

Cumbria County Council

Cumbria LGPS

Pensions Forum

November 2016

Cumbria County Council

**Welcome from
Chief Finance Officer
Julie Crellin**

Housekeeping



Toilets



Mobile Phones



Fire Alarms



Feedback

Agenda (I)

	Welcome and Coffee	
10.00 - 10.15	<ol style="list-style-type: none">1. Terms of Reference2. Election of Chair3. Membership4. Apologies for absence5. Minutes of previous Forum (15 October 2015)	Julie Crellin / New Chair
10.15 – 10.45	6. Pension Administration - YPS 2015/16 Performance Results, and LGPS Developments	Diane Lister / Steven Moseley

Agenda (II)

10:45 – 11:00	7. Annual Report & Accounts 2015/16 including relevant Policy Changes – FSS & Administration Policy.	Debbie Purvis & Lucy Taylor
11.00 – 11.15	8. Asset Pooling in the LGPS – ongoing national progress and an update on the Borders to Coast Pensions Partnership.	Fiona Miller

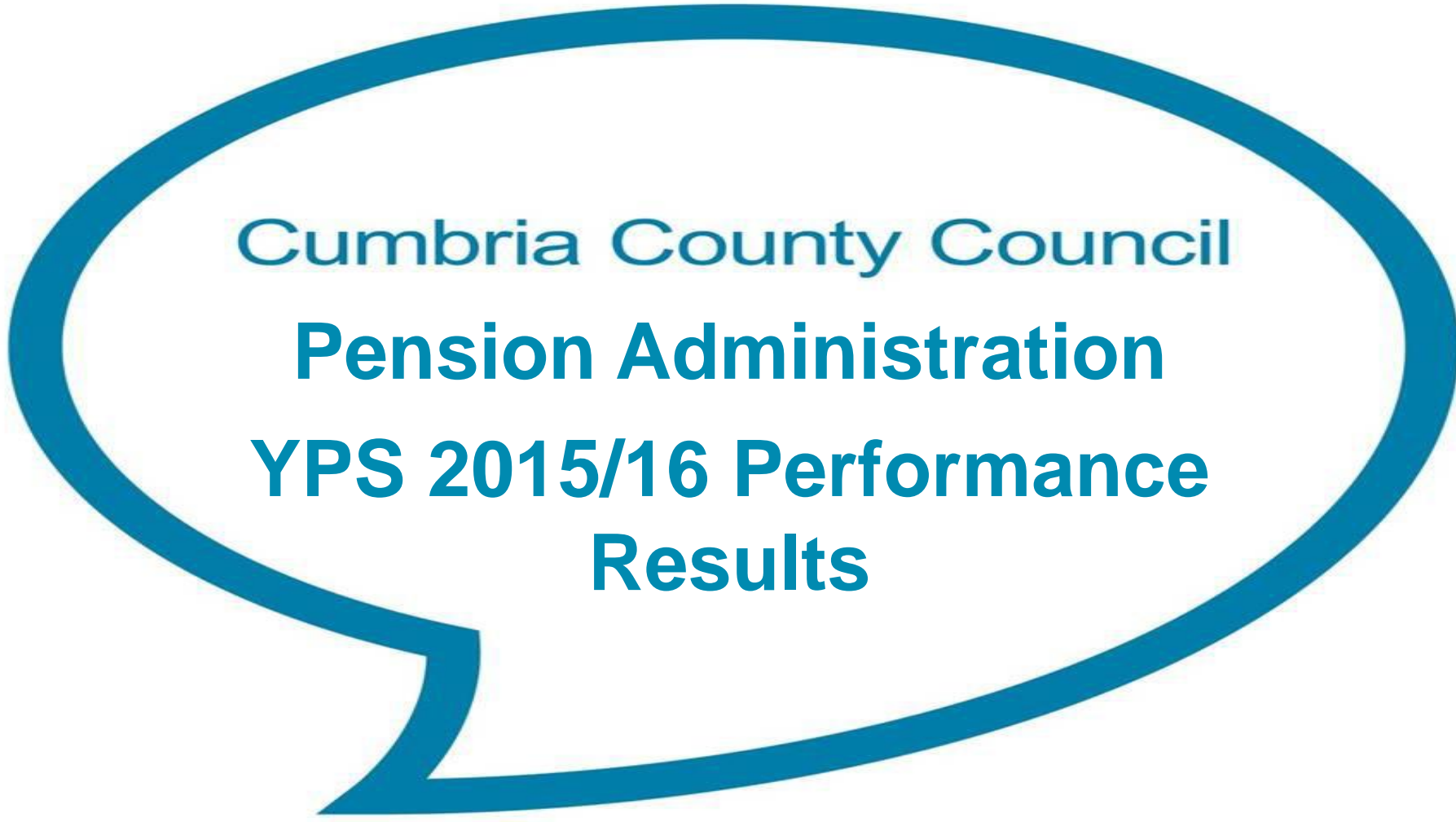
Agenda (III)

11.15 – 12.00	9. 2016 Triennial Actuarial Valuation - Progress and results to date, Draft Funding Strategy Statement for consultation	Mercers: John Livesey & Leanne Johnston
	10. Provisional Date of Next Meeting 10 th October 2017	
	Meeting closure -to be followed by pre-booked appointments	Chair

Local Government Pension Scheme



Theme throughout today is one of Sustainability



Cumbria County Council
Pension Administration
YPS 2015/16 Performance
Results

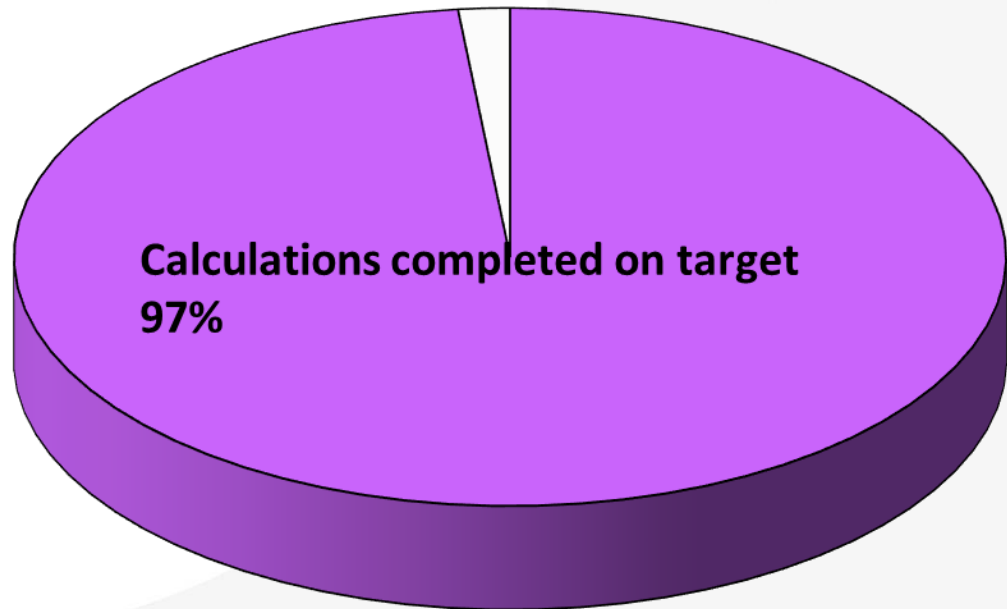
Administration Update

Diane Lister

SLA Performance

- 21 individual performance targets

Calculations Completed : 7,773





ABS Surgeries 2016/17

VENUE	DATE
Barrow-in-Furness	9 November 2016
Carlisle	1 December 2016
Carlisle	17 January 2017
Kendal	9 February 2017
Penrith	14 February 2017
Workington	9 March 2017
Whitehaven	29 March 2017

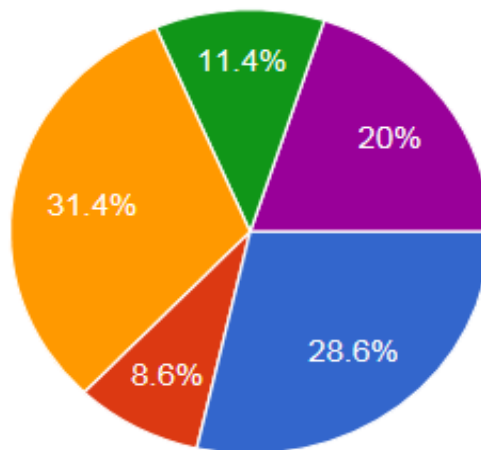


Employer Conference October 2016

Our survey said

What do you find to be the main challenge when providing information to YPS?

(35 responses)

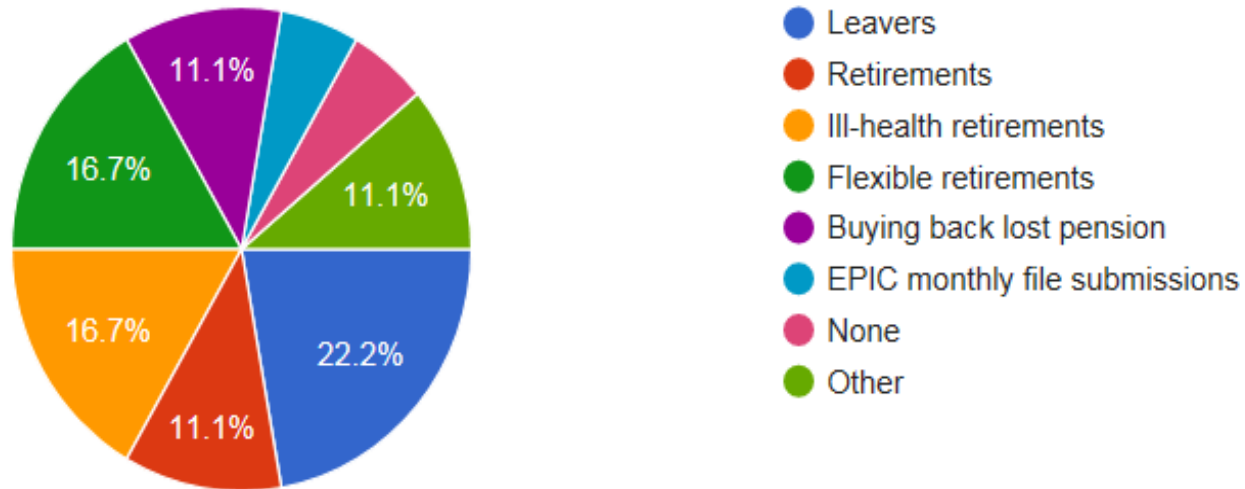


- Final pay calculation
- Pensionable pay for CARE benefits
- Assumed pensionable pay calculation (where applicable)
- Reason for leaving
- Other

Our survey said

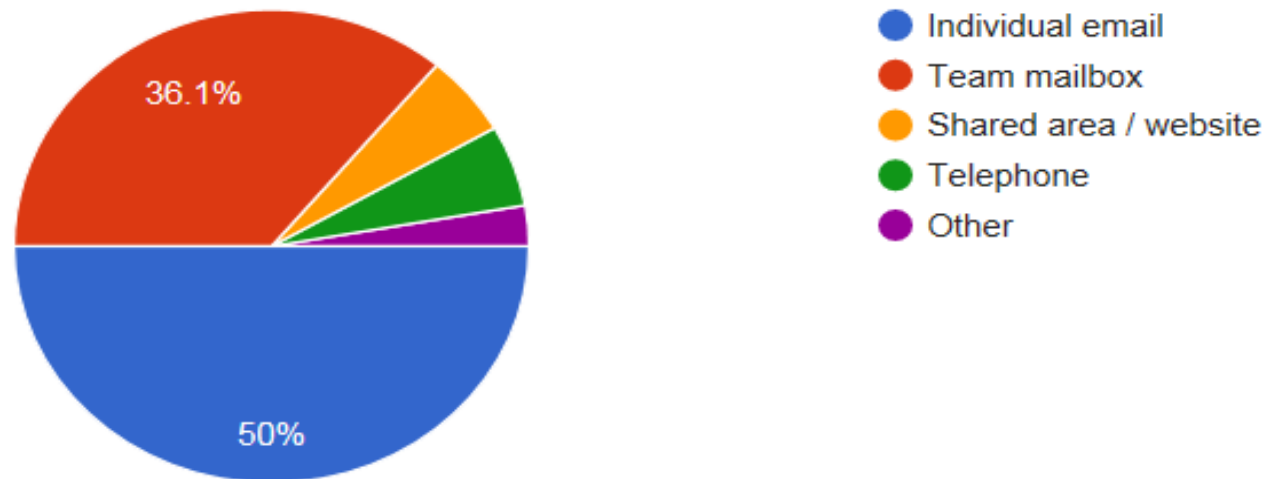
Which pension processes do you feel you require more guidance on (if any)?

(36 responses)



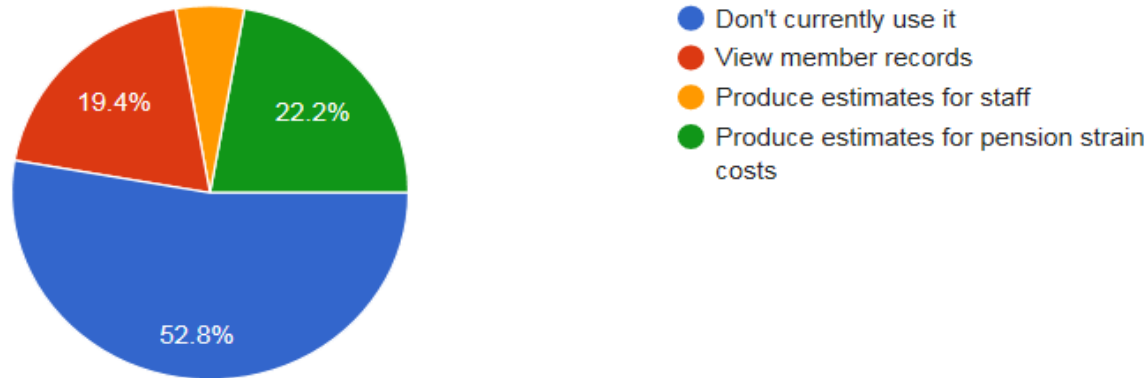
Our survey said

How would you prefer to communicate with YPS? (36 responses)



Our survey said

How do you currently use Employer Self-Service? (36 responses)



- **64% already registered**
- **150 individuals with user access**

Innovation & Improvement



- Pilot automated final pay calculation
- Targeted regular employer training
 - HR practitioners 17/02/2017
 - Payroll practitioners 22/02/2017
- Better use of email and employer online
- Suggestions Welcome!

Change on the way

your
pension
service



95k



An Update
by Steven Moseley

Contents

- Consultation: The Local Government Pension Scheme (Amendment) Regulations 2016/17
- Public Sector Exit Payment Cap
- Recovery of Public Sector Exit Payments
- Reforms to Public Sector Exit Payments
- Questions



The Local Government Pension Scheme (Amendment) Regulations 2016/17



Key proposals

- Fair deal proposals.
- More freedom and choice for members with AVCs.
- Amendment to APP Calculation.
- 1/04/08 – 31/03/14 leavers to have voluntary access between 55 and 60.



Update

- Being significantly rewritten.
- Christmas 2016?

Public Sector Exit Payment Cap

95k

Overview

- £95k cap on total value of exit payments.
- Cap to apply to most forms of exit payment (including pension strain).
- Will apply to all public sector bodies (ONS definition) with a small number granted exemption.
- Waiver process for exceptional circumstances.
- How is it going to work in the LGPS?



Update

- New consultation expected shortly.
- In force sometime early next year?

Recovery of public sector exit payments



Overview – part 1

- Exit payments recovered if return to public sector within 12 months.
- Applies to individuals who earned £80k or more for year before leaving.
- Tapering applies to repayable amount.
- Most exit payments recoverable (including pension strain).
- Will apply to all public sector bodies (ONS definition) with a small number granted exemption.
- Waiver provisions.

Overview – part 2

- Old employer to keep records for 3 years.
- Individual to tell new and old employer where they propose to return.
- Old employer to make arrangements with person to recover the relevant part of the exit payment.
- New employer not to employ the individual until repayment arrangement finalised.

Update

- Expected to be in force later this year.



Reforms to public sector exit payments



Current arrangement in Local government



- Power to increase statutory redundancy payments by using actual weekly pay in calculation rather than capped weekly pay (£479).
- Employers can offer additional lump sum payment.
- Maximum compensation must not exceed 104 weeks' pay in total.
- LGPS offers unreduced pension from 55 for redundancies/business efficiencies.

Overview

- Aim to reduce cost of redundancy payments and ensure greater consistency between workforces.
- Compensation terms for each workforce to be individually decided, but within centrally-set framework.
- Applies to major workforces covered by statutory compensation schemes and other contractual exit arrangements.
- Most employer-funded exit payments covered.
- Could exclude cases where exit formally agreed before changes made.

Centrally-set framework

- A maximum tariff for calculating exit payments of 3 weeks' pay per year of service.
- A ceiling of 15 months on the maximum number of months' salary that can be paid.
- A maximum salary on which an exit payment can be based (expected to be £80,000).
- A taper on the lump sum compensation as they get closer to NPA.
- Action to limit or end employer-funded early access to pension within exit packages (cap pension top up, remove access, offer greater flexibility, increase minimum age).

Update

- Expect DCLG to issue consultation before end of year.
- Changes to be made by end of June 2017.

Questions?



Contacts:

Web: www.yourpensionservice.org.uk

E-mail: AskPensions@localpensionspartnership.org.uk

Phone: 0300 123 6717



Cumbria County Council
Cumbria LGPS 2015/16
Annual Report & Accounts
& Relevant Policy Changes

Contents

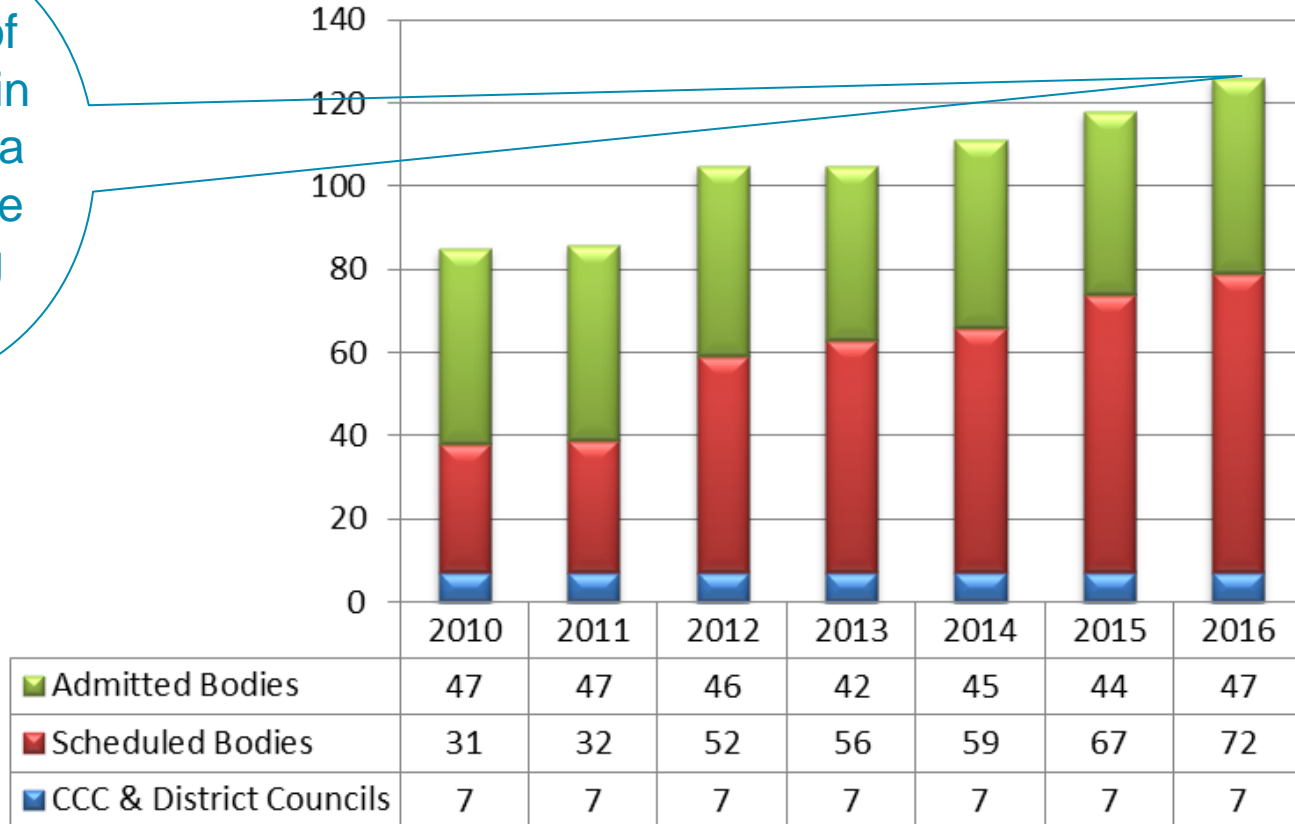
- Cumbria LGPS specifics (a.k.a. how many? and how much?)
- Achievements & Investment performance in 2015/16
- Annual Report & Accounts 2015/16

Cumbria LGPS – How Many?



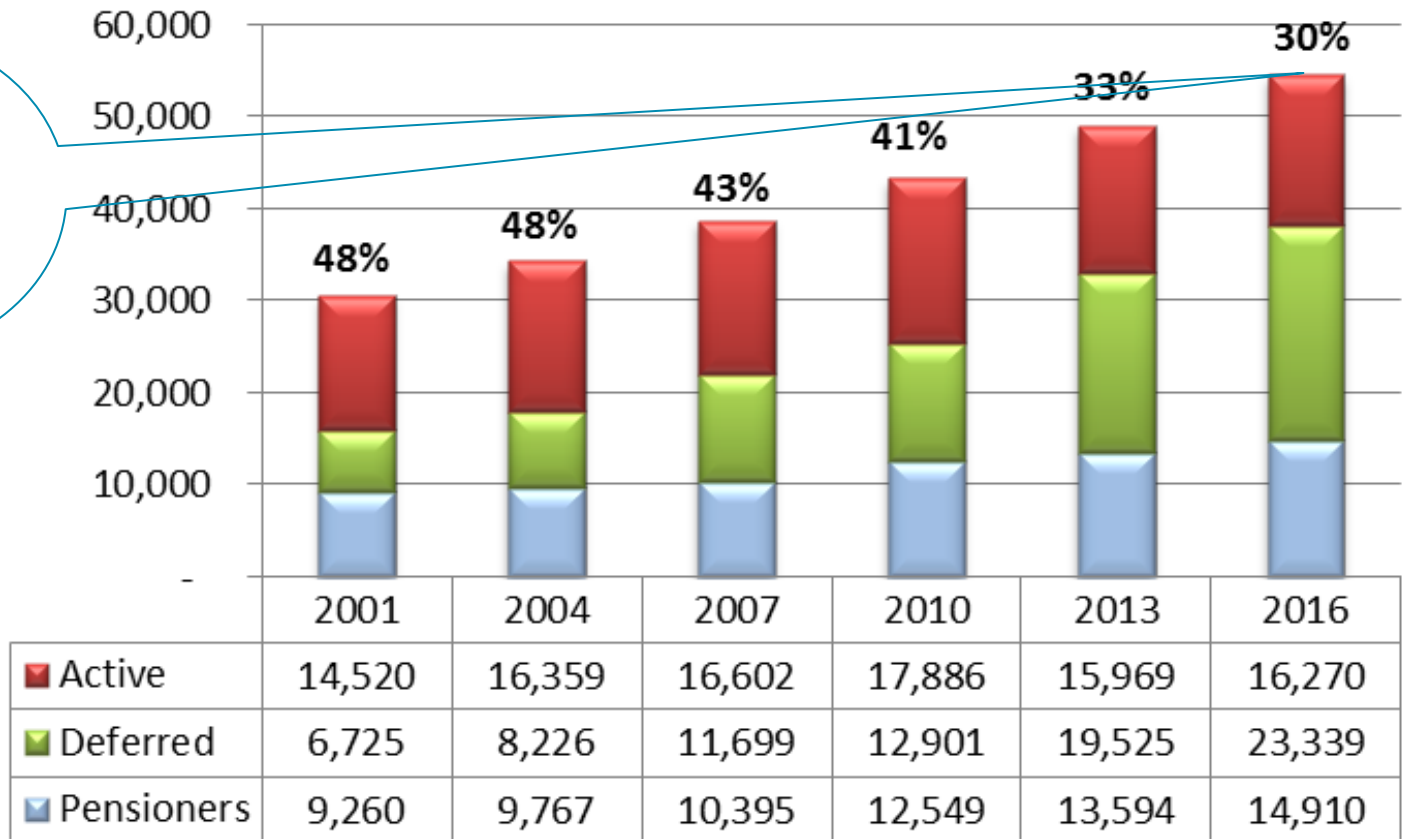
Employer Numbers

Numbers of employers in the Cumbria Scheme are increasing



Membership Numbers at Triennial Actuarial Valuations

Actives
decreasing
as a % of
membership



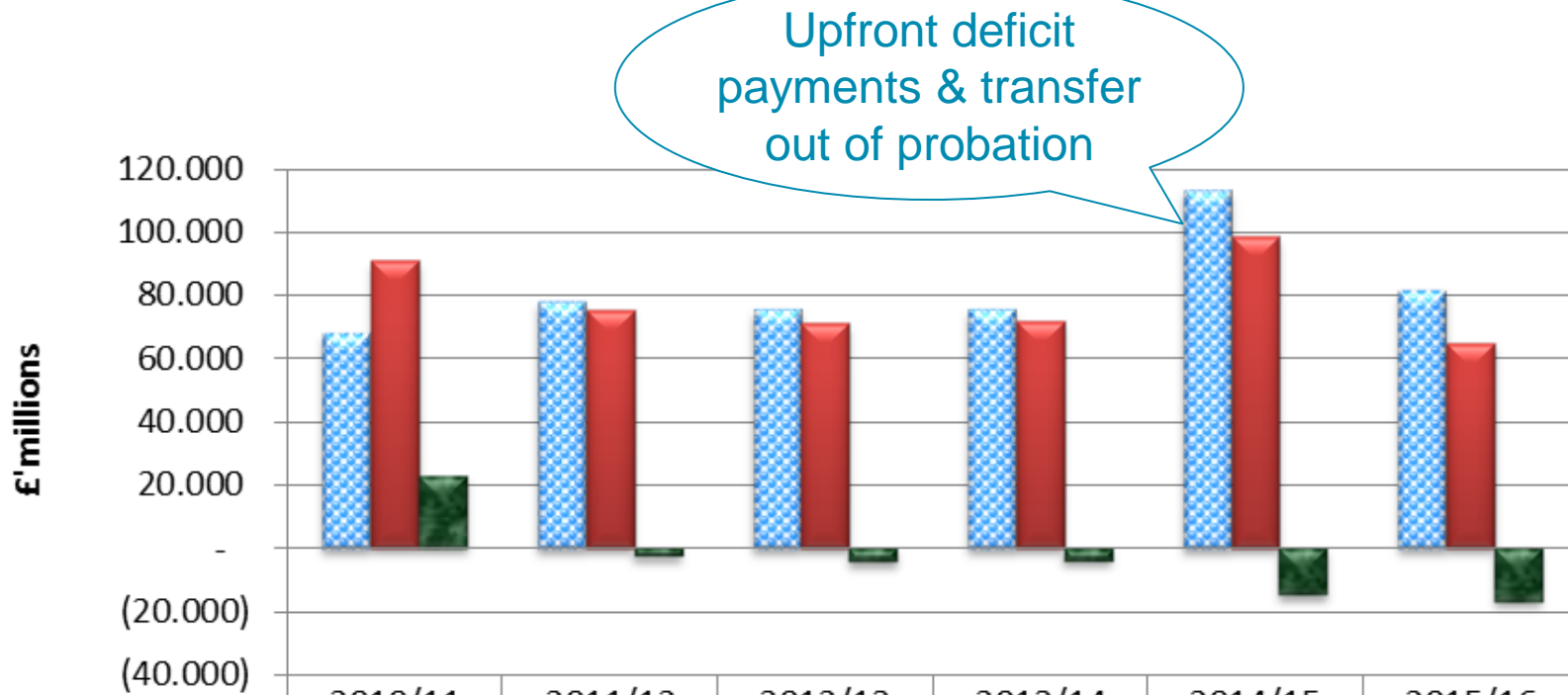
**Membership of
the Cumbria
LGPS equates to
13% of the Adult
Population of
Cumbria**



Cumbria LGPS – How much?



Benefits paid against contributions received* £'m



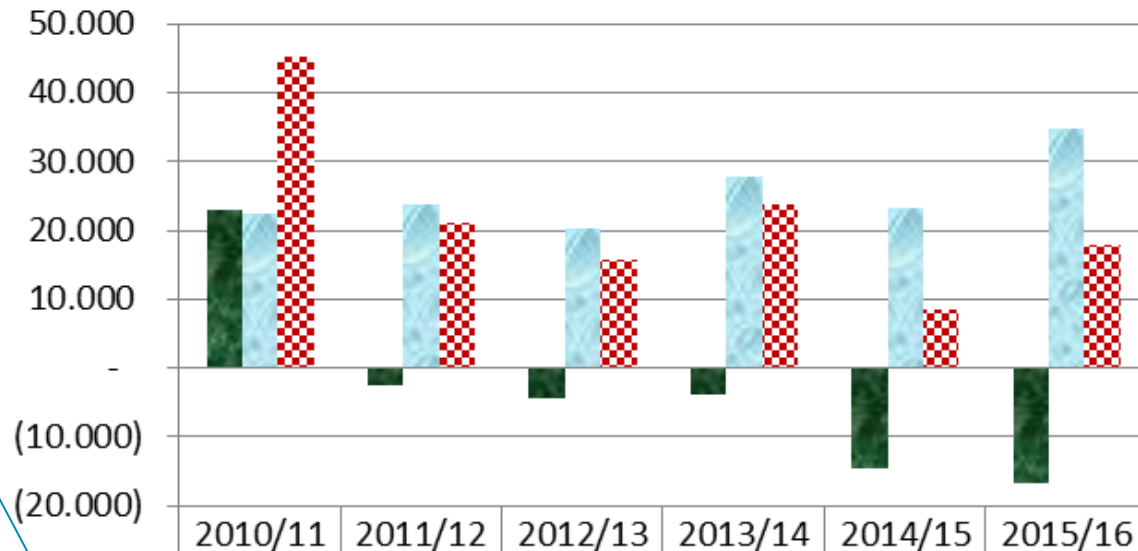
	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Benefits paid	67.817	77.918	75.380	75.442	112.930	81.662
Contributions	90.741	75.281	70.976	71.522	98.299	64.931
Net	22.924	(2.637)	(4.404)	(3.920)	(14.631)	(16.731)

*Includes transfers in & out of the Fund.

Net position after investment income £'m

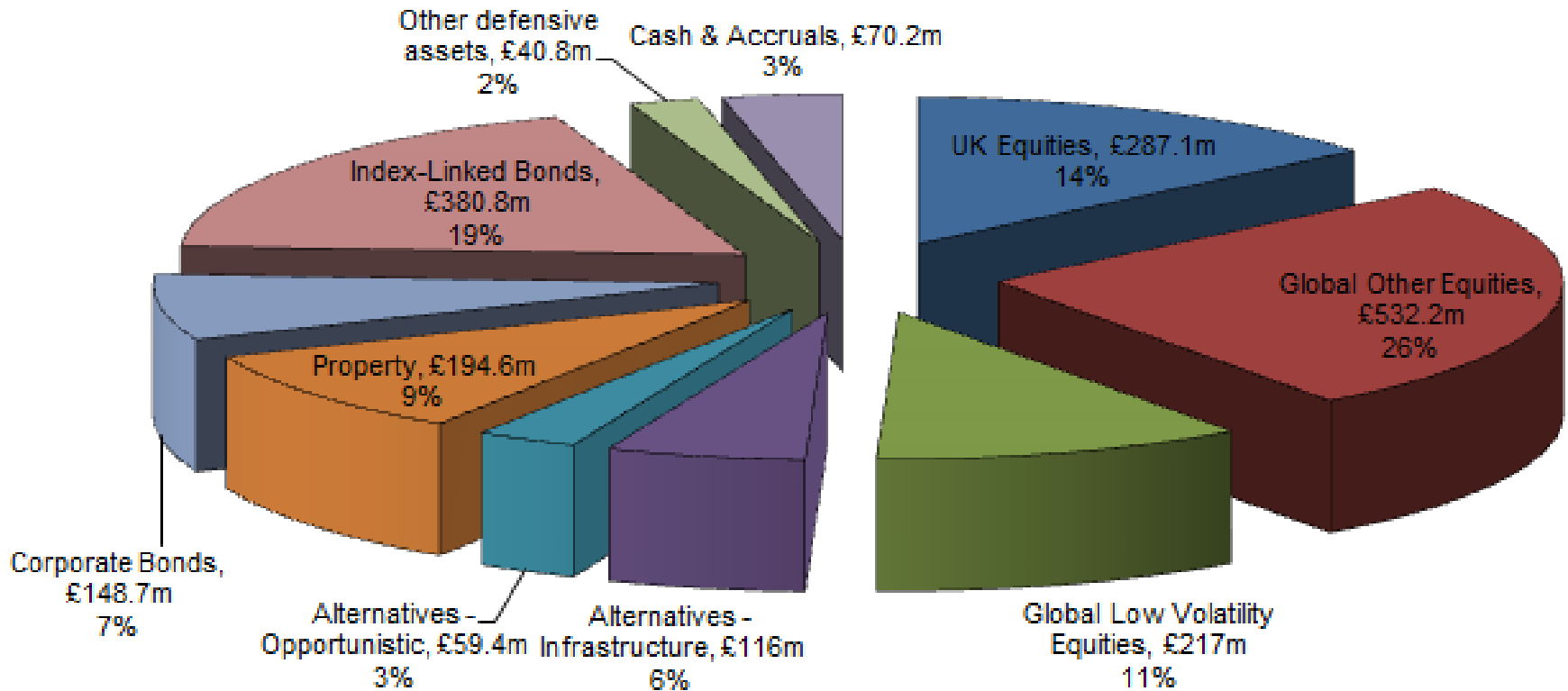
Positive cash position taking into account investment income

Reflects our asset strategy – good income streams

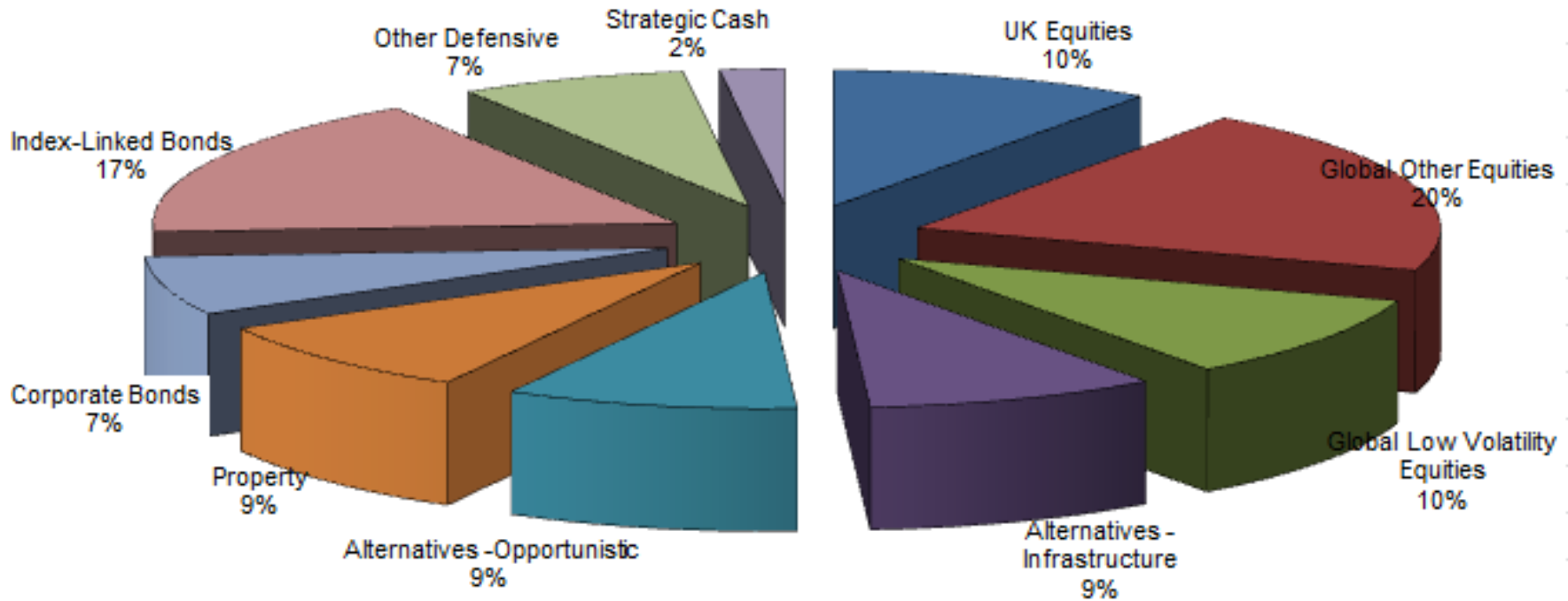


	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
■ Benefits and contributions: net position	22.924	(2.637)	(4.404)	(3.920)	(14.631)	(16.731)
■ Investment income (net)	22.252	23.588	20.143	27.759	23.118	34.565
■ Net position after benefits, contributions & investment income	45.176	20.951	15.739	23.839	8.487	17.834

Investments (March 2016) £2.047bn



Target Investment Asset Allocation



Achievements & Investment performance in 2015/16



Achievements Against 2015/16 Business Plan included:

Further investment asset allocations in alternatives implemented

Three tier performance reporting framework enhanced

Worked with employers to deliver CARE data enabling Fund to meet ABS deadlines

Successful first year of the Local Pensions Board

Annual Report & Accounts: on time with clean audit

Pressure on fund manager fees: secured c.£320k passive fee reduction

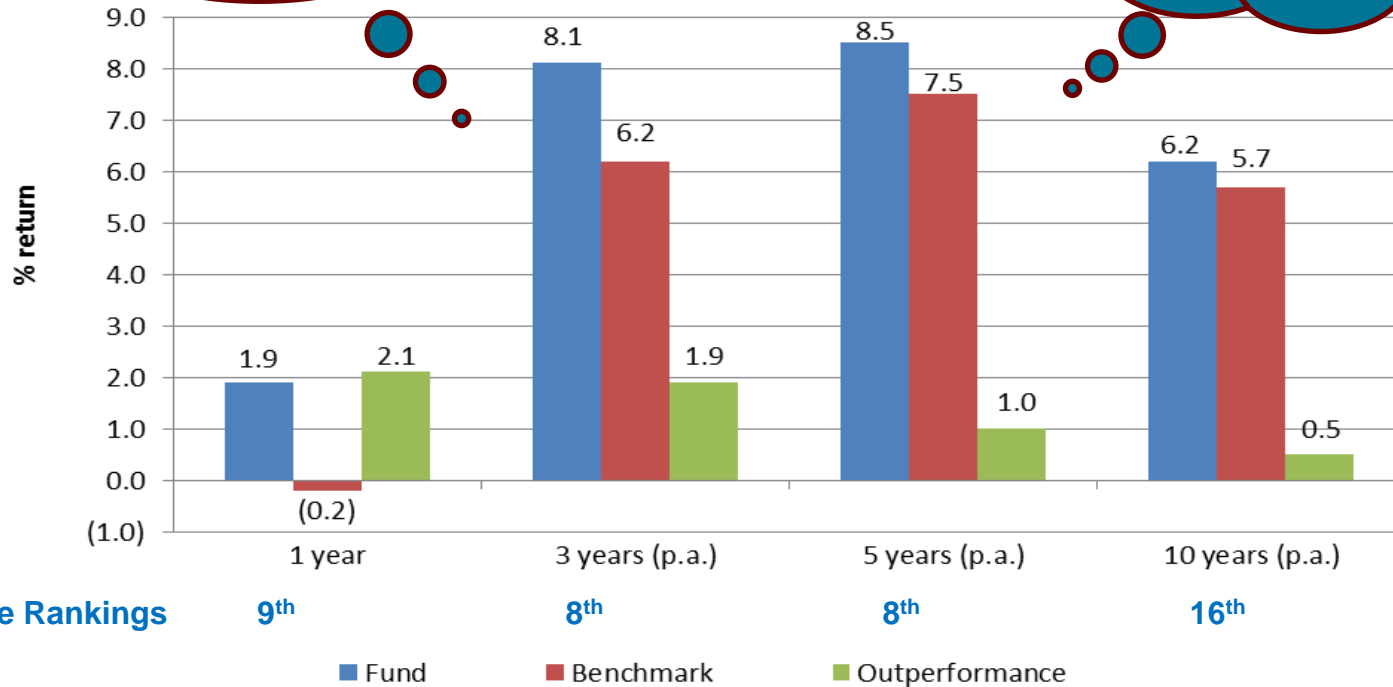
Retendered custody service provider

Provided effective training to members, partners and colleagues

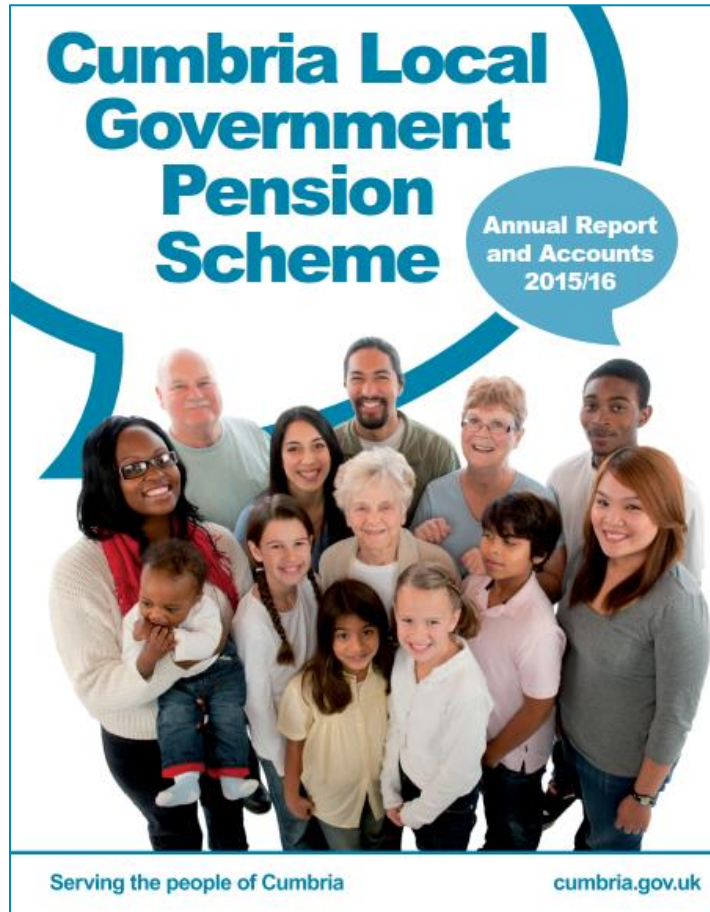
Fund Specific Performance*

Performance should be measured to own benchmarks – strategy specific to liabilities

*Performance - Net of Fees



Annual Report & Accounts 2015/16



www.cumbria.gov.uk/Finance/

CLGPS: Changes to reporting requirements

- Disclosure of management costs expanded since CIPFA guidance issued in June 2016.
 - Aiming for better comparability between LGPS's.
 - Our prime focus is performance NET of fees.
- Re-categorised debtors/creditors when they relate to investments.
 - Balance sheet format in line with revised CIPFA guidance.

Audit headlines

- Unqualified and unmodified opinion.
- No material errors.
- Prepared in advance of statutory deadline.
- One 'unadjusted misstatement' re undervaluation for unquoted investments, this was not material to the results.

Preparation for 2016/17 Accounts

In response to those subject to local government requirements to again meet earlier closedown deadlines for year-end 2016/17:

- Will again discuss with Actuary and Audit with regards to early production of IAS 19 figures & use of estimates.
- The timetable will be reviewed and publicised and will again require the use of estimates.
- Results to be produced for employers in March 2017.

In Summary

- Another good investment year, fund value increased
 - ✓ 2015/16 investment return 1.9% (Benchmark -0.2%)
 - ✓ 10 year investment return 6.2% p.a.(Benchmark 5.7%)
- Significant key achievements include:
 - ✓ Progress of LGPS Investment Asset Pooling proposal to allow for both submissions to Government as a founding partner of the Border to Coast Pensions Partnership pool.
 - ✓ Further investment strategy changes were implemented during 2016/17
 - ✓ Annual Report on Accounts on time with clean audit

Administration Policy

- In June 2016, Pensions Committee agreed to an addition to the Administration Policy
- Enabling the Administering Authority to make a one off administrative charge on the admission of new employers (£250) for the internal and external work regarding new transitions or admissions.

Funding Strategy Statement

- Drafted and sent with Agenda for consultation;
- Feedback any comments by 28th November please, emails to pensions@cumbria.gov.uk;
- Pension Committee to discuss and agree final strategy at meeting on 8th December.

Representations from Employers

To remind attendees that the Pensions Committee agenda also has a standing item to provide a formal opportunity for Non-County Council employers or interested parties to raise questions or concerns relating to the Pensions Scheme at the quarterly Pension Committee.

Any comments can be made in writing to Democratic Services, Cumbria House, 107-117 Botchergate, Carlisle CA1 1RD.

The Team

Julie Crellin – *Chief Finance Officer*

Fiona Miller – *Senior Manager: Pensions & Fin Serv*

Peter George – *Group Finance Manager*

Investments & Governance

Debbie Purvis, Lucy Taylor,
Gill Welbourn, Sue McGill,
Allison McGuinness,
Phil Whyte

Member & Employer liaison:

Julie Dole,
Janet Bozic,
Sandie Lawrence,
YPS (Your Pension Service)

Further information

Email the Cumbria pensions team:

pensions@cumbria.gov.uk

Cumbria Fund information:

www.cumbria.gov.uk/Finance/finance/cumbrialgps.asp

Employer / Member Information YPS:

www.yourpensionservice.org.uk/

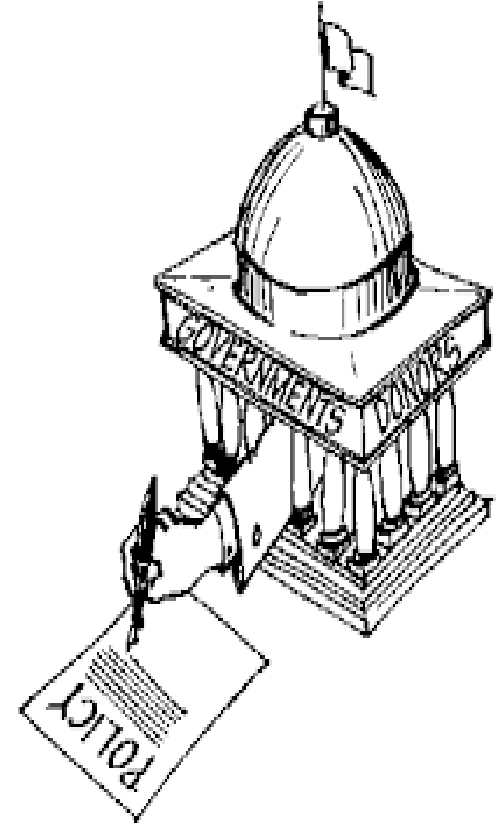
General LGPS information: www.lgps.org.uk

**Cumbria County Council
Asset Pooling in the
LGPS**

**Fiona Miller - Deputy
S151 (LGPS)**

What Government Asked For – “The Criteria”

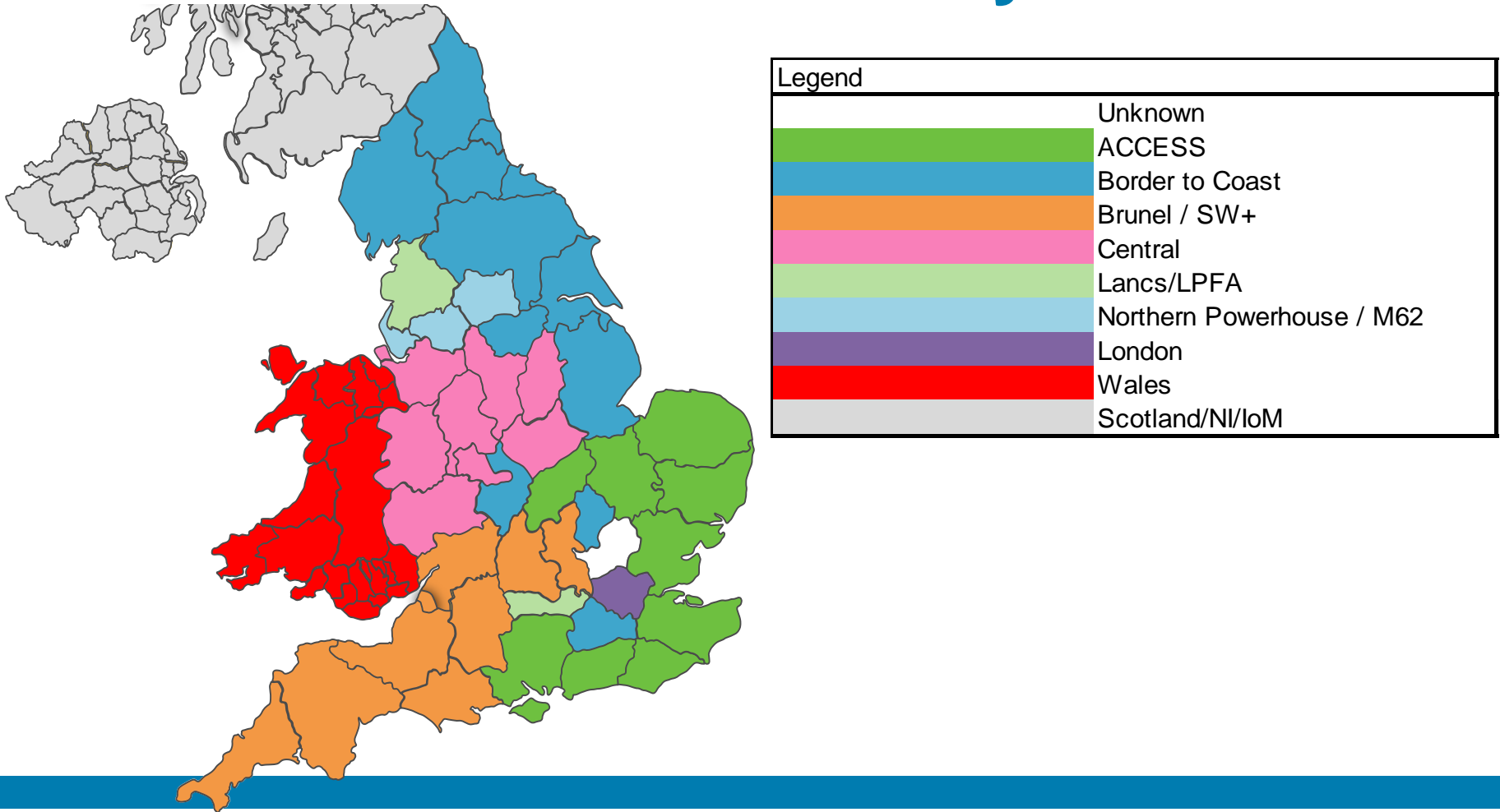
- a) Scale – “*half a dozen*” pools;
>£25bn
- b) Strong governance & decision making
- c) Reduced costs & provision of excellent value for money
- d) Improved capacity & capability to invest in infrastructure



July Submissions

	Pool	Scale	
1	Access (10 Funds)	£30.0bn	✓
2	London CIV (L-CIV - 33 Funds)	£27.6bn	✓
3	Brunel Pension Partnership (BPP - 10 Funds)	£23.2bn	✓
4	Central (9 Funds)	£35.0bn	✓
5	Northern (3 Funds)	£35.7bn	✓
6	Local Pension Partnership (LPP - 3 Funds)	£13.7bn	?
7	Border to Coast Pensions Partnership (BCPP - 13 Funds)	£35.9bn	✓
8	Wales (8 Funds)	£12.3bn	?

Submissions - July 2016


















PENSIONS PARTNERSHIP



Borders To Coast 13 Partner Funds

 <p>Bedfordshire Pension Fund</p>	£1.7bn	 <p>SOUTH YORKSHIRE PENSIONS AUTHORITY</p>	£6.3bn
 <p>Cumbria County Council</p>	£2.0bn	 <p>Sheffield City Region COMBINED AUTHORITY</p>	£0.2bn
 <p>Durham County Council</p>	£2.3bn	 <p>Surrey Pension Fund</p>	£3.2bn
 <p>ERPFF East Riding Pension Fund</p>	£3.7bn	 <p>Teesside Pension Fund</p>	£3.2bn
 <p>Lincolnshire COUNTY COUNCIL <i>Working for a better future</i></p>	£1.8bn	 <p>Tyne and Wear Pension Fund Administered by South Tyneside Council</p>	£6.4bn
 <p>North Yorkshire County Council</p>	£2.4bn	 <p>WARWICKSHIRE pension fund</p>	£1.7bn
 <p>NORTHUMBERLAND Northumberland County Council</p>	£1.1bn	<p>BCPP</p>	£35.9bn

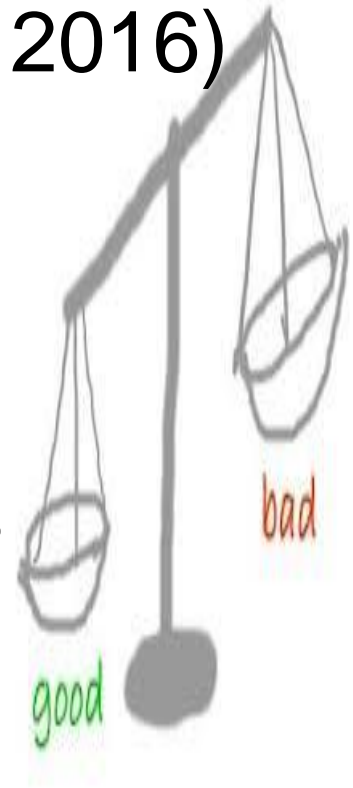
What is BCPP?

- A means of pooling assets to achieve savings through scale, improve investment expertise & team resilience.
- By building a fully regulated, jointly owned, investment management company.
- BCPP anticipated annual savings £55m – £25m.
- Combined the Funds have
 - over £35.9bn in assets
 - 905,995 Members
 - 2,166 Employers (as at 31.01.15)



BCPP Pooling - Case For Cumbria

- Pooling regulatory requirement (Nov 2016)
- Payback
 - Expected – immediate.
 - Market unfavourable - 4 Years.
- Future anticipate annual savings £4.3m – £2.1m
- Means of meeting upcoming wider regulation.



Aim of Pooling

Goal

Maximise Net of
Costs Performance



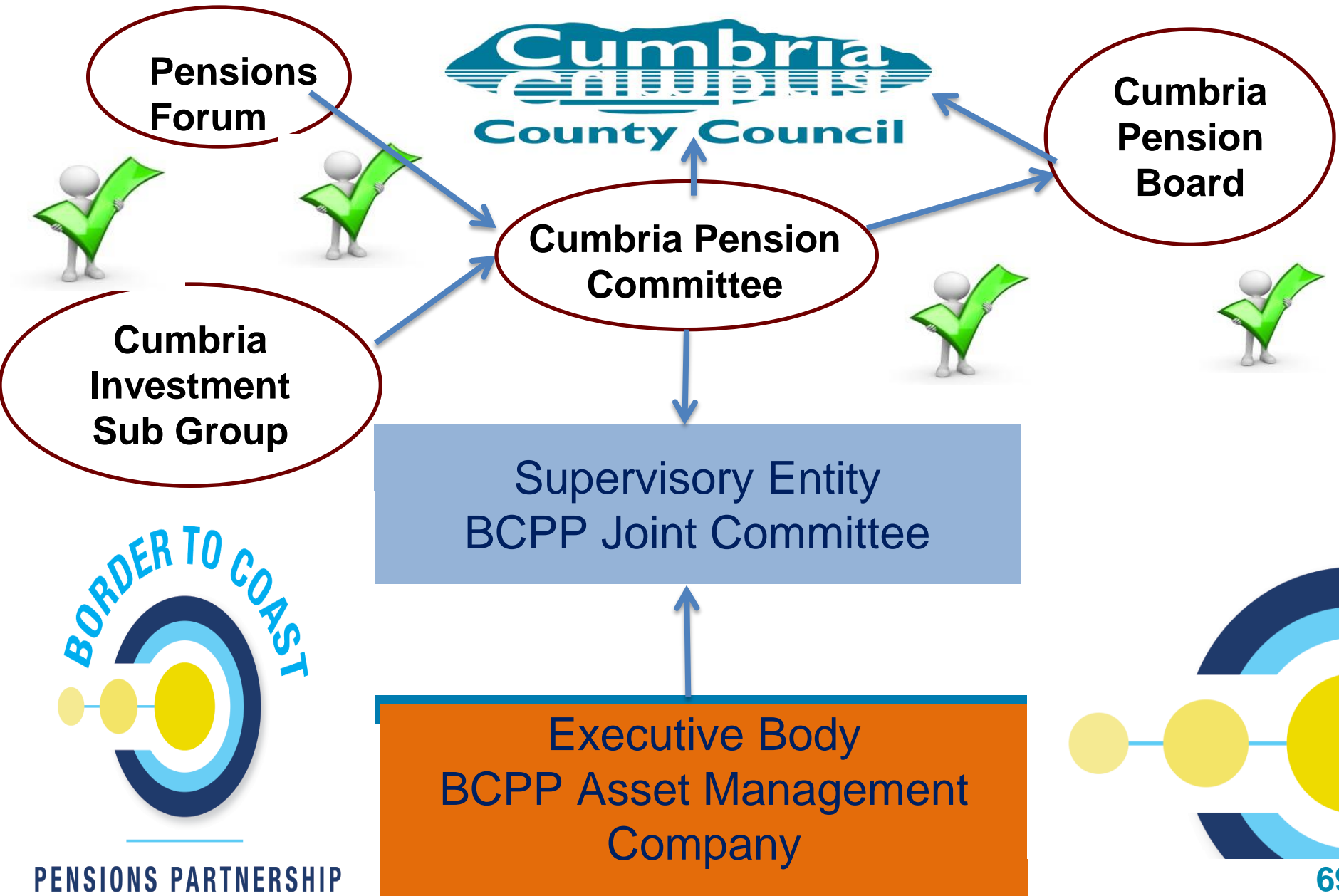
Balance

Funds need
for choice in
asset
allocation



Pools need for
scale to drive
down costs &
improve
efficiency

Post Pooling Governance Structure



What Changes Post Pooling

- Governance and sovereignty stays with Cumbria,
- Key driver in investment performance is asset allocation (90 – 95%% return), remains with Pension Cttee.
- No impact on scheme members,
- Once fully operational all savings indirectly passed to employers in contribution rate.

Where Are We Today?

- July 2016 - 8 pooling proposals submitted
- Pooling statutory requirement - Regs laid Nov
- Final review meetings on going with Minister (BCPP this week).
- Approvals following meetings,
- Despite delays - required delivery date April 2018.



**Cumbria County Council
Triennial Actuarial
Valuation Progress &
Results to date
Mercers**

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

2016 ACTUARIAL
VALUATION

EMPLOYER FORUM

21 November 2016



John Livesey FIA



Leanne Johnston FIA

VALUATION BASICS IN SIMPLE TERMS

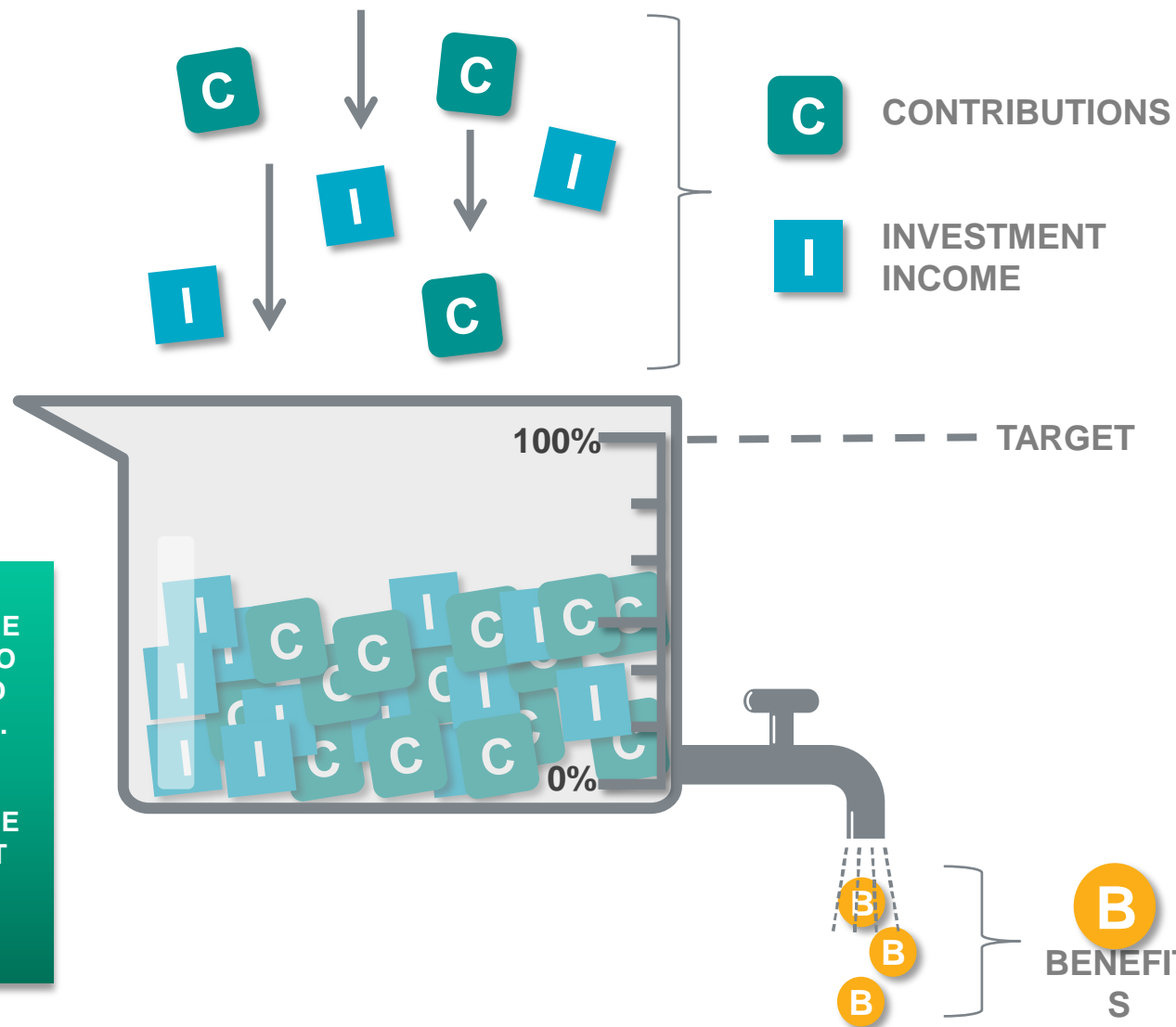
Has the Fund got enough assets to cover expected benefits built up to date



How much will the Employers have to pay for benefits earned in the future?

PURPOSE OF AN ACTUARIAL VALUATION

SOURCES OF FINANCE



OBJECTIVE: IS TO HAVE SUFFICIENT ASSETS TO PAY BENEFITS AS AND WHEN THEY FALL DUE.

NEED TO AGREE A STRATEGY ON BALANCE BETWEEN INVESTMENT RETURN AND CONTRIBUTIONS

2016 VALUATION- DEVELOPING THE FUNDING STRATEGY

MAIN AREAS



OBJECTIVES OF THE FUND

1. 100% solvency level in a reasonable timeframe
2. Maintain sufficient assets to pay all benefits as they arise
3. Sufficiently prudent funding plan to protect against downside outcomes



DEFICIT RECOVERY PLAN

1. Sets out timeframe and plan to address any shortfall
2. Sets out the treatment of different employers when determining the recovery plan, taking into account affordability
3. Maintain existing recovery plans in general.



EMPLOYER ASSET SHARES AND CONTRIBUTIONS

1. Multi employer scheme so each employer has it's own notional asset share
2. Contribution rates set on a bespoke basis

SOLVENCY AND LONG TERM COST EFFICIENCY

1. Solvency - where the Fund's liabilities (i.e. benefit payments) can be reasonably met as they arise
2. Long-term cost efficiency - Contribution levels cannot be set at a level that is likely to give rise to additional costs in the future
3. Desirability of a stable primary rate



ACTUARIAL ASSUMPTIONS

1. Allow for appropriate prudence and reflecting the demographic characteristics of the Fund
2. Linked to the Fund's investment strategy and economic outlook
3. Determines pace of funding along with recovery period



FUND AND EMPLOYER POLICIES

1. Covenant assessment and monitoring
2. Policy for admitting employers
3. Policy for employer terminations



2016 FUNDING STRATEGY

KEY POINTS



DISCOUNT RATE LINKED EXPLICITLY TO REAL RETURNS VERSUS CPI. MAINTAIN EXISTING REAL RATE FOR SOLVENCY BUT REDUCE BY 0.25% P.A. FOR FUTURE SERVICE RATE ASSESSMENT.

PAY GROWTH - SHORT TERM PAY RESTRAINT OF 2% PA TO 2020

50/
50

REMOVAL OF ALLOWANCE FOR FUTURE 50/50 SCHEME MEMBERSHIP



UPDATED DEMOGRAPHIC ASSUMPTIONS – LIFE EXPECTANCY, ILL HEALTH ETC.



REDUCTION IN AVERAGE DEFICIT RECOVERY PERIOD (SUBJECT TO REASONABLE AFFORDABILITY) TO MAINTAIN DEFICIT RECOVERY PLAN AND FUTURE INDEXATION OF DEFICIT CONTRIBUTIONS LINKED TO CPI



UPDATE OF FUNDING STRATEGY STATEMENT

FUNDING FRAMEWORK

ASSET RETURNS COMPARED TO CPI

Broadly speaking, there are two measures where the Fund's returns need to "beat" CPI to reduce long term costs and therefore contribution requirements:

Long term CPI expectations



- Impacts the value placed on the Fund's liabilities.
- Drives contribution rates and the amount the Fund needs to hold in reserves as part of the long term funding arrangements.
- The Fund requires long term investment returns in excess of CPI

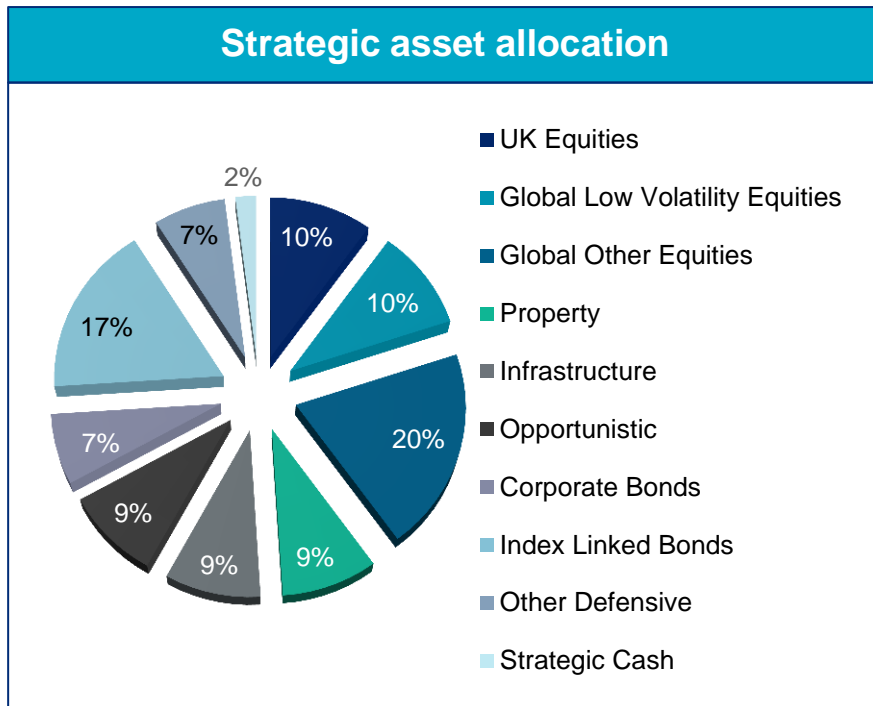
Short term (year-on-year) CPI changes



- Impacts the increase to members' pensions each year.
- There will inevitably be short term fluctuations between movements in CPI and the Fund's short term asset returns.

How do you invest to meet and beat this target?

DISCOUNT RATE EXPECTED INVESTMENT RETURNS - 31 MARCH 2016



Chance of achieving return on current strategy	Expected Real Return
50%	CPI + 3.0% p.a.
60%	CPI + 2.4% p.a.
67%	CPI + 2.0% p.a.
75%	CPI + 1.4% p.a.



"Best estimate"

Prudent AOA

2016 ACTUARIAL VALUATION PRELIMINARY TOTAL FUND RESULTS AS AT 31 MARCH 2016








	2013 Actuarial Valuation	31 March 2016
	Final Results	Preliminary Results
Deficit ¹	£457m	£211m
Funding Level	78.4%	90.7%
Employer Future Service Rate ² (% of pay per annum)	13.6% ³	15.1% ⁴

Contribution rates were determined and agreed on an updated position at August 2013. At August 2013 the funding level was 83% and the deficit had reduced to £343m.

Some employers also took into account some advance credit for favourable experience on investment returns (lower upfront deficits) when setting contribution rates.



2016 ACTUARIAL VALUATION INTERVALUATION EXPERIENCE – WHOLE FUND

Actual vs Expected	Impact	Comment
Investment Returns		Investment returns have been significantly better than expected
Membership Profile		Marginal impact on Future Service Rate due to change in membership profile
CPI Pension Increases		Overall liabilities are around 3% lower compared to those expected
Pensioner Deaths		Small reduction in liabilities
Pay Increases		Impact on total liabilities is an increase of around 1%-2% varying by employer
Early leavers		Impact on total liabilities is a decrease of around 1%
Other factors e.g. ill health, bulk transfers, transfer-in strains etc.		Marginal impact

IMPACT ON INDIVIDUAL EMPLOYERS WILL VARY

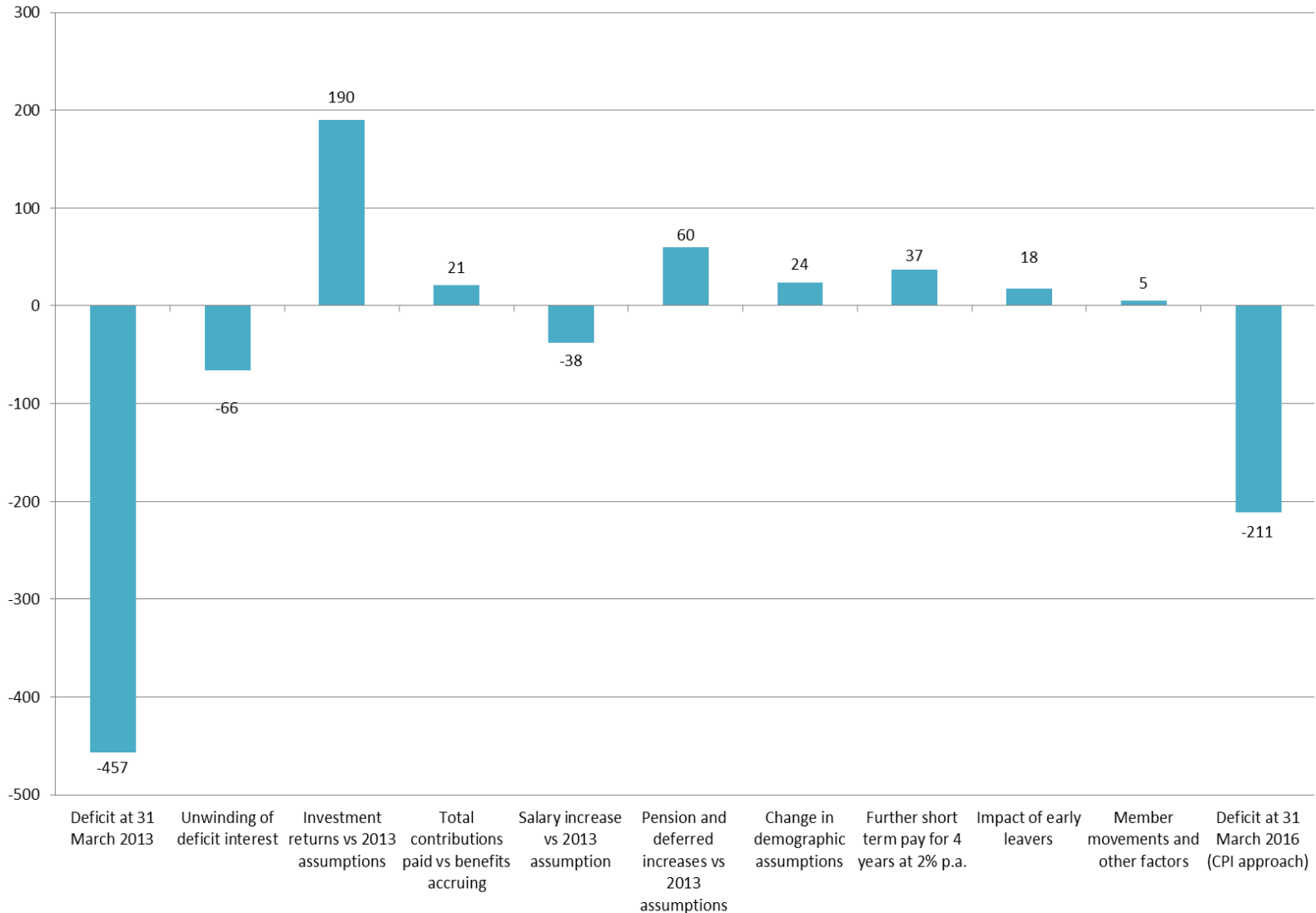
2016 ACTUARIAL VALUATION ASSUMPTIONS UPDATE – WHOLE FUND

Analysis	Effect on Deficit (Whole Fund)	Effect on Future Service Rate (Whole Fund)	Comment in relation to Fund
Real discount rate above CPI			No change for past service, increase in future service rate
Short-term pay growth			Positive impact on deficit
Life Expectancy			Analysis indicates lower improvements than expected since 2013
Ill-Health Retirement			Marginal decrease in future service rate but no impact on deficit
Early leavers			Marginal decrease in deficit, no impact on future service rate
50/50			Minimal impact on deficit Increase in future service rate
Commutation			No change from 2013 assumption
Proportions Married / Dependants			Marginal impact only

IMPACT ON INDIVIDUAL EMPLOYERS WILL VARY

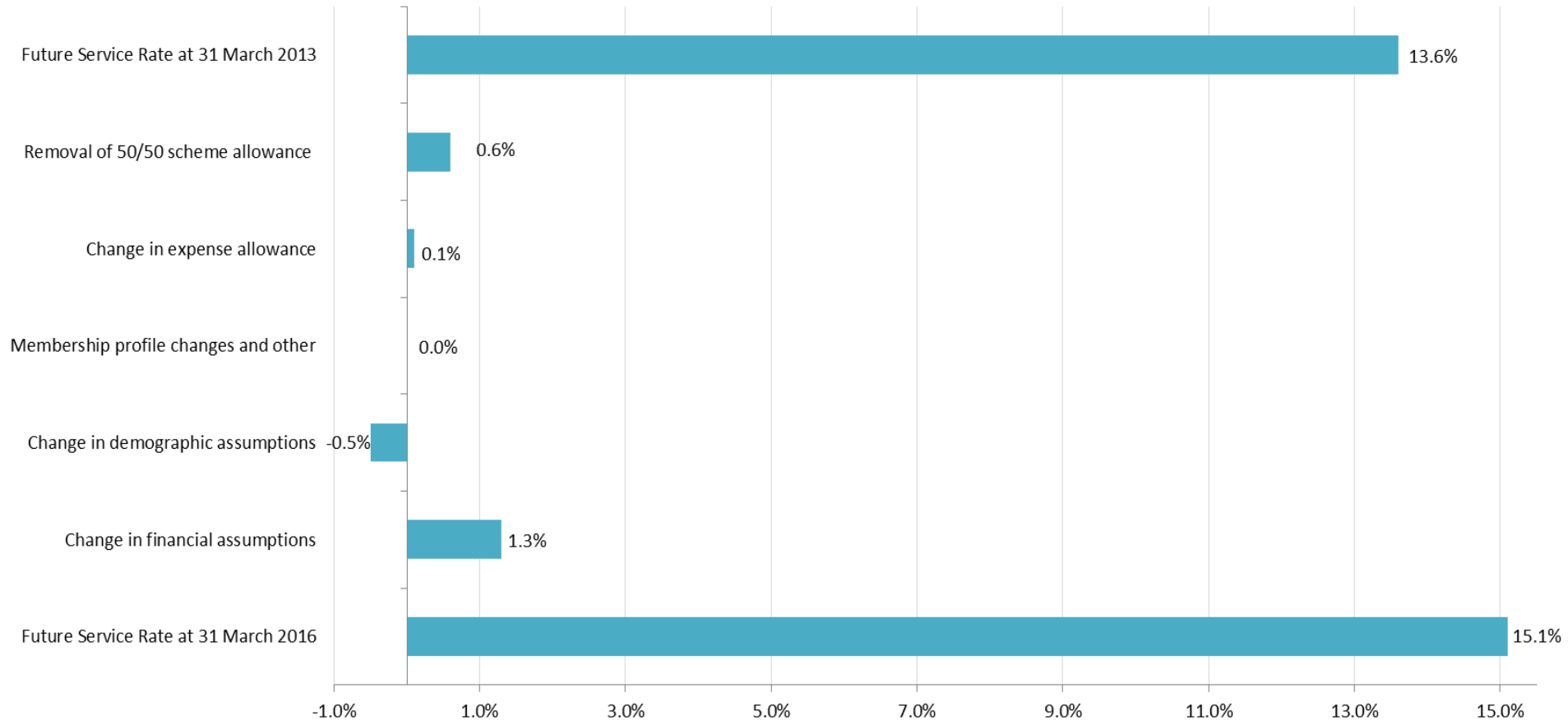
2016 RESULTS WHOLE FUND

ANALYSIS OF CHANGE IN DEFICIT POSITION



2016 RESULTS WHOLE FUND

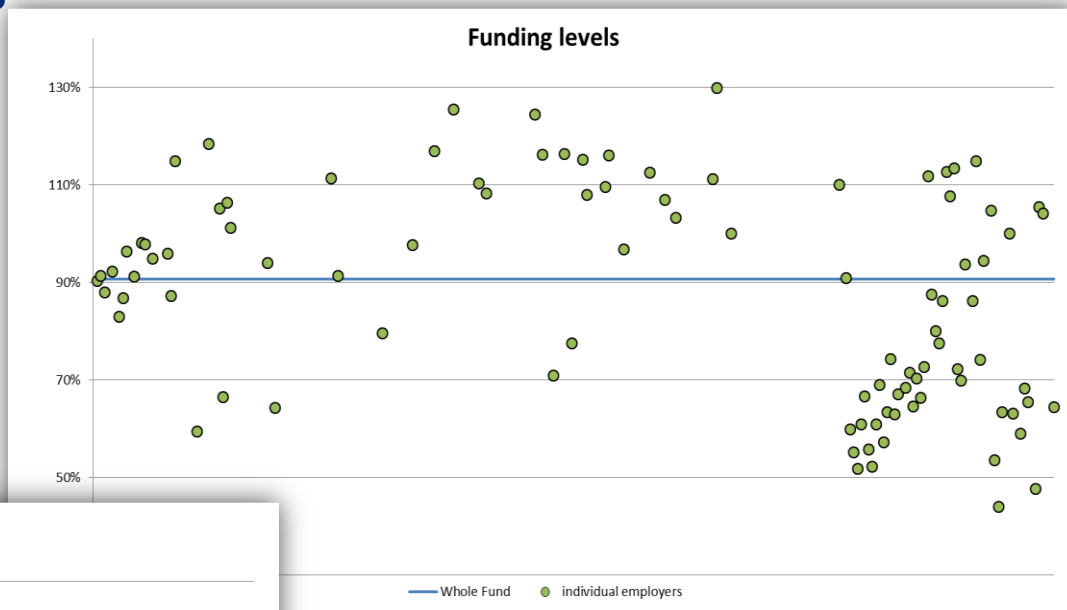
ANALYSIS OF CHANGE IN FUTURE SERVICE RATE



2016 RESULTS WHOLE FUND

2016 INDIVIDUAL EMPLOYERS

RANGE OF OUTCOMES



INDIVIDUAL EMPLOYERS

KEY DIFFERENCES BETWEEN RESULTS

Profile of membership



- Proportion of males and females
- Average age of the membership
- Whether there are any particularly young / old members

Membership Experience



- Salary increases granted versus those expected
- The number of active members that have left the employer
- The number of ill health retirements and pensioner deaths versus those assumed

Other Factors



- Any prepayment of contributions made
- Phasing/stepping of contributions selected
- The number of 50/50 members assumed
- Adopted further flexibilities from last time

2016 VALUATION KEY MESSAGES



INCREASE IN FUTURE SERVICE CONTRIBUTION RATE, PERHAPS 1-2% OF PAY ON AVERAGE – BUT VERY VARIABLE BY EMPLOYER. EXTRA 0.6% CHANGE IF ALLOWED FOR 50/50 SCHEME IN 2013



REDUCTION IN DEFICIT CONTRIBUTIONS FOR MOST, LARGELY AS A RESULT OF FAVOURABLE INVESTMENT PERFORMANCE.

PROPOSING TO LINK ANNUAL DEFICIT CONTRIBUTIONS TO CPI GOING FORWARD



REDUCTION IN DEFICIT CONTRIBUTIONS WILL OUTWEIGH INCREASE IN FUTURE SERVICE FOR SOME BUT NOT ALL EMPLOYERS. THERE WILL BE VARIATIONS FROM EMPLOYER TO EMPLOYER AND IT WILL DEPEND ON EMPLOYER SPECIFIC CIRCUMSTANCES AND DECISIONS TAKEN AT THE 2013 VALUATION.



PHASING OF INCREASES MAY BE PERMITTED AND FURTHER DISCUSSIONS WITH THOSE EMPLOYERS WITH AFFORDABILITY CONSTRAINTS MAY BE NEEDED.

2016 VALUATION BREXIT – ACTIONS



In light of BREXIT, no “knee jerk reactions” in our view but keep a watching brief on the development. Re-visit the asset return modelling to allow for post Brexit conditions



Consider how/if it impacts on the suitability of the investment strategy and consider risk management strategies.



Prepare for further market volatility as there may be an extended period due to the uncertainty around the economic impact of the decision on the UK and Europe



Ensure the framework to assess and monitor the covenant of employers considers the potential impact e.g. reliance on EU funding (may impact on some councils), overseas students etc.

2016 VALUATION

REMINDER - WHAT ABOUT FRS17 / IAS19?



Funding basis is not to be confused with Financial Reporting Standard 17 (FRS17)/International Accounting Standard 19 (IAS19) Assessment.



Solely required to adhere to accounting disclosure requirements. Performed annually and disclosed in an Employer's accounts.



Assessed using a “prescribed” set of assumptions, which differ from those used in the actuarial valuation.



Does not impact on the Employer's contribution requirements.

DRAFT

FUNDING STRATEGY STATEMENT

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

{SEPTEMBER} 2016

Cumbria County Council

This Funding Strategy Statement has been prepared by Cumbria County Council (the Administering Authority) to set out the funding strategy for the Cumbria Local Government Pension Scheme (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Key areas in particular that we would need your comments relate to:

- The appropriateness of the assumptions, in particular whether you feel the pay growth assumption is appropriate for your circumstances.
- The proposals in relation to the deficit recovery plan.
- Any comments in relation to phasing/stepping of any contributions increases.
- Information in relation to the affordability of contributions and specifically whether there is any particular year over 2017-2020 which will be more challenging.



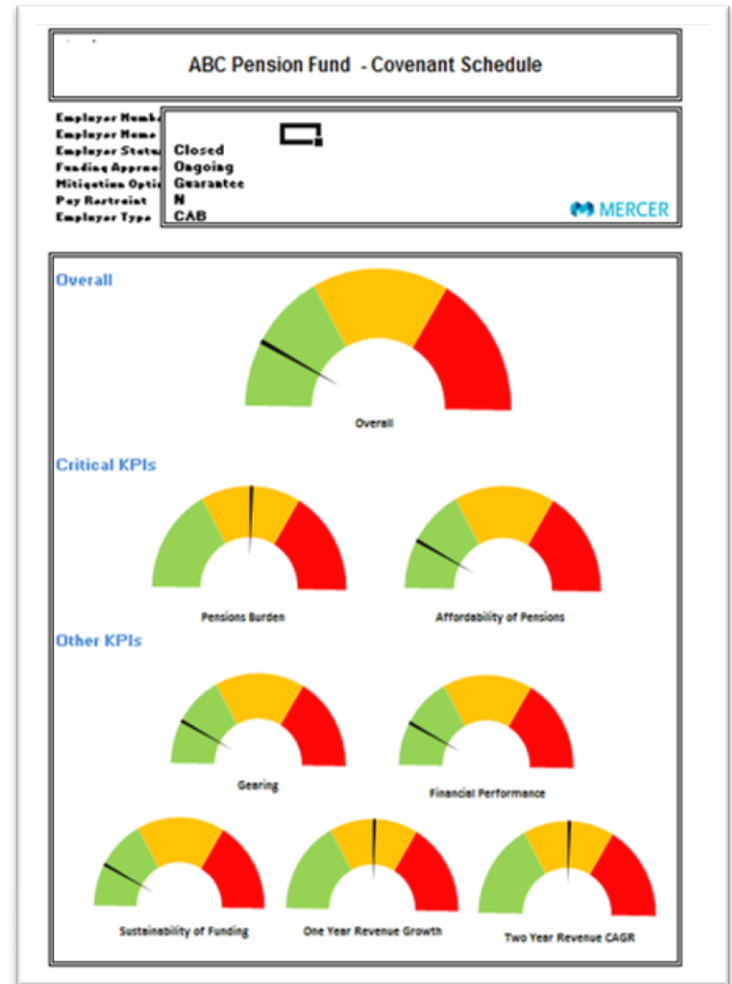
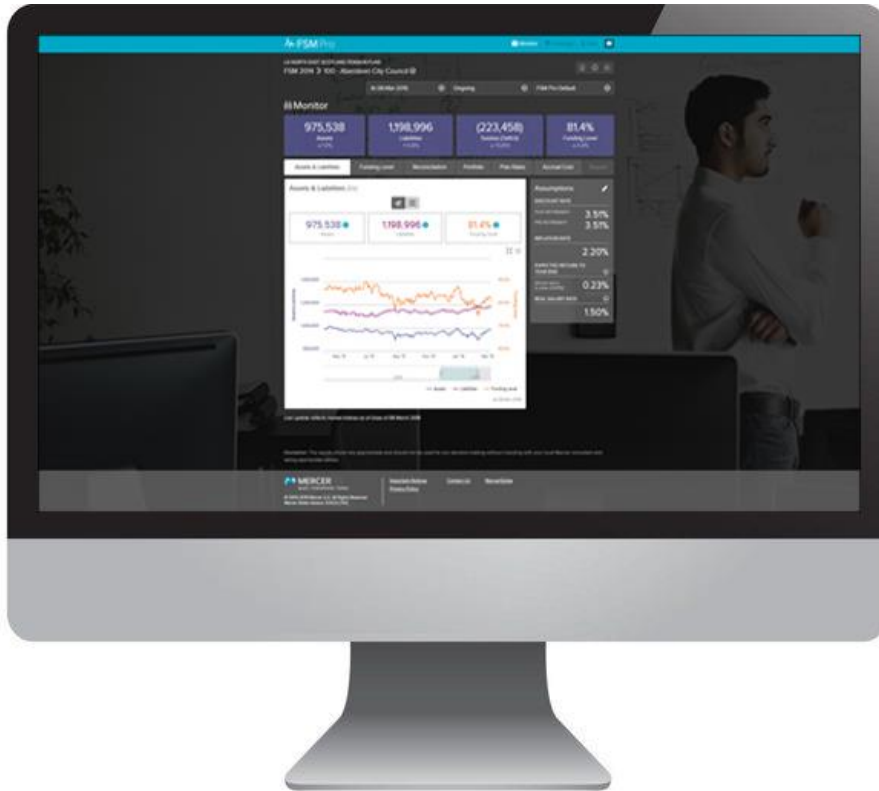
COVENANT DATA REQUEST

ABC Pension Fund Employer Covenant Tool

Employer Name	<input type="text"/>	
Employer Number	<input type="text"/>	
Financial year 2014/15		
Total income	<input type="text"/>	Total income or revenues
Financial year 2015/16		
Total income	<input type="text"/>	Total income or revenues
Financial year 2016/17 (current year)		
Total income	<input type="text"/>	Total income or revenues
Surplus before interest	<input type="text"/>	Surplus (+) or deficit (-) before interest
Interest cost	<input type="text"/>	Interest on debt and financing
Net surplus	<input type="text"/>	Surplus (+) or deficit (-) for the year
Debt	<input type="text"/>	Total debt at the end of the year (if debt held this should be included)
Cash	<input type="text"/>	Total cash balances at the end of the year
Net assets	<input type="text"/>	Total accumulated reserves or funds, excluding any reserves held in other funds
Budgeted pension funding cost		
- deficit contributions	<input type="text"/>	Budgeted payments (£)
- ongoing employer contributions	<input type="text"/>	Budgeted payments (£)



COVENANT ONGOING MONITORING DASHBOARD



2016 VALUATION TIMELINE

Initial meetings with
Fund Officers.



Develop initial funding
considerations/analysis

Get Data



Commence FSS draft and
policy refresh and updates



Agree
contributions



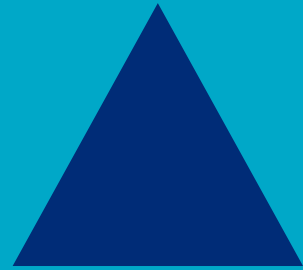
Valuation sign off

We are
here

**Initial results
for Fund
employers**

Feedback from
consultation

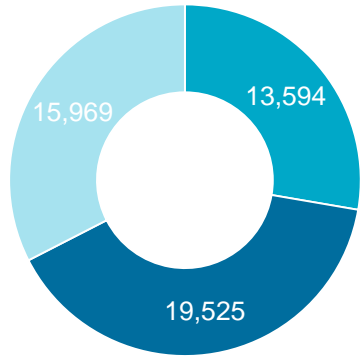
APPENDIX



OVERVIEW OF FUND PROFILE

MEMBERSHIP DETAILS

MEMBERSHIP DETAILS PROVIDED BY THE ADMINISTRATORS



MEMBERSHIP DEVELOPMENT

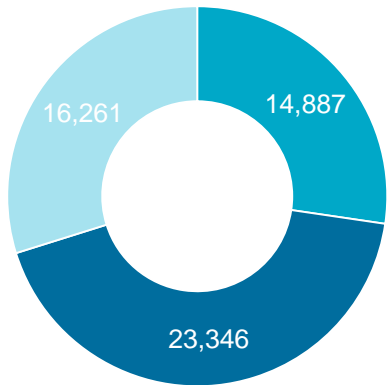
31 MARCH 2013

total membership:
49,088

■ Pensioners

■ Deferreds

■ Actives

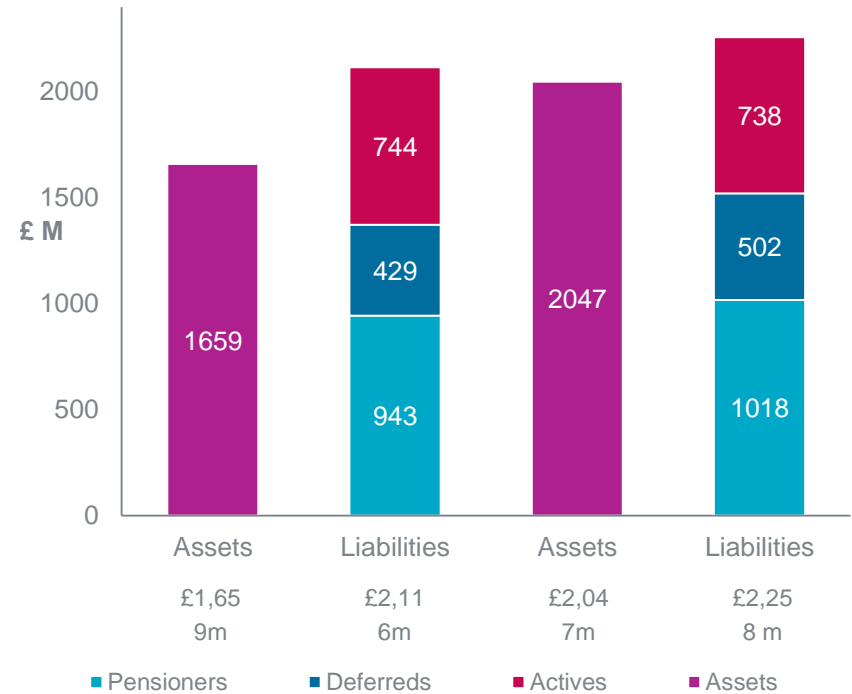


31 MARCH 2016

total membership:
54,494

31 MARCH 2013

31 MARCH 2016



FUND MEMBERSHIP

MEMBERSHIP ANALYSIS

	31 March 2013	31 March 2016
Active members		
Number	15,969	16,261
Total Pensionable Salaries (£000s p.a.) ¹	249,438	253,689
Average Pensionable Salary (£ p.a.)	15,620	15,601
Average age ²	49.5	49.9
Average accrued pension	2,585	2,695
Deferred pensioners ³		
Number	19,525	23,346
Total deferred pensions revalued to valuation date (£000s p.a.)	22,651	27,050
Average deferred pension (£ p.a.)	1,160	1,159
Average age ²	49.1	50.0
Current Pensioners and Dependants		
Number	13,594	14,887
Total pensions payable (£000s p.a.)	58,676	64,084
Average Pension	4,316	4,305
Average Age ²	69.8	70.6

¹ Including actual pay for part time members

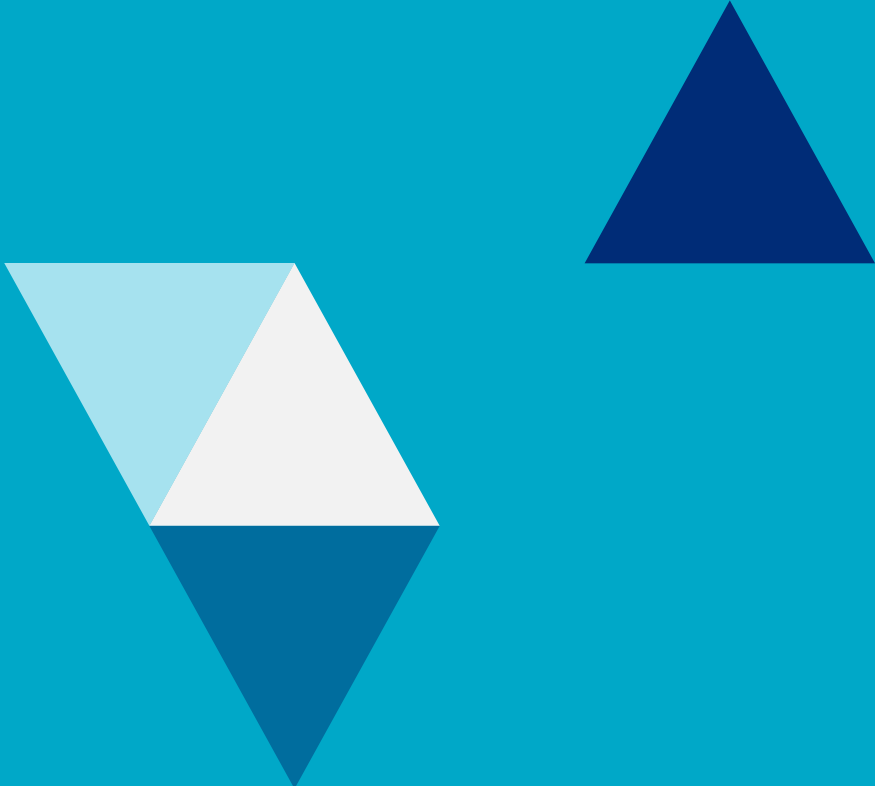
² Weighted by accrued pension/deferred pension/pension

³ Including frozen refunds

FINANCIAL ASSUMPTIONS

Market yields	31 March 2013	31 August 2013	31 March 2016
Fixed interest gilt yield	3.2% p.a.	3.6% p.a.	2.2% p.a.
Index-linked gilt yield	-0.4% p.a.	0.0% p.a.	-1.0% p.a.
Assumed CPI price inflation (derived by differencing yields on fixed-interest and index-linked gilts less 1% p.a.)	2.6% p.a.	2.6% p.a.	2.2% p.a.
Assumptions used for Liabilities			
Derivation of Discount Rate /Expected Return	CPI + 2.0% p.a. (Gilts + 1.4% p.a.)	CPI + 2.4% p.a. (Gilts + 1.4% p.a.)	CPI + 2.0% p.a.
Discount rate:	4.6% p.a.	5.0% p.a.	4.2% p.a.
Inflation: Consumer Prices Index (CPI)	2.6% p.a.	2.6% p.a.	2.2% p.a.
Long term pay growth assumption	4.1% p.a.	4.1% p.a.	3.7% p.a.
Pension increases	2.6% p.a.	2.6% p.a.	2.2% p.a.
Short term pay growth assumption	1% p.a. to 31 March 2016	1% p.a. to 31 March 2016	2% p.a. to 31 March 2020
Fund investment return	A total return of 26.7% over the period from 1 April 2013 to 31 March 2016.		

GLOSSARY



GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of a defined benefit scheme to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit : the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets.

Discount Rate: the rate of interest used to convert a cash amount occurring in the future to a present value.

Employer Covenant: the degree to which an employer participating in an occupational pension scheme is willing and able to meet the funding requirements of the scheme.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Equities: shares in a company which are bought and sold on a stock exchange.

Funding Level: the difference between the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.

Funding Strategy Statement: This is the main document that outlines how the administering authority will manage employer’s contributions to the Fund.

Funding Target: an assessment of the present value of benefits to be paid in the future.

Under the current Funding Strategy Statement, the desired funding target is equal to the past service liabilities assessed on the ongoing basis.

Government Actuary's Department (GAD): the GAD are responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Fund’s objectives and attitude to risk.

Past Service Liabilities: this is the present value of the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater, and in 75% cases the return would be lower.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation requires the assumptions adopted for an actuarial valuation to be prudent.

Real Return: a rate of return net of inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time (“the recovery period”), as set out in the Funding Strategy Statement.

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary’s Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

ACTUARIAL ADVICE

- We have prepared this document for the Administering Authority for the purpose of planning for the 2016 Actuarial Valuation.
- 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.
- Mercer does not accept any liability or responsibility to any third party in respect of this report.
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- We are not lawyers, tax specialists or accountants. We are unable to give legal/tax/accountancy advice. If you think such advice is appropriate, you are responsible for obtaining your own professional advice.
- This presentation is correct as at 21 November 2016. It will not be updated unless requested.

MAKE



**TOMORROW,
TODAY**

Cumbria County Council

Thanks for Listening

Any Questions?

Cumbria County Council
Provisional date Next Meeting:
10th October 2016.
Meeting closed.