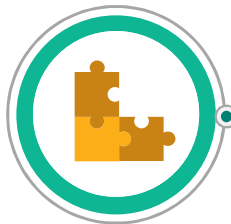
# WHAT HAS HAPPENED SINCE 2016

## KEY CONSIDERATIONS



### Continuation of strong real investment returns

Equity markets have continued to drive higher than expected returns. Investment returns achieved of c27% since the last valuation to 31 March 2018. **However the outlook is less certain for future real returns.**



### Risk management

The Fund has the Flightpath in place which has reduced risk and increased certainty. Now includes dynamic equity protection strategy.



### Life expectancy trends

Latest national data from the Continuous Mortality Investigation (CMI) shows life expectancy improvements are slowing down meaning a possible reduction in liabilities. Will require more analysis for the Fund and the LGPS but consider impact of CMI 2017 data in isolation.

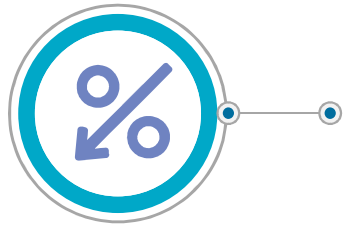


### Prepayments

3 employers (incl. WCBC) opted to prepay all three years of deficit contributions in April 2017 (totalling c£34m), 10 employers (incl. FCC and DCC) opted to prepay each April.

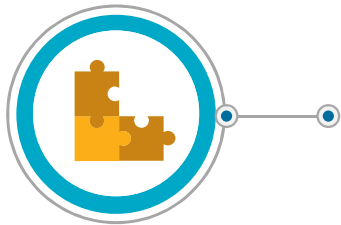
# WHAT HAS HAPPENED SINCE 2016

## KEY CONSIDERATIONS



### Public Sector Pay cap

The public sector pay cap was removed. Consider the impact of short term salary increases increasing by at least 2% p.a. for the remaining 2 years to 2020 which impacts on liabilities



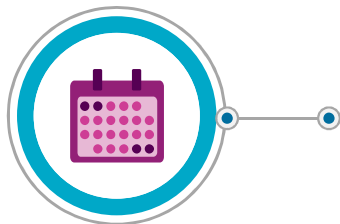
### Data Quality

Focus on improving the quality of the Fund's data ahead of the 2019 valuation. Estimated liability impact included in the assessment.



### Fund Employers

Significant increase in employers including outsourcings for the Councils. Also 3<sup>rd</sup> tier employer review report published.



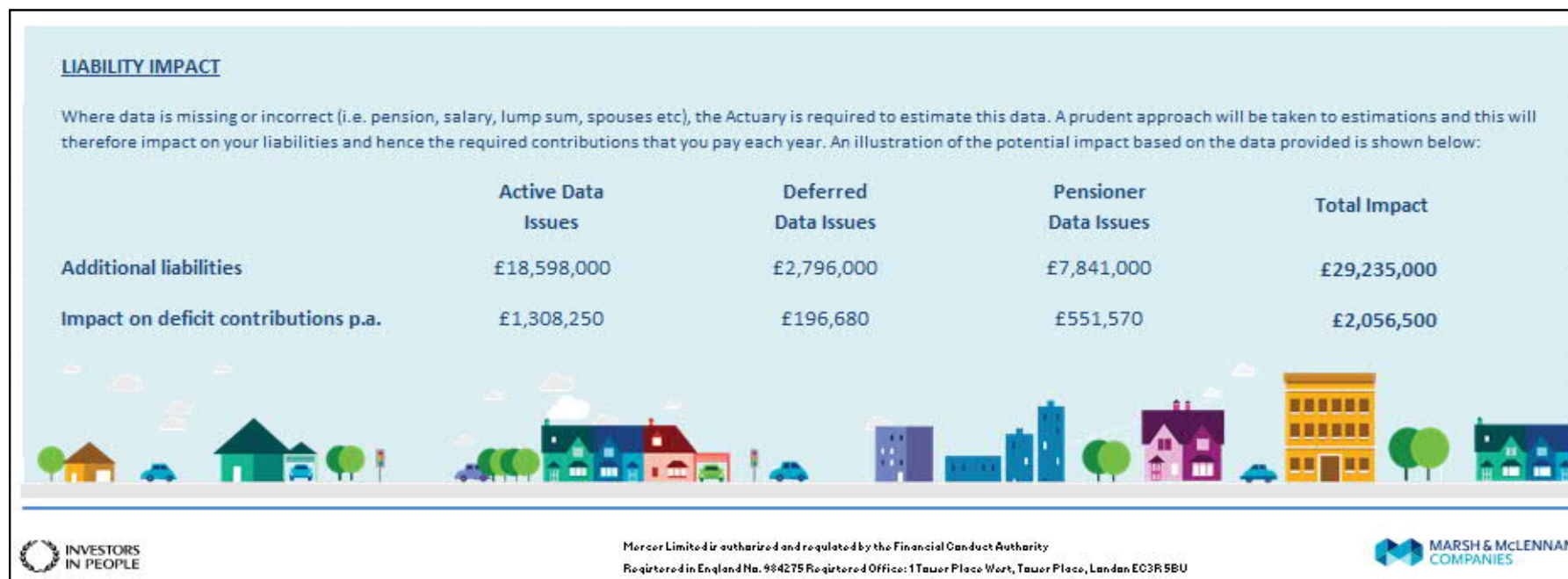
### Ill-Health Captive

The ill health captive was introduced from 1 April 2017 which will reduce the volatility in contributions for employers within it. To be reviewed at the valuation.

# WHAT HAS HAPPENED SINCE 2016

## DATA QUALITY – POTENTIAL IMPACT ON LIABILITIES

- An assessment of the data quality has been done and will continue on an annual basis as part of the Fund's ongoing efforts to improve data quality. There are a number of initiatives going on to improve the data quality e.g. backlog, aggregation and work the ELT are doing directly for employers. Over time we would expect the data quality to improve further.
- Where data is missing or inconsistent we make prudent estimates of this data based on other data sources and general trends. On balance we would expect this to overestimate the liabilities although the final impact can only be known if we had a completely clean and complete dataset so the figures should only be taken as indicative of the potential impact.
- We have assessed that our estimates in the liability figures could result in an increased liability figure of **£29m** which could affect the contribution requirements. We would expect that this is at the very top of the range of outcomes.
- We are working with the Fund to clean up the most significant areas. However, there are areas where employers can help.



# WHAT HAS HAPPENED SINCE 2016

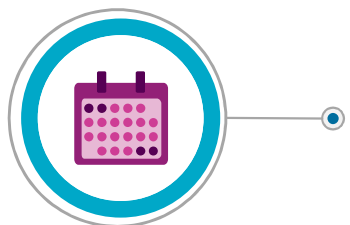
## KEY CONSIDERATIONS



### Cost Management Process

Remains to be seen what emerges from the HMT / SAB assessments – will there be an improvement in benefits / contributions from 2019?

The threshold SAB contribution rate is 19.5% of pay (split 13% employer and 6.5% member contribution rate). Initial indications are that the total cost of the Scheme under the SAB process is actually 19.0% of pay. As this is lower than the threshold there is a chance that benefit improvements could take place



### Exit Credits / Employers

The introduction of Exit Credits for exiting employers from May 2018 will impact on the Fund's admission / termination policies and also potentially on funding strategy adopted for certain employers.

The Fund has performed a consultation process with employers following a review of the Funding Strategy Statement and termination policy.

# WHAT HAS HAPPENED SINCE 2016

## KEY CONSIDERATIONS



### Guaranteed Minimum Pension (GMP) Equalisation

- The High Court made a landmark judgment confirming that pension schemes are required to equalise male and female members' benefits for the effect of GMPs. This will increase the liabilities of affected schemes, a cost that will need to be met either from additional asset returns or from additional contributions.
- The impact will vary by pension scheme depending on the benefit structure and profile of the members.
- Government consulted on GMP indexation/equalisation and proposed methods to address this pending the court case.
- Possible liability cost in the order of £2-3m for CPF based on most likely approach.

# 2018 FUNDING REVIEW RESULTS AND SENSITIVITIES

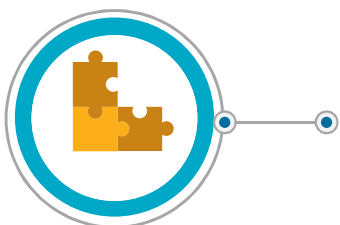


# KEY CHANGES FOR DISCUSSION



## Return Outlook and Assumptions

Outlook for returns is lower than in 2016. The real discount rate will need to be adjusted. Future service discount rate needs to be reduced but how much? The life expectancy assumption should be updated also, however it is overall assumptions that are critical.



## Risk & Prudence Considerations

A critical determinate of the level of reduction in discount rate is the overall level of risk in the strategy. Any reduction in risk e.g. the implementation of the equity protection strategy allows more flexibility as it gives greater certainty of outcomes.



## Contributions versus Risk / Return Outlook

There is a balance to be struck between the overall contributions required and the reliance on future investment returns. This must take into account the uncertainty in real investment returns and the ability of the Councils to withstand any future requirements to fund increases in contribution. This will need acceptance of the competing requirements to achieve the objectives of both the Fund and employers.

# 2018 TOTAL FUND RESULTS

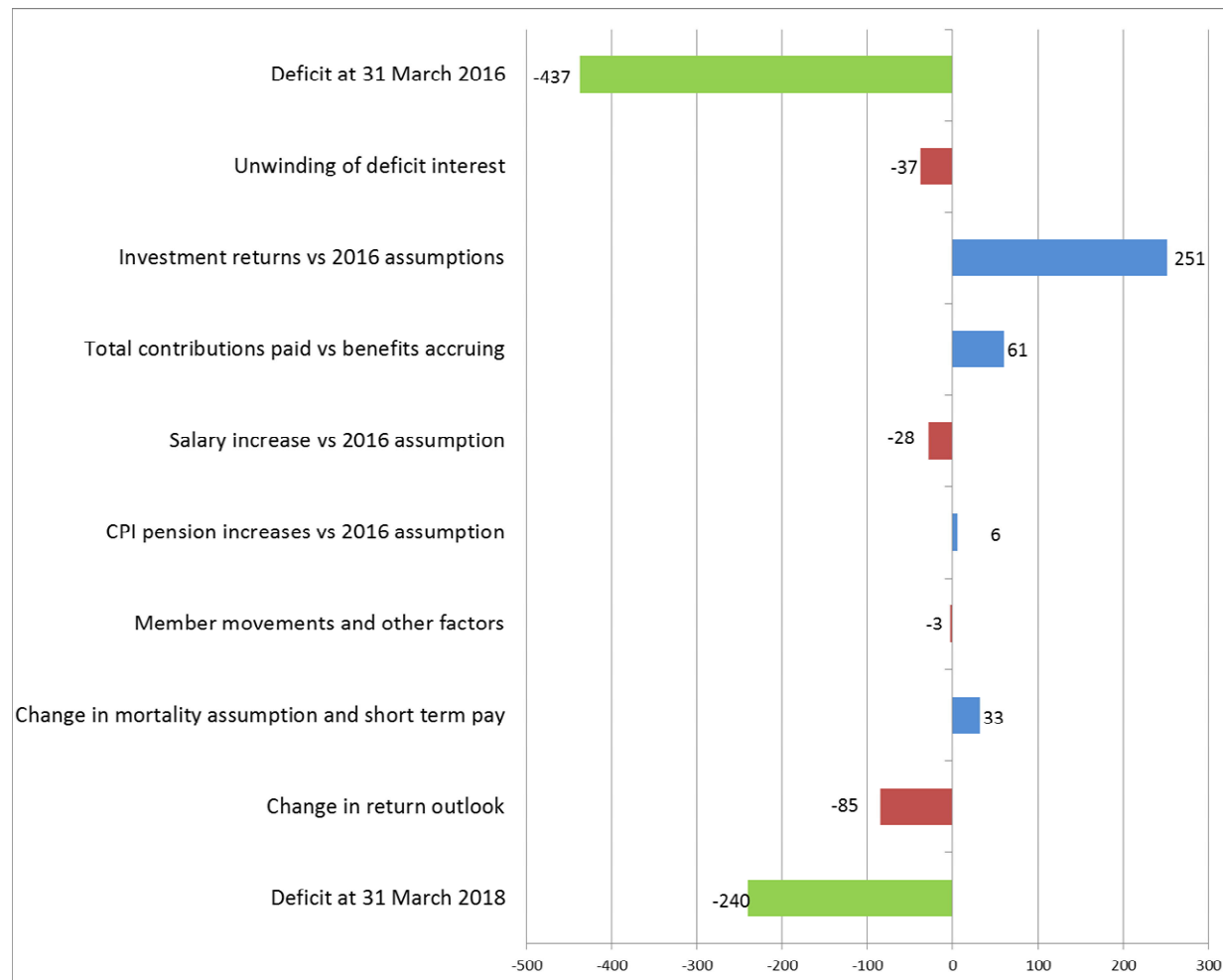
## RESULTS AND SENSITIVITIES

	2016 Valuation	31 March 2018	September 2018		
		Updated Return Outlook Updated Mortality Minimum 2% Short Term Pay (A)	Updated Return Outlook Updated Mortality Minimum 2% Short Term Pay (A)	(A) with 0.25% Reduction in Past and Future Service Discount Rates	(A) with 0.25% Increase in Past and Future Service Discount Rates
Assets	£1,381m	£1,785m	£1,893m	£1,893m	£1,893m
Liabilities	£1,818m	£2,026m	£2,060m	£2,150m	£1,969m
Surplus / Deficit	-£437m	-£240m	-£167m	-£258m	-£76m
Funding Level	76%	88%	92%	88%	96%
Future Service Rate (% of pay)	15.3%	18.0%	18.0%	19.4%	16.7%
Deficit Recovery Period	15 years	12 years	12 years	12 years	12 years
2020/21 Deficit Recovery Amount	£34m	£22m	£15m	£23m	£7m
Real Discount Rate (Past)	2.00% p.a.	1.75% p.a.	1.75% p.a.	1.50% p.a.	2.00% p.a.
Real Discount Rate (Future)	2.75% p.a.	2.25% p.a.	2.25% p.a.	2.00% p.a.	2.50% p.a.
Short Term Pay	2016 Valuation (2 years remaining)	2016 Valuation with 2% minimum p.a. for 2 years	2016 Valuation with 2% minimum p.a. for 2 years	2016 Valuation with 2% minimum p.a. for 2 years	2016 Valuation with 2% minimum p.a. for 2 years
Life Expectancy Assumption	CMI 2015 1.75% (males) 1.5% (females)	CMI 2017 1.75% (males) 1.5% (females)	CMI 2017 1.75% (males) 1.5% (females)	CMI 2017 1.75% (males) 1.5% (females)	CMI 2017 1.75% (males) 1.5% (females)

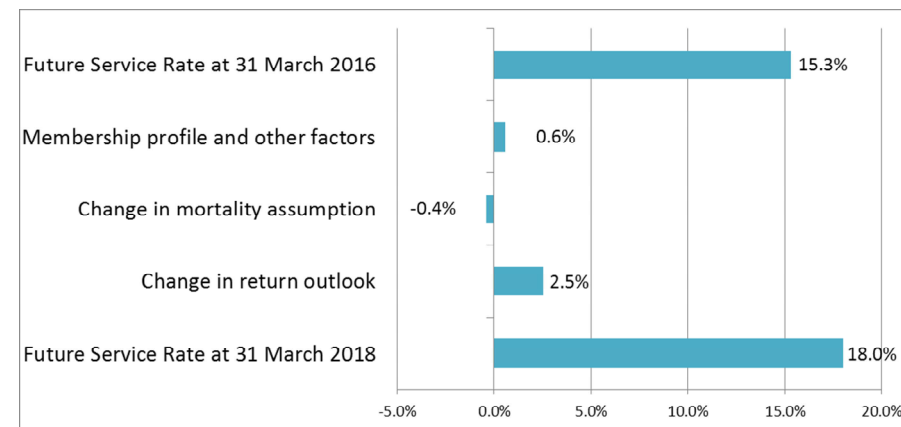
# 2018 TOTAL FUND RESULTS

## ANALYSIS OF CHANGE SINCE 2016

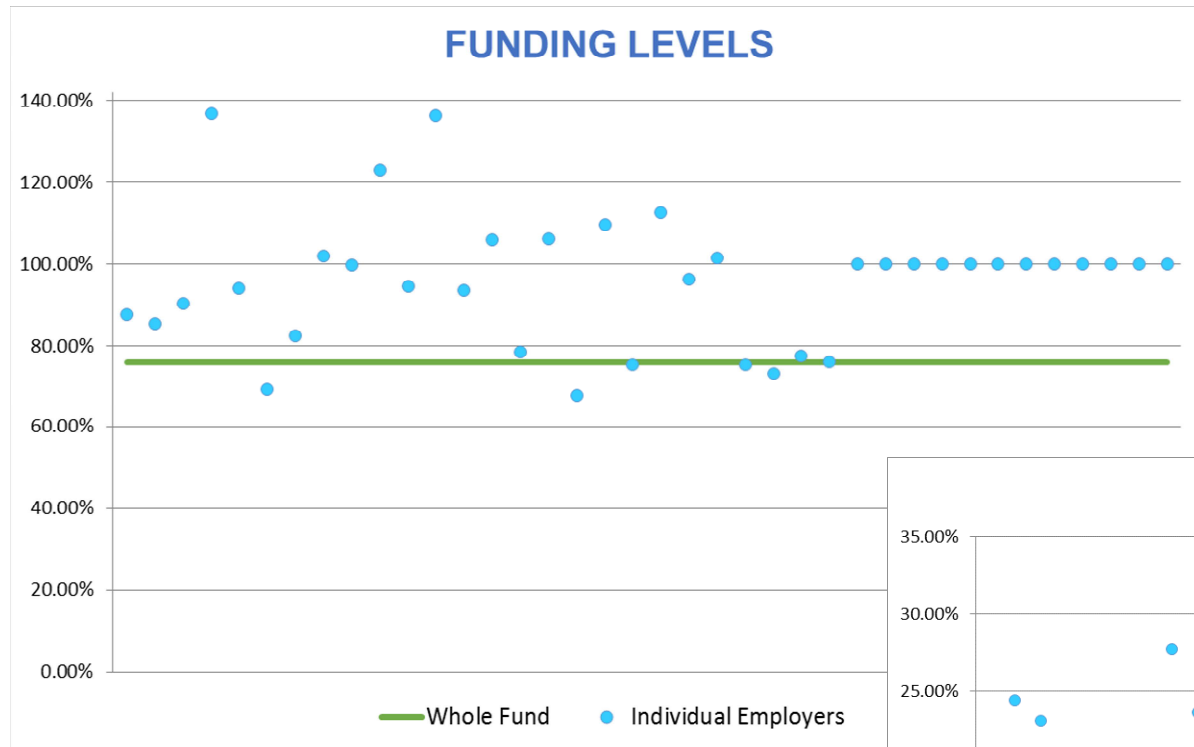
### PAST SERVICE



### FUTURE SERVICE



# INDIVIDUAL EMPLOYERS SPREAD OF RESULTS AT 2016



# IMPACT OF POST 31 MARCH 2018 MARKET MOVEMENTS

## SUMMARY

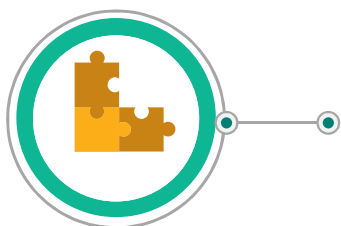
- During October 2018 there has been a downturn in the markets thus eliminating the gains over Q2 and Q3.
- The current funding position is therefore likely to be similar to that at 31 March 2018 (if measured on the same basis).
- It's possible, or likely! there may be further market spikes between now and 31 March 2019 as the various geo-political risks (Brexit etc) play out.
- Need to continue to monitor position between now and 31 March 2019 and consider the longer term return outlook and other demographic factors.

# CONCLUSIONS AND NEXT STEPS



## Future Investment Return/Discount Rate

Consider the real discount rate and level of “prudence” desired. This is critical to the funding discussions.



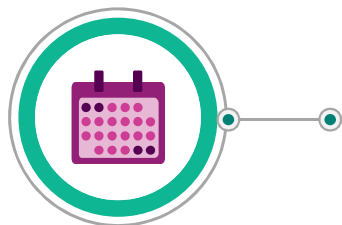
## Risk Management

Continue to monitor the Flightpath strategy to ensure its working to its optimum level. It has significantly benefited outcomes for employers in relation to deficit contributions.



## Fund Employers

Updated individual employer results have not been done for all employers. They can be provided on request to the Fund officers.



## Develop 2019 funding strategy

The key funding parameters will be developed over the coming months and will be communicated next year.

# ACTUARIAL ADVICE

- We have prepared this document for the Administering Authority for the purpose of the 2018 Funding Review.
- Unless otherwise stated, we have relied on the information and data supplied to us in preparing the information, without independent verification. We will not be responsible for any inaccuracy in the advice that is a result of any incorrect information provided to us.
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