

Cambridgeshire Pension Fund



Pensions and the 2013 Actuarial Valuation

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- 15 November 2013

Agenda

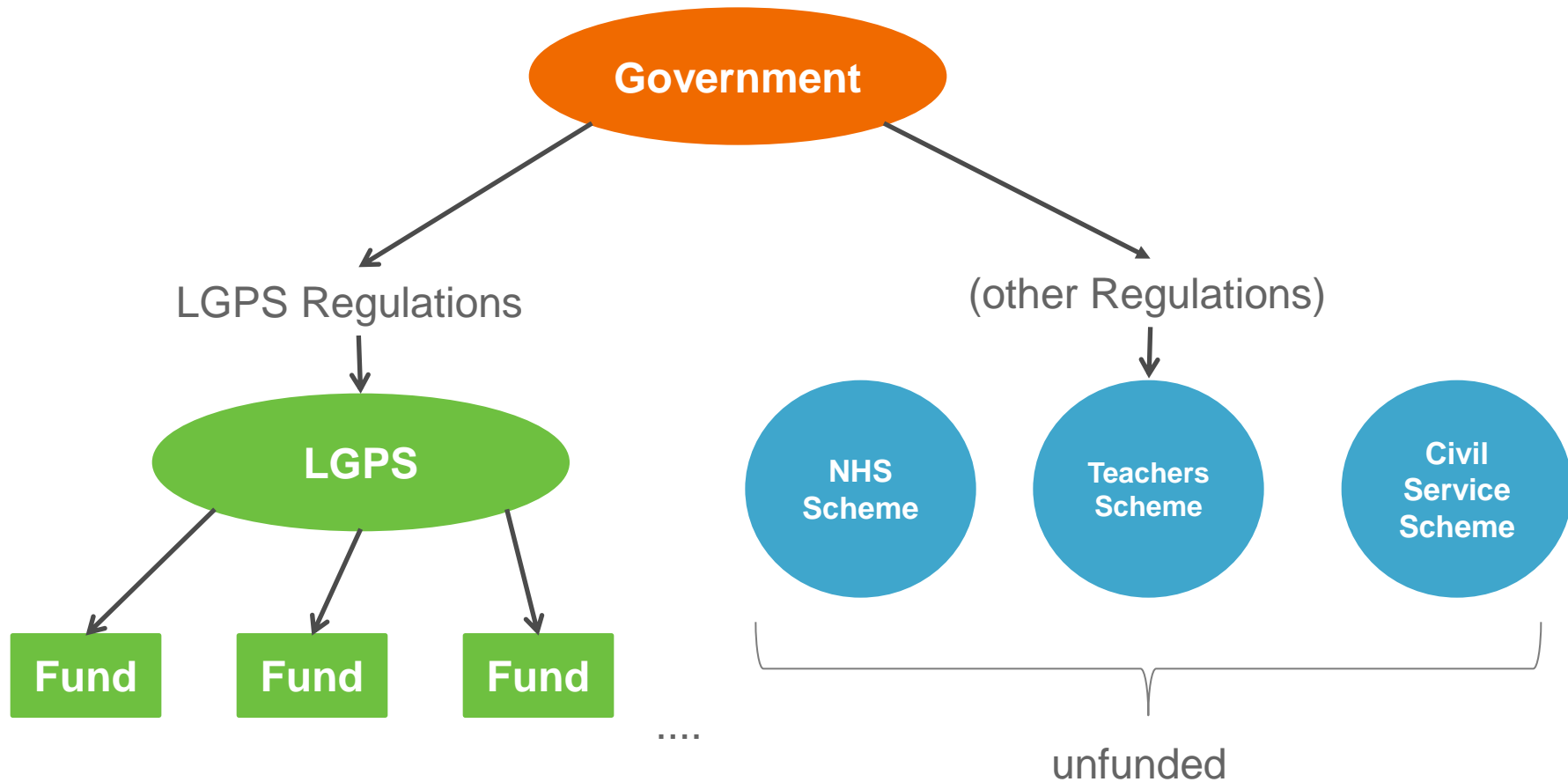
- Background to the Pension Fund
- Background to the valuation
- Placing a value on the future cashflows
- Recap of 2010 valuation and what to expect
- Pooling for academies
- Employers' contribution rates
- Contribution rates – help is on the way

Please ask questions as we go along



Background to the Pension Fund

Public sector pension schemes



Local Government Pension Scheme



Set by
Fund Actuary

Contributions

Set by
Regulations

Contributions

Set by
Regulations

Benefits

Administering Authority



Cambridgeshire Pension Fund

- More than 65,000 members
- Managing assets of £1,904m*
- Over 200 employers
- 13 pensioners over 100!
- Shared resources and expertise with Northamptonshire Pension Fund

*as at 31 March 2013



Background to the valuation

Why do we do a valuation?

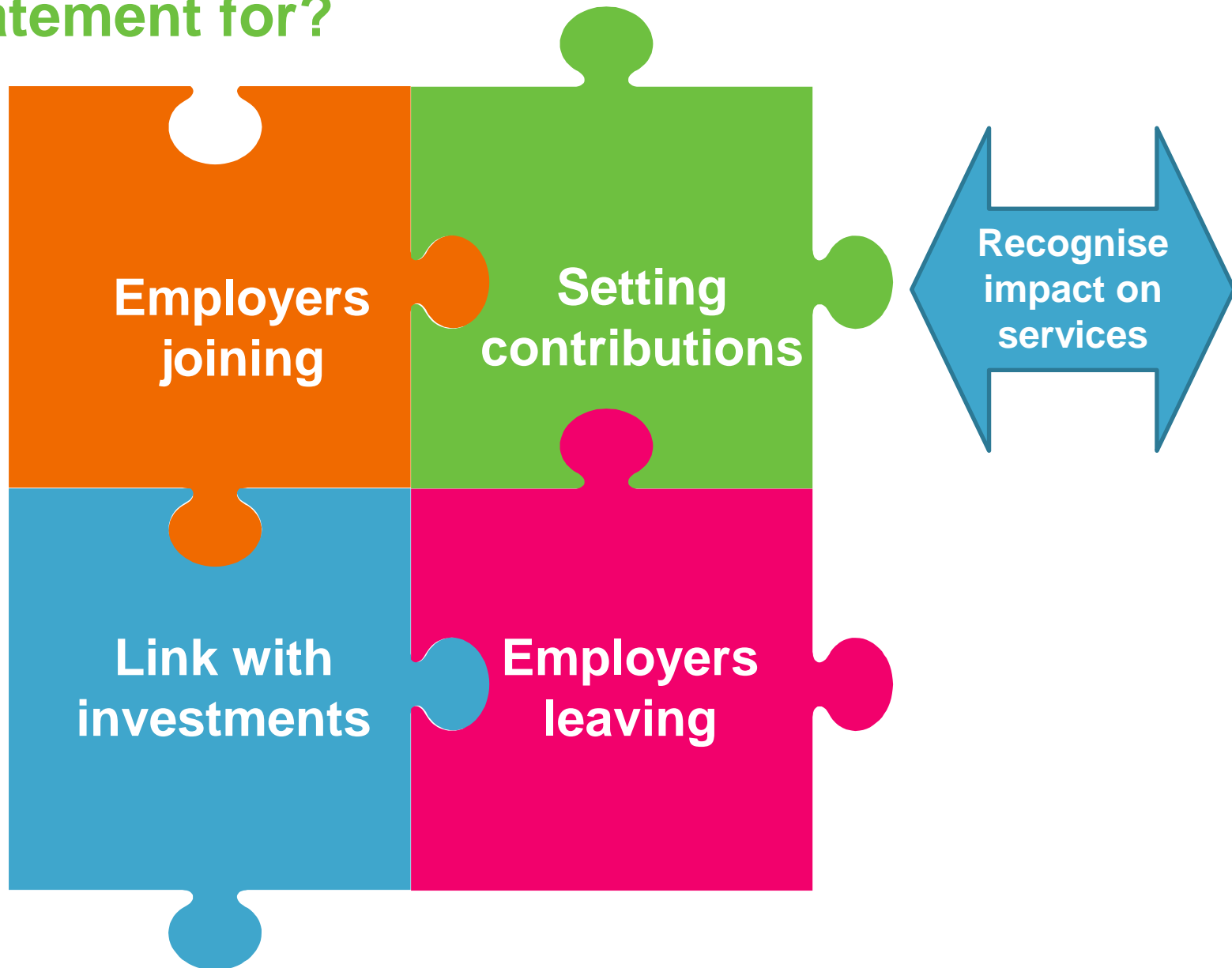
- We have to!
- Assess how well pension promises are covered
- Monitor experience vs. assumptions
- Recommend employer contribution rates for next 3 years
- Manage potential risks to the Fund & employers

How the Fund works

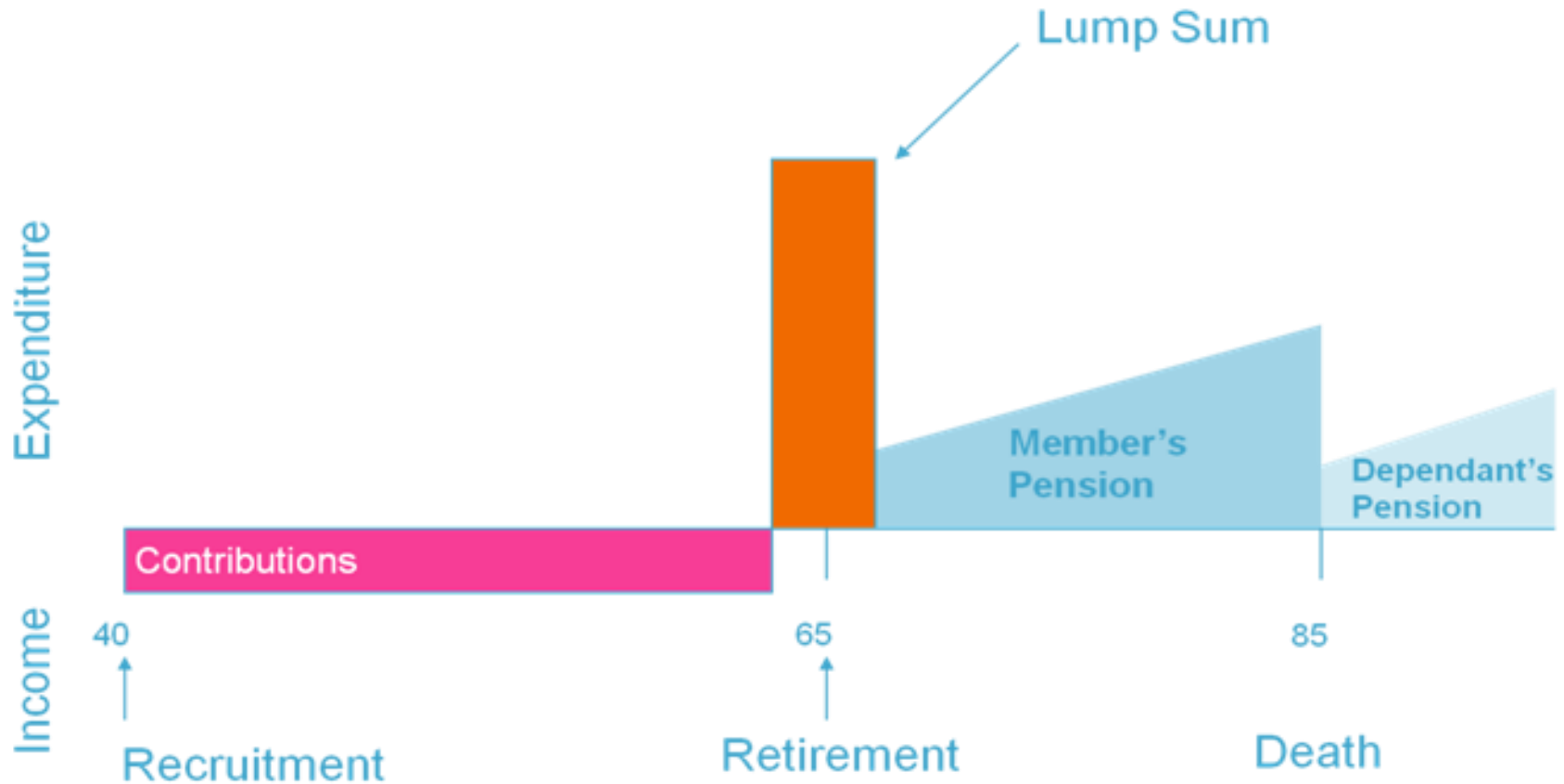


- a) Determined by investment strategy and manager performance
- b) Determined by LGPS Regulations
- c) Must meet balance of cost over longer term: valuation calculation

What is the Funding Strategy Statement for?

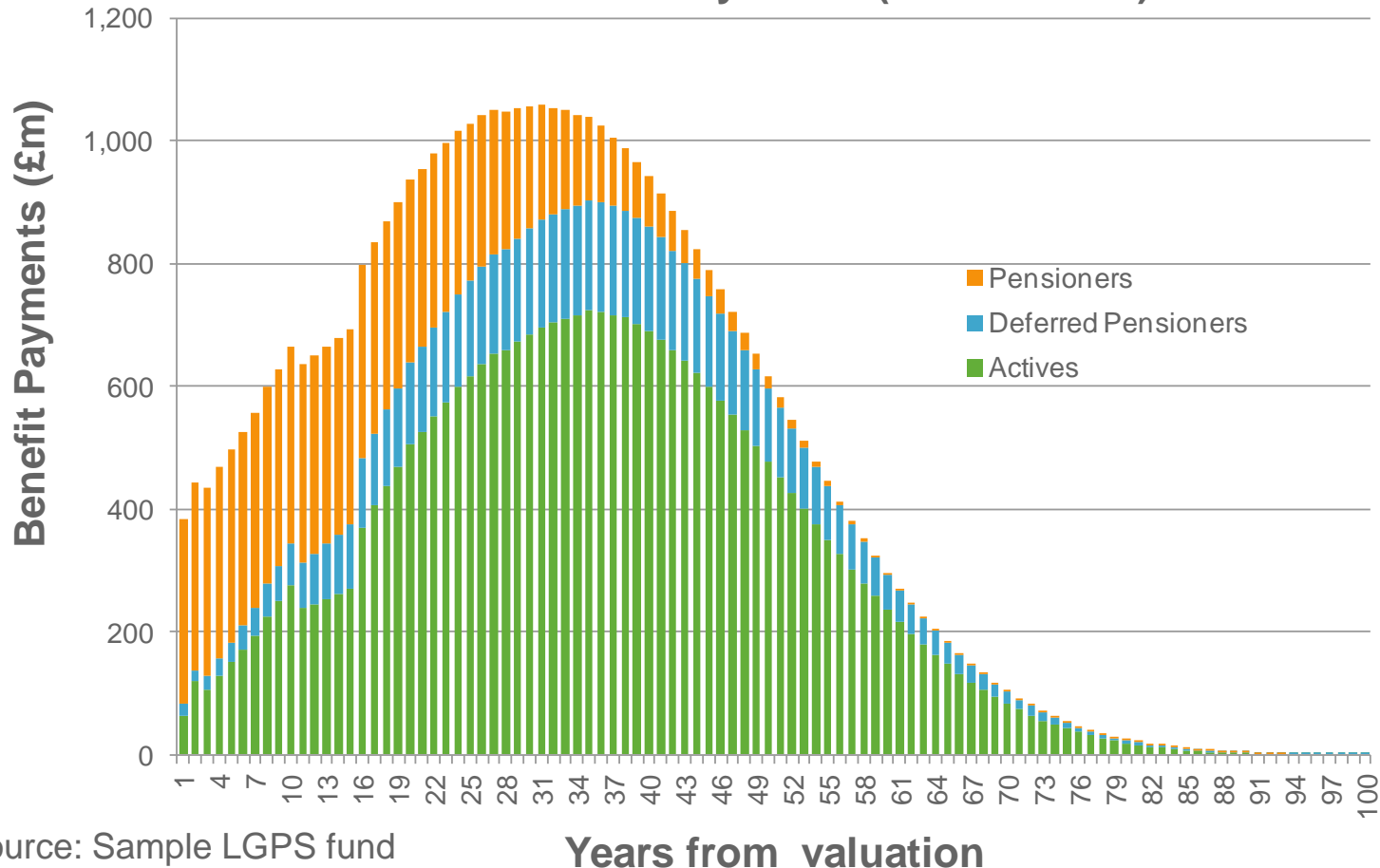


Valuing a single member



Valuing all members

Future Benefit Payments (Past Service)



But we don't need all this money today!



Placing a value on the future cashflows

Long term assumptions

➤ Financial

- Salary increases
- Pension increases
- Discount rate



➤ Demographic

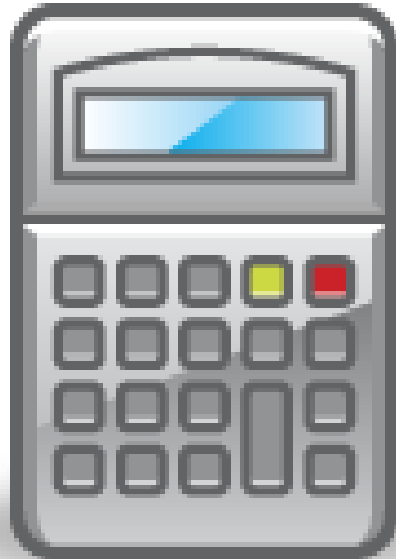
- Longevity
- Early leavers
- Retirement age
- Dependants



CPI

- There is no consistent measure of future CPI
- But there is for RPI

2010 valuation $CPI = RPI - 0.5\%$

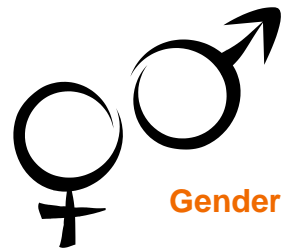


2013 Valuation $CPI = RPI - 0.8\%$

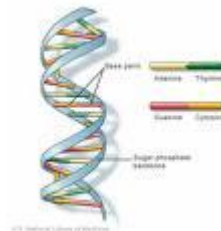
What affects mortality/longevity?



Age



Gender



Genetics



Health



Fitness



Wealth



Where you live



Blue or white collar?



Marital status



Smoker?

We are living longer – but local variation

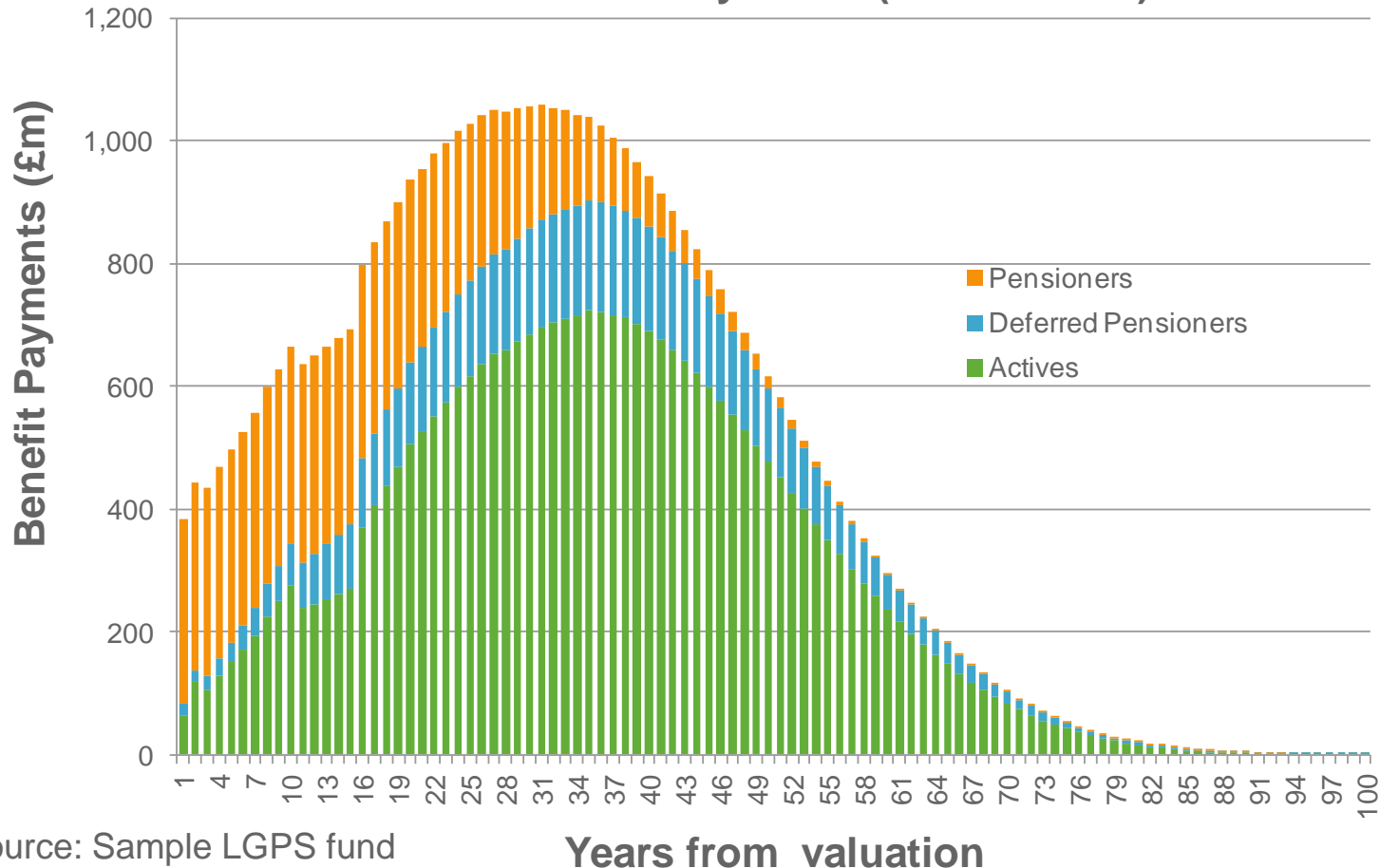




Recap of 2010 valuation and what to expect

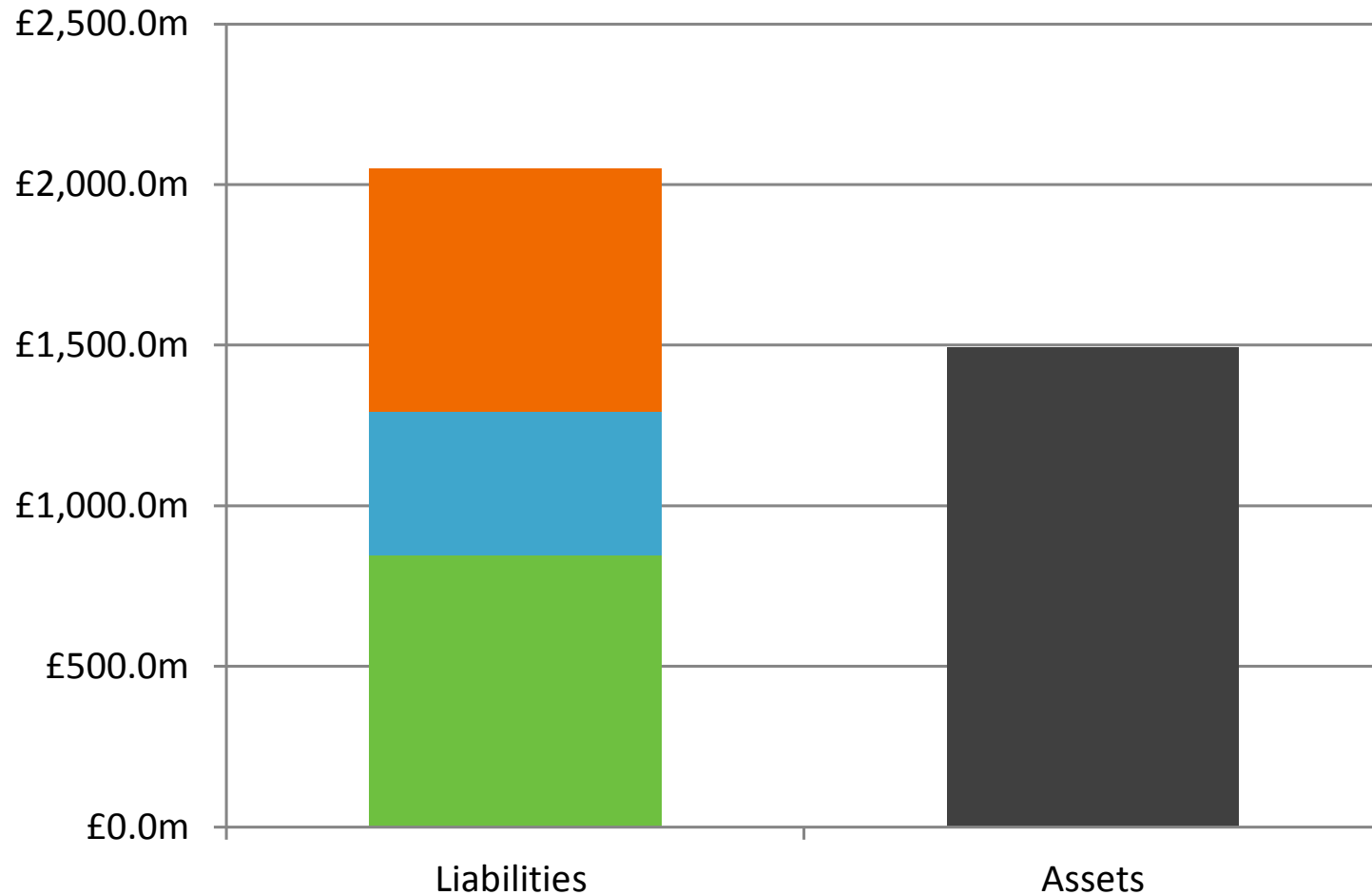
Valuing all members

Future Benefit Payments (Past Service)



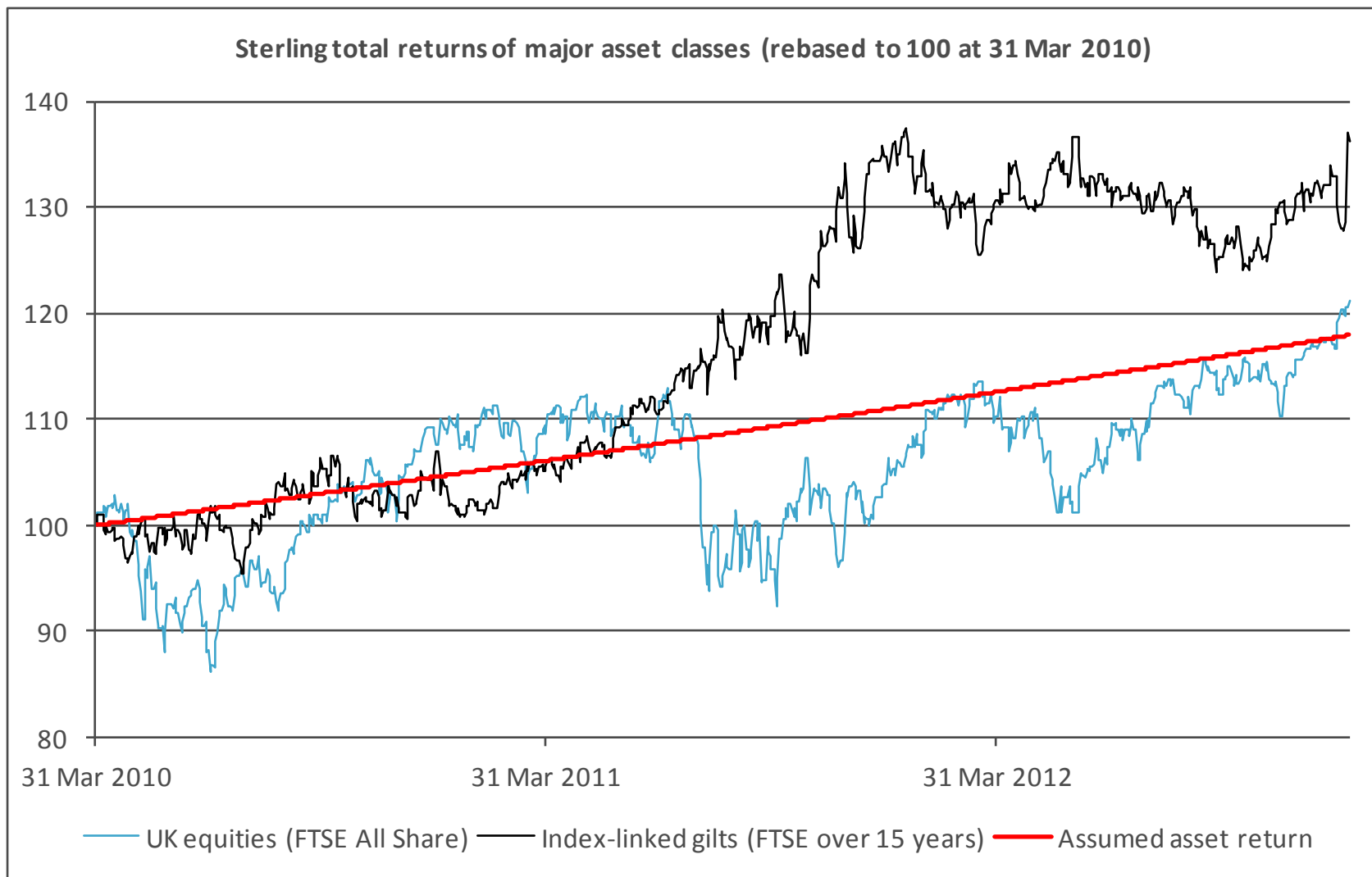
But we don't need all this money today!

Where we were






31 March 2010

Market movements since 2010



2010 to 2013

	2010 Valuation assumptions (p.a.)	2013 Valuation Assumptions (p.a.)	
Investment return/discount rate	6.1%	4.6%	
Price inflation/pension increases	3.3%	2.5%	
Salary Increases	5.3%*	4.3%	

*1% p.a. for 2 years then

Where we are now

	2010	2013 (draft)
Liabilities	£2,048m	£2,633m
Assets	£1,494m	£1,904m
Deficit	(£555m)	(£729m)
Funding Level	73.0%	72.0%
Common Contribution Rate	26.0%	30.4%

What to expect

- Contribution rates will increase for most employers;
- Deficits will increase for most employers;
- Large variability between employers;
- Increases can be managed



Employers' Contribution rates

Employer contribution rates

Expressed as a % of pay

Future
Service
Rate



Deficit
Recovery

% of pay or lump sum amount

Monetary amounts - example

Deficit recovery
at 31 March
2013

10% of pay



Deficit recovery = £10,000






Over 3 years



Deficit recovery = £6,000

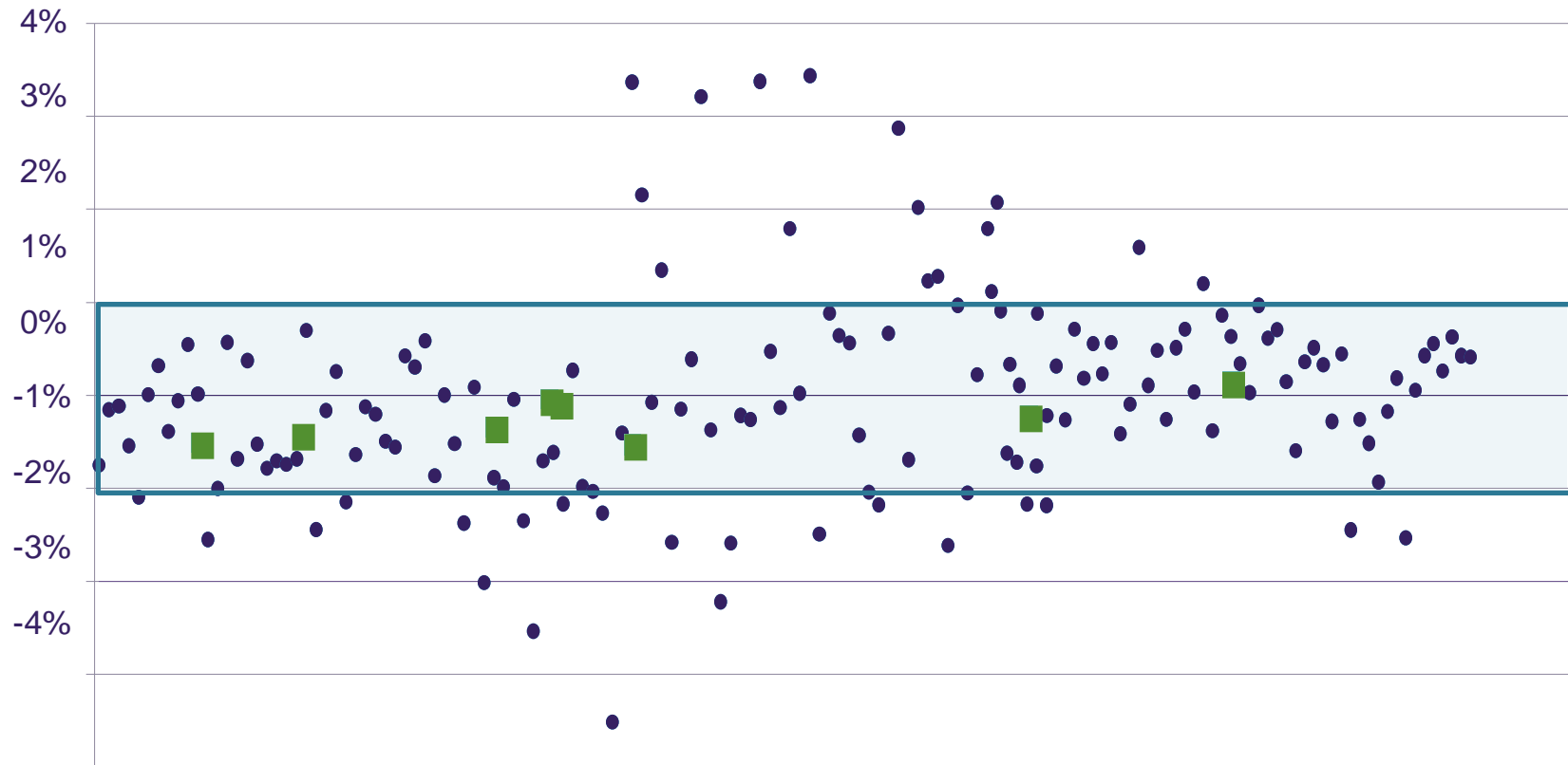
Monetary amounts protect from falling payroll

2014 Scheme

	Existing Scheme	Proposed New Scheme	
Benefit Type	Final Salary	CARE with CPI revaluation	
Accrual Rate	1/60 th	1/49 th	
Retirement Age	65	State Pension Age	
Member Contribution Rate	Average 6.5% Full-time equiv. pay	Average 6.5% Actual pay	
Vesting Period	3 months	2 years	

- Accrued rights protected (incl. retirement age, R85, final salary link)
- Existing scheme underpin for members within 10 years of NPA (age 65) at 1 April 2012
- Introduction of a “50/50” option to bolster LGPS participation

LGPS 2014



Effect of new scheme between 0% and 2% of pay for most but not all



Pooling for academies

Academies – Current DCLG consultation

- DCLG consulting on pension options
- Government aim is stability of Academies' rates (vs Council rates) – considering enforced pooling
- Various misunderstandings about what pooling is, and why Academy rates can vary from the Council
- The Fund must balance the interests of all employers in a risk-based manner
- The risks of pooling either with the Council or other Academies need to be understood

Benefits of pooling

Mitigate risk

Reduce volatility



Smooth contributions






Risks and pitfalls

- Employers still responsible for their own position
 - Deficits / surpluses may grow unchecked
 - Cessation / failure
 - Volatility of individual positions
- Is everyone playing ball?
 - Awarding higher than average pay increases
 - Ill-health early retirements
- Is there a dominant player?
 - Are there a few big employers controlling experience

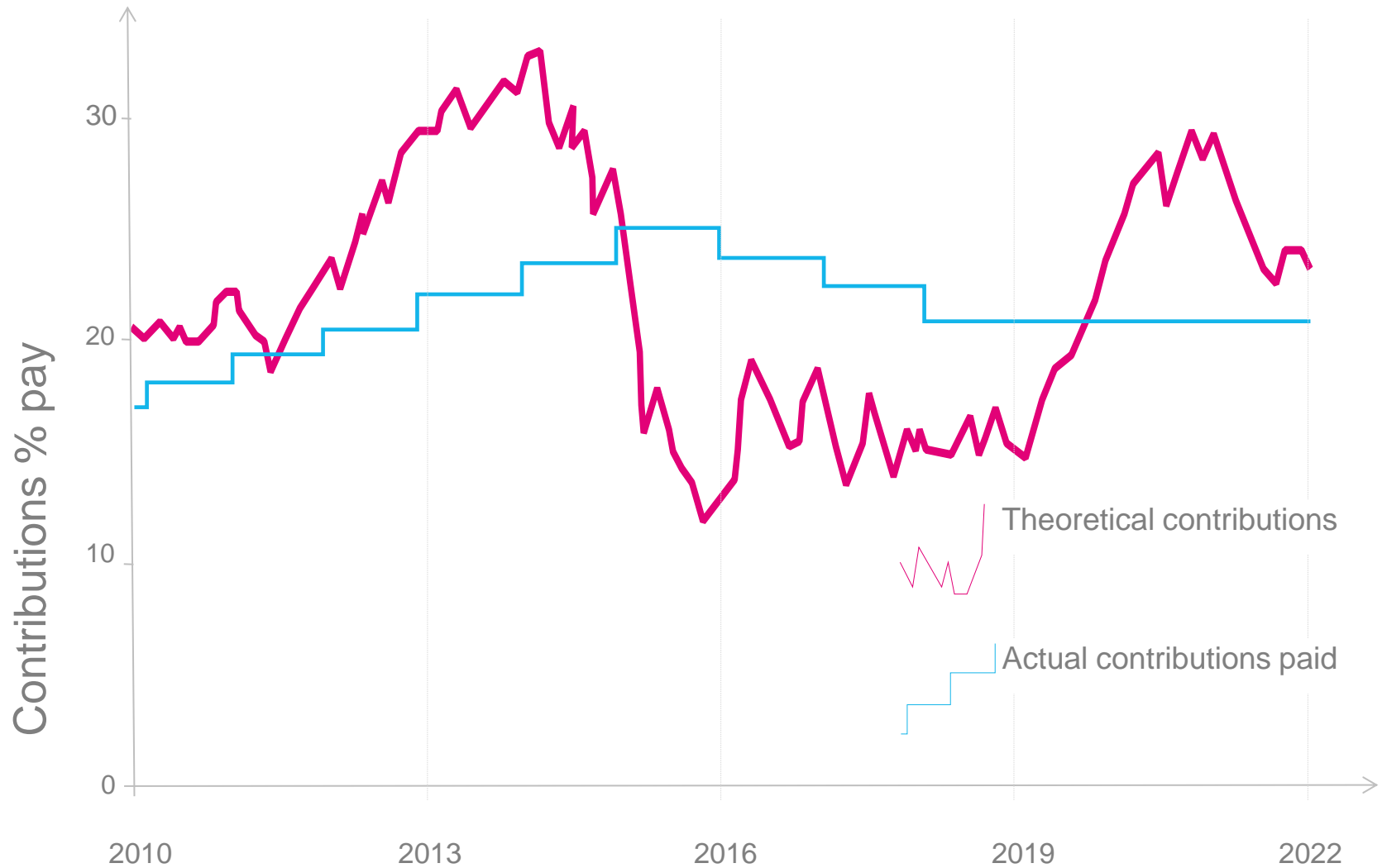


Contribution rates – Help is on the way for academies and colleges

Contribution rates 2013 – Key drivers

Key driver	Contribution rate	
Change in assumptions	↑	
Investment returns	↓	
Life expectancy	↑	
New LGPS 2014	↓	
Overall Impact	↑	

Stabilised contributions



Stabilisation of contribution rates

Academies

- Contribution rate will be broadly in line with County Council
- Future service rate will be a fixed percentage of pay
- Monetary amount will vary by +1% p.a. of 31 March 2013 payroll

Colleges

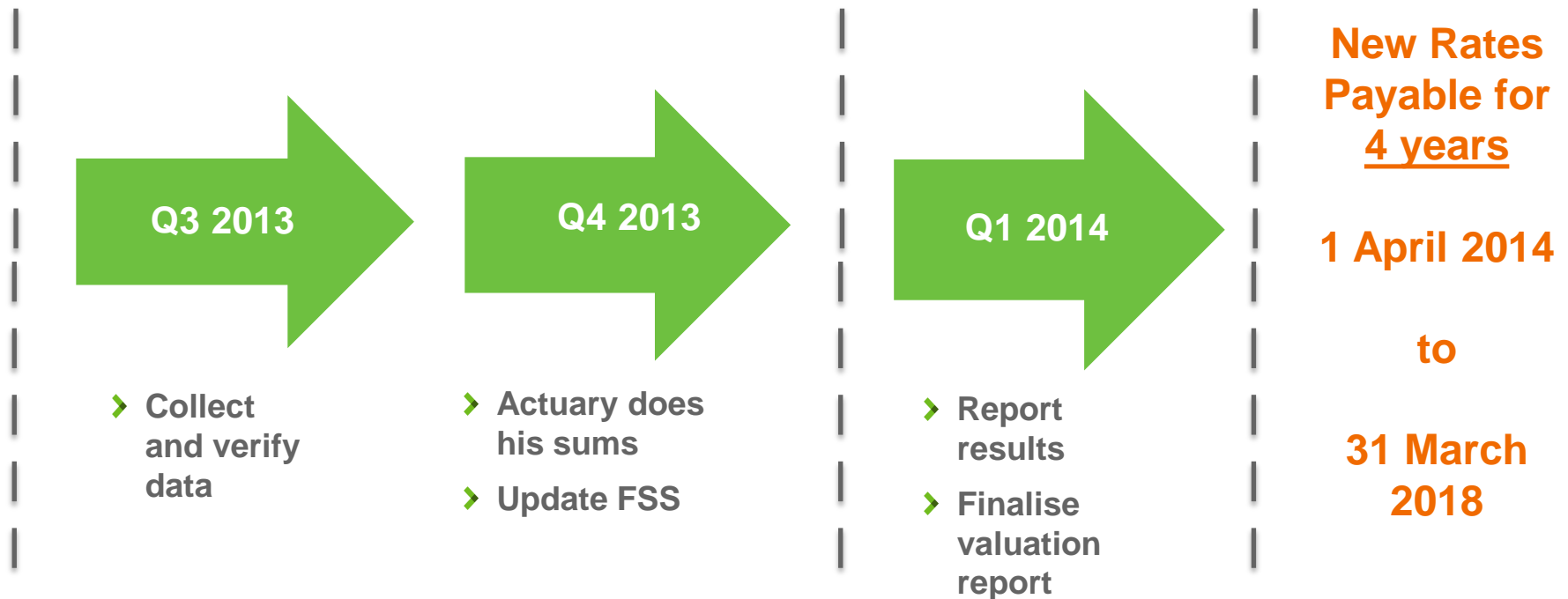
- +1% p.a. of the total rate being paid currently from 1 April 2014
- Contributions partially based on monetary amount

Valuation timetable

31 March 2013

31 December 2013

31 March 2014



Take home messages

- Contribution rate increases will be managed by administering authority;
- Initial results will be issued in January;
- Keep in close touch with the Pensions Team!



Thank you

Any questions?