

Berkshire Pension Fund

2013 Valuation Results

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Agenda

Purpose of the valuation

How do we do it?

Assumptions

Data Trends

Results

Key Messages

Purpose of valuations

Approach depends on question being asked

- Many questions!

Ongoing triennial funding valuation

- How much do employers need to pay in future to have enough assets to pay benefits?

Annual accounting valuations (IAS19/FRS17)

- Help accountants compare
- If we were a plc how much would we need to borrow to finance liabilities?

Accounting deficit usually bigger than funding deficit

Triennial Funding Valuation

Set out in LGPS Regulations

- to *certify* levels of employer contributions to secure the *solvency* of the Fund

Also have to look at Funding Strategy Statement

- As determined by administering authority
- With some actuarial help

Actuary to “have regard to desirability of maintaining as **stable** a contribution rate as possible”

- Function of Funding Model / investment strategy
- Spreading and stepping

Different approaches possible for different employer types

- Statutory/non statutory bodies
- Open or closed admission agreements

How do we do it?

Step 1

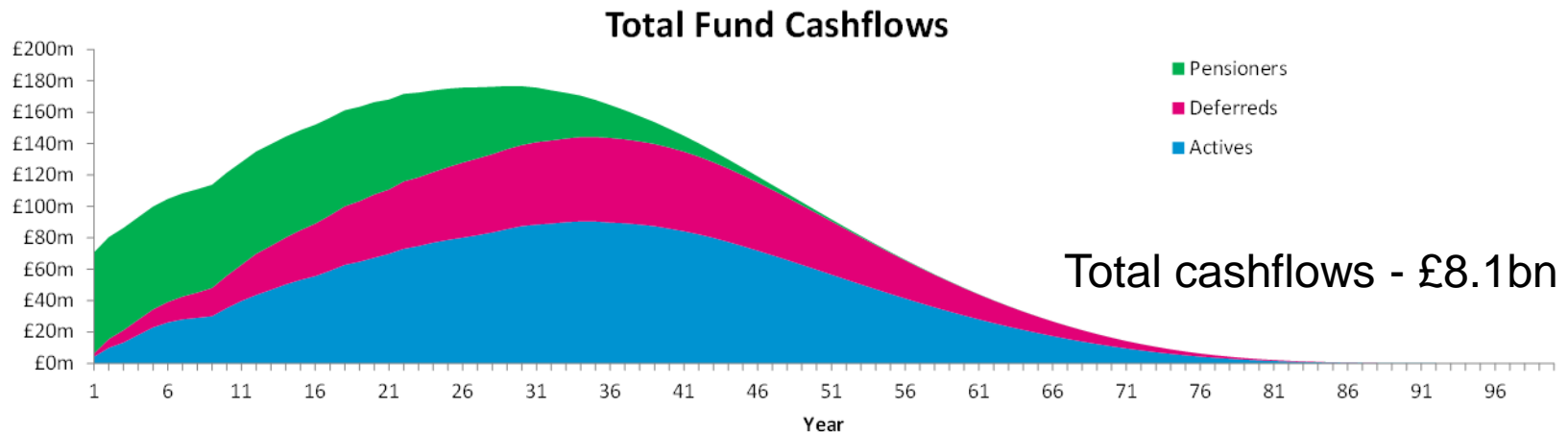
- Projection of all possible benefit payments for each member

Step 2

- Attach probabilities to each possible payment to get “expected” payments

Step 3

- Discount “expected” payments to obtain “value”



How do we do it?



Look at accrued benefits and future benefits separately

Past Service

- Compare assets with value of accrued benefits

Future Service

- Determine contribution required to meet value of annual accrual of benefits

Calculations completed at

- Whole fund level
- At individual employer level to identify any outliers and for accountants!

But maybe pool similar employers to help with stability

- Price of stability is some cross subsidy
- Complete or partial risk sharing possible

Assumptions

Price Inflation (RPI)

- Use Bank of England Inflation Curve
- Adjust for CPI

Salary Increases

- Long term
 - Bit more than inflation
- Short term
 - Bit less than inflation

Discount rates

- Funding valuation: Expected investment return
- Accounting: Bond yields

Statistical assumptions

- Use national data
- Adjust for actual experience

Financial Assumptions - Summary

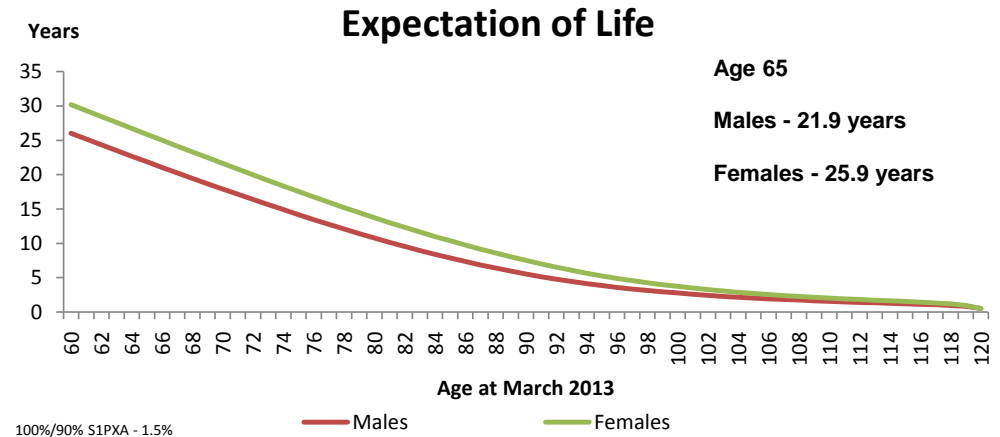
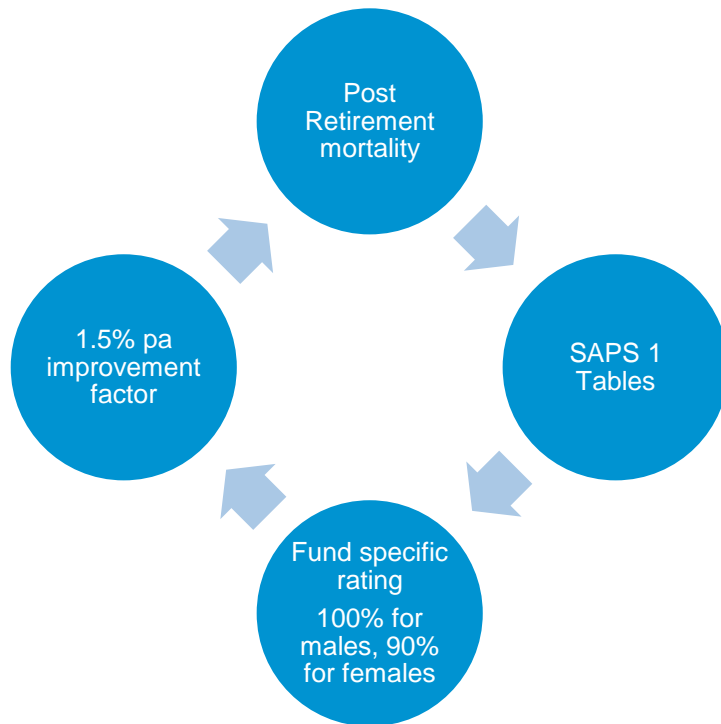
Smoothed Investment Returns	31 March 2013	31 March 2010
Central Assumptions	%pa	%pa
Equity type investments	6.9%	7.5%
Gilt type investments	3.3%	4.5%
Bond type investments	3.9%	6.6%
Property type investments	6.0%	6.6%

Financial Assumptions	31 March 2013	31 March 2010
	%pa	%pa
Discount Rate	6.1%	6.8%
Pay Increases		
	Long term	4.5%
	Short term	1.0%
		0% for those over £21,000
Retail Price Inflation	3.5%	3.5%
Pension Increases	2.7%	3.0%

Statistical Assumptions

Pre retirement

Based on LGPS experience



Valuation Data - Liabilities






Key Stats					This Valuation	
Number of Members	2013	%	2010	%	Average Age	Average Retirement Age
Actives	20,060	34%	20,001	39%	45.6	63.7
Deferred Members	24,847	42%	20,180	39%	45.6	62.4
Pensioners	13,666	23%	11,524	22%	70.3	
Total Members	58,573	100%	51,705	100%		
Actual Pay/Pensions	£ (000)		£ (000)	% Change		
Actives	348,991		371,127	(6%)		
Pensioners	64,567		49,839	30%		
Average Pay/Pensions	£		£	% Change		
Actives	17,397		18,555	(6%)		
Pensioners	4,725		4,325	9%		

Fund has matured quite significantly

Assets and Fund Accounts

Revenue Accounts	Year to	March 2013	March 2012	March 2011	TOTAL
		£ (000)	£ (000)	£ (000)	£ (000)
Expenditure	Retirement Pensions	63,302	56,329	52,217	171,848
	Longevity Contract Premium Payments	3,525	2,866	2,397	8,788
	Retirement Lump Sums	16,576	18,591	17,024	52,192
	Death Benefits	2,038	2,237	2,088	6,363
	Leavers' benefits	5,509	6,765	9,278	21,553
	Expenses	1,248	1,071	1,003	3,322
	Other Expenditure	1,537	1,497	-	3,034
Total Outgo		93,735	89,357	84,008	267,100
Income	Employees' Ctbns	22,522	23,002	24,536	70,061
	Employers' Ctbns	57,551	58,884	62,084	178,518
	Transfer Values	5,808	10,052	16,813	32,673
	Other Income	-	-	-	-
Investment Income		12,153	15,962	14,121	42,236
Total income		98,034	107,900	117,554	323,489
New money for investment		(7,854)	2,582	19,425	14,153
Fund Value					
Assets at Start of Year		1,453,666	1,464,019	1,319,409	1,319,409
Cashflow		4,299	18,544	33,546	56,389
Change in value		114,430	(28,897)	111,064	196,597
Assets at End of Year		1,572,395	1,453,666	1,464,019	1,572,395

Intervaluation Experience

Intervaluation Experience			
	Actual	Expected	
Investment Return	5.6% pa	6.8% pa	
Pay Increases **	1.9% pa	3.1% pa	
Pension Increases	3.5% pa	3.0% pa	
Deaths	1,018	817	 
Pension Ceasing	£4,293k	£3,849k	

** includes short term overlay

Valuation Results

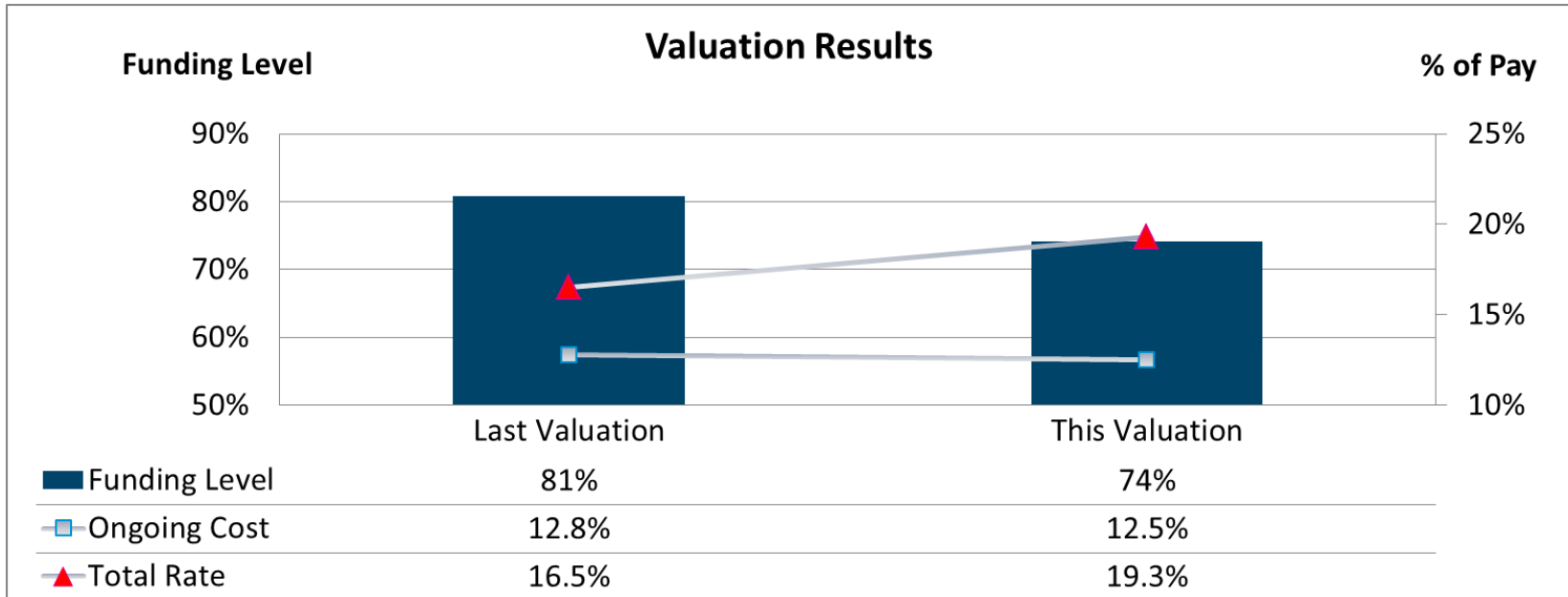
Last Valuation

- The published 2010 results
- 30 year recovery period

This Valuation

- Experience since 2010
- Revised assumptions
 - New Scheme
 - 10% 50/50
 - 27 year recovery period
 - Short term pay increase – 1% for 3 years
 - Allow for revised State Pension Ages

Valuation Results – Whole Fund



Key valuation messages

New LGPS doesn't reduce employer costs by 2%

- Just means contribution rates are 2% less than they would have been
- And we anticipated some of this saving at 2010 valuation

Increased contributions due to

- Unfavourable experience
- Lower discount rates (but not as low as some)
- Reduction in payroll

Certified rates

- Deficits expressed as cash amounts
- Increases stepped in over 6 years for tax raising bodies

Need to get used to paying around 20% of payroll for foreseeable future

- Still less than average employer contribution