



Strathclyde Pension Fund Actuarial Valuation 2020 - Employer Forum

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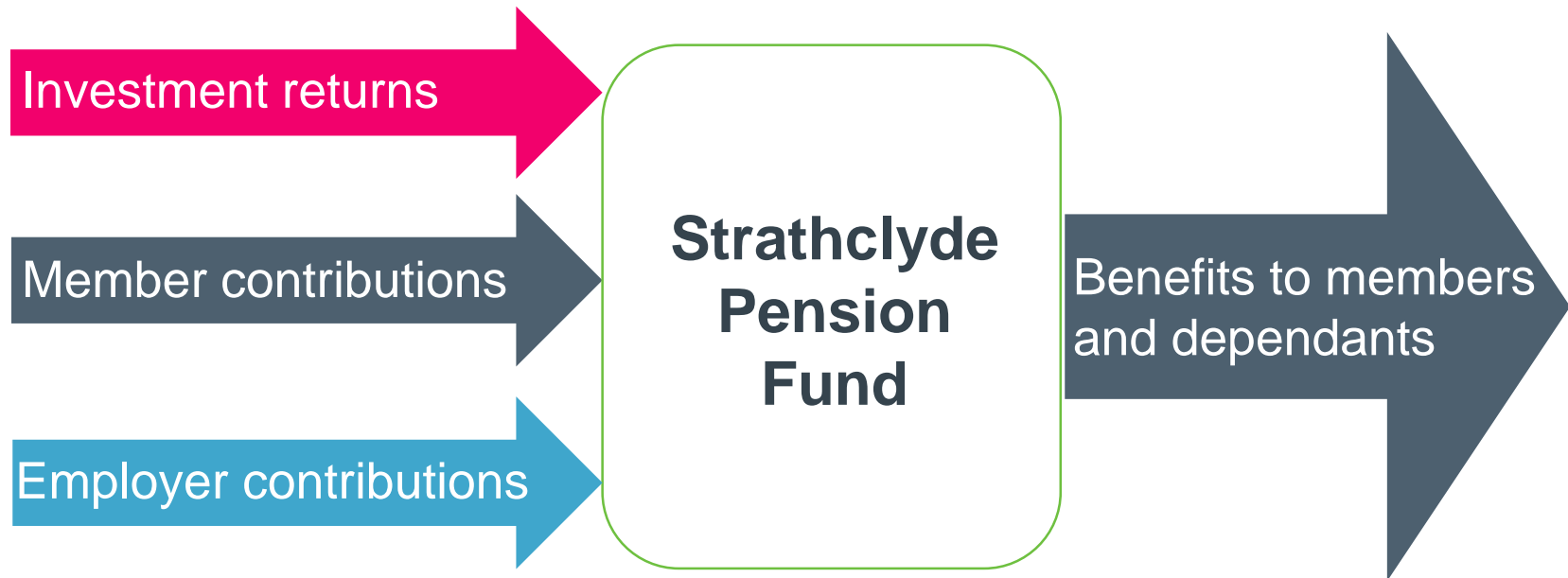
Funding valuation



Different pension costs...

1. The long term cost of the scheme  the actual **benefit payments**
2. The payments needed by the Fund each year to meet this long term cost  the **cash contributions**
3. The impact on the academy accounts  **FRS102/IAS19 disclosure costs**

How the Fund works



Determined by investment strategy & manager performance

Determined by LGPS Regulations

Must meet balance of cost over longer term

Valuation recap



- Part of continual 'health check' on fund and its employers



- Calculate employer contribution rates



- Compliance with legislation



- Analyse actual experience vs assumptions



- Review Funding Strategy Statement

Funding
valuation

31 March
2020

New rates
payable

1 April
2021

Funding
valuation

31 March
2023

Results– whole fund

Whole Fund position - change

	2017 valuation (£m)	2020 valuation (£m)
Active liabilities	9,057	8,948
Deferred pensioner liabilities	2,233	2,451
Pensioner liabilities	7,470	8,344
Total liabilities	18,761	19,744
Assets	19,699	20,941
Surplus/(Deficit)	939	1,197
Funding level	105%	106%

Funding level shows a snapshot on one particular day,
but funding pension benefits is a long term challenge

What's changed since 2017?

Change in value (£m)	Assets	Liabilities	Surplus / (Deficit)
Last valuation – 31 March 2017	19,699	18,761	939
Net Cashflows	(119)	(1,786)	1,667
Expected changes in membership			
Interest on benefits already accrued		2,080	(2,080)
Accrual of new benefits		2,298	(2,298)
Membership experience vs expectations		(25)	25
Changes in market conditions			
Investment returns on the Fund's assets	1,360		1,360
Changes in future inflation expectations		(2,305)	2,305
Changes in actuarial assumptions			
Change in demographic assumptions		(1,391)	1,391
Change in salary/benefit increase assumption		700	(700)
Change in future investment return assumption		1,412	(1,412)
This valuation – 31 March 2020	20,941	19,744	1,197

Lower future longevity improvements – positive impact

Lower future inflation expectations (CPI 2.4% to 1.9%) – positive impact

Lower future investment return expectations (3.5% to 3.0%) – negative impact

Results – employers

Employer funding positions

Each employer has its own tracked position and is responsible for funding its own benefits.

Funding position results:

- larger employers – typically similar movements to Whole Fund with some variation
- smaller employers – more variation

Items that impact employer positions include:

- staff joining from (or leaving to) other employers
- pay increases (right down to individual staff awards)
- early or ill health retirements
- member deaths

Funding the benefits

Liabilities

Assets

Benefits
earned in
future

Future
investment
performance

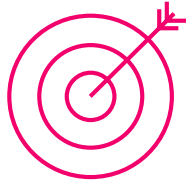
Future
contributions

Benefits
earned to
date

Assets
today

The aim is to steadily Fund past and future benefits over an appropriate time horizon

Funding strategy – 3 step approach per employer



What is the funding target?



How long to get to the target?



How sure to be that the target is hit?

Employer funding strategy



Employer treatment dependant on:

- open or closed to new entrants
- having another employer in the Fund act as a guarantor
- how close to potential exit event (i.e. down to 1 active member or short time horizon)

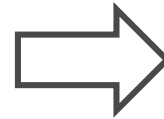
Contribution rate results:

Main Employer Group employers – able to be held at 19.3%

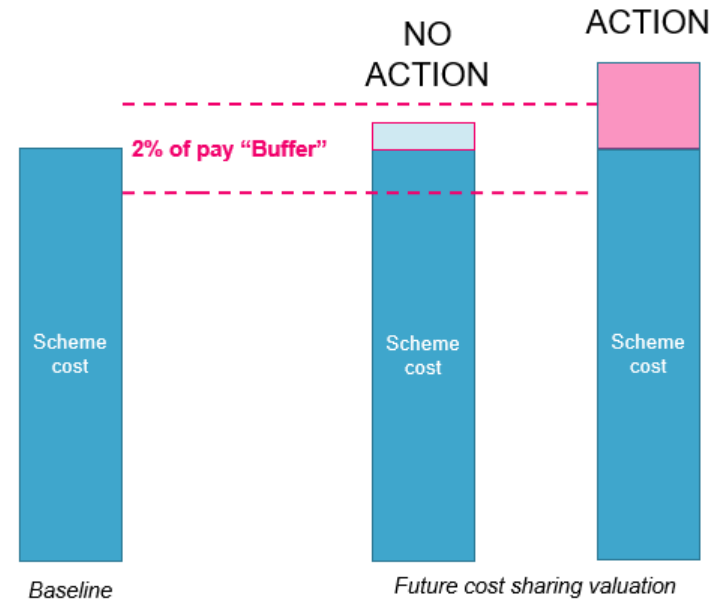
Individual Rate employers

- Employers with poor valuation experience or moving to a new funding strategy (e.g. targeting cessation basis) may see increases
- Very well funded employers – potential reductions

Cost Cap: what is it?



Recommendation 12: The Government, on behalf of the taxpayer, should set out a **fixed cost ceiling**: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an **automatic default** change if agreement cannot be reached.



Cost cap became cost sharing
Mechanism to share funding risks between members and employers

Results Schedule – walk through

Employer results schedule – walk through



Draft FSS issued alongside funding position and contribution rate results

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Thank you

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