

# Pensions Committee

**Thursday 20 September 2018**  
**2.00 pm Luttrell Room, County Hall,**  
**Taunton**



To: The Members of the Pensions Committee

Cllr G Noel (Chairman), Cllr M Chilcott, Cllr S Coles, Cllr James Hunt, Bryant, Richard Parrish, Sarah Payne and Mark Simmonds

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk - 12 September 2018

For further information about the meeting, please contact Mike Bryant 01823 359048 or [MBBryant@somerset.gov.uk](mailto:MBBryant@somerset.gov.uk)

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Section 100A (4) of the Local Government Act 1972.

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on [www.somerset.gov.uk/agendasandpapers](http://www.somerset.gov.uk/agendasandpapers)



**RNID typetalk**

## **AGENDA**

Item Pensions Committee - 2.00 pm Thursday 20 September 2018

1 **Report of the Actuary** (Pages 3 - 32)

To receive a presentation from Barnett Waddingham, the Fund's appointed firm of actuaries.

 **BARNETT  
WADDINGHAM**  
beyond the expected

## Somerset County Council Pension Fund

### Actuarial Update

20 September 2018

Melanie Durrant FIA  
Associate

 **PROFESSIONAL  
PENSIONS  
UK PENSIONS  
AWARDS 2017**  
**WINNER**  
Actuarial/Pensions  
Consultancy of the Year

 **APENSIONSAge  
WARDS**  
2017  
**WINNER**  
ADMINISTRATION PROVIDER  
OF THE YEAR



## Agenda

- Valuations - recap
- Where were we?
- Where have we got to?
- Where might we be going?
- Other current issues
- Questions

## Your team



**Graeme Muir**  
Practice Area Leader  
Lead Partner  
Actuary



**Melanie Durrant**  
Lead Associate  
Actuary

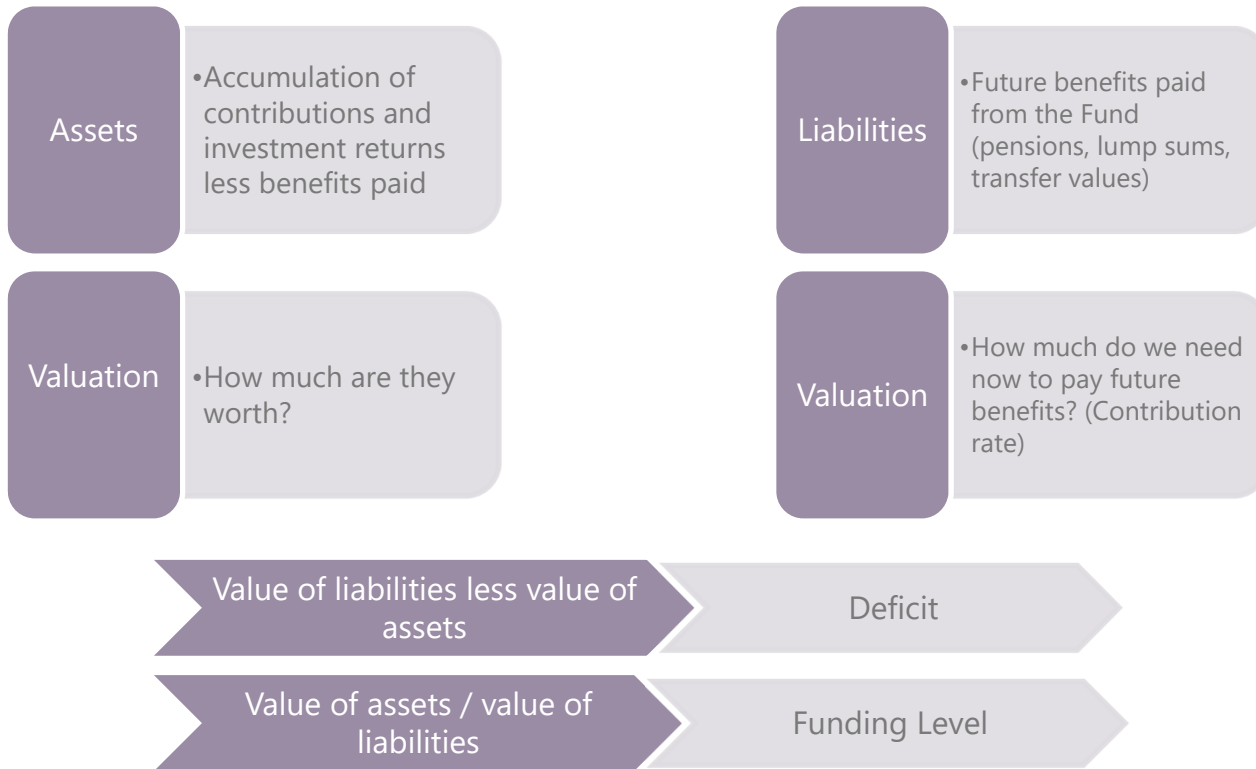


**Louise Lau**  
Client Account Manager  
Actuary



**Lucy Reynolds**  
Actuarial Assistant

## Valuations - recap



## Purpose of valuations

Valuations	<ul style="list-style-type: none"><li>• Answer questions</li><li>• Many questions!</li></ul>
Ongoing triennial funding valuation	<ul style="list-style-type: none"><li>• How much do employers need to pay in future to have enough assets to pay benefits?</li></ul>
Annual accounting valuations (IAS19/FRS102)	<ul style="list-style-type: none"><li>• Help accountants compare</li><li>• If we were a plc how much would we need to borrow to finance liabilities?</li></ul>
GAD valuations	<ul style="list-style-type: none"><li>• Compare Funds / long term costs of LGPS / section 13</li></ul>

## Triennial funding valuations

### Set out in LGPS Regulations

- to *certify* levels of employer contributions to secure the *solvency* of the Fund and the *long term cost efficiency* of the Scheme

### Also have regard to the Funding Strategy Statement

- As determined by administering authority
- With some actuarial help!

Actuary to "have regard to desirability of maintaining as nearly constant a (primary) 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
- Look at employer financial strength ("covenant")



So where were  
we?

## 2016 Whole Fund results

### Funding level

- Deficit of £461m (77% funded)
- Assets of £1.582billion

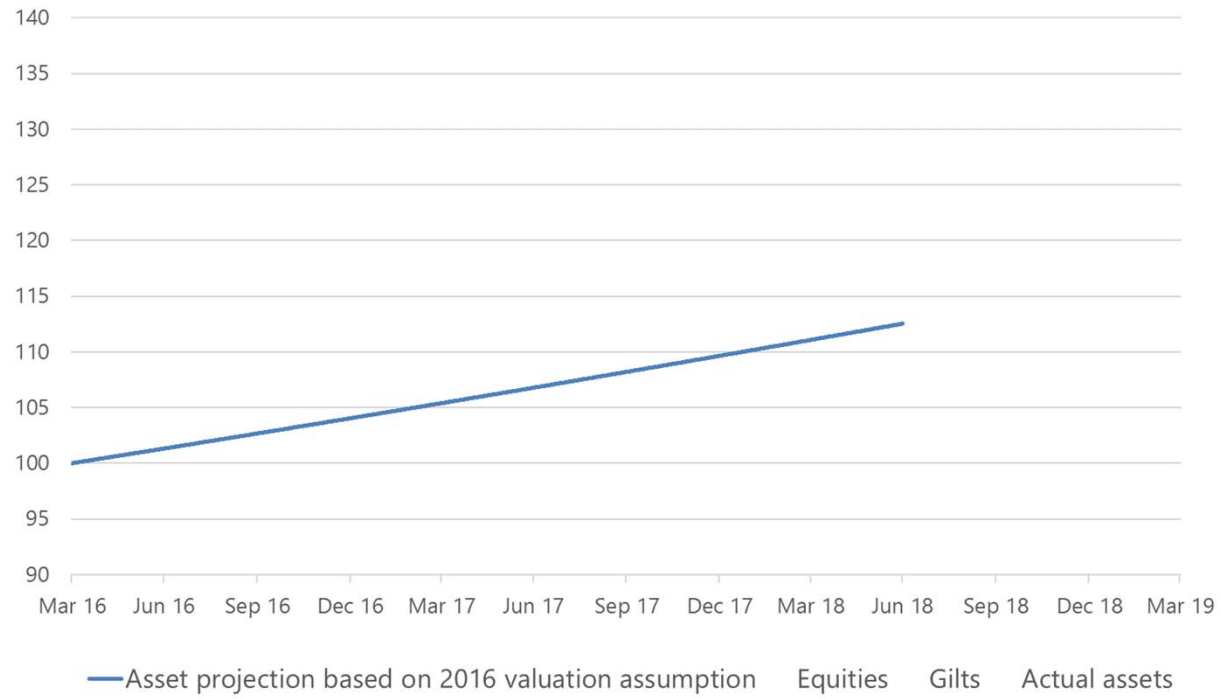
### Average employer contribution rate

- 22.6% p.a. made up of
  - an average deficit contribution of 7.6% p.a. (24 year recovery period maximum)
  - plus an average future service contribution of 15% p.a. of Pensionable Pay

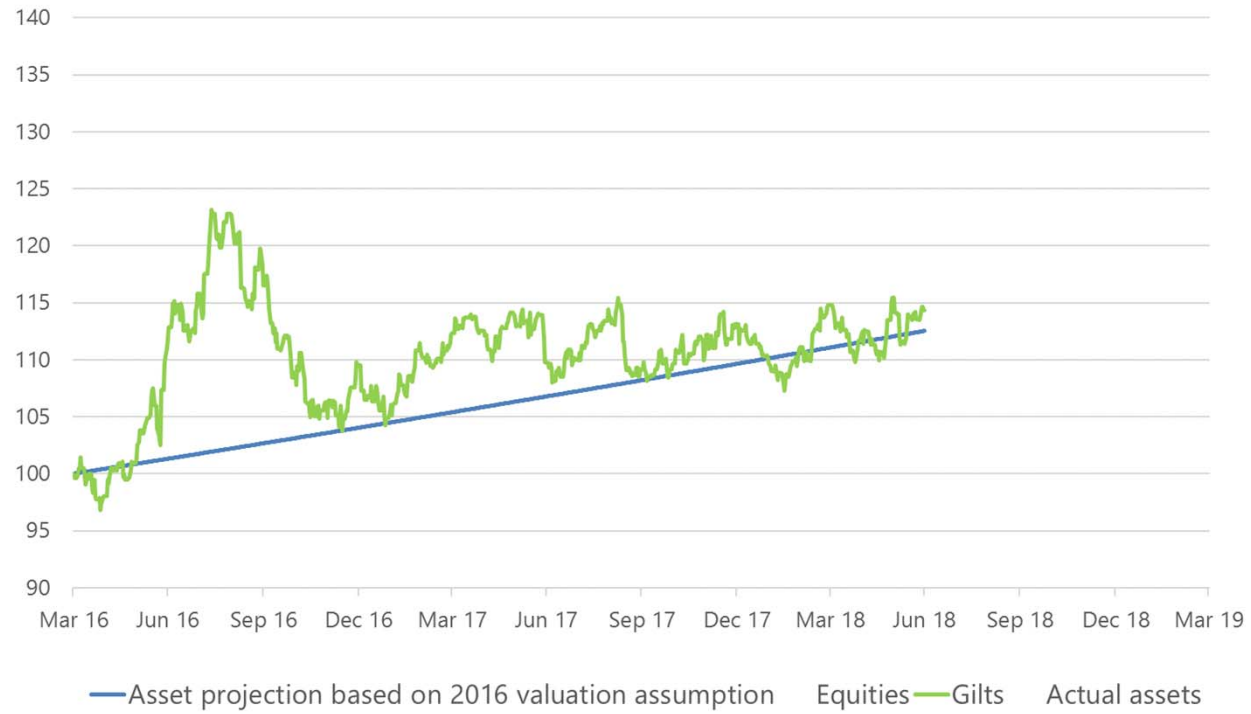
### Varies quite a lot by employer

And where are  
we now?

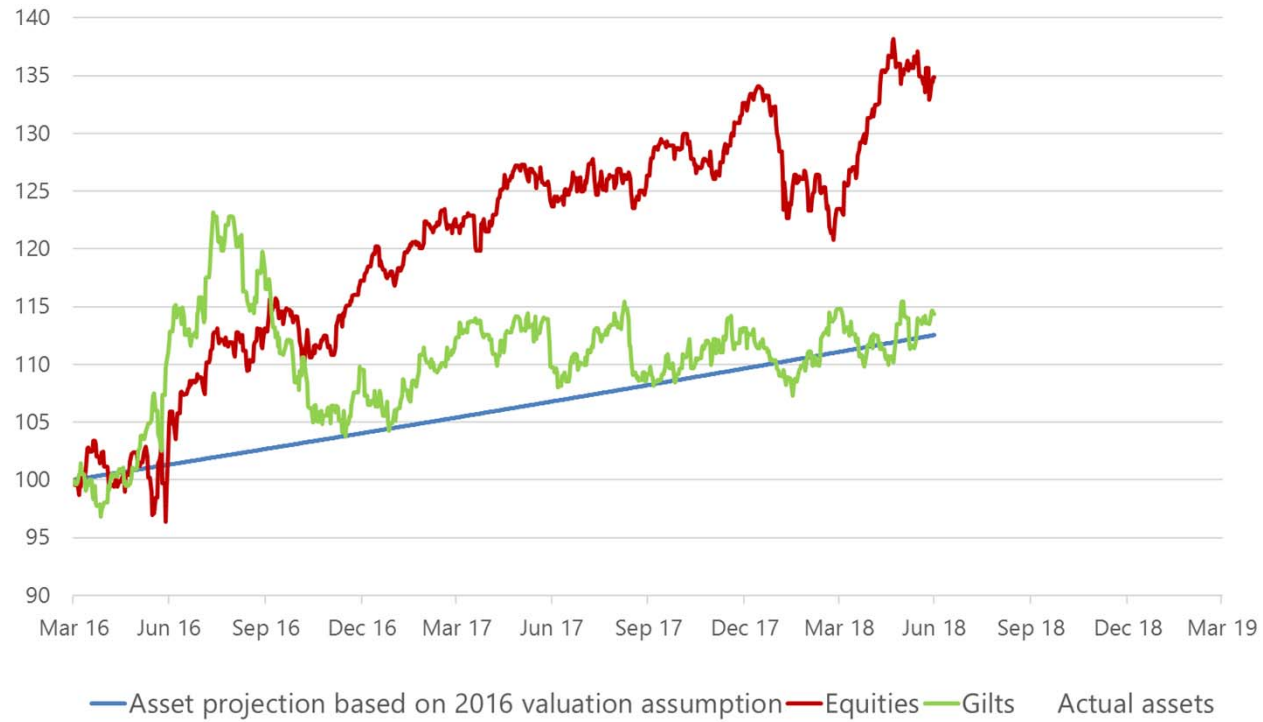
# Assets



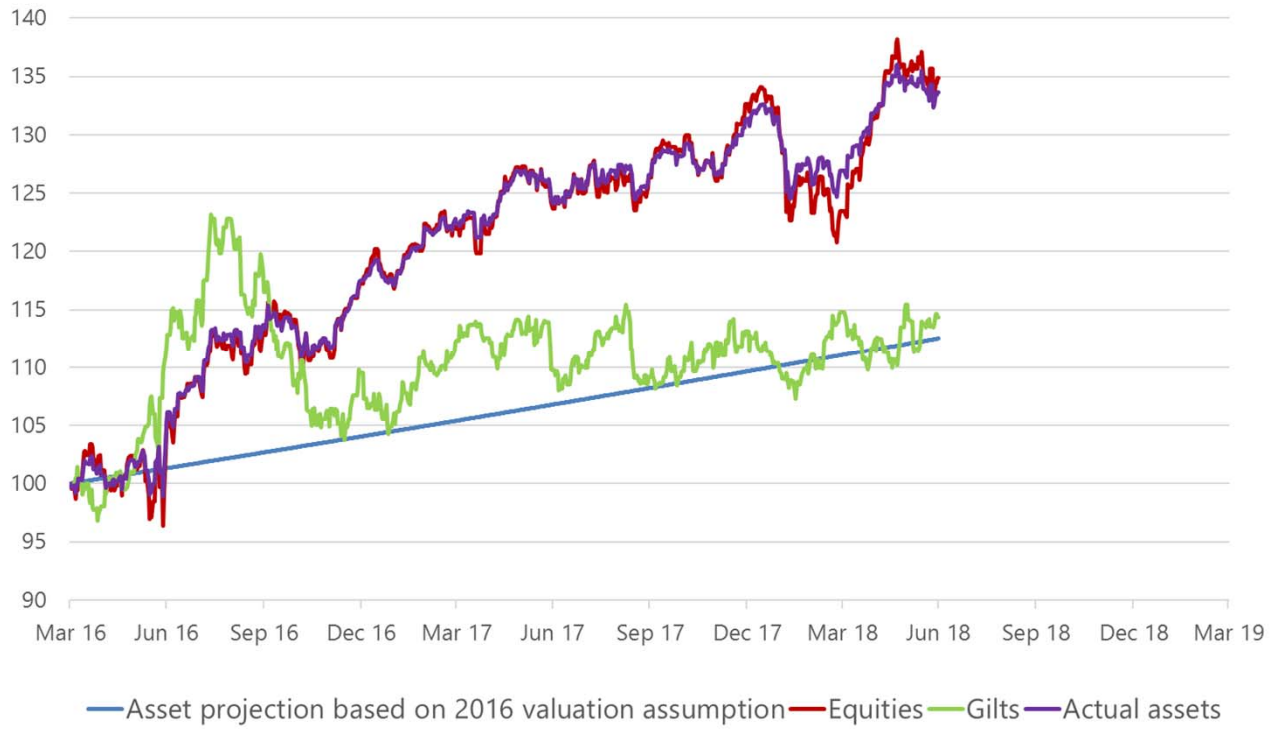
# Assets



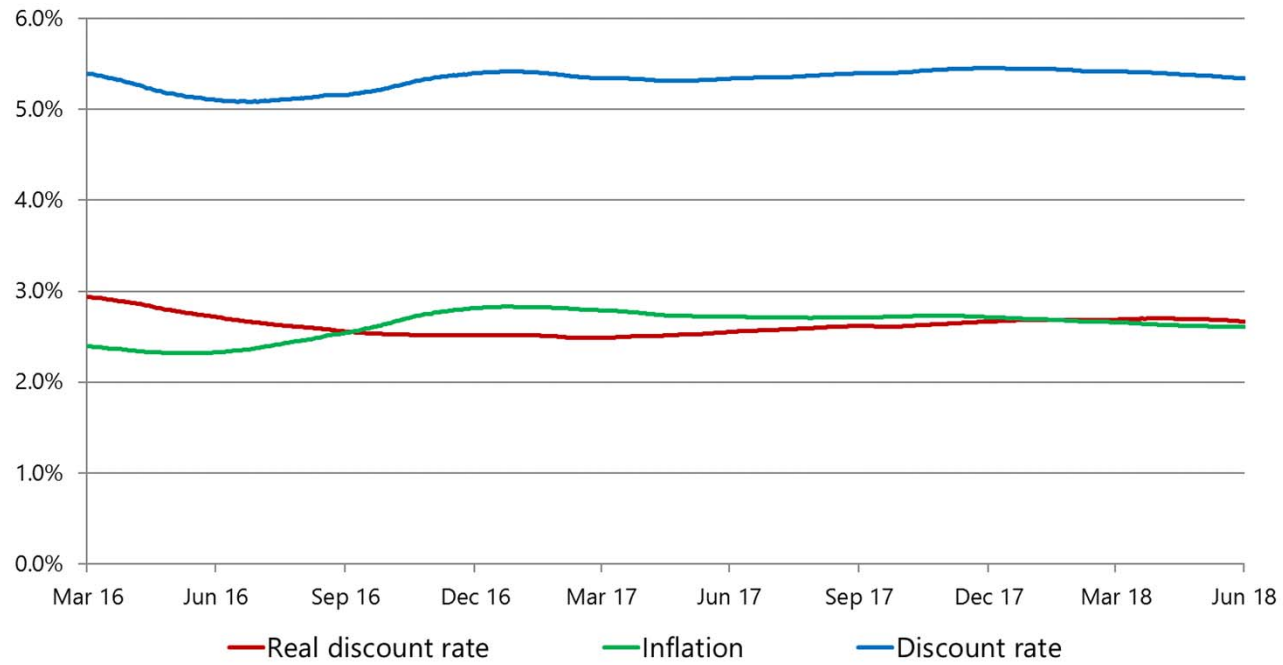
# Assets



# Assets

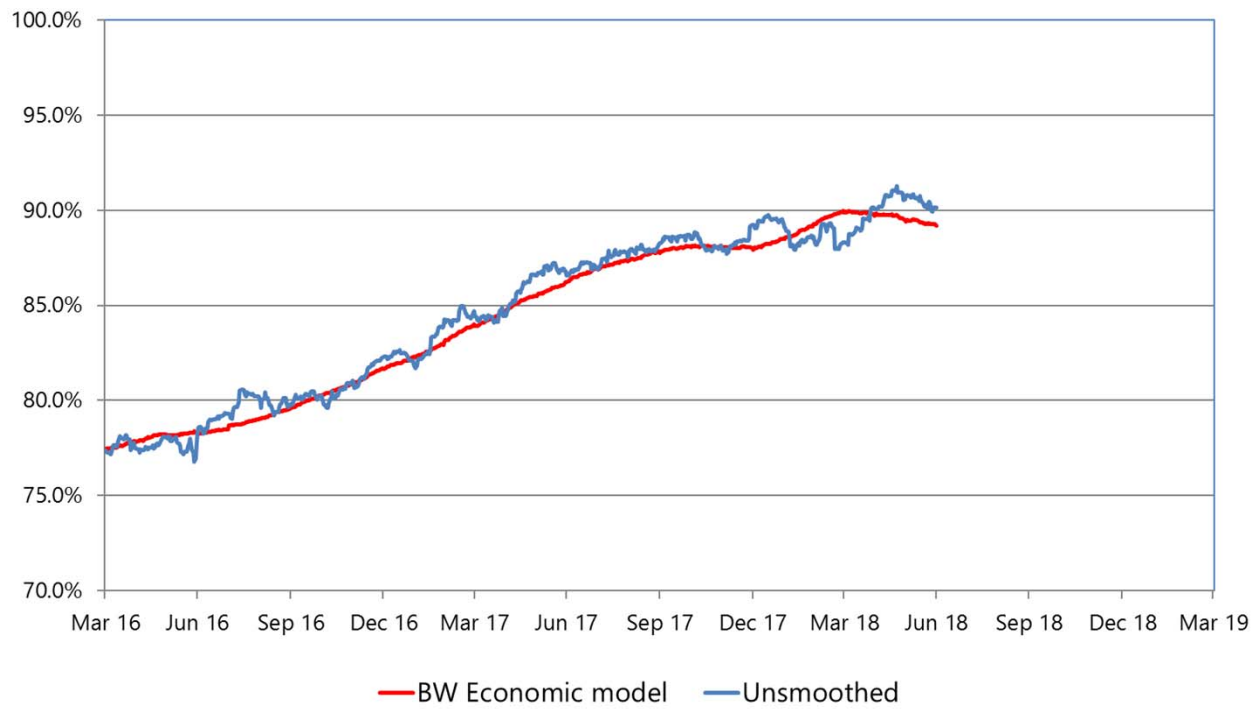


## Change in real discount rates - liabilities





## Funding levels – the good news....



# Future service costs – less good news.....



So.....

### Strong asset returns since 2016

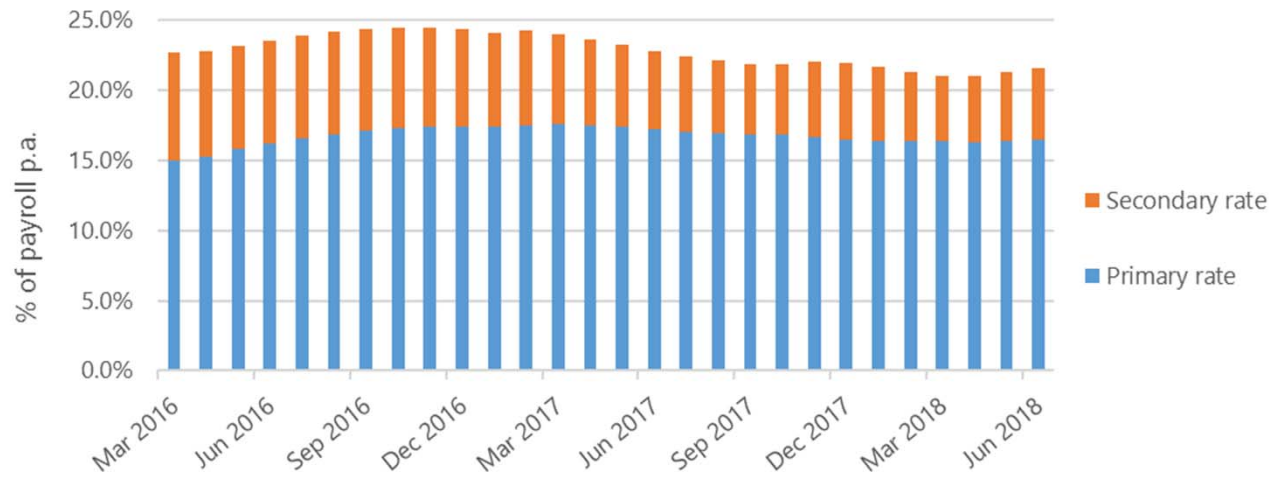
- Great if you held the assets at 2016
- Not so great if you still have some to buy...

### Lower expected returns going forward

- Offsets some of the asset outperformance to date
- Still need to buy new assets for new liabilities
- More expensive than before so more cash required

### How does it all come together?

## Total contributions



**Higher cost of future accrual due to change in market conditions**

**Lower secondary rate due to reduced deficit**

## What does 2019 look like?

### Where are we now?

- Assets played well and beating liabilities
- But might not continue as we approach the 2019 valuation
- Liabilities might turn it around – inflation a key risk

### We live in an uncertain world

- Trump, Brexit etc.

### Are assets defying gravity?

- Everything looking expensive
- Decent future returns hard to find

### Some risk of short term shocks and volatility

- Our BW longer term model designed to help withstand short term “noise”

### Key takeaway

- LGPS Funds can still take the long term view

# Section 13 valuation

“Section 13 to provide for an independent review (by GAD) of the valuation and employer contribution rates to check that they are appropriate and requires remedial action to be taken where that review identifies a problem.”

## Compliance

- Have valuations been completed in accordance with the Regulations?

## Consistency

- Has a Fund’s valuation been completed on a basis “not inconsistent” with other Funds ?

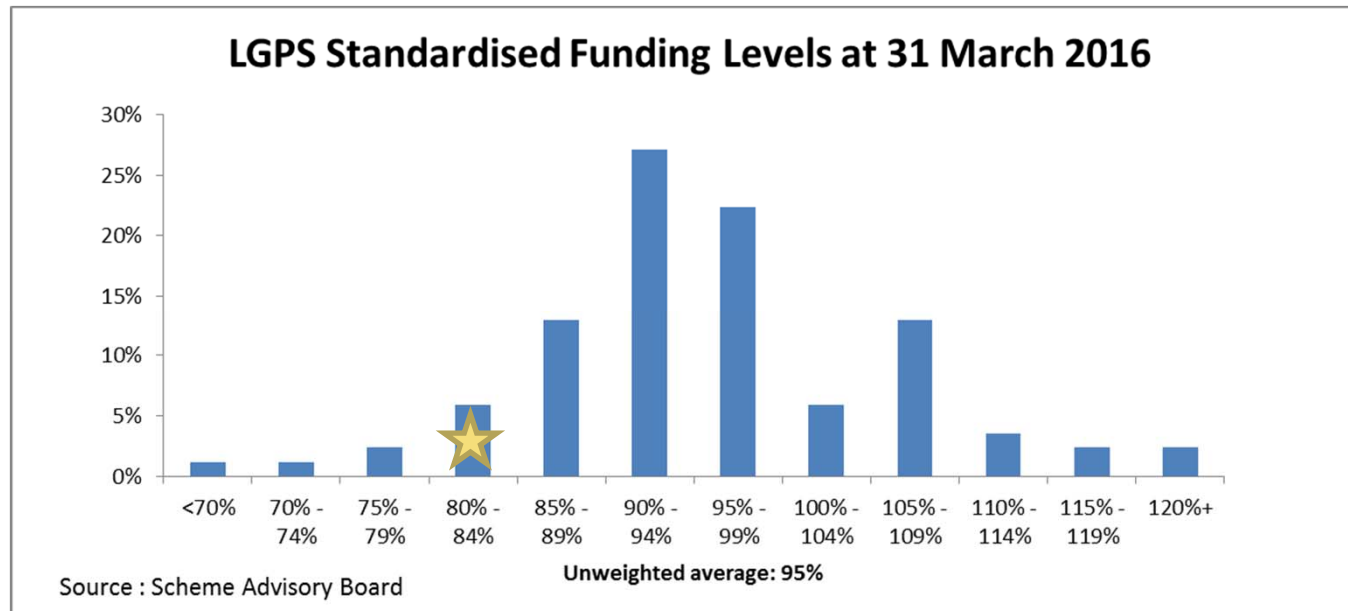
## Solvency

- Will certified contributions accumulate enough assets to meet liabilities over an “appropriate” period?

## Long term cost efficiency

- Are certified rates “enough”?
- Are employers kicking the contribution can down the road?

## Section 13 - Somerset



- One amber flag expected (two in the 2013 “dry-run”)
- Final report due end of September

**MD1**

80% SAB basis

Melanie Durrant, 27/06/2018



## Leading up to the 2019 valuation

### Working closely with Administering Authority

- Data, data, data
- Timescales
- Structure a project plan and allocate resource/responsibilities
- Incorporate any lessons learnt from the 2016 valuation
- Think about funding strategy
- Incorporate any changes to investment strategy

# Data, Data, Data

## Member data

- Actives
- Deferreds
- Pensioners

## Employer data

- Specific arrangements
- Covenant strength
- Cashflows



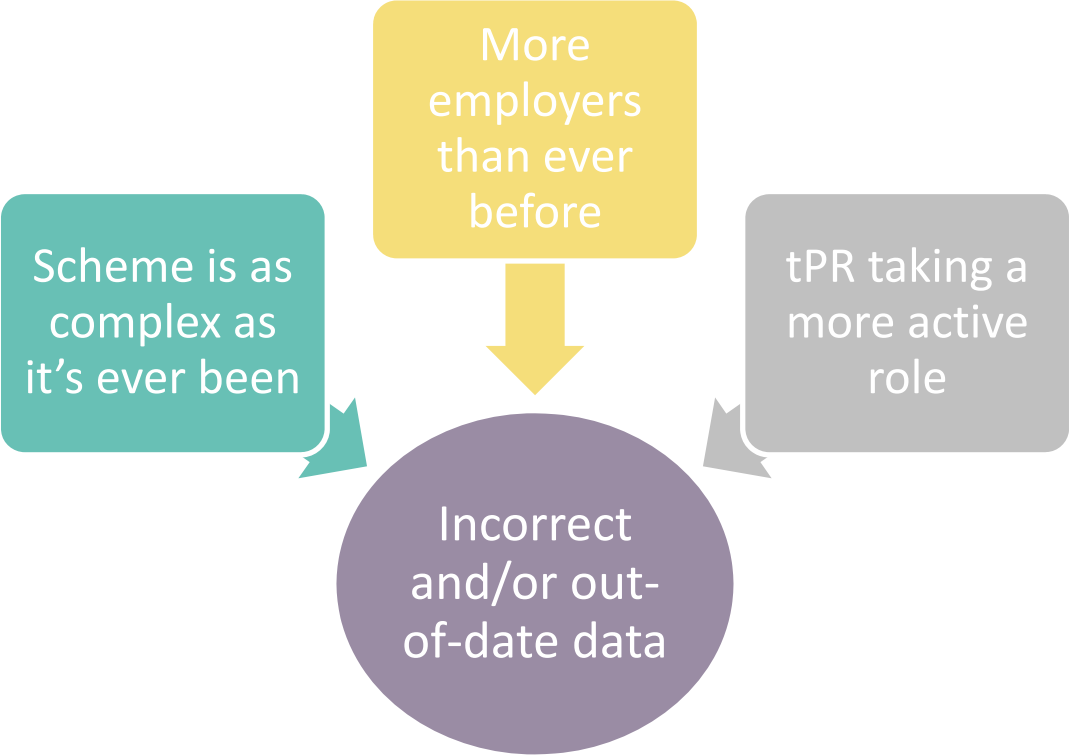
## Cashflow data

- Benefits paid
- Contributions
- Transfers out

## Investment data

- Strategy
- Assets
- Performance

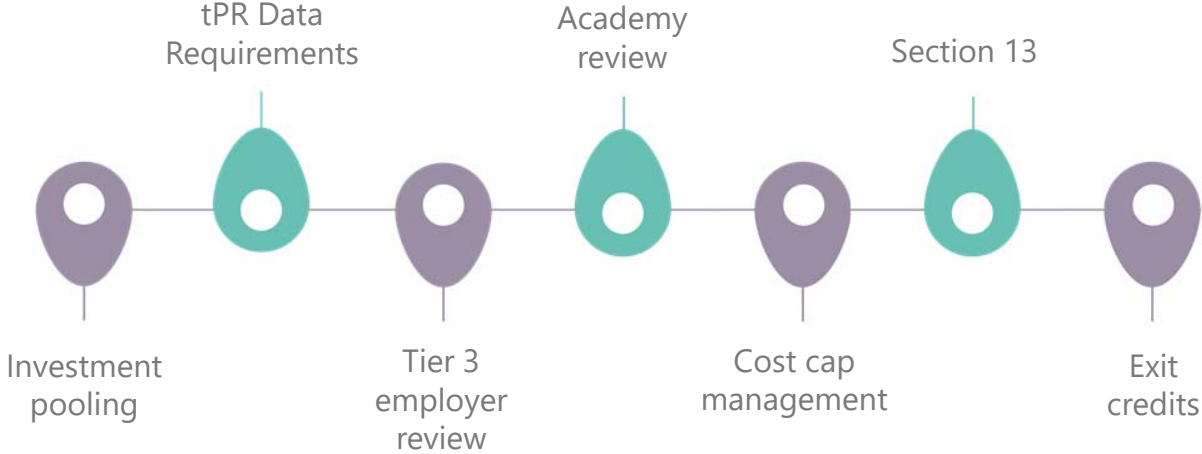
# Data issues



# Other current issues

# 2019 or 2020?

# Experience since 2016?



Any questions?



## Regulatory information

- The information in this presentation is based on our understanding of current taxation law, proposed legislation and HM Revenue & Customs practice, which may be subject to future variation.
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