

HEALTH WEALTH CAREER

# CLWYD PENSION FUND 2019 ACTUARIAL VALUATION

AJCM

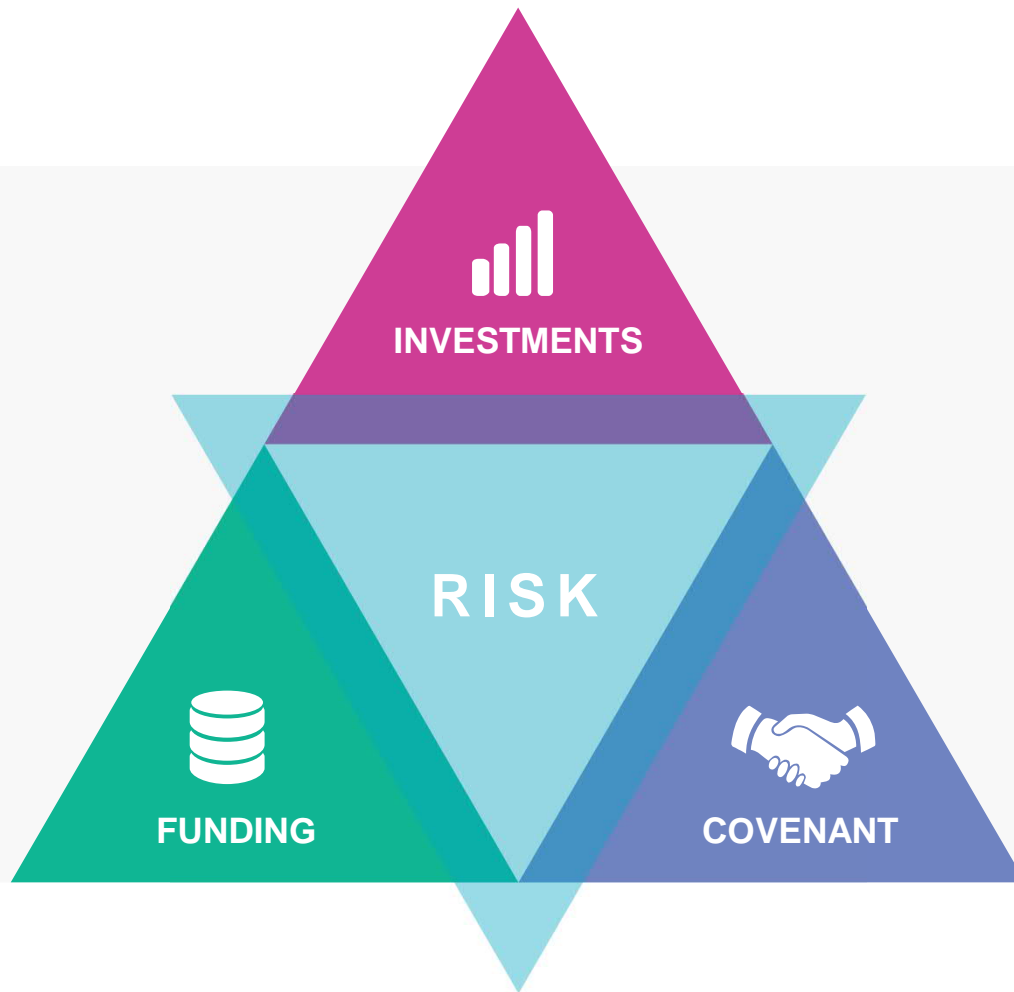
NOVEMBER 2019



MAKE TOMORROW, TODAY



# VALUATION PRINCIPLES



## KEY OBJECTIVES

- All employers must consider the balance of contributions versus risk (including in relation to employer covenant)
- The valuation assesses the position at 31 March 2019 and contributions effective from 1 April 2020
- This presentation takes us through the key parameter changes which are being consulted on
- A policy on the McCloud remedy is being proposed and is a key consideration at this valuation

# AGENDA

1

## KEY FUNDING STRATEGY PARAMETERS

- Existing funding strategy and proposed changes
- National issues

2

## PRELIMINARY WHOLE FUND RESULTS

- Whole Fund

3

## INDIVIDUAL EMPLOYER RESULTS

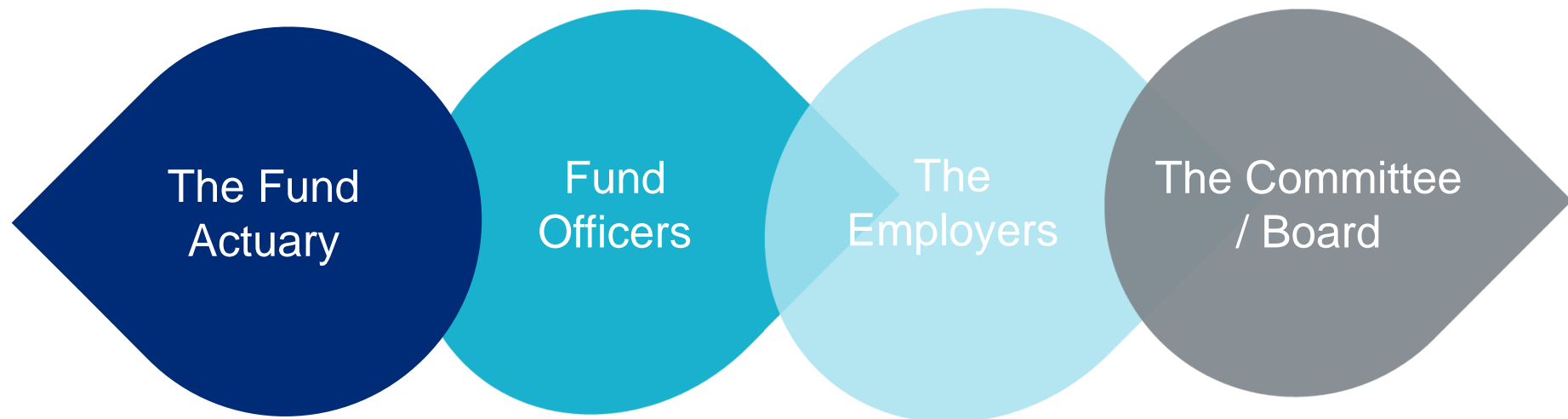
- Considerations for employers
- Employer results schedules

# KEY FUNDING STRATEGY CONSIDERATIONS



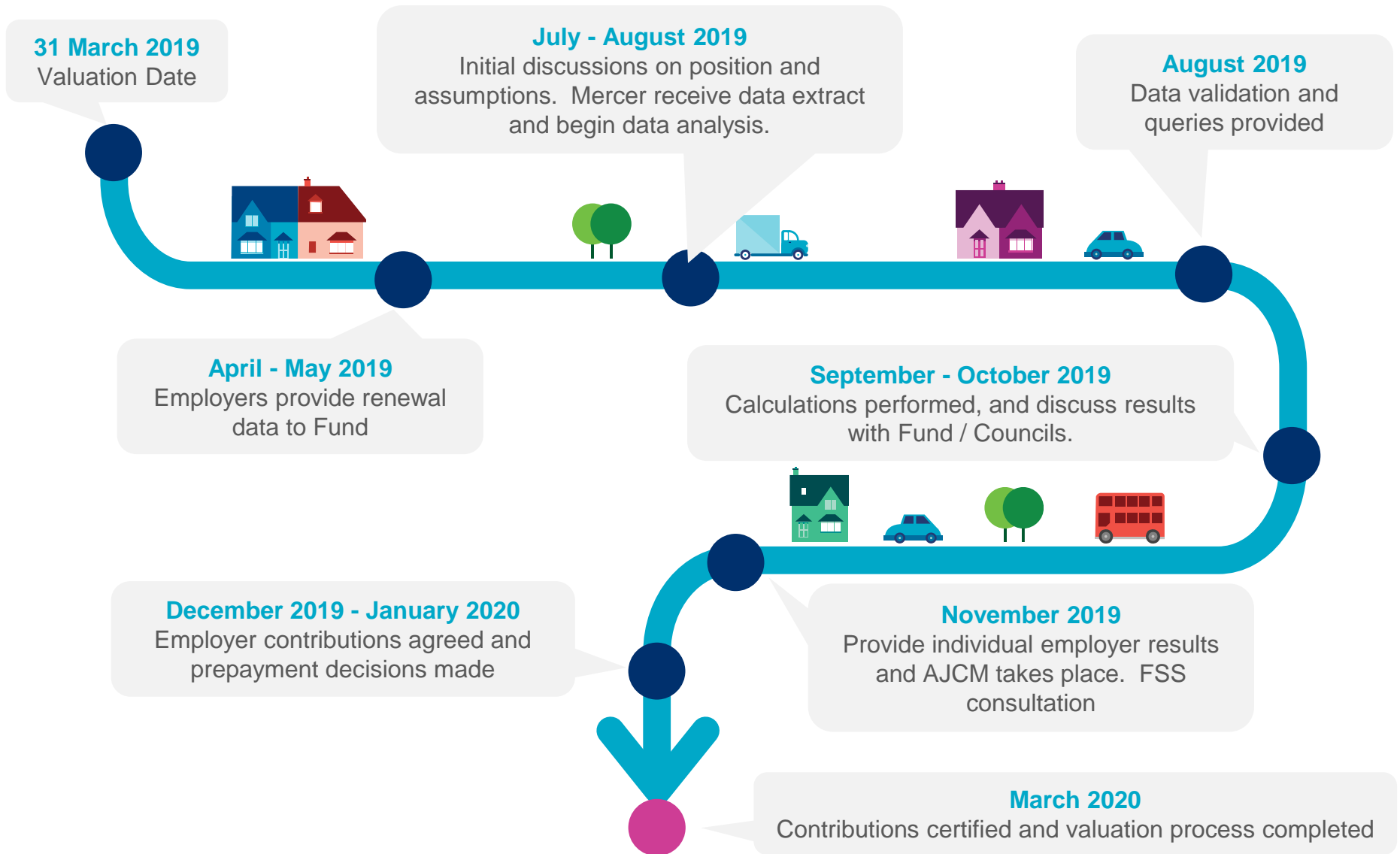
# FUNDING STRATEGY CONSULTATION

All employers must be consulted and their views considered



Process decided by the Administering Authority but the final decision rests with the Committee

# TIMELINE



# KEY FUNDING STRATEGY PARAMETERS

## PROPOSED KEY PARAMETER CHANGES FOR 2019

Parameter	2016	2019	Comment in relation to Fund
Discount rate	CPI+2.00% (past) CPI+2.75% (future)	CPI+1.75% (past) CPI+2.25% (future)	Reduction in return outlook since 2016. Offset by risk mitigations e.g. equity protection.
Life expectancy	LE for Male age 65 = 22.8 years	LE for Male age 65 = 22.4 years	Update to reflect results of the latest life expectancy analysis for the Fund.
Other demographics and long term pay growth	2016 assumptions	2016 assumptions	No material change in demographic trend so maintain assumptions. Maintain long term pay growth
Short term pay (if applicable)	1% p.a. for 4 years to 2020 (varies by employer)	2% p.a. for 4 years to 2023	Removal of Public Sector Pay cap needs to be allowed for. Will depend on employer views
Whole Fund Deficit Recovery period	15	12	Reduce by three years – varies by employer.

# FUNDING STRATEGY POLICY ISSUES



McCloud and Cost Management



4 year valuation cycle and interim reviews



Exit credits and deferred employer status



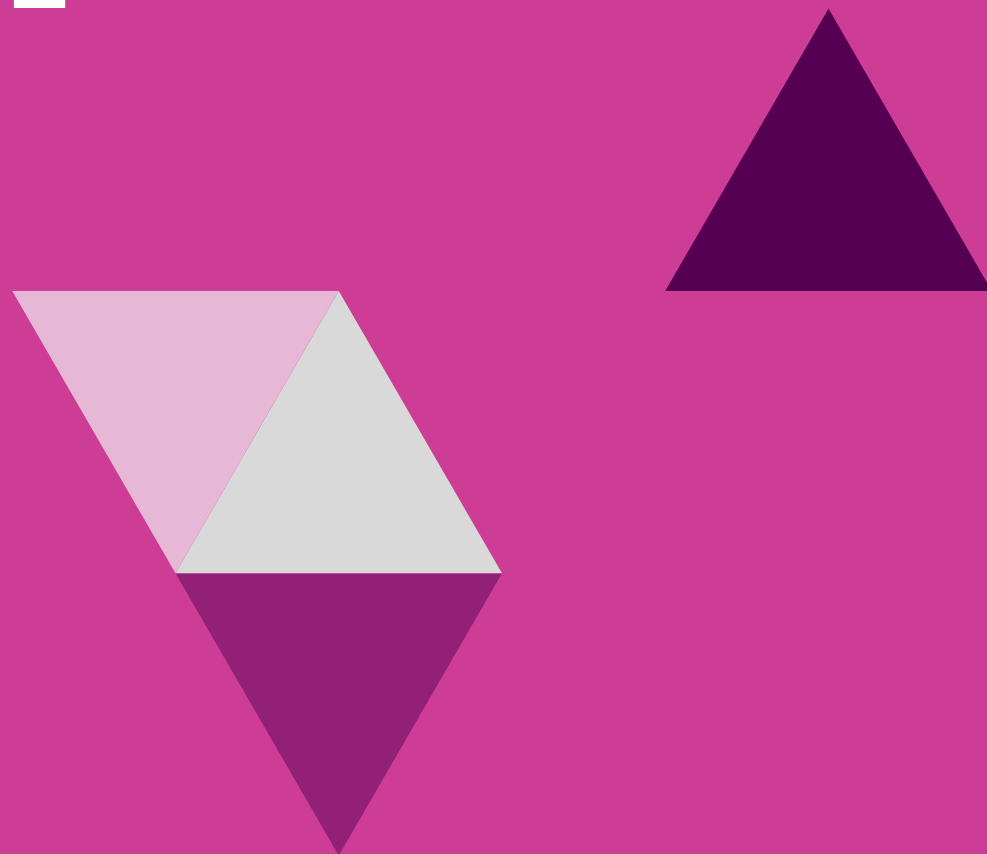
Review of employer rates

## KEY FSS CONSIDERATIONS

1. How do we allow for McCloud costs? Guidance from MHCLG is that policy on dealing with the risk needs to be clear for the employers and Fund. Assuming that current age criteria for underpin is removed, impact for total Fund would be an accrued liability increase of 0.5% (c£10m) plus a 0.5% of pay in relation to future service.
2. What would trigger an interim valuation or employer contribution rate review?
3. Under what circumstances would exit credits be paid?
4. Under what circumstances would an employer be allowed to become a “deferred employer”?



# PRELIMINARY WHOLE FUND RESULTS



# PRELIMINARY RESULTS

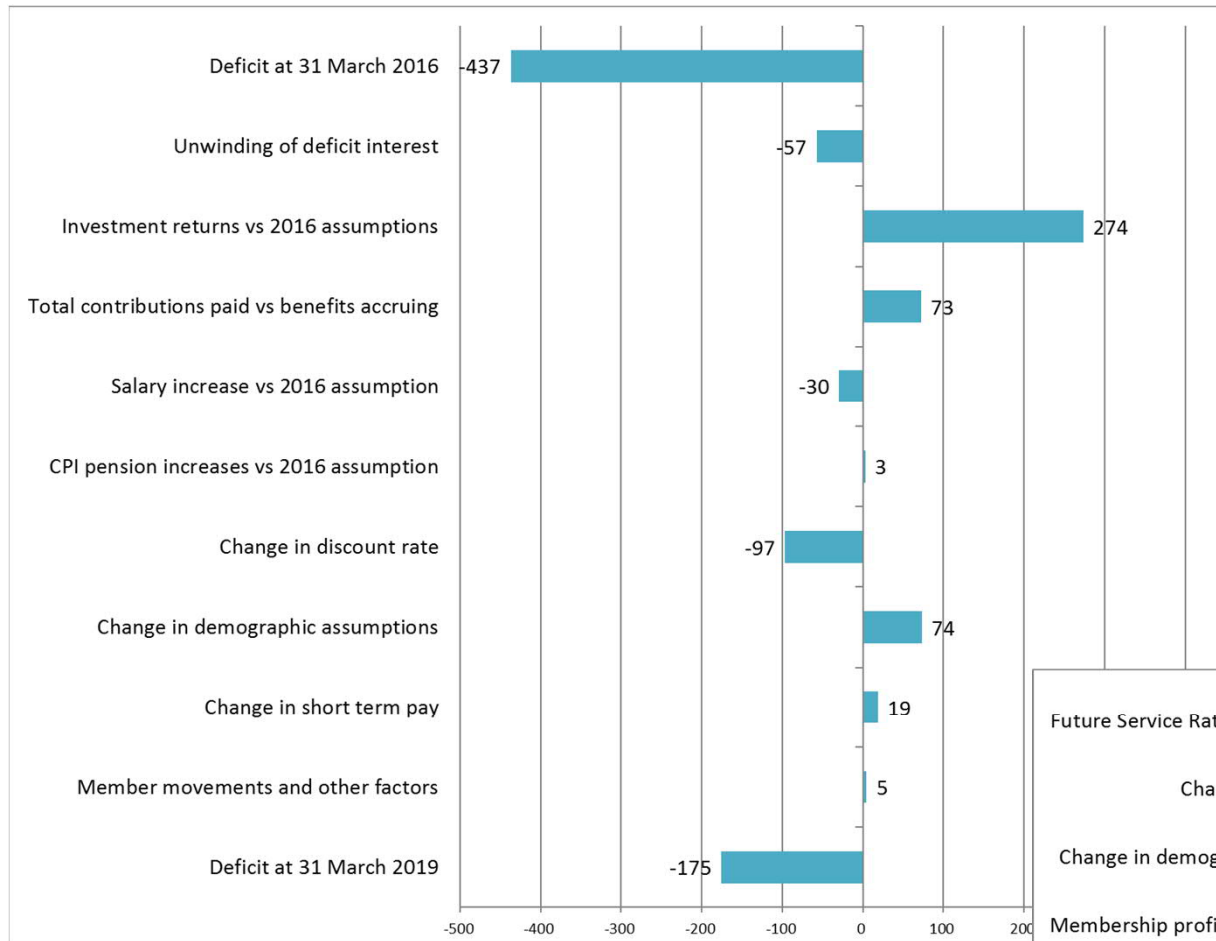
## 2019 WHOLE FUND RESULTS & SENSITIVITIES – CURRENT BENEFITS (EXCL MCCLOUD)

	2016 Valuation	31 March 2019	
		Base: (A) with CPI + 1.75% (Past) CPI + 2.25% (Future)	(A) with 0.25% lower discount rate on past and future service
Assets	£1,381m	£1,867m	£1,867m
Liabilities	£1,818m	£2,042m	£2,131m
Surplus / Deficit	-£437m	-£175m	-£264m
Funding Level	76%	91%	88%
Future Service Rate (% of pay)	15.3%	17.3%	18.7%
Deficit Recovery Period	15 years	12 years	12 years
Real Discount Rate (Past)	2.00% p.a.	1.75% p.a.	1.50% p.a.
Real Discount Rate (Future)	2.75% p.a.	2.25% p.a.	2.00% p.a.
Short Term Pay	2016 Valuation: 4 years of 1% p.a. with 1 year now remaining	2% p.a. for 4 years	2% p.a. for 4 years
Life Expectancy Assumption	CMI 2015 1.75% (males) 1.5% (females)	CMI 2018 1.75% (males) 1.75% (females)	CMI 2018 1.75% (males) 1.75% (females)

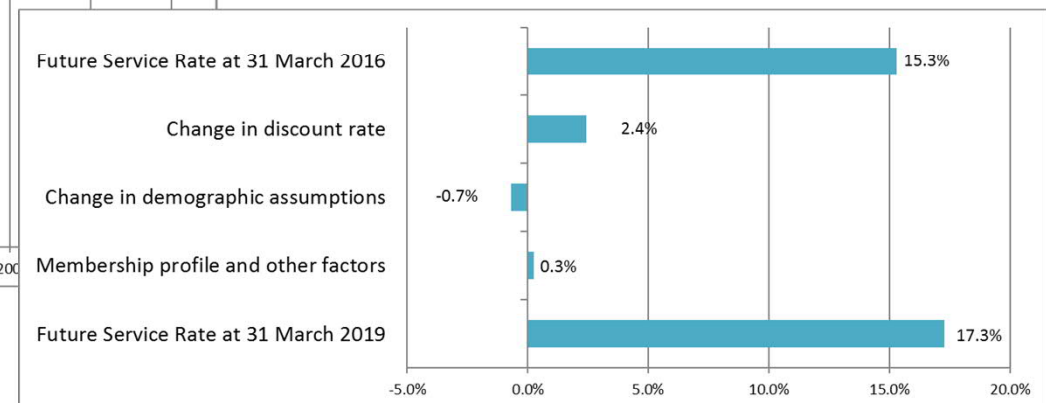
# PRELIMINARY RESULTS

## ANALYSIS OF CHANGE SINCE 2016

### PAST SERVICE (£m)



### FUTURE SERVICE (% of Pay)



# INDIVIDUAL EMPLOYER RESULTS



# INDIVIDUAL EMPLOYER RESULTS

## WHAT ELSE AFFECTS YOUR CONTRIBUTIONS?

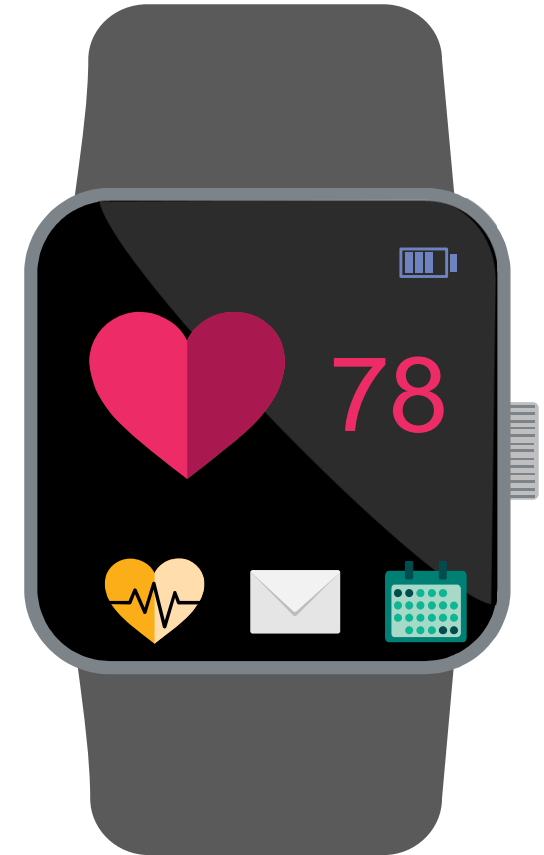
WHERE YOU STARTED FROM  
AND YOUR MEMBERSHIP PROFILE



WHAT YOU HAVE PAID IN



YOUR COVENANT ASSESSMENT



# INDIVIDUAL EMPLOYER RESULTS

## WHAT YOU NEED TO ALSO CONSIDER

### MC CLOUD

- Do you want to make a provision for McCloud in your contributions in order to provide budget certainty? **See your schedule for your options here.**

### SHORT-TERM PAY

- What is the appropriate adjustment to be made for short-term pay, if any, to your results? Evidence will be required (subject to the minimum of 2% p.a. to 2023). **See your schedule to see the assumption that is currently being applied in your figures.**

### ILL-HEALTH CAPTIVE

- Certain employers will remain in this arrangement as per the FSS. **See your schedule to see if you are in this arrangement.**

### PREPAYMENT OF DEFICIT CONTRIBUTIONS

- Where a deficit still exists, employers are able to prepay their required lump sums if they choose, either in full or on an annual basis. **See your schedule for your options here.**

### IMPACT OF COVENANT

- Before your contributions can be finalised, an assessment of your covenant will be made. This could result in a request for increased security (e.g. bond) or maintaining/increasing contributions. **Employer results do not currently allow for this. It will be discussed as part of consultation process.**

# FUNDING STRATEGY CONSULTATION

## SAMPLE RESULTS SCHEDULE

### 2019 ACTUARIAL VALUATION SUMMARY

#### CLWYD PENSION FUND - ABC Association (600)



### EMPLOYER RESULTS SUMMARY

#### VALUATION BALANCE SHEET

Surplus / (Deficit)	(£100,000)
Funding Level	96.4%

#### TERMINATION POSITION

Surplus / (Deficit) including Estimated McCloud Cost	(£1,200,000)
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#### EMPLOYER FUTURE SERVICE COST

Employer Future Service Rate (% pay p.a.)	15.8%
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#### EMPLOYER CONTRIBUTION REQUIREMENTS

Contributions:	Future Service Rate	Surplus / Deficit Contributions
2020/21	15.8%	plus £15,000
2021/22	15.8%	plus £16,000
2022/23	15.8%	plus £17,000

#### SUPPORTING INFORMATION

Employer Information	
Employer Type	Scheme Employer
Open/Closed	Open
Ill Health Captive	Yes
Funding Basis	Ongoing

Guarantor in Fund	n/a
Deficit Contribution Prepayment Selected	None
Implied Recovery Period from 1 April 2020	6 years

#### McCloud Estimated Costs

Increase in Liabilities (% of liabilities)	1.4%
Increase in Liabilities	£40,000
Increase in Future Service Rate (% of pay)	0.6%

The figures above exclude the potential impact of the McCloud judgment. Further information of the impact is shown on the next page.

The figures above include an allowance for short term pay of 2% p.a. for the four years to 2023/24.

This schedule should be read in conjunction with the letter issued by Clwyd Pension Fund, the Funding Strategy Statement 2019 and any associated correspondence regarding the Actuarial Valuation as at 31 March 2019. The contributions will be reassessed as part of the 2022 Actuarial Valuation and new contributions will be payable from 1 April 2023.

Whilst reasonableness checks on the data provided by the Fund have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently, we do not accept any liability in respect of our advice where we have relied on data which is incomplete or inaccurate.



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# FUNDING STRATEGY CONSULTATION

## SAMPLE RESULTS SCHEDULE

### 2019 ACTUARIAL VALUATION CONTRIBUTION PROJECTIONS CLWYD PENSION FUND - ABC Association (600)



#### DETAILED RESULTS

	Final results at 31 March 2016		Actuarial Valuation Results at 31 March 2019 (excl McCloud Impact)			
Assets	£1,400,000		£2,700,000			
Liabilities	£1,600,000		£2,800,000			
Surplus / (Deficit)	(£200,000)		(£100,000)			
Funding Level	87.5%		96.4%			
Employer Future Service Rate (% of pay)	14.0%		15.8%			
2020/21 Projected Payroll	£980,000		£980,000			
Implied Recovery Period	9 years		6 years			
2019/20 Future Service Amount	14.0%	£130,000	14.0%	£130,000		
2019/20 Deficit Recovery Amount	£16,300		£16,300		McCloud Estimated Costs	
2020/21 Future Service Amount	14.0%	£137,000	15.8%	£155,000	16.4%	£161,000
2021/22 Future Service Amount	14.0%	£138,000	15.8%	£156,000	16.4%	£162,000
2022/23 Future Service Amount	14.0%	£139,000	15.8%	£157,000	16.4%	£163,000
2020/21 Deficit Recovery Amount	£31,000		£15,000		£22,000	
2021/22 Deficit Recovery Amount	£32,000		£16,000		£23,000	
2022/23 Deficit Recovery Amount	£33,000		£17,000		£24,000	
Total 2020/23 Projected Contributions	£490,000		£520,000		£560,000	
	Deficit Prepayment Options:		Each April	April 2020	Each April	April 2020
	2020/21 Deficit Recovery Amount		£14,500	£4,500	£21,000	£65,000
	2021/22 Deficit Recovery Amount		£15,500	£0	£22,000	£0
	2022/23 Deficit Recovery Amount		£16,500	£0	£23,000	£0
	Saving		£1,500	£3,000	£3,000	£4,000



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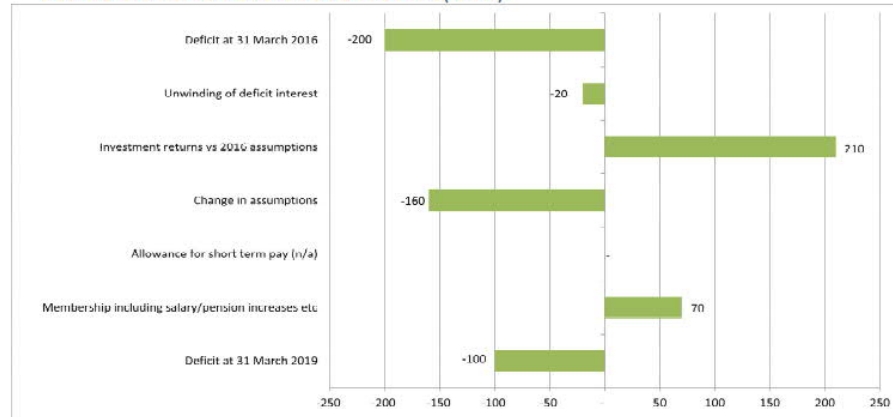
# FUNDING STRATEGY CONSULTATION

## SAMPLE RESULTS SCHEDULE

### 2019 ACTUARIAL VALUATION FURTHER INFORMATION CLWYD PENSION FUND - ABC Association (600)



#### ANALYSIS OF CHANGE IN FUNDING POSITION (£000s)



#### ANALYSIS OF CHANGE IN FUTURE SERVICE RATE

	% of Pay
2016 Future service rate	14.0%
Change in employee contribution rate / IH Premium	+0.1%
Change in profile of membership	+0.6%
Change in actuarial assumptions	+1.1%
2019 Future service rate	15.8%

#### KEY MEMBERSHIP EXPERIENCE - 2016 TO 2019

	Actual	Actual vs Expected
Pensioner Deaths	0	0%
Ill-health Retirements	0	0%
Implied Salary Growth (weighted by liability)	5%	
Implied Salary Growth (unweighted)	5%	

#### SUMMARY OF MEMBERSHIP DETAILS

	31 March 2016	31 March 2019
Number of Active members	8	22
Total Post 2014 Actual Salaries (£ p.a.)	200,000	900,000
Total Pre 2014 FTE Salaries (£ p.a.)	300,000	1,000,000
Total Pre 2014 FTE Salaries for those in both valuations (£ p.a.)	300,000	315,000
Total Liabilities (£)	500,000	1,600,000
Average Age (weighted by CARE pay)	48.0	50.0
Average Employee Rate (% of pensionable pay)	6.6%	6.5%
Number of Deferred Pensioners	14	15
Total Liabilities (£)	900,000	1,100,000
Total Deferred Pensions at the Valuation Date (£ p.a.)	55,000	600,000
Number of Current Pensioners and Dependents	1	1
Total Liabilities (£)	100,000	120,000
Total Pensions Payable (£ p.a.)	3,700	4,000



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# FUNDING STRATEGY CONSULTATION

## SAMPLE RESULTS SCHEDULE

### 2019 ACTUARIAL VALUATION EMPLOYER CONTRIBUTION PLAN CLWYD PENSION FUND - ABC Association (600)



Year	Future Service Rate (% of pay)	Deficit/(Surplus) Contributions (£ per annum)
2020/21	15.8%	£15,000
2021/22	15.8%	£16,000
2022/23	15.8%	£17,000
2023/24	15.8%	£18,000
2024/25	15.8%	£19,000
2025/26	15.8%	£20,000
2026/27	15.8%	
2027/28	15.8%	
2028/29	15.8%	
2029/30	15.8%	
2030/31	15.8%	
2031/32	15.8%	
2032/33	15.8%	
2033/34	15.8%	
2034/35	15.8%	
2035/36	15.8%	
2036/37	15.8%	
2037/38	15.8%	
2038/39	15.8%	
2039/40	15.8%	
2040/41	15.8%	
2041/42	15.8%	
2042/43	15.8%	
2043/44	15.8%	
2044/45	15.8%	
2045/46	15.8%	
2046/47	15.8%	
2047/48	15.8%	

*The figures above exclude the potential impact of the McCloud judgment.*

*Please note that the future service contributions are payable for as long as your organisation has active members in the Fund. In addition, employer contributions are subject to a minimum of zero. Your contributions will be reassessed as part of the next actuarial valuation.*



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# APPENDIX

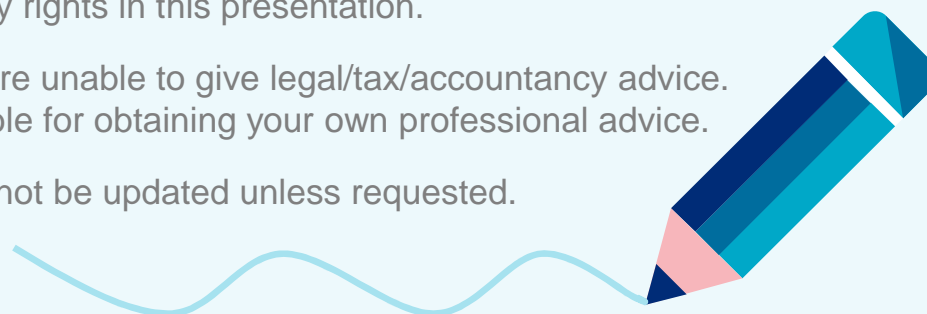


# NOMINAL FINANCIAL ASSUMPTIONS

Market yields	31 March 2016	31 March 2019
Fixed interest gilt yield	2.20% p.a.	1.50% p.a.
Index-linked gilt yield	-1.00% p.a.	-1.90% p.a.
Assumed CPI price inflation (derived by differencing yields on fixed-interest and index-linked gilts less 1% p.a.)	2.20% p.a.	2.40% p.a.
<b>Assumptions used for Liabilities</b>		
Derivation of Discount Rate/Expected Return	CPI plus 2.00% p.a. (past) CPI plus 2.75% p.a. (future)	CPI plus 1.75% p.a. (past) CPI plus 2.25% p.a. (future)
Discount rate:	4.20% p.a. (past) 4.95% p.a. (future)	4.15% p.a. (past) 4.65% p.a. (future)
Inflation: Consumer Prices Index (CPI)	2.20% p.a.	2.40% p.a.
Long term pay growth assumption	3.45% p.a.	3.65% p.a.
Pension increases	2.20% p.a.	2.40% p.a.
Short term pay growth assumption (for two years to 31 March 2020)	1% per annum	2% per annum
Fund investment return	A total return of c33% over the period from 1 April 2016 to 31 March 2019.	

# ACTUARIAL ADVICE

- We have prepared this document for the Administering Authority for the purpose of updating the funding position of the Fund
- “Technical Actuarial Standard 100: Principles for Technical Actuarial Work” issued by the Financial Reporting Council applies to this presentation and the associated work, and we confirm compliance with this standard. This presentation should be read in conjunction with our report on the actuarial valuation of the Fund as at 31 March 2016.
- 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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- This presentation is correct as at November 2019. It will not be updated unless requested.





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