

London Borough of Brent Pension Fund The 2016 Actuarial Valuation

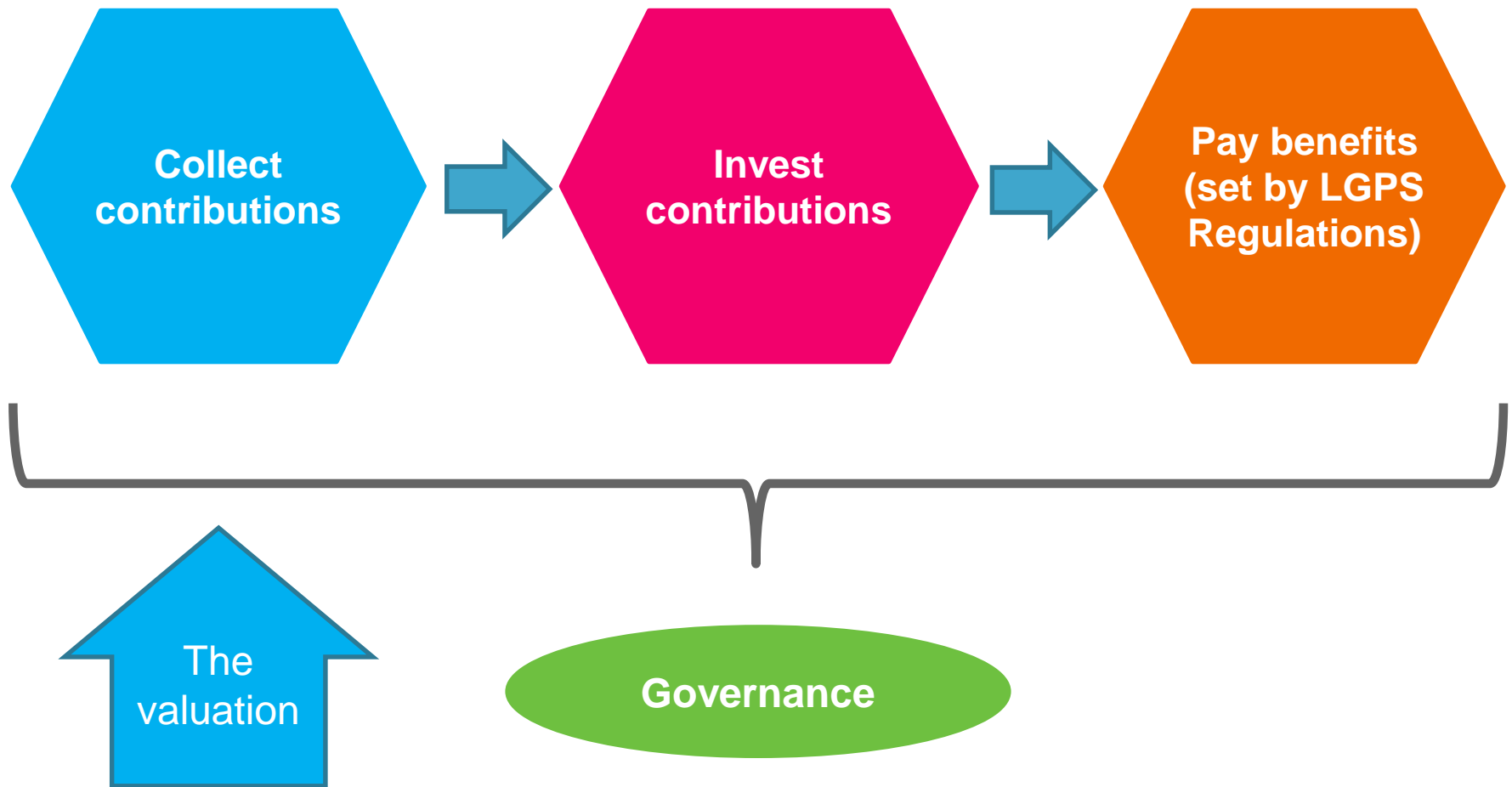


Pension Sub-Committee & Local Pension Board training

CONFIDENTIAL

- Douglas Green FFA
- Lynne Ogilvie
- 28 June 2016

The basics of a funded pension scheme

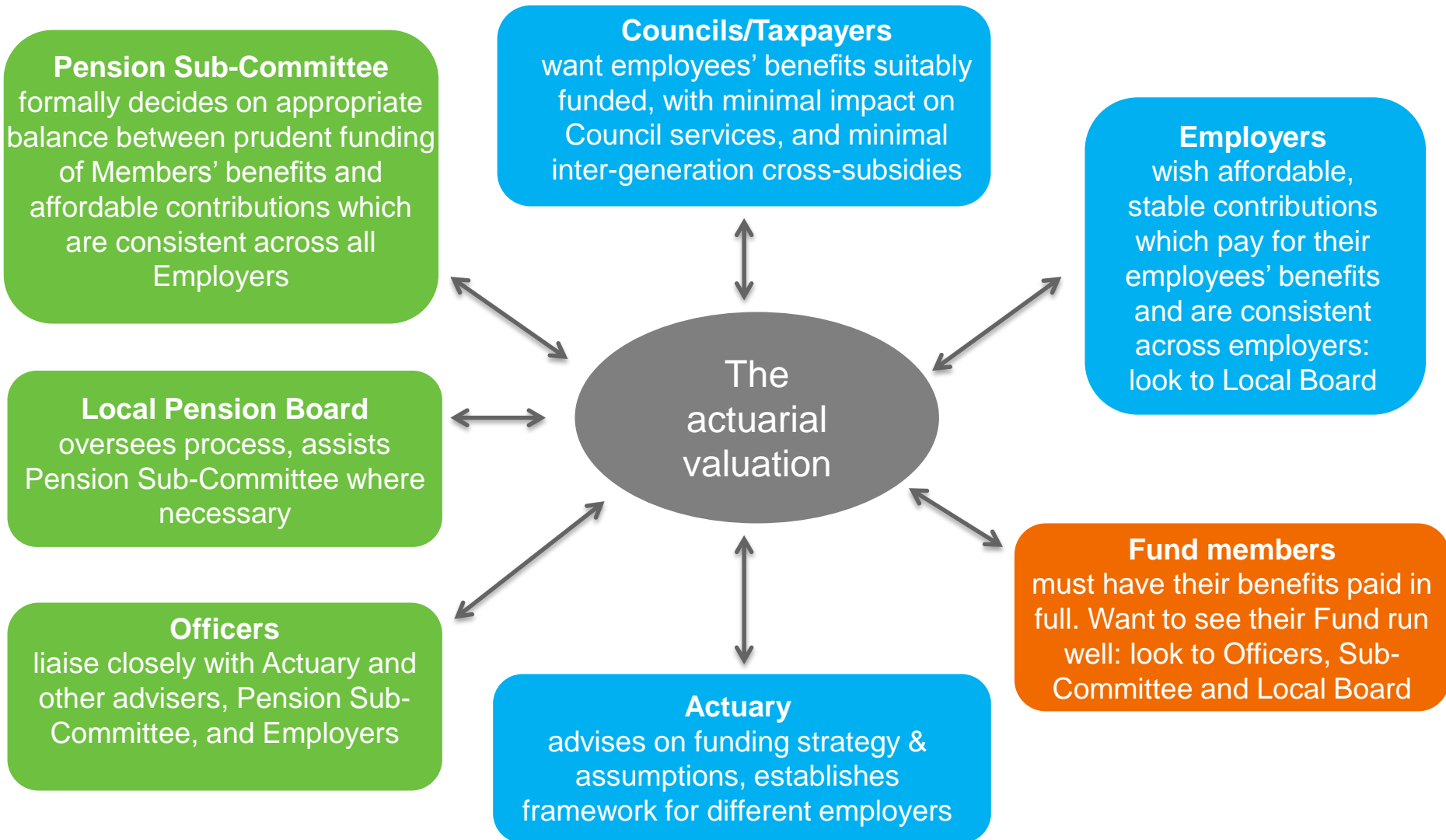


Why do we do a valuation?

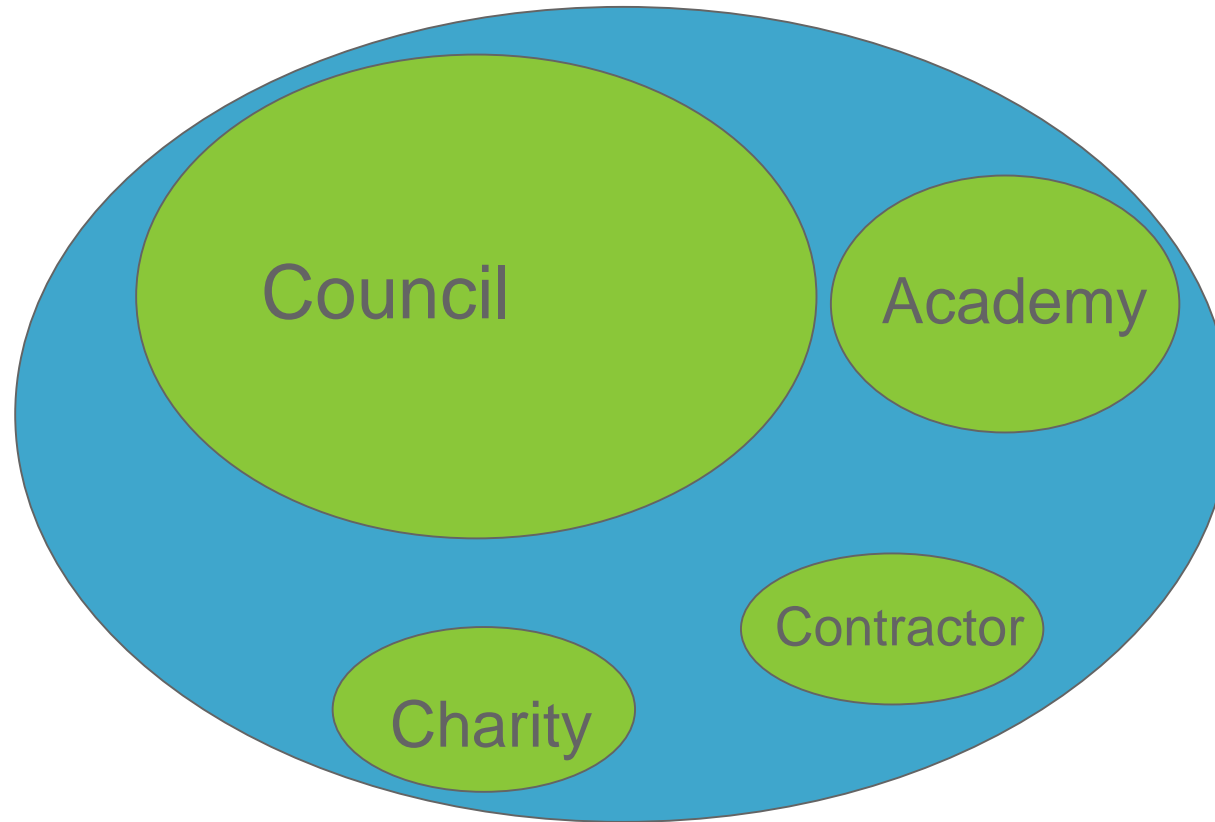
- **Assess** how well pension promises are covered
- **Monitor** experience vs. assumptions
- Set **credible** funding plan and contribution rates
- Consider potential **risks** to the Fund & employers
- Every 3 years: current one as at **31 March 2016**

Central part of risk management of the Fund

The actuarial valuation: Interested parties

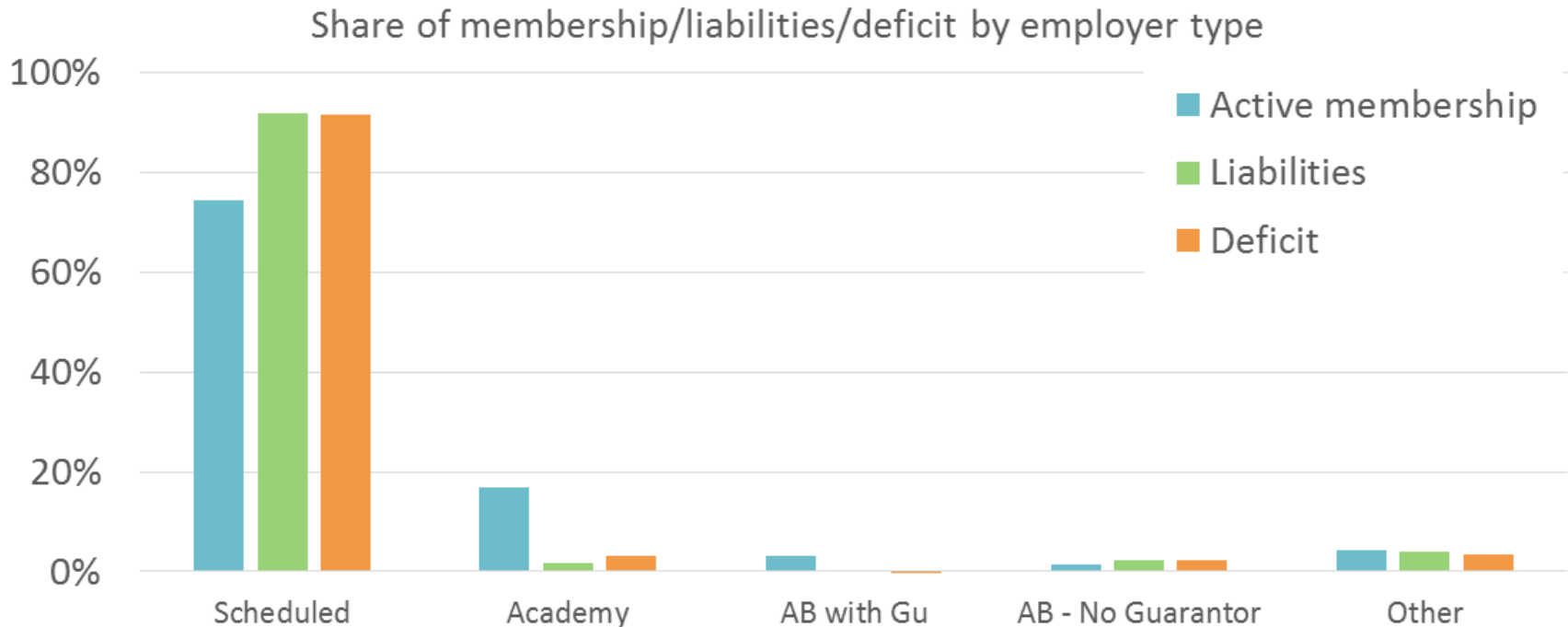


One big pot of assets



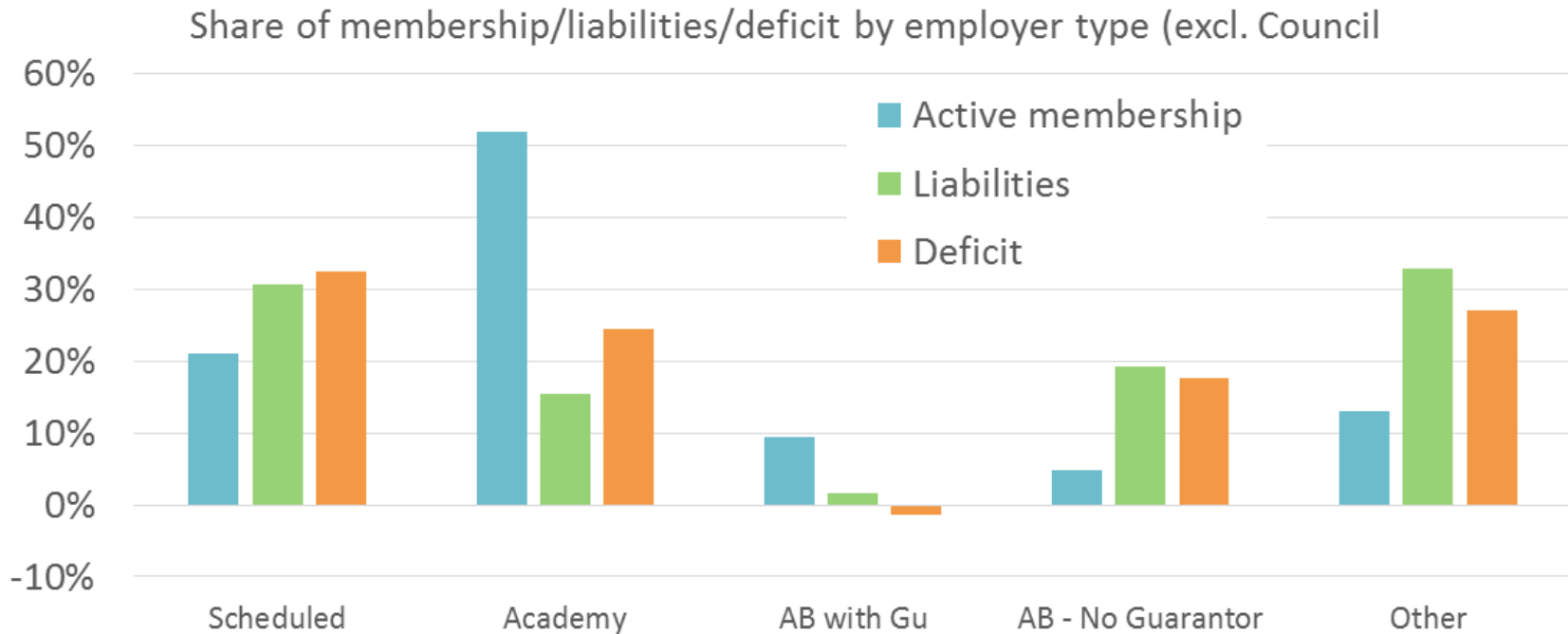
Ring-fenced employer assets and liabilities
Actuary calculates allocation every three years

Split by employer type (incl Council)



Council accounts for c.75% of the Fund's active membership, but c.90% of the liabilities and deficit, due to headcount reduction exercises

Split by employer type (excl Council)



- Non-Council Scheduled Bodies (mainly Brent Housing): relatively mature employers
- Academies: established with low funding levels & relatively immature employers
- Admission bodies with guarantor (contractors): in surplus in aggregate
- Admission bodies without guarantor (charities etc) & “Other” (mainly College): very mature & more poorly funded

Setting our goals



1. What is the employer's funding target?

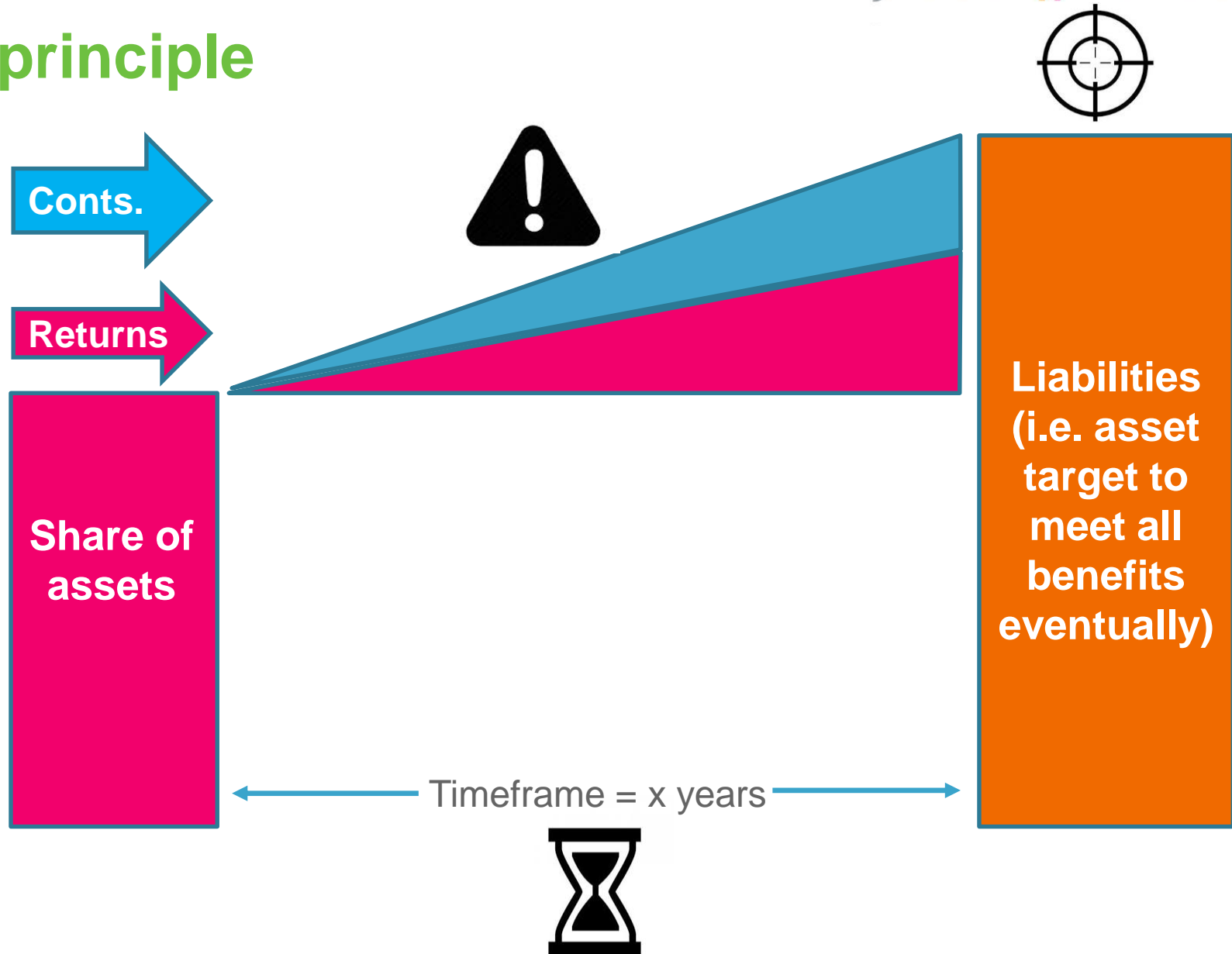


2. How long does the employer have to hit target?

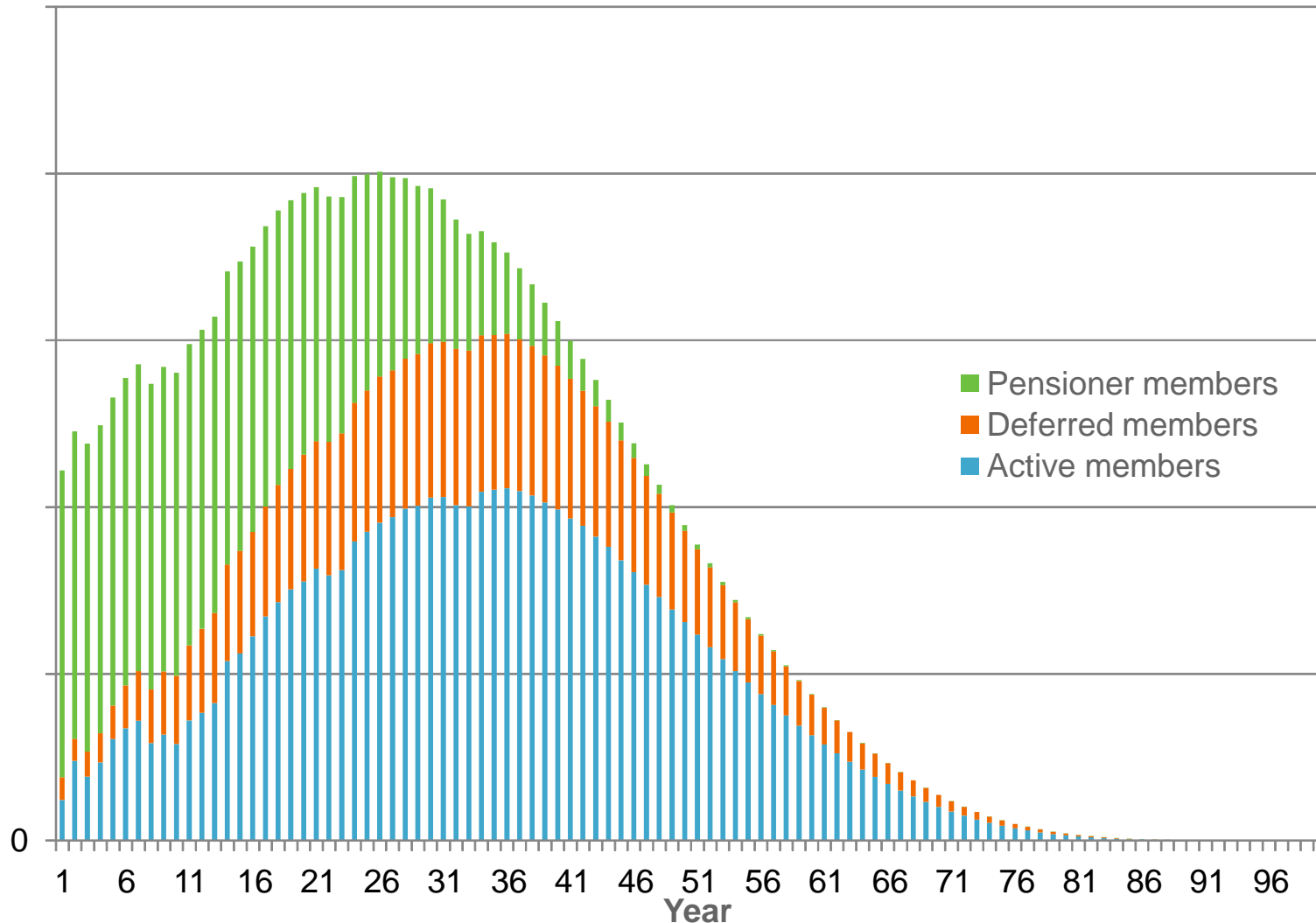


3. How sure do we want to be that employer hits target?

In principle



Liabilities = Projected pension payments



Liabilities: valuing those payments



- Actual cost of a Scheme will depend on the **pensions actually paid**
- A valuation **estimates** how much money will be needed to pay the pensions
- Estimate is based on assumptions
 - projected **amounts** of benefit payments
 - projected **probability** of benefits being paid



Liability valuation assumptions

Amounts paid and **probability** of payment

Financial assumptions:

- Investment return
 - Inflation
- Pay increases
- Pension increases

Consider:

Economic outlook
Actual scheme assets
Historical pay growth

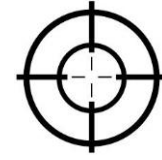
Demographic assumptions:

- Life expectancy
- Retirement age/cause
 - Withdrawals
- Marriage statistics

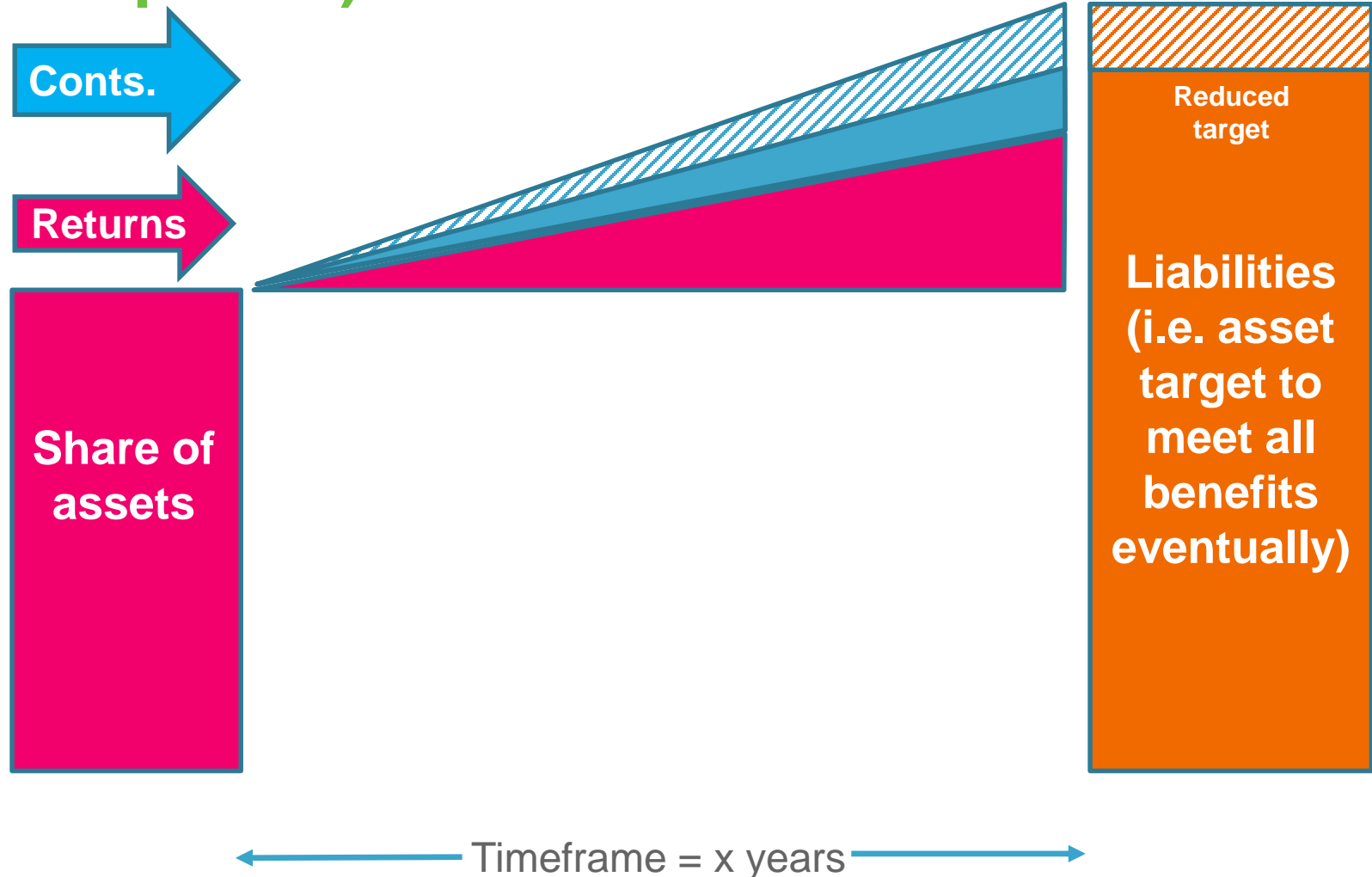
Consider:

Population trends
Members' social status
Past scheme experience

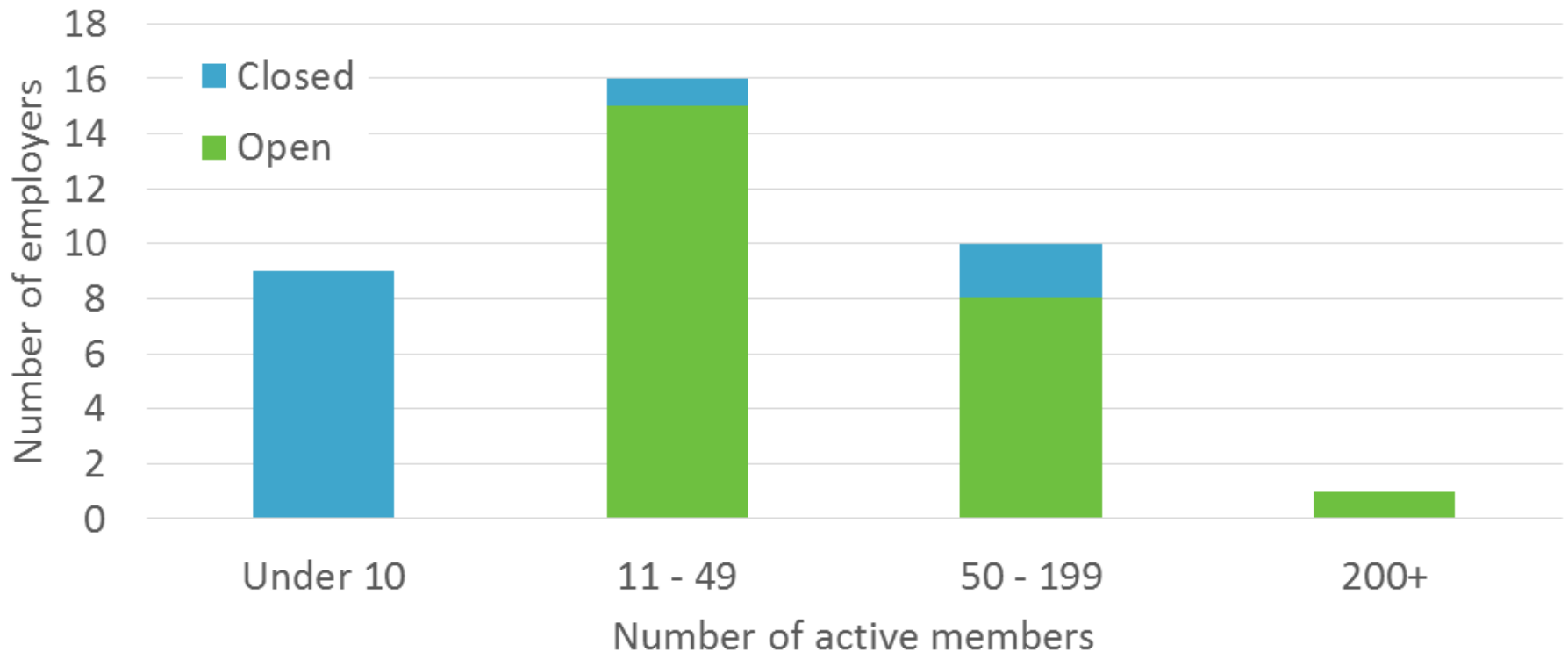




1. Varying the target (eg altered assumptions)



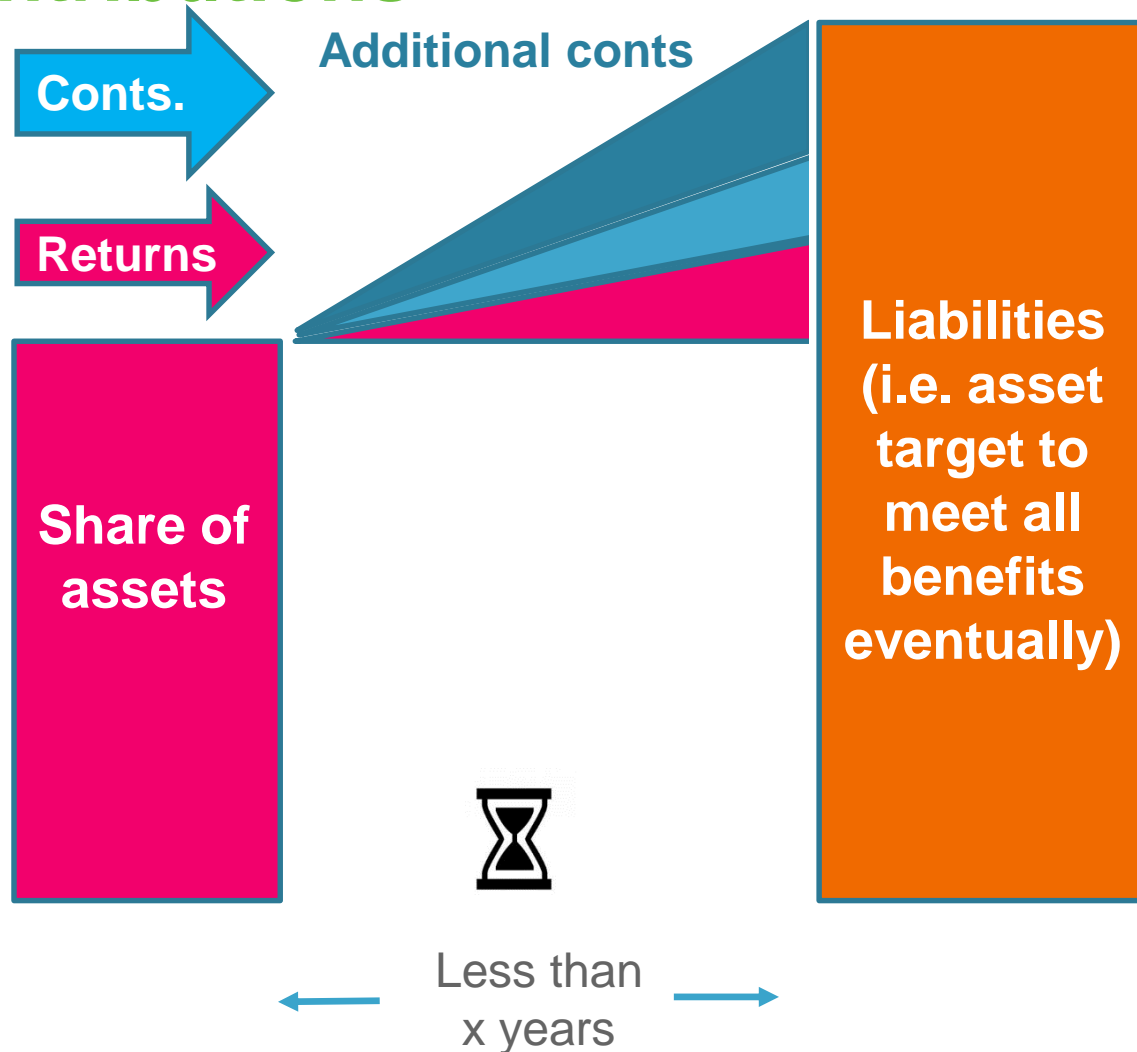
Fund employers by size & open/closed status



Officers closely watching small closed employers, particularly those without guarantor (non-contractors)



2. Shorter timeframe requires higher contributions



3. Different employers: different risks to the Fund



Feature	Implications for funding strategy
Type of body	Can the employer cease? What will happen if it does?
Funding level	Is there a deficit? How big is it?
Cashflow position	Is the employer's asset share growing or shrinking?
Active membership	How many active members are there? Is the membership falling? How many deferred/pensioner members are the actives supporting?

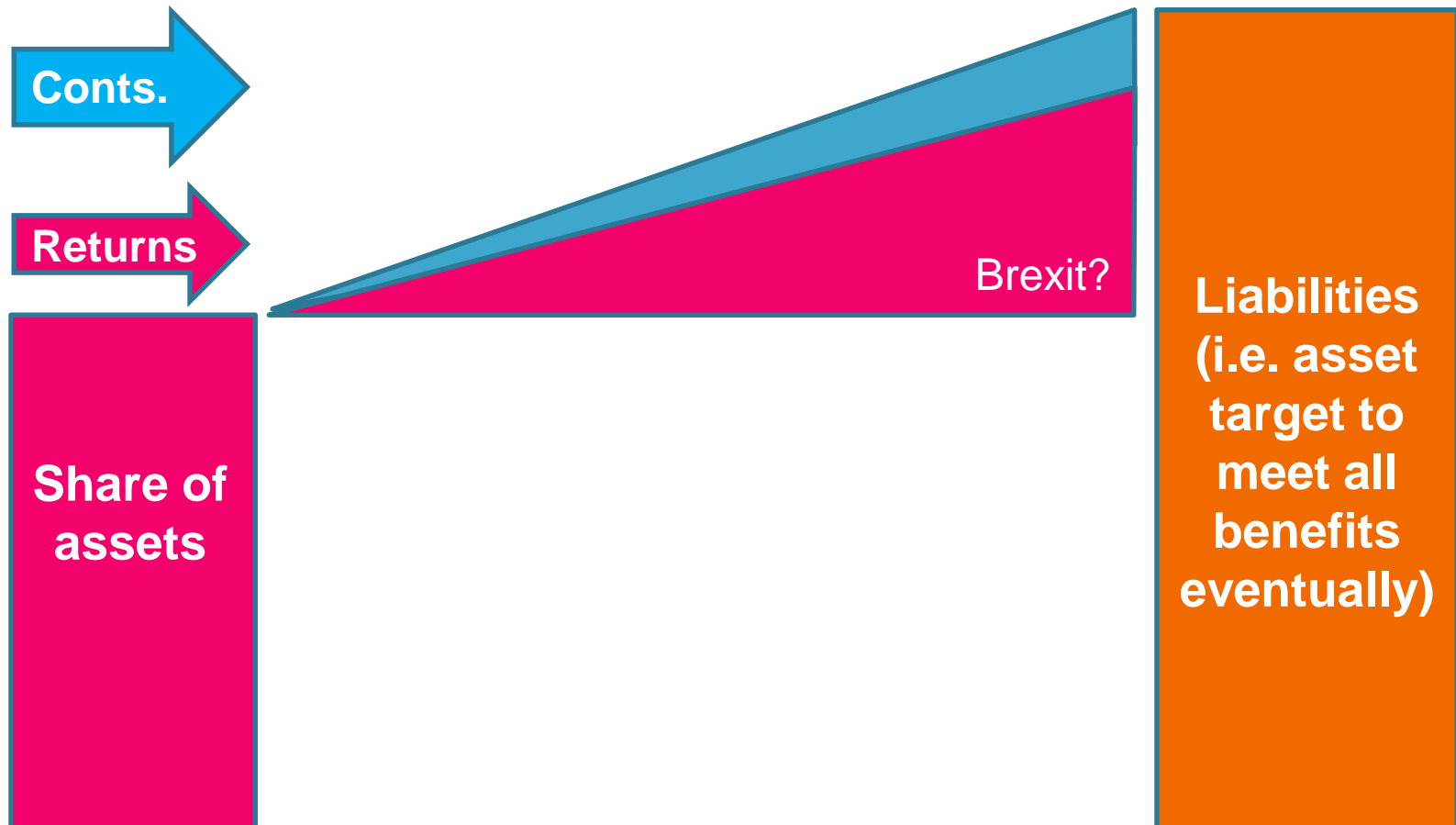
These factors have been used to assign a risk rating
(green, amber, red)

Risk scores by employer type



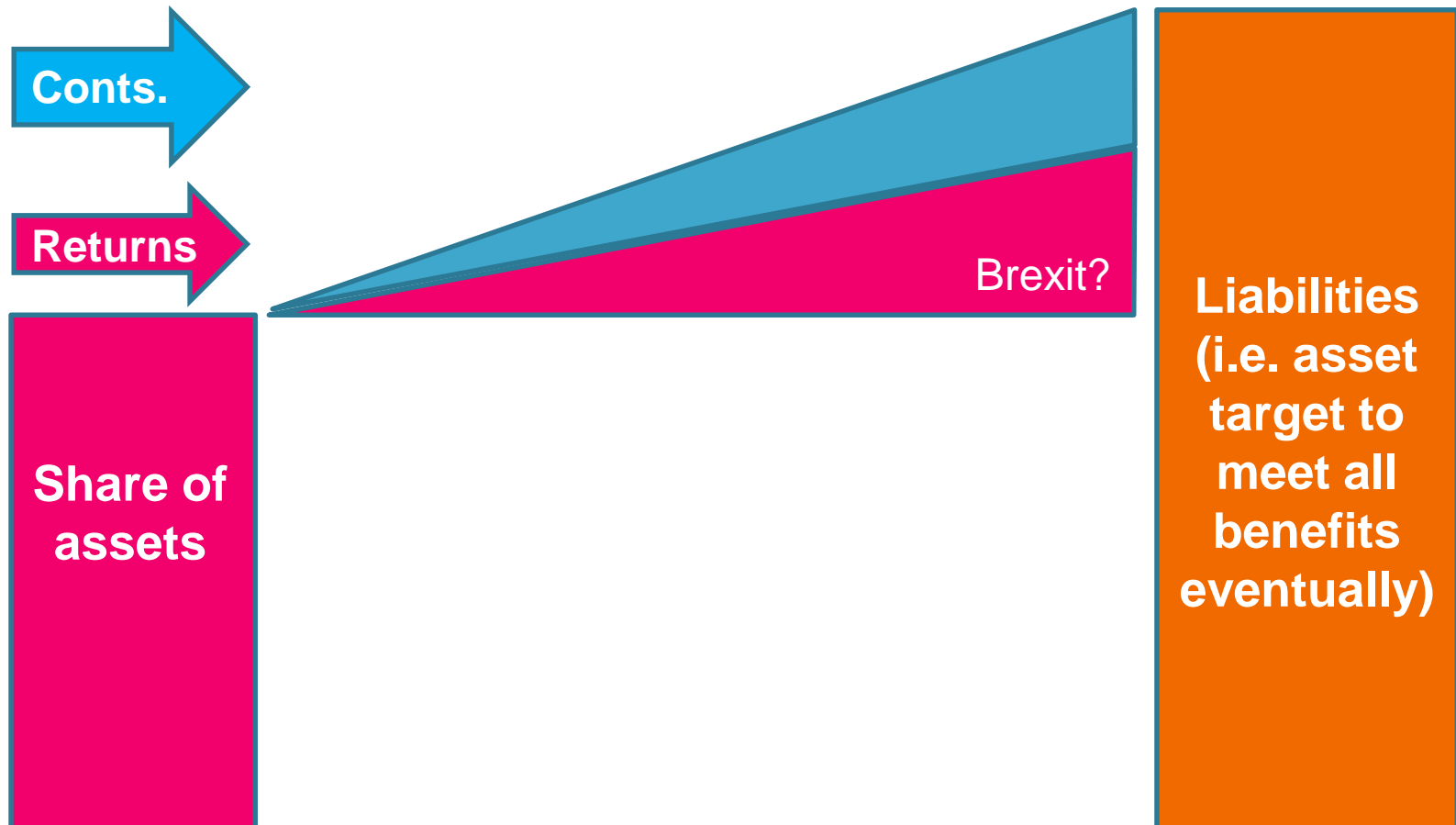
- Some employers are amber because they have low funding levels and/or are cashflow negative and/or have no guarantor
- Academies either green or amber, despite low funding level, due to immature status & DfE guarantee
- Contractors green due to good funding level and guarantor backing
- Admission bodies with low funding levels **and** cashflow negative **and** no guarantor are considered high risk so a large proportion of them are red

Varying the risk/probability - Green



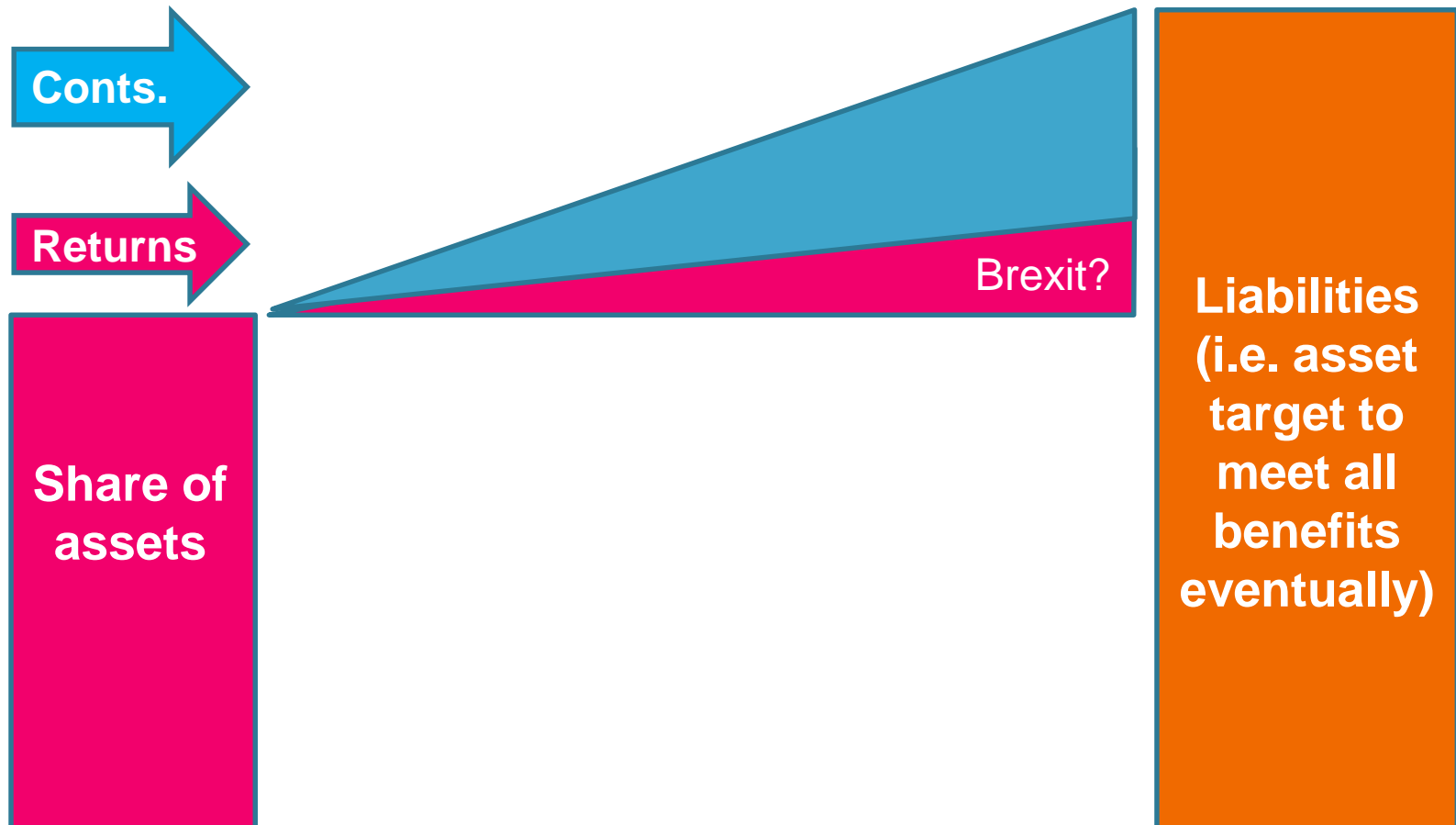
Employer profile links to contributions

Varying the risk/probability - **Amber**



Employer profile links to contributions

Varying the risk/probability - Red






Employer profile links to contributions

All brought together in the Funding Strategy Statement (FSS)

➤ Purpose

- establish a clear and transparent fund-specific strategy,
- how contributions are set for different types of employer,
- how contributions vary in different circumstances.

➤ Outline

- Target / assumptions 
- Timeframes 
- Differentiation between employers 



➤ Principles agreed with C'ee & LPB

➤ Details agreed between Officers & Actuary

Expected 2016 valuation timeline

2015 & early 2016

Valuation discussions with Fund

May/June 2016

Data cleansed and submitted by Fund to actuaries.

October 2016

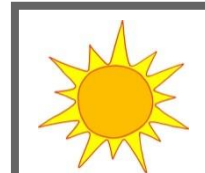
Initial results and assumptions discussed and agreed with Fund.

December 2016

Employer results and funding strategies agreed in principle.
Employer forum and surgeries held.

March 2017

Final valuation report signed off by 31 March 2017.



30 April 2016

Data submitted by employers.

July – September 2016

Actuarial calculations processed.
Results sent to Scheme Advisory Board by 30 Sep

November 2016

Individual employer results calculated and issued. FSS consultation.

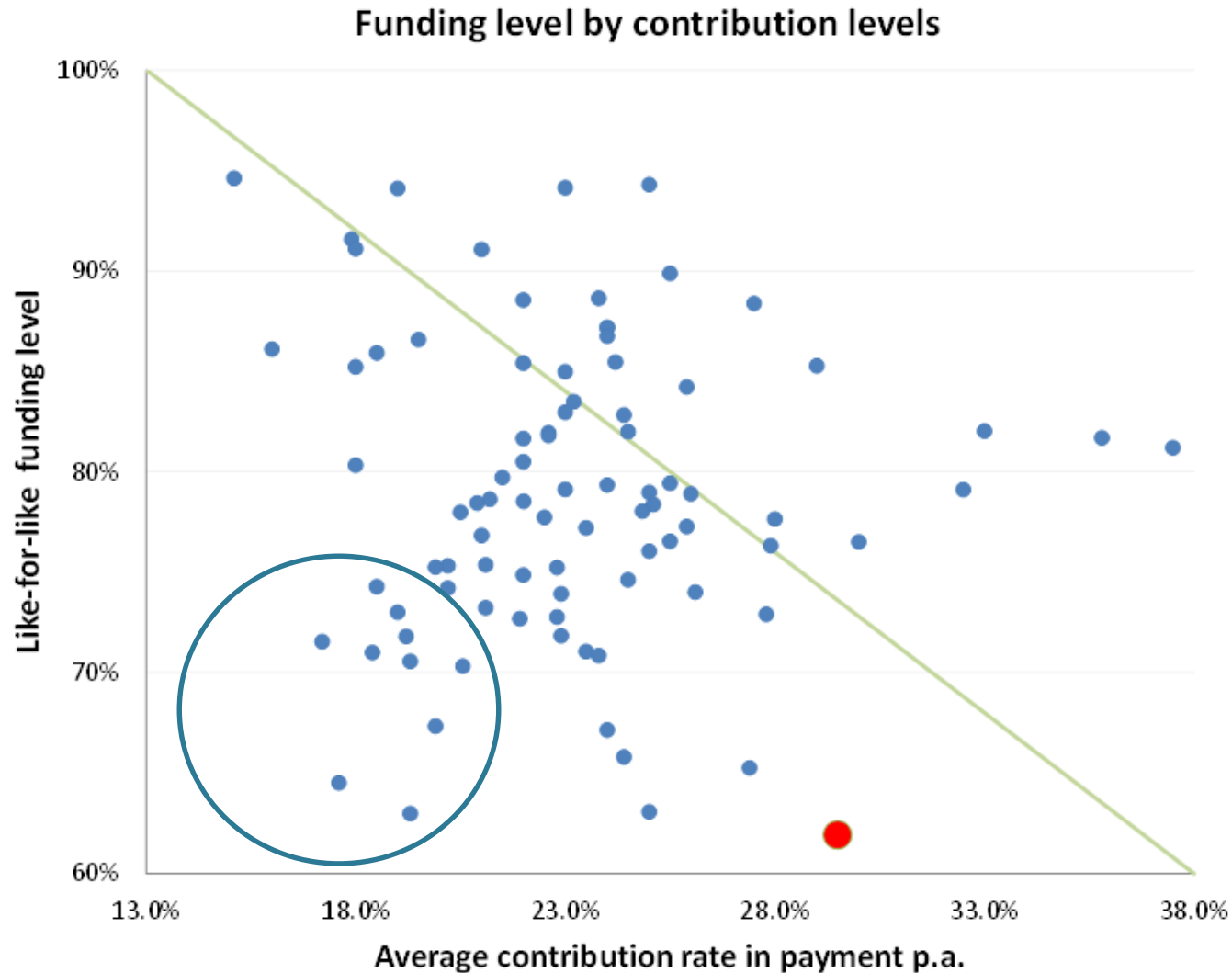
February 2017

End of employer consultation.
Final employer results and FSS agreed.

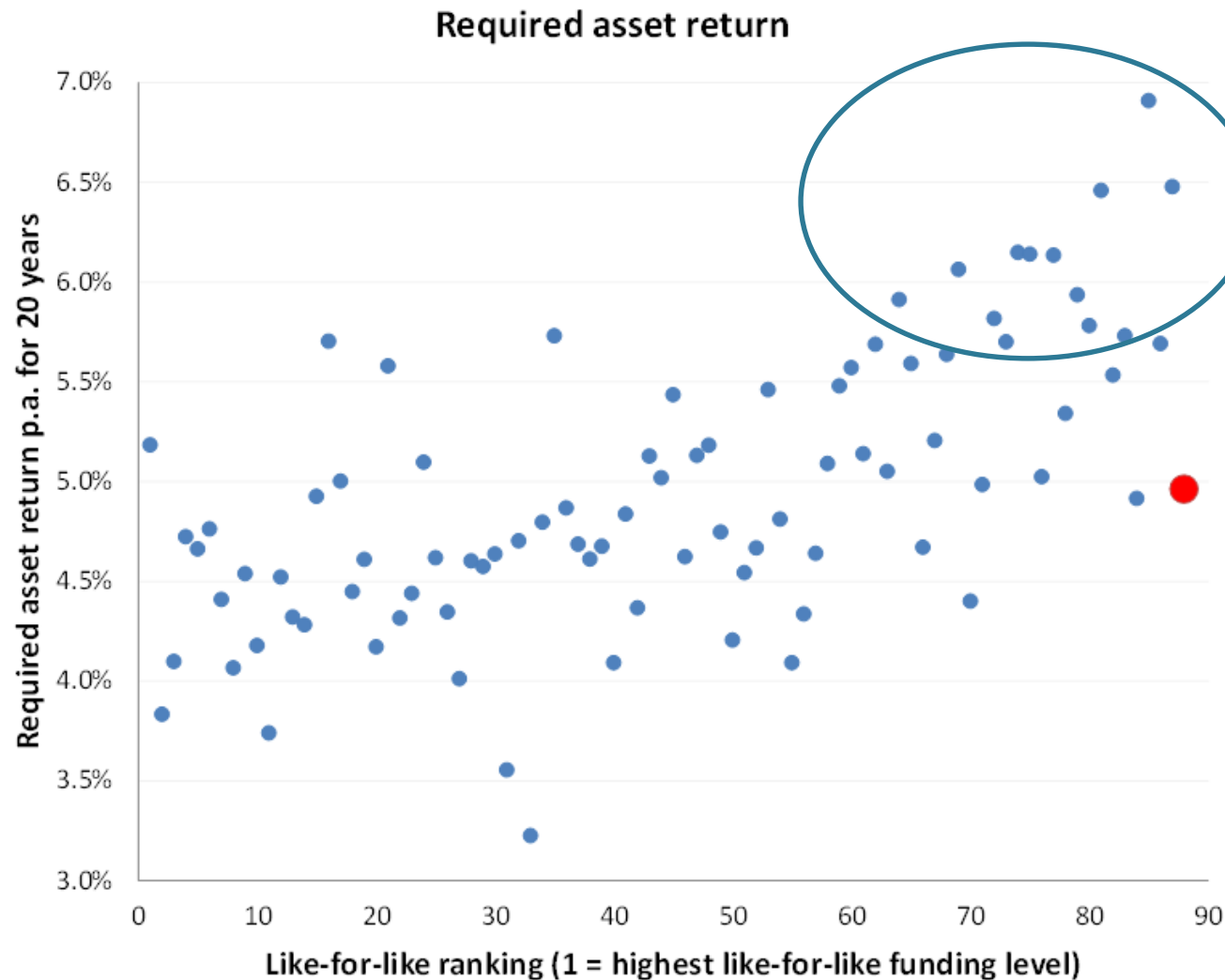
1 April 2017

New contributions start to be paid.

How does Brent compare to the rest of the LGPS?



How does Brent compare to the rest of the LGPS?



Reliances and Limitations

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