



SHROPSHIRE COUNTY
PENSION FUND

Welcome to your 2021 Employers Meeting





Agenda

Reflection on past 12 months and future service delivery	Rebecca Clough Communications and Governance Team Leader
Forward looking - 2022 Actuarial Valuation	Mark Wilson and Michelle Doman Mercers
McCloud – the past, present and future!	Debbie Sharp Pensions Administration Manager

10:00
Start



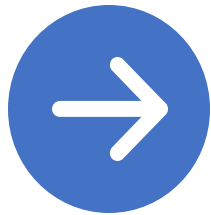
11:15 – 11:30
Coffee and screen
break



Close
12:00



Reflection on past 12 months and future service delivery



Rebecca Clough

Communications and Governance Team Leader



→ Reflection on past 12 months...

REVOKED

November 2020 to Feb 2021 - 95k Exit Payment Cap

Covered at last year's employers' meeting
A lot of communication/new process work undertaken
Revoked in February 2021..but not going away!

March 2021 - GMP reconciliation project completed

Rectification and reconciliation of data with HMRC

Past

April 2021 - Online Payslips and P60s

Improvement for members receiving their benefits



→ **Cont.. Reflection on past 12 months...**

August 2021 - Annual benefit statements

Did you tell your members?

September 2021 - New and updated policies

Climate Strategy, Funding Strategy Statement and Employers Event Policy

October 2021 – Review of Cyber Security

The Pension Regulator's key area of focus for schemes

October 2021 – Issued Pension Savings Statements

Pensions tax webinar organised to help members in a complex area

Past

→ Cont.. Reflection on past 12 months...



September 2021 - Signed up to the Pensions Regulator's Scams Pledge

Our commitment to protecting scheme members from pension scams

November 2021 – Improvements to My Pension Online

Registration and sign in process improved

2021 - Welcomed three new pension board members

Introduced 'An overview of SCPF guide'

Employer representatives represent you!

Find out more about the Pensions Board and Pensions Committee on our website

Past



The fund – at 31 March 2021

208

employers

50,144

scheme members

31

Administration and Investment team members

Now

88

Scheme Employers

80

Admission Bodies

40

Designated Bodies

(146 with active members)

2,769

annual average cases per staff member directly involved in casework



SHROPSHIRE COUNTY PENSION FUND

→ Some employers in the fund



→ Pension administration service delivery



- Home working is here to stay
- No longer have a permanent office space
- Bookable desk space available
- All business-as-usual services in place - except face-to-face meetings
- Moved to largely digital way of working
- Hopefully, you haven't noticed a difference!

Over to you..



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PENSION FUND





Future service delivery



Shropshire Council

Continuously improve performance



Shropshire Council

Empower effective collaborations for positive change

- Biggest change – face to face meetings with members and employers
- Shirehall is not public facing so can't hold member or employer face to face meetings – watch this space for local 'hubs'
- But if you need us to come to you or your scheme members – we will!

Future



Our 2021/2022 focus

- 2022 Actuarial valuation
- Developing 'My Pension Online'
- Pensions dashboard
- 95k Exit Payment Cap
- Improving employers on dealing with ill health cases
- Tackling delays in obtaining admitted body status
- Scheme Advisory Boards 'Good Governance Review'
- Cyber security
- Can't forget McCloud...but more about that later....



Future



What do you need from us?

- You're all employing very different types of people in different sectors
- We need your feedback to know our communications are effective
- Do you read and action our newsletters?
- Get in touch pensions@shropshire.gov.uk with your comments



The Actuary



SHROPSHIRE COUNTY
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Shropshire County Pension Fund

Employer forum

Michelle Doman FIA
Mark Wilson FIA

welcome to brighter





Valuation and Funding Basics

2019 Valuation Recap

Progress Since 2019 and Looking Ahead

Questions?



Valuation and Funding Basics

2019 Valuation Recap

Progress Since 2019 and Looking Ahead

Questions?

Valuation and Funding Basics

Why do a valuation (1)?



LGPS Regulations

Reg. 62(6)(b)

“The actuary must have regard to the desirability of maintaining as nearly **constant a primary rate** as possible”.

Reg. 62(6)(d)

“The actuary must have regard to the requirement to **secure the solvency of the pension fund** and the **long term cost efficiency** of the Scheme...”

Public Service Pensions Act 2013

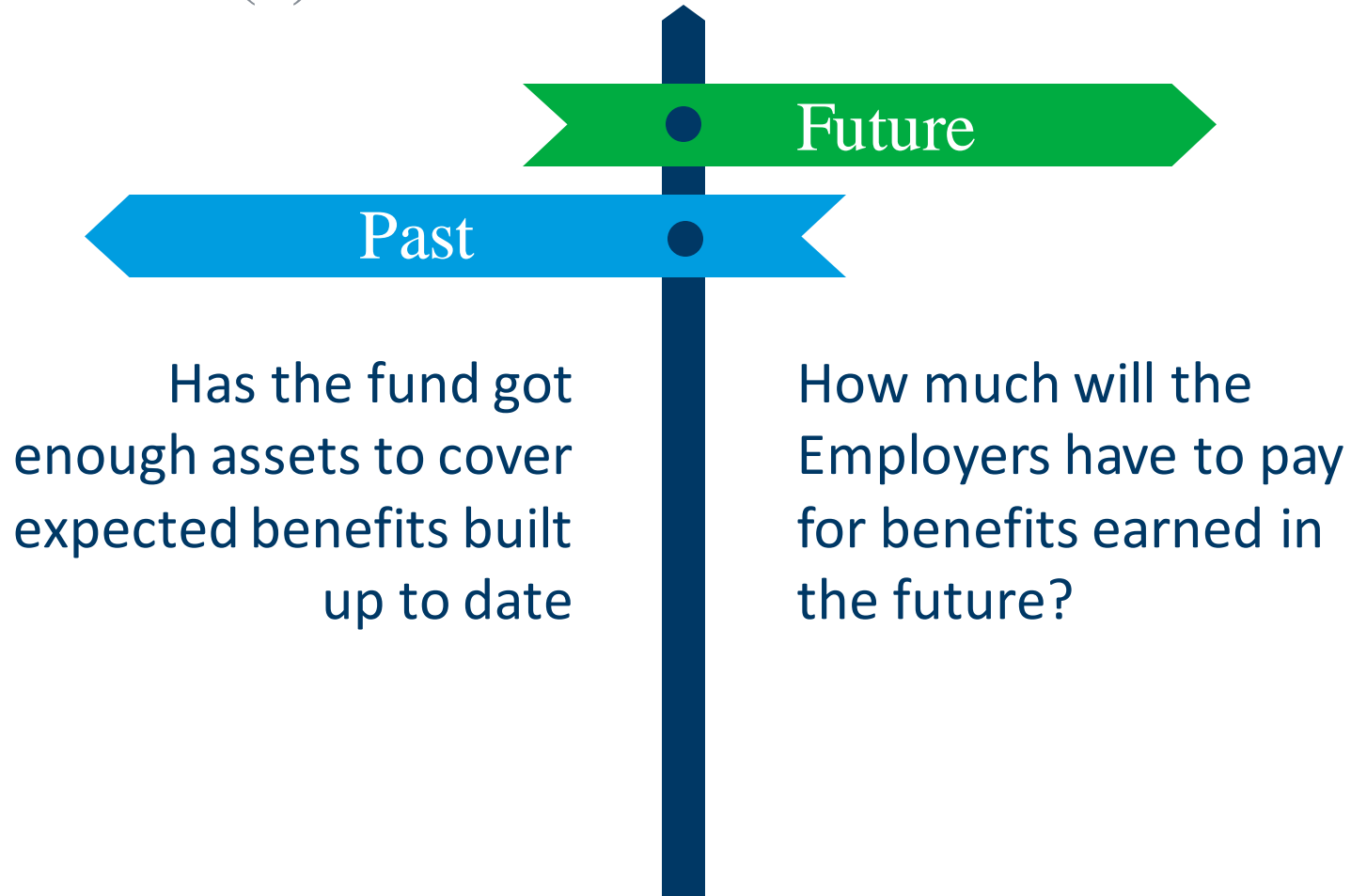
Section 13(4)(c)

“A person appointed... is to report on whether... the rate of employer contributions is set... at an appropriate level to ensure

- (a) the **solvency of the pension fund**, and
- (b) the **long-term cost efficiency** of the Scheme...”

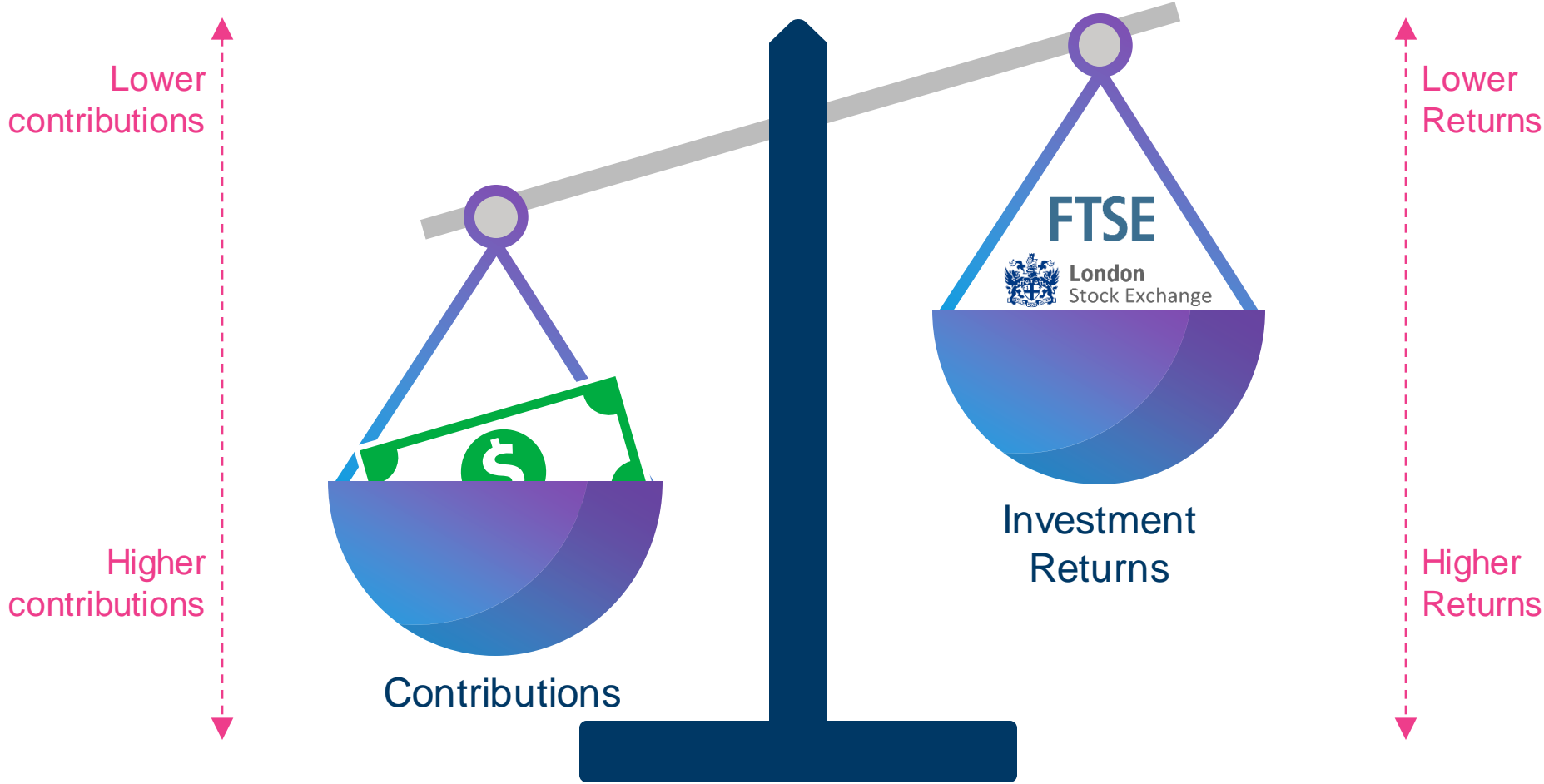
Valuation and Funding Basics

Why do a valuation (2)?

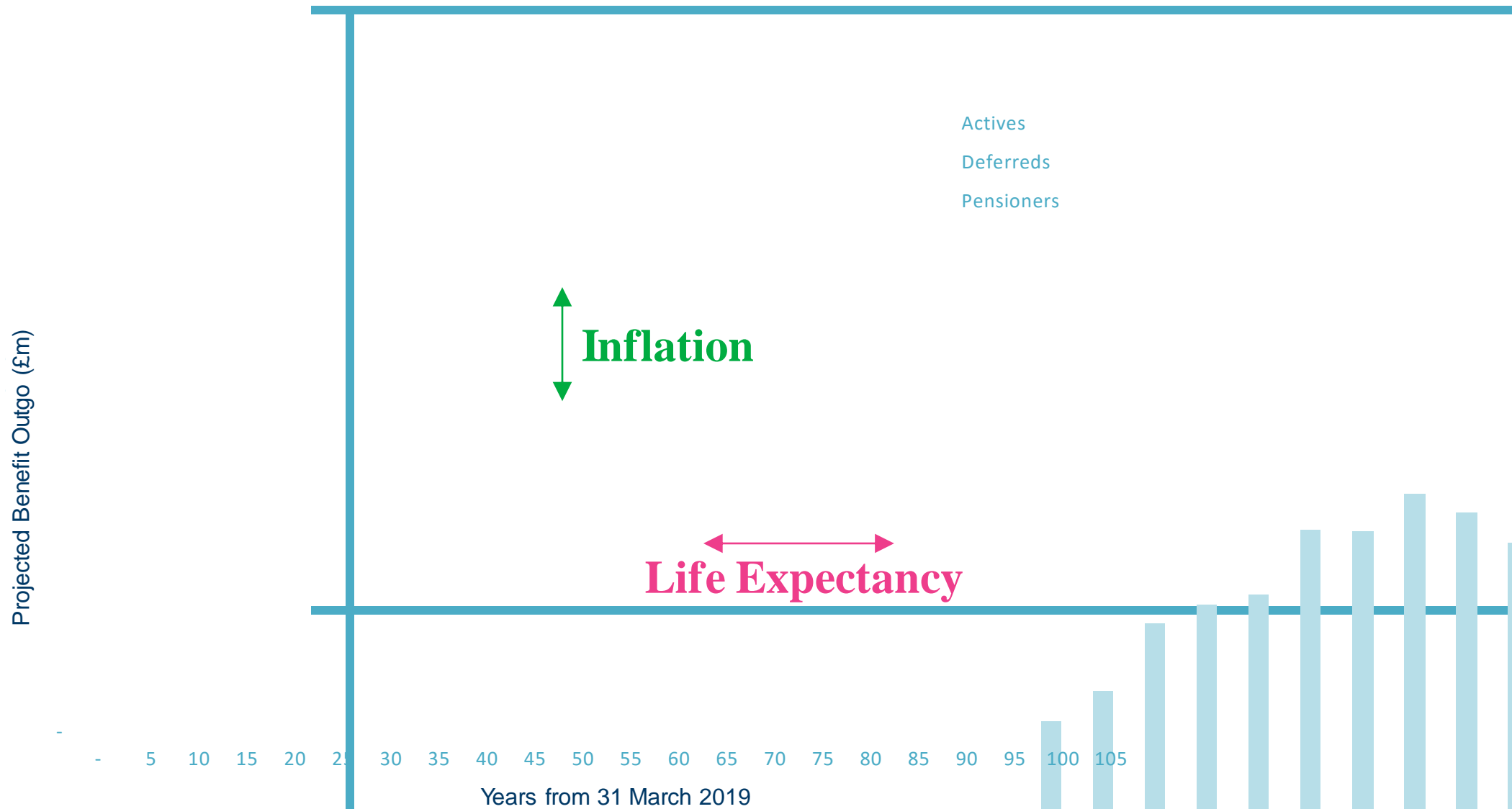


Valuation and Funding Basics

Financing the benefits



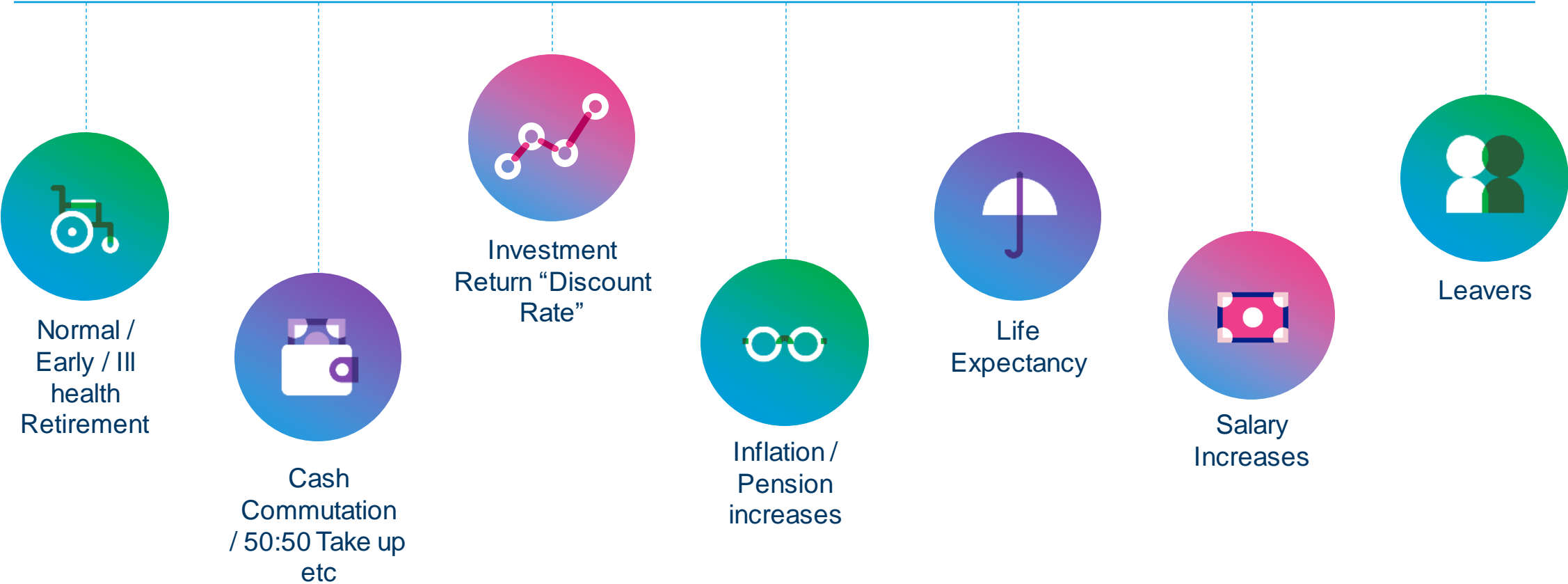
Objective is to have sufficient assets to pay benefits as and when they fall due.



Valuation and Funding Basics

Actuarial assumptions

Assumptions



Valuation and Funding Basics

Roles and responsibilities

FUND OFFICERS

- Day to day management (data, employer communications, etc)
- Develop strategies
- Decision making / agreeing details

COMMITTEE

- Set overall strategy
- Make / approve key decisions
- Oversight of management and process

BOARD

- Ensure regulatory compliance
- Assist Administering Authority
- (Not a decision making body)

FUND ACTUARY

- Advise on assumptions and funding strategy
- Perform calculations
- Sign off results

EMPLOYERS

- Provide data / comply with Fund policies
- Feed into Fund strategies
- Decide on areas of flexibility

Valuation and Funding Basics

What about accounting figures?

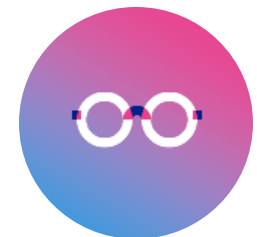
Solely required to adhere to accounting disclosure requirements. Performed annually and disclosed in an Employer's accounts.



Accounting liabilities are therefore directly affected by changes in corporate bond yields. Inflation assumption may also be derived differently (i.e. best estimate).



and maybe most importantly....



Liabilities are assessed using a "prescribed" set of assumptions (i.e. discount rate linked to corporate bond yields not assets held), which differ from those used in the actuarial valuation.

Does not impact on the Employer's contribution requirements.



Valuation and Funding Basics

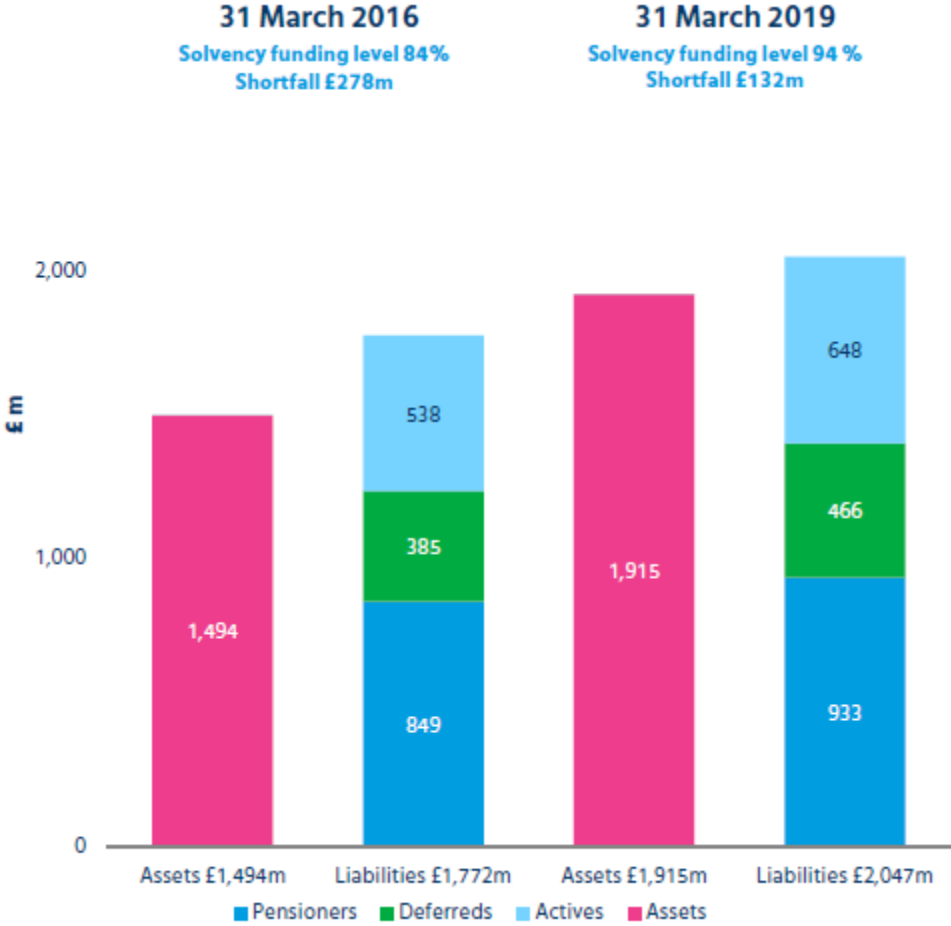
2019 Valuation Recap

Progress Since 2019 and Looking Ahead

Questions?

2019 Valuation Recap

Whole Fund results as at 31 March 2019



Average Future Service / Primary Rate for the Fund was **16.6%** of pay

Deficit / Secondary contributions of **c£9m p.a.**

Employers:

Each employer is responsible for their own position within the Fund, and have their own contributions rates

2019 Valuation Recap

Individual employer results

2019 ACTUARIAL VALUATION HEADLINE FIGURES Shropshire County Pension Fund - Employer XYZ (001)



HEADLINE RESULTS

VALUATION BALANCE SHEET (excluding McCloud)

Surplus / (Deficit)	(£50,000)
Funding Level	95%

TERMINATION POSITION

Surplus / (Deficit) including Estimated McCloud Cost	(£300,000)
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EMPLOYER FUTURE SERVICE COST (excluding McCloud)

Employer Future Service Rate (% pay p.a.)	17.0%
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EMPLOYER CONTRIBUTION REQUIREMENTS (including McCloud)

Contributions:	Future Service Rate	Deficit Contributions
2020/21	17.0%	£3,500
2021/22	17.0%	£3,600
2022/23	17.0%	£3,700

Employer Information	
Employer Type	Admitted Body
Open/Closed	Open
Termination basis	Corporate Bond

McCloud Estimated Costs	
Increase in Liabilities (% of liabilities)	0.5%
Increase in Liabilities	£5,000
Increase in Future Service Rate (% of pay)	0.8%

2019 ACTUARIAL VALUATION FURTHER INFORMATION Shropshire County Pension Fund - Employer XYZ (001)



DETAILED RESULTS

	Final results at 31 March 2016	Actuarial Valuation Results at 31 March 2019	Results at 31 March 2019 including estimated McCloud cost
Assets	£700,000	£950,000	£950,000
Liabilities	£850,000	£1,000,000	£1,005,000
Surplus / (Deficit)	(£150,000)	(£50,000)	(£55,000)
Funding Level	82%	95%	95%
Employer Future Service Rate (% pay)	15.8%	17.0%	17.8%
2020/21 Projected Payroll	£500,000	£500,000	£500,000
Implied Recovery Period	22 years	19 years	19 years

"BASE" RESULTS (before employer options including prepayment - for like-for-like comparison)

	15.8%	£78,000	17.0%	£85,000	17.8%	£89,000
2020/21 Future Service Amount						
2020/21 Deficit Recovery Amount		£8,300		£3,500		£3,850
2020/21 Total Contributions		£87,300		£88,500		£92,850

FINAL RESULTS (allowing for employer options and prepayments)

	17.0%	£85,000	17.8%	£89,000
2020/21 Future Service Amount				
2021/22 Future Service Amount		£88,100		£92,200
2022/23 Future Service Amount		£91,300		£95,600

2020/21 Deficit Recovery Amount		£3,500		£3,850
2021/22 Deficit Recovery Amount		£3,600		£3,950
2022/23 Deficit Recovery Amount		£3,700		£4,050

Total 2020/23 Projected Contributions		£275,200		£288,650
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This schedule should be read in conjunction with the Funding Strategy Statement 2019 and the Funding Report as part of the 2022 Actuarial Valuation and new contributions will be payable from 1 April 2023.

Whilst reasonableness checks on the data provided by the Fund have been carried out, they do not guarantee liability in respect of our advice where we have relied on data which is incomplete or inaccurate.



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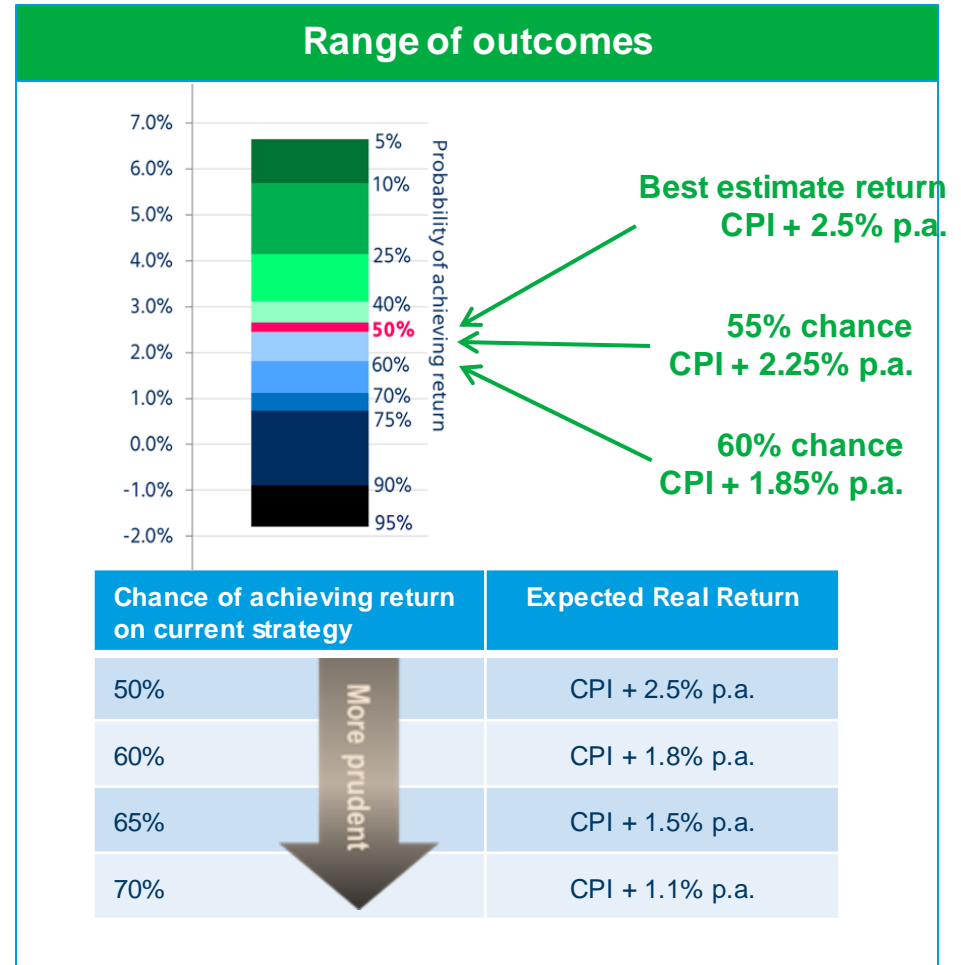
2019 Valuation Recap

Setting the (real) discount rate



Real discount rate - takeaways

- The Fund requires long term investment returns in excess of CPI - drives contribution rates and liability values
- So real discount rate is the single most important valuation assumption
- A lower rate means greater chance of exceeding target (and so less risk), but higher contributions – and vice versa



2019 Valuation Recap

McCloud – how did we allow for it?

McCloud impact for active members by employer estimated and communicated to employers

Final remedy expected to be very similar to approach taken for 2019 valuation.

No allowance in core results – but all employers advised of cost, and some elected to pay...

...and those payments will be reflected in the employer's 2022 valuation position

Future service contributions only affected until 31 March 2022.

Liability impact reassessed at 2022 Valuation.

Whole Fund past service McCloud adjustment equivalent to around £12m of liabilities (0.6%)

On average, 0.8% of pay future service contribution increase (0% to 2.9% range)

Also allowed for in Fund and employer accounts for last 2 years

Unlikely to affect long term funding and investment strategy given scale of impact.

Valuation and Funding Basics

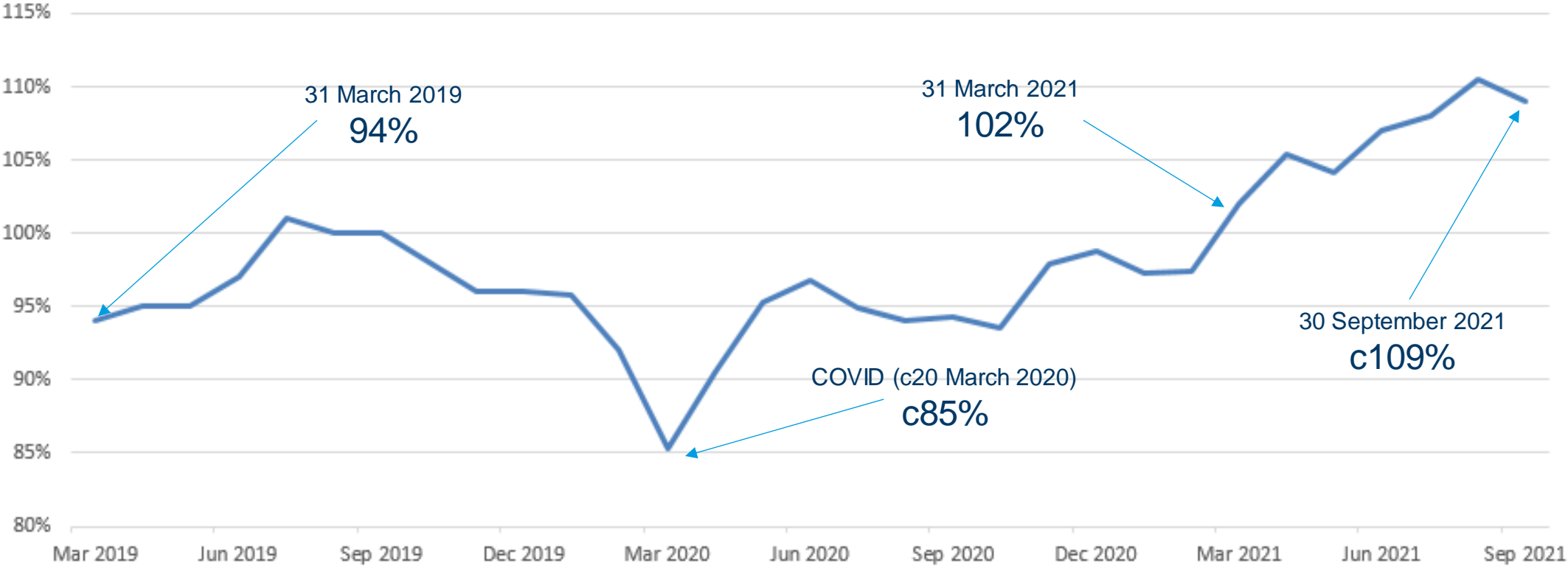
2019 Valuation Recap

Progress Since 2019 and Looking Ahead

Questions?

Progress Since 2019

”Like for like” assumptions



Progress Since 2019

Expected Return outlook versus CPI inflation

Investment markets and return/inflation outlook has the most material impact on the financial health of a pension fund. There have been significant changes since 2019, in economic outlook, inflation expectations and the Fund's investment strategy

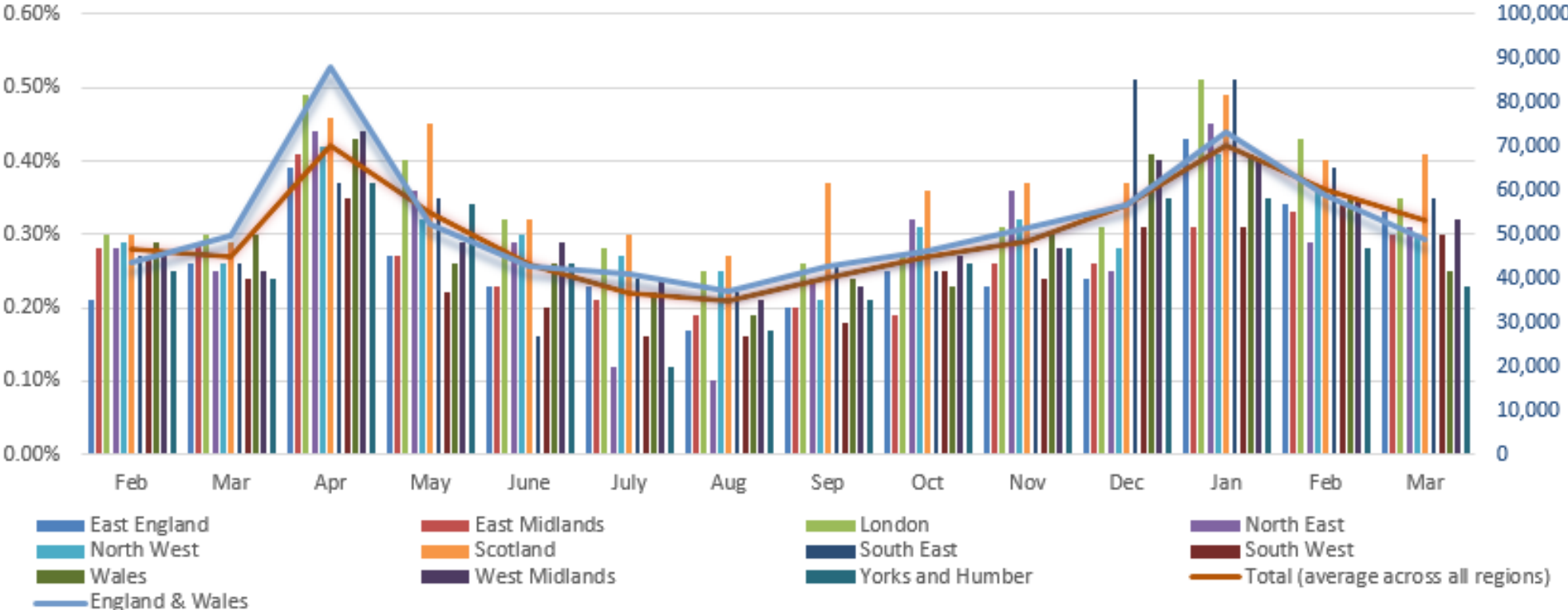
- **Market outlook:** Overall the current outlook for expected investment returns on a like for like investment strategy has fallen slightly, reducing the absolute expected return by 0.1-0.2% p.a.
- **Inflation expectations:** Since 2019 market expectations of long-term CPI inflation have increased from 2.4% at 31 March 2019 to around 2.8% at the review date.
- **Investment strategy:** Has been reviewed. While detailed allocation decisions have yet to be made, it is anticipated that the revised strategy may deliver an increase in the return outlook compared with the current strategy, thereby partially off-setting the impact of the above.

The net impact of this is that the Fund's **expected future return above CPI has fallen (particularly in light of the material increase in inflation expectations)**. This suggests a reduction in the expected return over inflation of broadly 0.3% p.a. – 0.5%p.a. would currently be appropriate when compared to the 2019 valuation assumptions.

Along with asset returns between now and March 2022, this assumption will be critical to the 2022 valuation outcome so will be kept under review (as with other assumptions).

Progress Since 2019

LGPS wide mortality experience



Blue line shows National death stats (including non LGPS)

Source: Secretariat of Local Government Pension Scheme Advisory Board (England and Wales) and the Local Government Pensions Committee of the LGA

Progress Since 2019

COVID-19 impacts

Longevity improvements are volatile from year to year although, given COVID-19, 2020 saw the highest year-on-year increase in deaths for many decades.

We are currently recommending that no allowance for the impact of Covid-19 is made at present although this will be reviewed in more detail prior to the valuation.

Immediate Effects: The Fund has seen materially higher deaths than expected based on the data provided for the interim review, but the funding impact of these is more muted as the excess deaths have been concentrated at the older ages. However we will consider this further as part of the full demographic analysis. We estimate that since 2019, the liability reduction due to the impact of actual deaths versus expected has been c£6m however we are not able to say what this figure would have been in the absence of COVID-19.

Improvements in the short term: Unless increases in death rates are maintained, we would expect some level of “bounce-back”, with unusually high year-on-year improvements in the short term, so incorporating national data from 2020 would lead to the model overstating expected rates of mortality.

Improvements in the longer term: Future changes in mortality are hugely uncertain and are likely, in the next 2-3 decades at least, to be primarily driven by the uncertain development of factors such as lifestyle, health environment and medical interventions. COVID-19 can potentially influence all of these factors, and whilst some negative longer-term effects are probable, there are also a number of consequences that might actually have a positive longer-term impact human longevity.

Looking Forward – Updated Return Outlook

Illustrating potential outcomes (whole Fund)

	31/03/2019 (exc McCloud & GMP)	Illustrative outcomes based on 30 June 2021 market outlook (inc McCloud & GMP)	
		Lower return outlook	Medium return outlook
Assets	£1,915m	£2,382m	£2,382m
Liabilities	£2,047m	£2,366m	£2,309m
Surplus/(deficit)	-£132m	£16m	£73m
Funding level	94%	101%	103%
Primary contributions (% pay p.a.)	16.6%	20.0%	19.1%
Secondary contributions(% pay p.a.)	3.4%*	0.0%	0.0%
Total contributions (% pay p.a.)	20.0%	20.0%	19.1%
Discount rate (past service)	CPI+1.85%	CPI+1.35%	CPI+1.5%
Discount rate (future service)	CPI+2.25%	CPI+1.65%	CPI+1.8%

*includes any allowance for additional contributions paid as a provision for McCloud remedy costs

The figures are based on an approximate update of the 2019 valuation and allow for prepayments made. No allowance is made for the impact of membership movements or updated demographic/economic assumptions other than the updated return outlook.

Looking Forward – 2022 Valuation

Conclusions and points to watch



Where we are:

- Funding position to-date (30 June 2021) is good, with positive investment performance more than offsetting economic and demographic challenges
- As things sit currently, achieving overall contribution stability (or potentially better) would be possible
- However...



Points to watch:

- Results will depend on position at the valuation date – ***a lot can happen in 5 months...***
- The outlook for total future investment returns is slightly reduced, however ***we are entering an inflationary environment***, which could erode real returns, which are critical for funding
- ***Results will vary significantly by employer...***
- In particular ***contribution increases could be seen for some employers***, including:
 - Employers with lower funding levels in 2019, who will not benefit from the Fund's good investment performance to the same degree (see 2019 results schedule for your funding level at that point)
 - Employers with a younger member profile, who will be more exposed to higher future inflation assumptions (and so lower expected real returns)

Looking Forward – 2022 Valuation

Conclusions and points to watch



Points to watch (continued)

- ***The long term investment strategy*** is finalised, but the details of the allocation are yet to be confirmed - the final allocation may impact return outlook and therefore the final results
- ***Changes in membership / employee profile*** – impact is expected to be relatively small at Fund level, but for smaller employers in particular this can cause material changes to contributions
- ***Funding strategy, including surplus management*** will be reviewed – an integrated approach seeking to balance risk, taking into account covenant strength, will be adopted
- ***Data quality*** – the employers role in providing good quality data to avoid overstatement of contributions
- ***Contributions management / budgeting*** –
 - phasing in of contribution increases will again be an option for the 2022 valuation
 - in addition, maintaining the current contribution plan for one more year to aid budgeting may be possible
 - but employers will need to ***engage with the Fund*** to take up these options

Looking Forward – 2022 Valuation Timescales

- **September / October 2022** – initial employer results available and consultation on funding strategy
- **October / December 2022** – Engage with Fund if you want to discuss contributions, explore options or wish to raise any concerns
- **January / March 2023** – Contribution rates confirmed and certified
- **April 2023** – New contributions become payable (and a legal obligation of all employers)– so make sure the relevant people at your organisation are aware



Valuation and Funding Basics

2019 Valuation Recap

Progress Since 2019 and Looking Forward

Questions

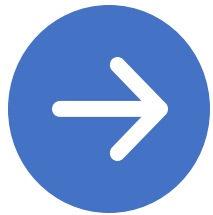




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McCloud



Debbie Sharp
Pensions Administration Manager

Update on the McCloud presentation given on 21 October 2020 providing a full background to McCloud.
Missed it? Recording is available on our [website](#)



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→ McCloud judgement – key dates so far

December 2018:

Court of Appeal ruling confirmed that the transitional protections provided for Judges and Firefighters during Public Sector reforms in 2014 and 2015 were age discriminatory

July 2020:

Consultation ran from July 2020 to October 2020

May 2021:

Luke Hall (then Minister of State for Regional Growth and Local Government) – confirmed that regulations should come into force 1 April 2023 (retrospective to 1 April 2014).

July 2021:

Public Service Pensions and Judicial Officers Bill introduced to Parliament

September 2021:

Second reading of the bill and moved to committee stage

Past

→ Public Service Pensions and Judicial Officers Bill

- The Bill is working its way through Parliament
- Clauses 73 to 75 provide new powers to amend LGPS scheme regulations.
- It's hoped that a full Government response will be released before the end of the year (usually Christmas Eve!)
- Regulations will be made in Spring 2022, after the Bill gets Royal Assent
- As set out in the written ministerial statement - expect scheme regulations to come into force on 1 April 2023

Now

But timescales are tight.....

→ What actions do we need to take?

Identify

- Active as at 31 March 2012
- Service after 31 March 2014 scheme*
- Without a break of more than 5 years

Assess

- Date joined
- Public sector transfers in
- Service breaks
- Hours changes

Collect

- Gaps? - need to collect and upload missing data

Calculate

- Underpin calculation for actives and leavers from 1 April 2014

Or perhaps not?



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→ Do we have any missing data? You tell us!

Identify

- Active as at 31 March 2012
- Service after 31 March 2014 Scheme*
- Without a break of more than 5 years

Assess

- Date joined
- Public sector transfers in
- Service breaks
- Hours changes

Collect



Calculate

- Underpin calculation for actives and leavers from 1 April 2014



Our approach

- Some of you may be part of another LGPS fund – remember each fund will be different
- **We've never stopped asking you to send us service breaks and hours** – based on this you won't need to do anything.....
- At year end you have confirmed:
- However, we suspect there may be gaps
- Initial checks have been done – some employers have had no service breaks or hours changes – but is this correct?
- Statements required from you to confirm you have provided all data
- If not, will need to arrange for data to be supplied

Full Time Equivalent Pensionable pay under the 2008 Regulations, changes of hours and any absences are being given at year end for all employees with service prior to 1 April 2014 or anyone affected by the underpin.

YES/NO



Considerations

- What does your workforce look like?
- Lots of part time workers and service breaks? Can you check we have been informed?
- Retention period for the data we might need
- Have you changed payroll provider?

This will be easier for some of you. One size doesn't fit all.

Over to you..



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Next steps

- Have you checked you still hold the data we need?
- If not, can you review?
- If you have a lot of part time workers and service breaks – can you check your processes are in place that you are and have been informing us of these?
- What is your retention period for data?
- Third party payroll providers?
- Engage with us when we contact you



Future

**Thank you for listening.
Any questions?**



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