



Somerset County Council Pension Fund

Actuarial Update

20 September 2018

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Associate





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

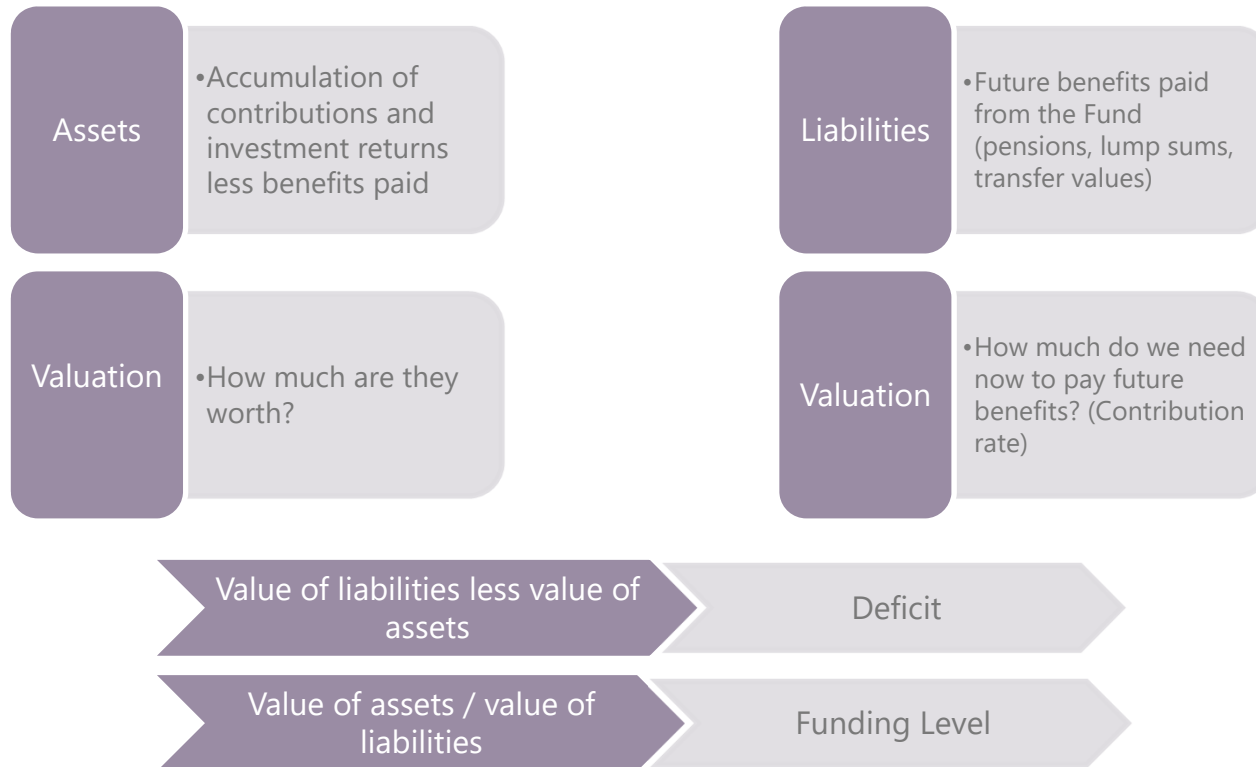


Louise Lau
Client Account Manager
Actuary



Lucy Reynolds
Actuarial Assistant

Valuations - recap



Purpose of valuations

Valuations

- Answer questions
- 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/FRS102)

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

GAD valuations

- Compare Funds / long term costs of LGPS / section 13

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

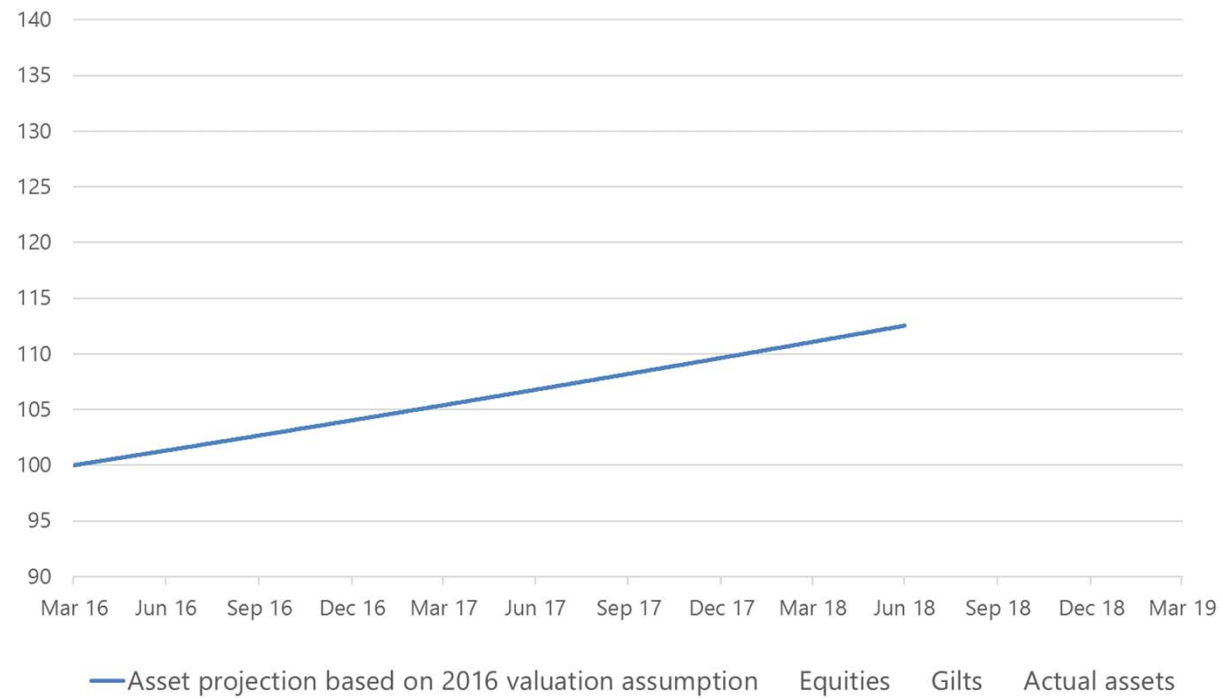
Average employer contribution rate

- 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

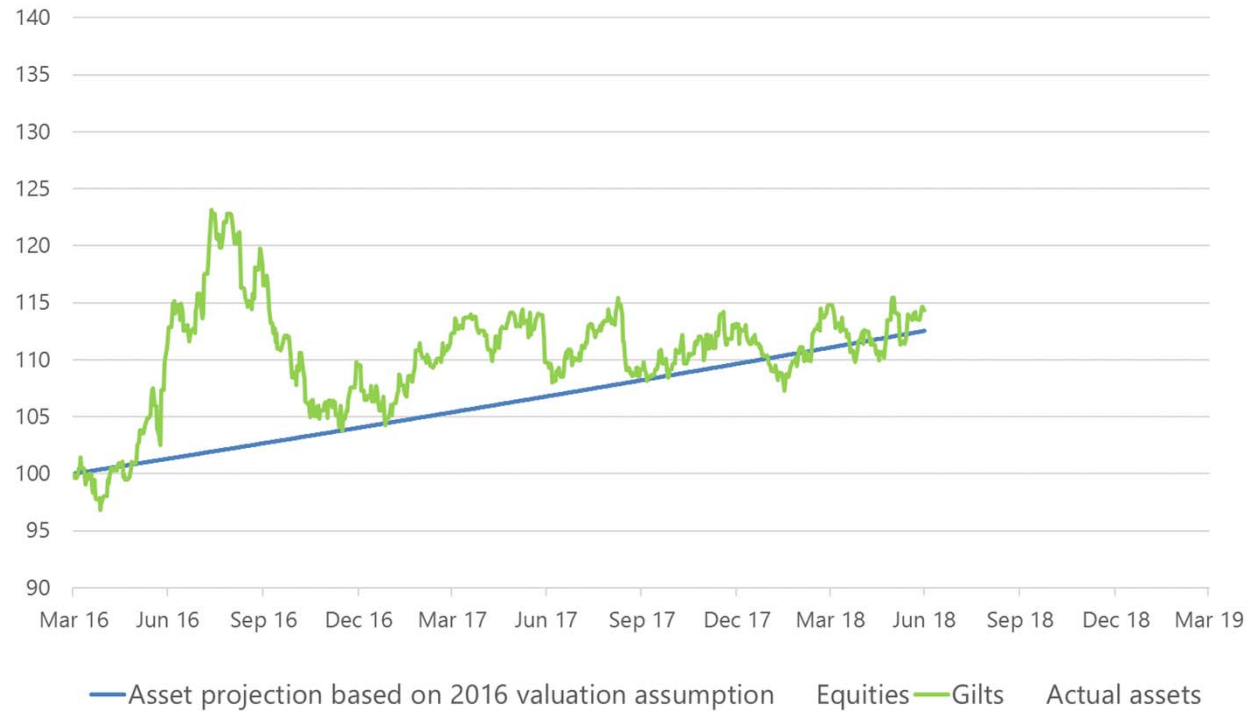
Varies quite a lot by employer

And where are
we now?

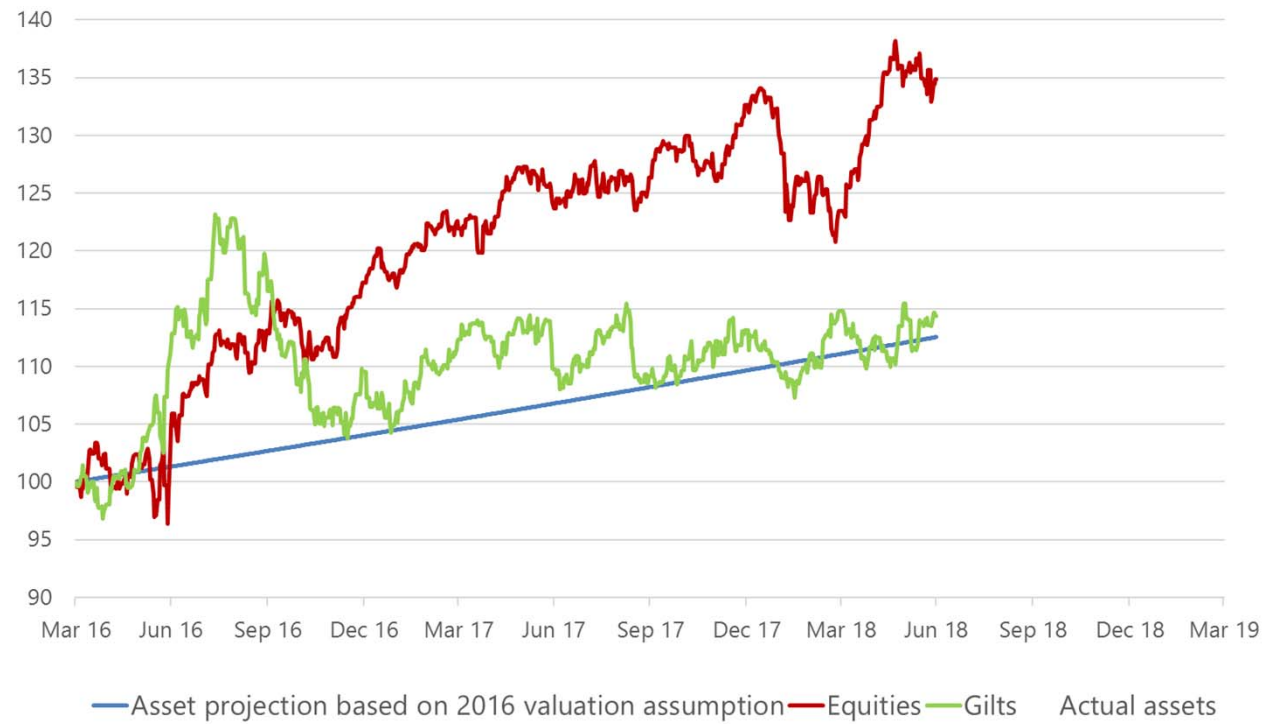
Assets



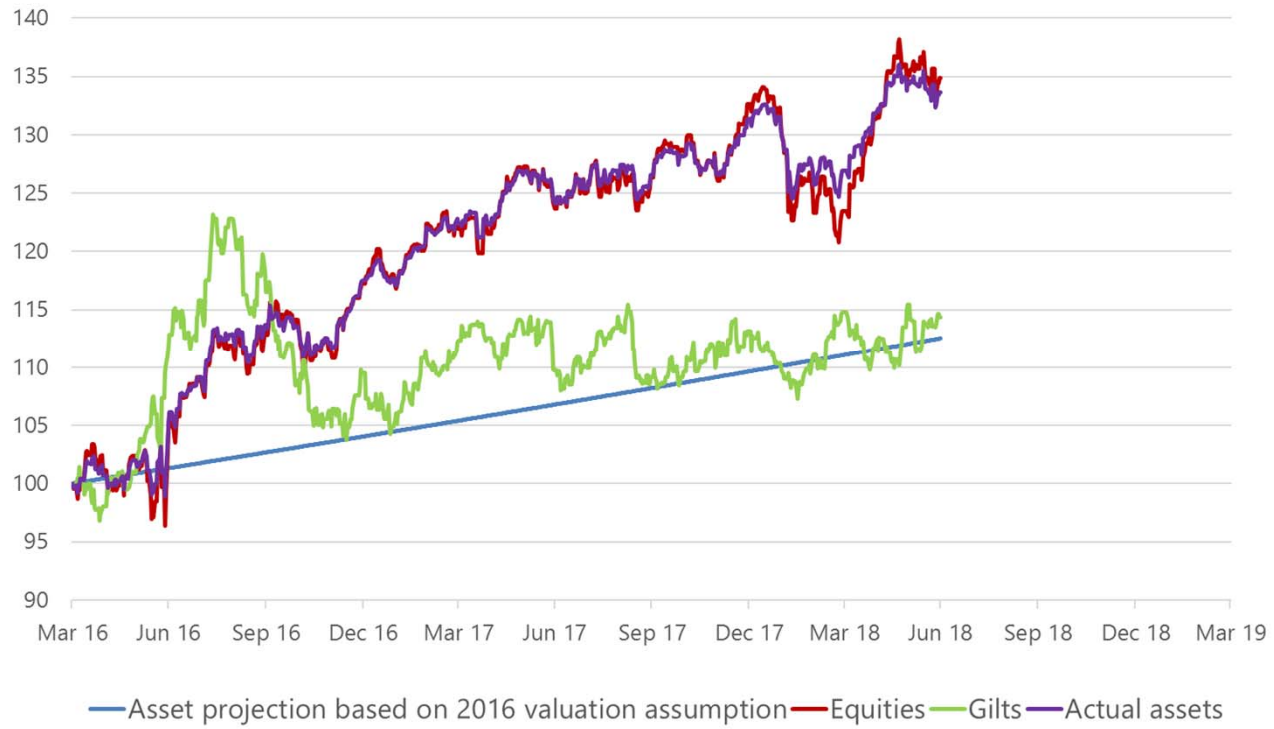
Assets



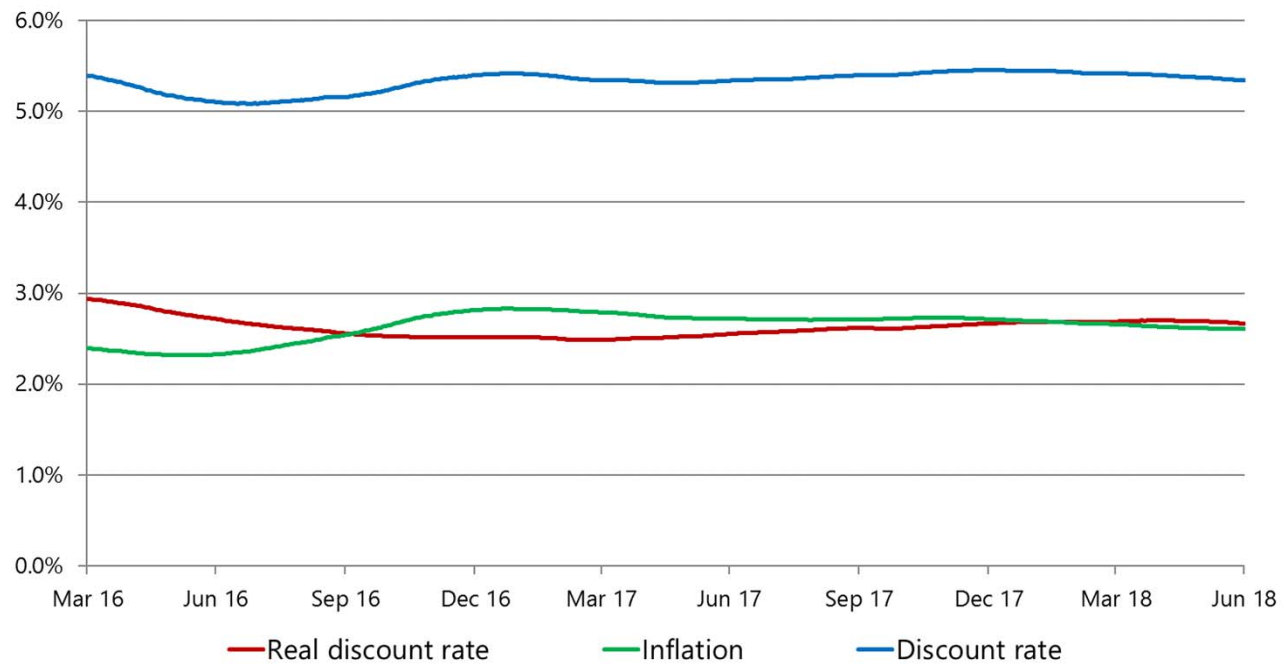
Assets



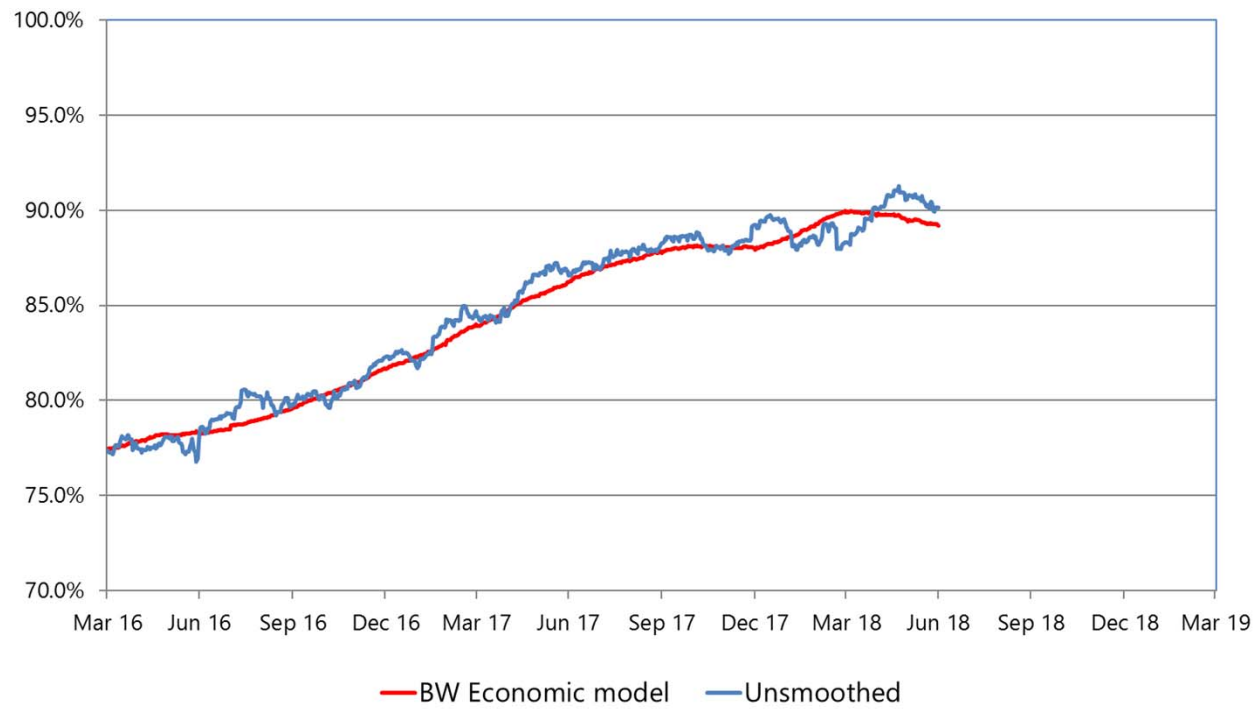
Assets



Change in real discount rates - liabilities



Funding levels – the good news....



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



So.....

Strong asset returns since 2016

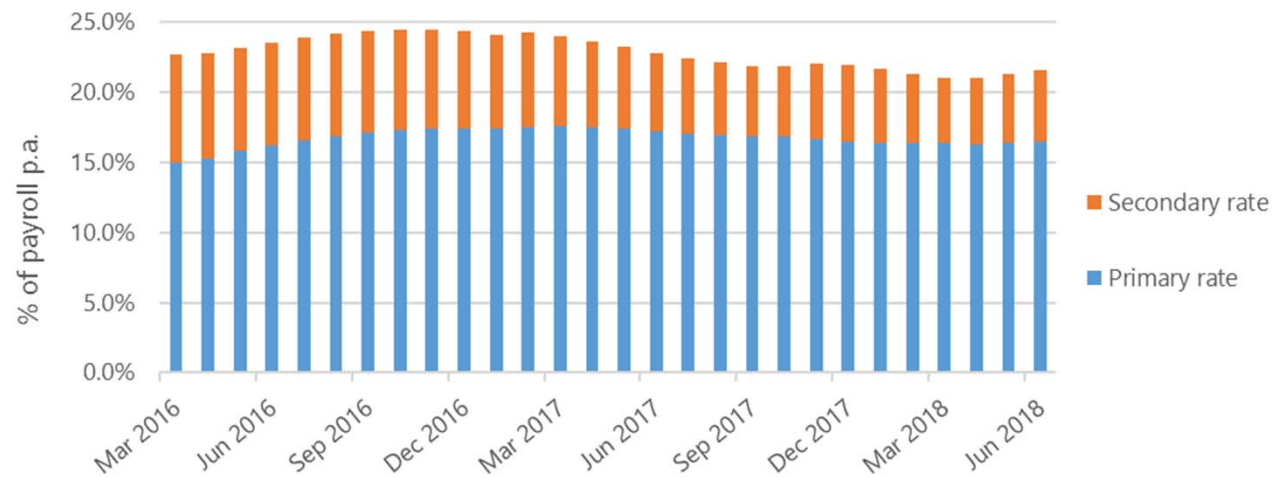
- Great if you held the assets at 2016
- Not so great if you still have some to buy...

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 ?

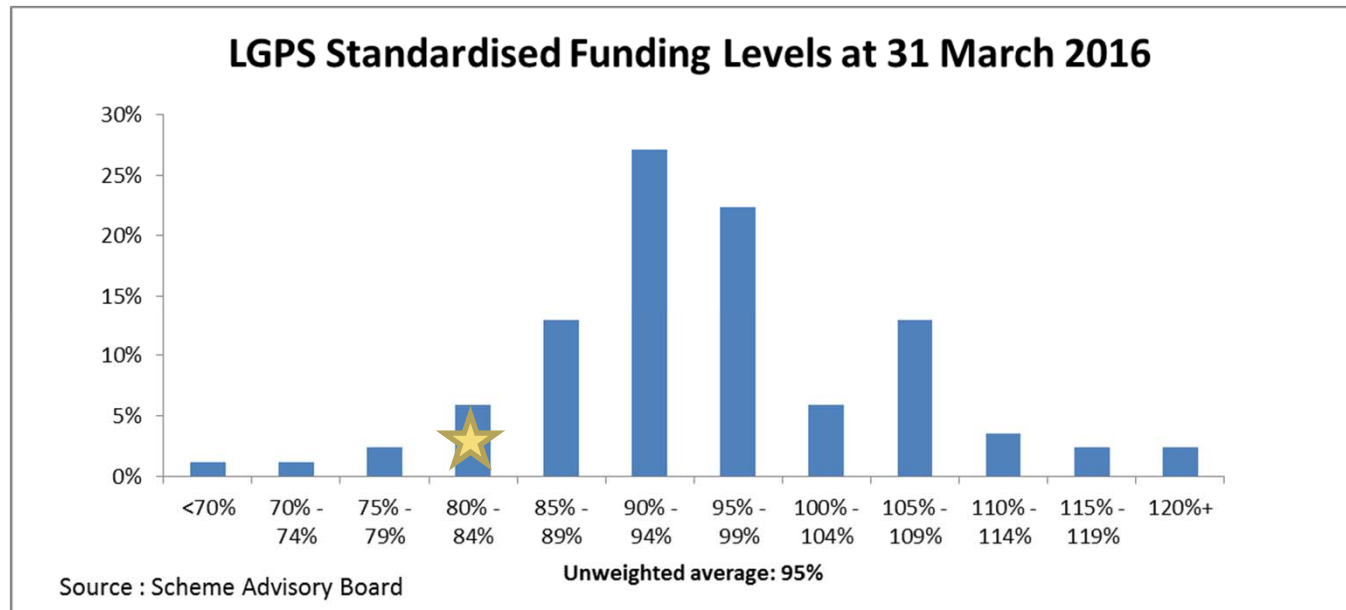
Solvency

- 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

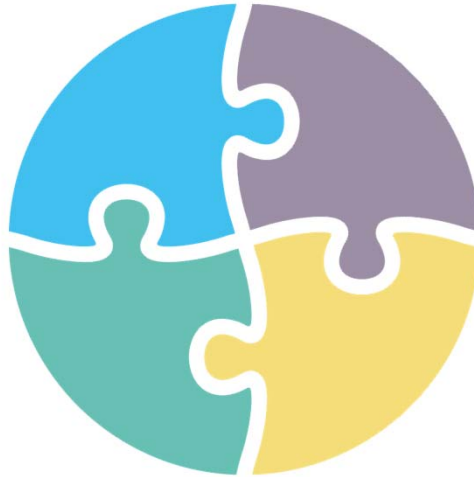
Data, Data, Data

Member data

- Actives
- Deferreds
- Pensioners

Employer data

- Specific arrangements
- Covenant strength
- Cashflows



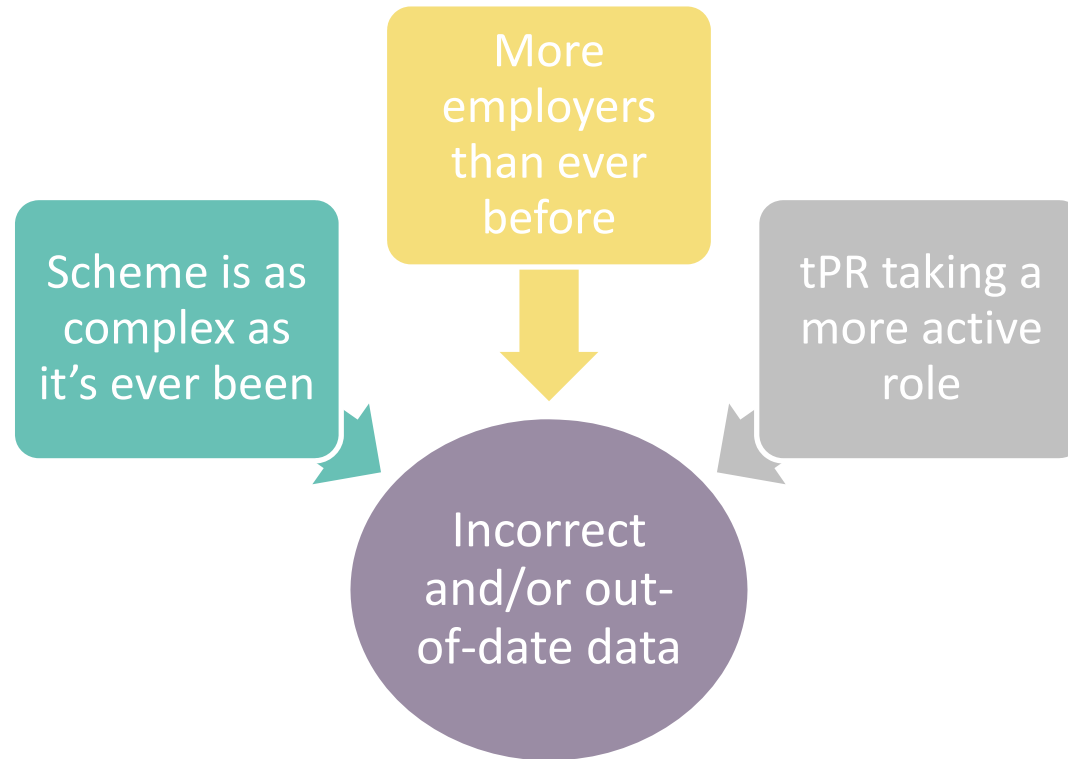
Cashflow data

- Benefits paid
- Contributions
- Transfers out

Investment data

- Strategy
- Assets
- Performance

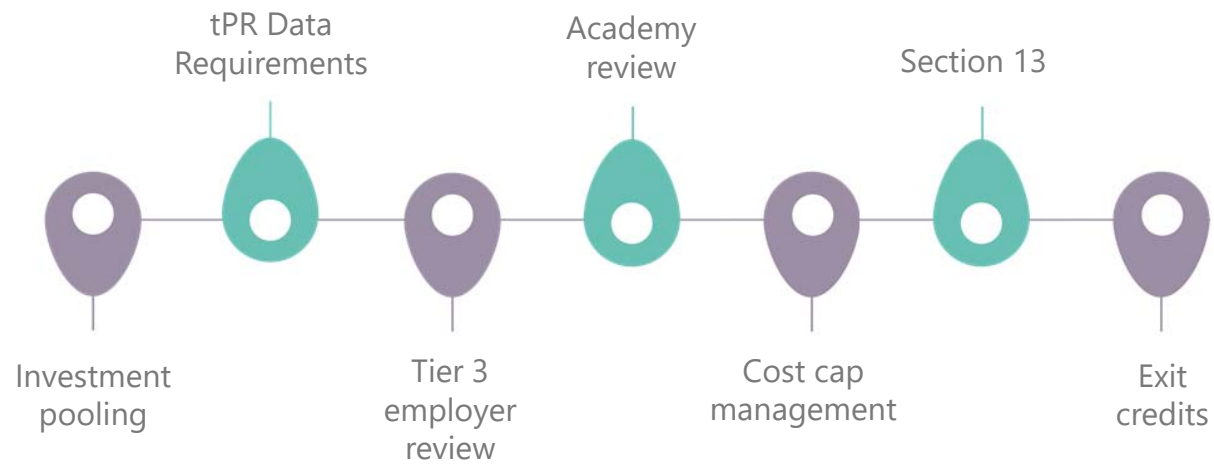
Data issues



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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