Welcome to the Shropshire County Pension Fund Employers' Meeting 2016

SHROPSHIRE COUNTY PENSION FUND

Administered by Shropshire Council

Welcome and introduction
James Walton

Head of Finance, Governance and Assurance and Scheme Administrator

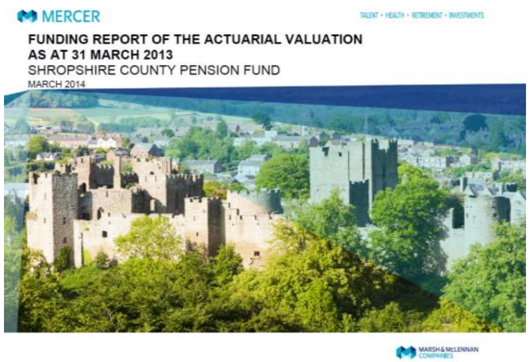
Agenda

9.00am	**Registration/refreshments**
9.30am	**Welcome and introduction** James Walton, Scheme Administrator
9.45am	**2016 Valuation Results** John Livesey and Mark Wilson, Mercers
10.45am	**Break with refreshments**
11.15am	**Data and the Statutory Requirements in the LGPS** Debbie Sharp, Pensions Administration Manager
11.45am	**Issues on the horizon for the LGPS** John Livesey and Mark Wilson, Mercers
12.15pm	**Interim Valuation results provided to employers**
1.30pm	Close

This meeting is being filmed and will be available to watch via the Funds website

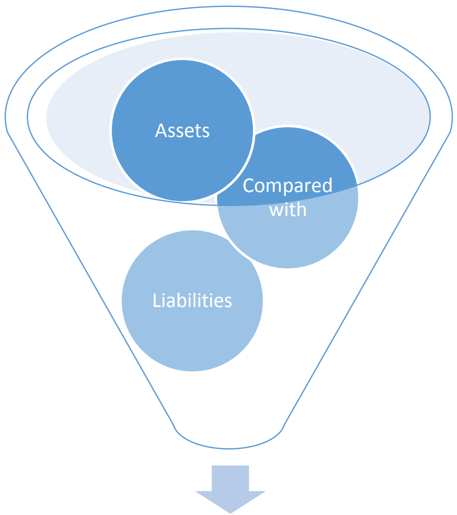
Actuarial Valuation – why?

- Requirement stated in Regulation 62 of the Local Government Pension Scheme Regulations 2013
- Shropshire Council is administering authority for Shropshire County Pension Fund
- Regulations state that administering authorities must obtain:
    - *an actuarial valuation of the assets and liabilities as at 31st March 2016 and on 31st March in every third year afterwards;*
    - *a report by an actuary in respect of the valuation; and*
    - *rates and adjustments certificate prepared by an actuary.*



The Valuation process

- **Performed** by Funds Independent Actuary - Mercer
- **Calculates** the expected cost of providing the benefits built up by members at 31 March 2016 (the “liabilities”), compared against funds held by the Fund (the “assets”)
- **Determines** the Funds funding level
- **Assesses** the employer contributions that are needed to cover the cost of benefits that active members have/will build up in the future
- **Sets** an appropriate plan for making up the shortfall if there are less assets than liabilities.
- **Report** provided on key findings



Valuation key findings: Employer contributions and Funding level

2016 Valuation Timeline

31 March 2016
- Member data as at this date
- Supplied by you at year end

4 July 2016
- Member data extract supplied by the Fund to the Actuary

10 November 2016
- Interim Results provided
- Opportunity for discussion with Actuary

Nov/Dec 2016
- Consultation of updated Funding Strategy Statement

1 April 2017
- New employer rates in place for next 3 years

Where were we in 2013?

	2013
Funding level	76%
Average employer contribution rate	19.8%
Total number of members	38,440

Date for your diaries – Friday 2 December 2016

Annual Meeting to provide updates on:

- LGPS pooling project
- Fund investment performance
- Investment Manager – Aberdeen
- Fund Administration
- Contact the Pensions Team to book a place:

Email pensions@Shropshire.gov.uk

Tel 01743 252130

Website www.shropshirecountypensionfund.co.uk

- The meeting is filmed to watch afterwards if you are unable to attend

SHROPSHIRE COUNTY PENSION FUND

2016 ACTUARIAL VALUATION EMPLOYER FORUM

November 2016

John Livesey FIA

Mark Wilson 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?

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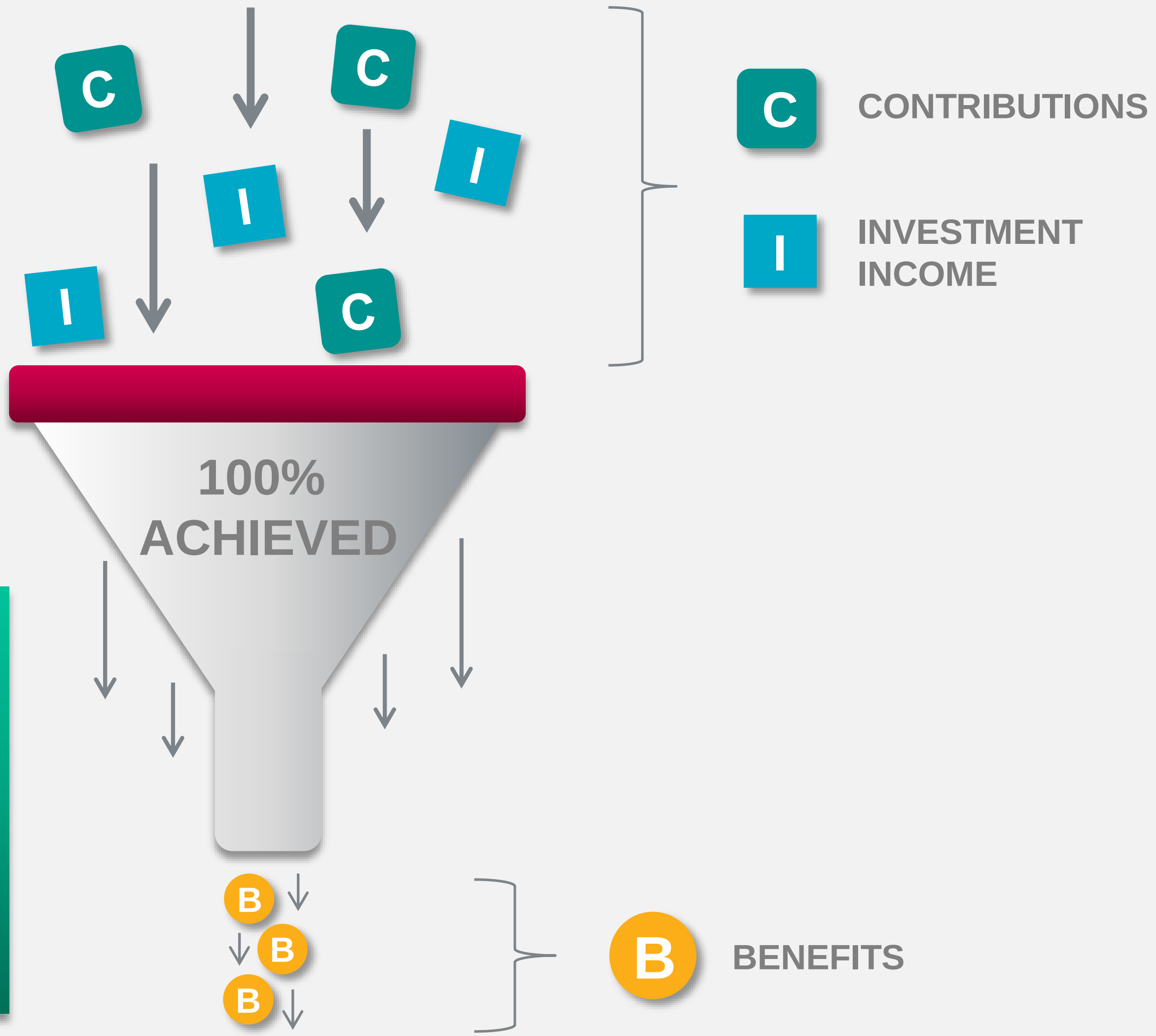
VALUATION BASICS AND FUNDING
SOURCES OF FINANCE



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

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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

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

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.

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

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

FUND AND EMPLOYER POLICIES

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

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

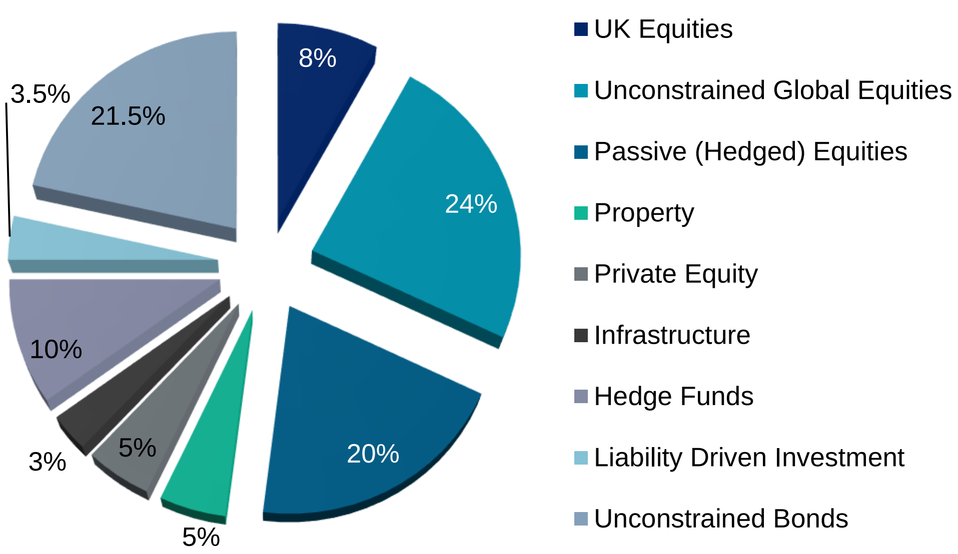
Short term (year-on-year) CPI changes

- 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

Current asset allocation



Chance of achieving return on current strategy	Expected Real Return
50%	CPI + 3.25% p.a.
60%	CPI + 2.55% p.a.
65%	CPI + 2.2% p.a.
75%	CPI + 1.4% p.a.

More prudent

“Best estimate”

Prudent AOA

2016 VALUATION FUNDING STRATEGY
KEY POINTS

DISCOUNT RATE – LINKED EXPLICITLY TO REAL RETURNS VERSUS CPI.

- MAINTAIN EXISTING REAL DISCOUNT RATE FOR PAST SERVICE – CPI PLUS 2.35% P.A.
- REDUCE REAL DISCOUNT RATE FOR FUTURE SERVICE BY 0.25% P.A. – NOW CPI PLUS 2.75% P.A.
- SHORT TERM SALARY GROWTH 1% P.A. FOR 4 YEARS

UPDATE DEMOGRAPHIC ASSUMPTIONS - LIFE EXPECTANCY, ILL HEALTH AND WITHDRAWAL RATES, DEPENDANT PROPORTIONS.

CONSIDER APPROPRIATE DEFICIT RECOVERY PERIODS (SUBJECT TO REASONABLE AFFORDABILITY) TO MAINTAIN CURRENT DEFICIT RECOVERY PLAN

UPDATE OF ALL RELATED POLICIES

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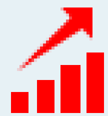
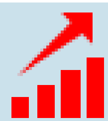
2016 ACTUARIAL VALUATION
INTERVALUATION EXPERIENCE – WHOLE FUND

Actual vs Expected	Impact	Comment
Investment Returns		Investment returns have been significantly better than expected
Membership Profile		Increase in FSR 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.		Will vary by employer.

IMPACT ON INDIVIDUAL EMPLOYERS WILL VARY

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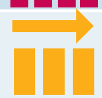
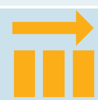
2016 ACTUARIAL VALUATION
ASSUMPTIONS UPDATE – WHOLE FUND

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. Increases future service cost
Short-term pay growth			Positive impact on deficit
Life Expectancy			Analysis indicates lower improvements than expected from last time
Ill-Health Retirement			Marginal decrease for future service rate but no impact for deficit
Withdrawal			Small positive impact on deficit
50/50			No change from 2013 assumption (increase in Fut Serv Rate for Councils)
Commutation			No change from 2013 assumption
Proportions Married / Dependants			Marginal impact only

IMPACT ON INDIVIDUAL EMPLOYERS WILL VARY

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2016 ACTUARIAL VALUATION
PRELIMINARY RESULTS AS AT 31 MARCH 2016

Discount Rate	31 March 2013 Final Results	31 March 2016 Maintain Real Return vs CPI at 2013 (CPI plus 2.35% p.a.) plus changes to demographics
Assets	£1,235m	£1,494m
Liabilities	£1,618m	£1,772m[1]
Deficit	£383m	£278m
Funding Level	76%	84%
Employer Future Service Rate (% of pay per annum)	14.0%[2]	14.7%[2]
Illustrative deficit contributions payable over 16 years (2017/18) indexed with assumed long term pay growth	£19.2m p.a.[3]	£18.6m p.a.
Average Future Service Contributions (2017/18) based on estimated payroll of c£230m for 2017/18	£32.1m p.a.	£33.7m p.a.
Total contributions payable	£51.3m p.a.	£52.3m p.a.

[1]2016 figures include allowance for short term pay of 1% p.a. for 4 years up to 2019/20 for all employers

[2]Allows for different discount rate assumption to past service (CPI plus 3% p.a. on 2013 basis and CPI plus 2.75% p.a. on 2016 basis)

[3]Theoretical deficit contributions emerging from 2013 valuation based on updated funding positions as at 31 August 2013

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YOUR VALUATION RESULTS

2016 ACTUARIAL VALUATION PRELIMINARY RESULTS
Shropshire County Pension Fund - XYZ (XXX)

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	Final results at 31 March 2013 (deficit and funding level as at 31 August 2013)	Preliminary results at 31 March 2016 in line with Whole Fund Results
Deficit	£950k	£1,000k
Funding Level	85%	88%
Employer Future Service Rate (% pensionable pay p.a.)	14.0%	15.5%
2017/18 Projected Payroll	£500k	£500k
Recovery Period from 1 April 2017	22 years	15 - 16 years
Deficit Contributions:		
2016/17	*£40k*	*£40k*
2017/18	£41k	£50k
2018/19	£42k	£51k
2019/20	£43k	£52k
2017/18 Future Service Contributions	£70k	£78k
Total 2017/18 Projected Contributions Payable	£111k	£128k

Notes
- 2013 contributions include allowance for post 2013 valuation experience to 31 August 2013
- 2013 deficit contributions were to increase at 4.1% pa. over the recovery period where applicable
- 2016 deficit contributions are to increase at 3.7% pa. over the recovery period

2013 valuation results

2016 results

Projection of contributions over 2017/20

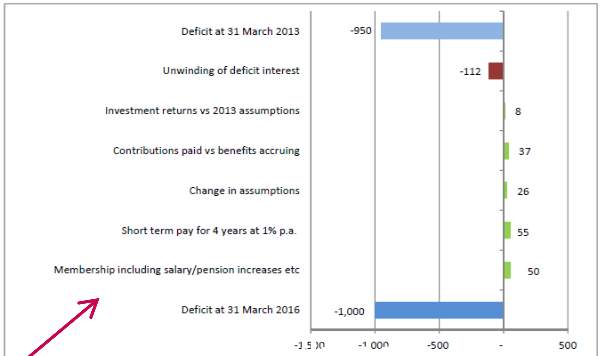
Updated Contributions projections based on 2016 results & FSS

YOUR VALUATION RESULTS

2016 ACTUARIAL VALUATION PRELIMINARY RESULTS

Shropshire County Pension Fund - XYZ (XXX)

ANALYSIS OF CHANGE IN FUNDING POSITION



Reconciliation of Deficit / Surplus

ANALYSIS OF CHANGE IN FUTURE SERVICE RATE

	% of Pay
2013 Future service rate	14.0%
Removal of 50/50 allowance	0.0%
Change in profile of membership	1.1%
Change in financial and demographic assumptions (including expense allowance)	0.4%
2016 Future service rate	15.5%

Reconciliation of future service rate

KEY MEMBERSHIP EXPERIENCE - 2013 TO 2016

	Actual	Actual vs Expected
Pensioner Deaths	4	125.0%
Ill-health Retirements	2	95.0%
Implied Salary Growth	7%	

Summary of key membership experience

SUMMARY OF MEMBERSHIP DETAILS

	31 March 2013	31 March 2016
Number of Active members	50	60
Total Actual Salaries (£000s p.a.)	450	500
Average Age (weighted by CARE pay)	50	46
Average Employee Rate (% of pensionable pay)	6.0%	6.2%
Number of Deferred Pensioners	12	15
Total Deferred Pensions at Val Date (£000s p.a.)	30	40
Number of Current Pensioners and Dependants	20	25
Total Pensions Payable (£000s p.a.)	100	130

INVESTORS IN PEOPLE

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MARSH & McLENNAN COMPANIES

Valuation Data provided

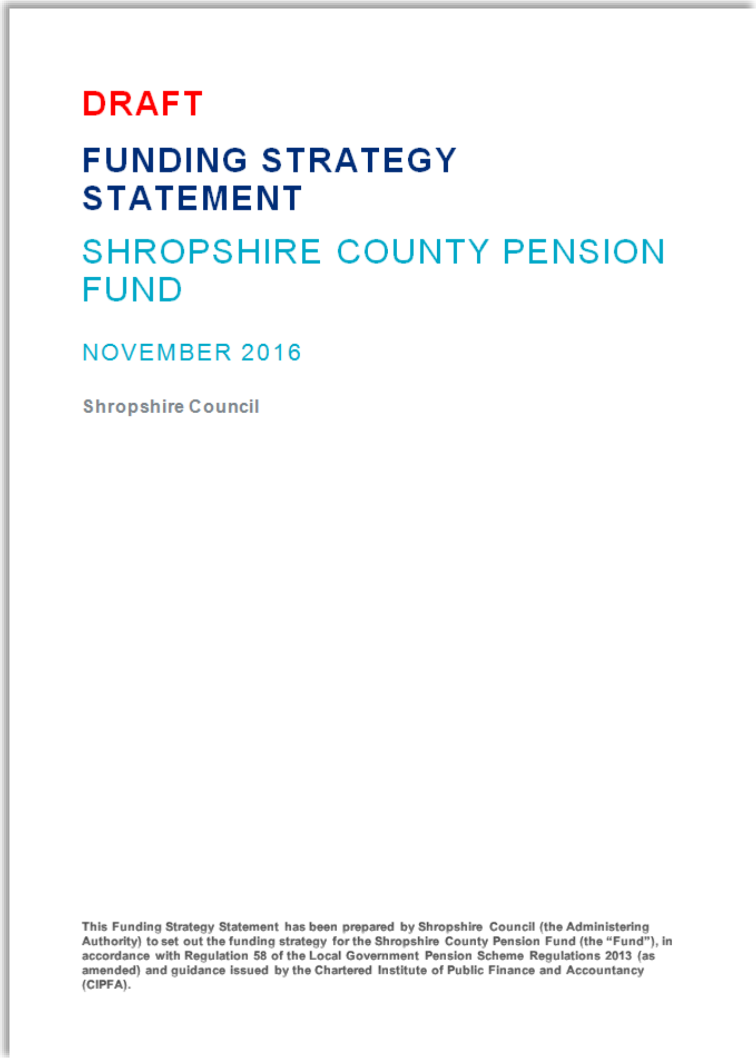
2016 VALUATION
KEY MESSAGES

INCREASE IN FUTURE SERVICE CONTRIBUTION RATE, PERHAPS 1% 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, LARGELY AS A RESULT OF FAVOURABLE INVESTMENT PERFORMANCE

LARGE VARIATIONS FROM EMPLOYER TO EMPLOYER. REDUCTION IN DEFICIT CONTRIBUTIONS WILL OUTWEIGH INCREASE IN FUTURE SERVICE FOR SOME, BUT LESS MATURE AND LESS WELL-FUNDED EMPLOYERS WILL FARE LESS WELL.

PHASING OF INCREASES MAY BE PERMITTED. UNLIKELY TO ALLOW REDUCTIONS IN CONTRIBUTIONS – MORE LIKELY WILL ADJUST OTHER ELEMENTS OF FUNDING PLAN



DRAFT

FUNDING STRATEGY STATEMENT

SHROPSHIRE COUNTY PENSION FUND

NOVEMBER 2016

Shropshire Council

This Funding Strategy Statement has been prepared by Shropshire Council (the Administering Authority) to set out the funding strategy for the Shropshire County Pension Fund (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		
Employer Number		
Financial year 2014/15		
Total income		*Total income or revenues*
Financial year 2015/16		
Total income		*Total income or revenues*
Financial year 2016/17 (current year)		
Total income		*Total income or revenues*
Surplus before interest		*Surplus (+) or deficit (-) before interest*
Interest cost		*Interest on debt and financing*
Net surplus		*Surplus (+) or deficit (-) for the year*
Debt		*Total debt at the end of the year (if debt held this shoul*
Cash		*Total cash balances at the end of the year*
Net assets		*Total accumulated reserves or funds, excluding any res*
Budgeted pension funding cost		
- deficit contributions		*Budgeted payments (£)*
- ongoing employer contributions		*Budgeted payments (£)*

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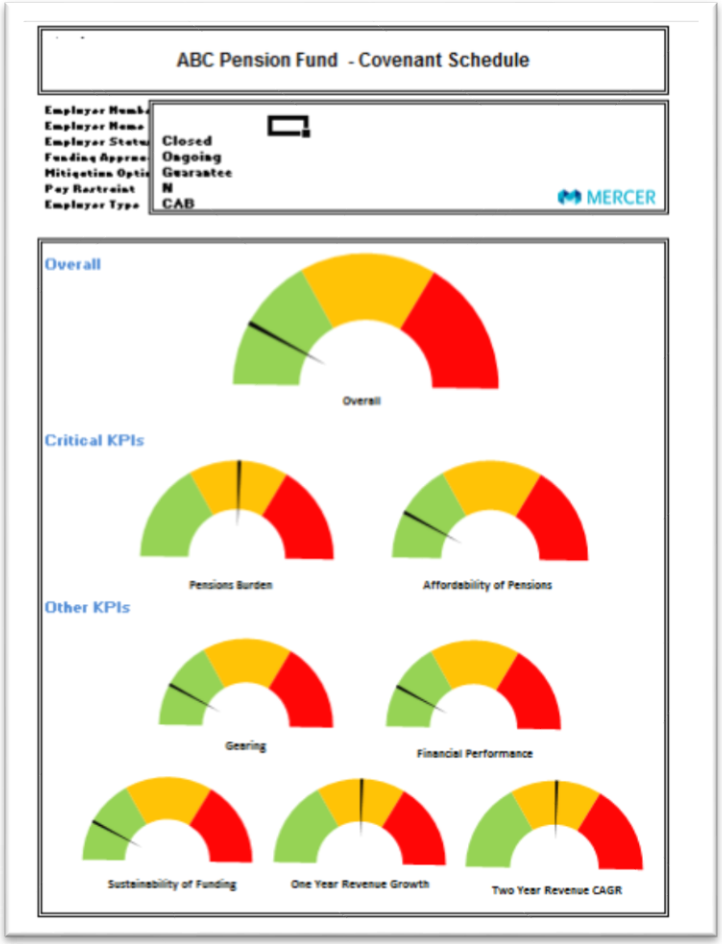
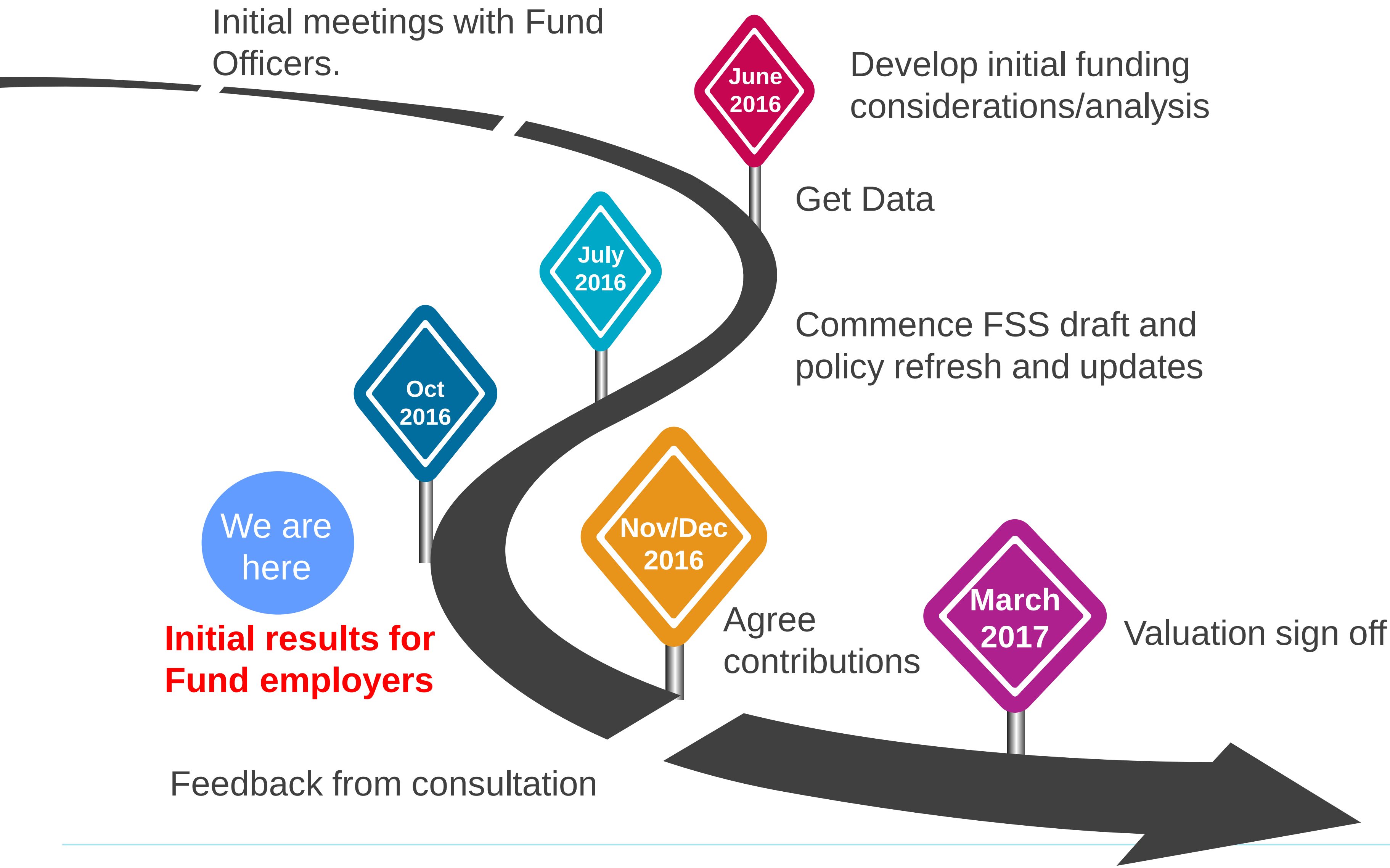
COVENANT
ONGOING MONITORING DASHBOARD



2016 VALUATION
TIMELINE



APPENDIX

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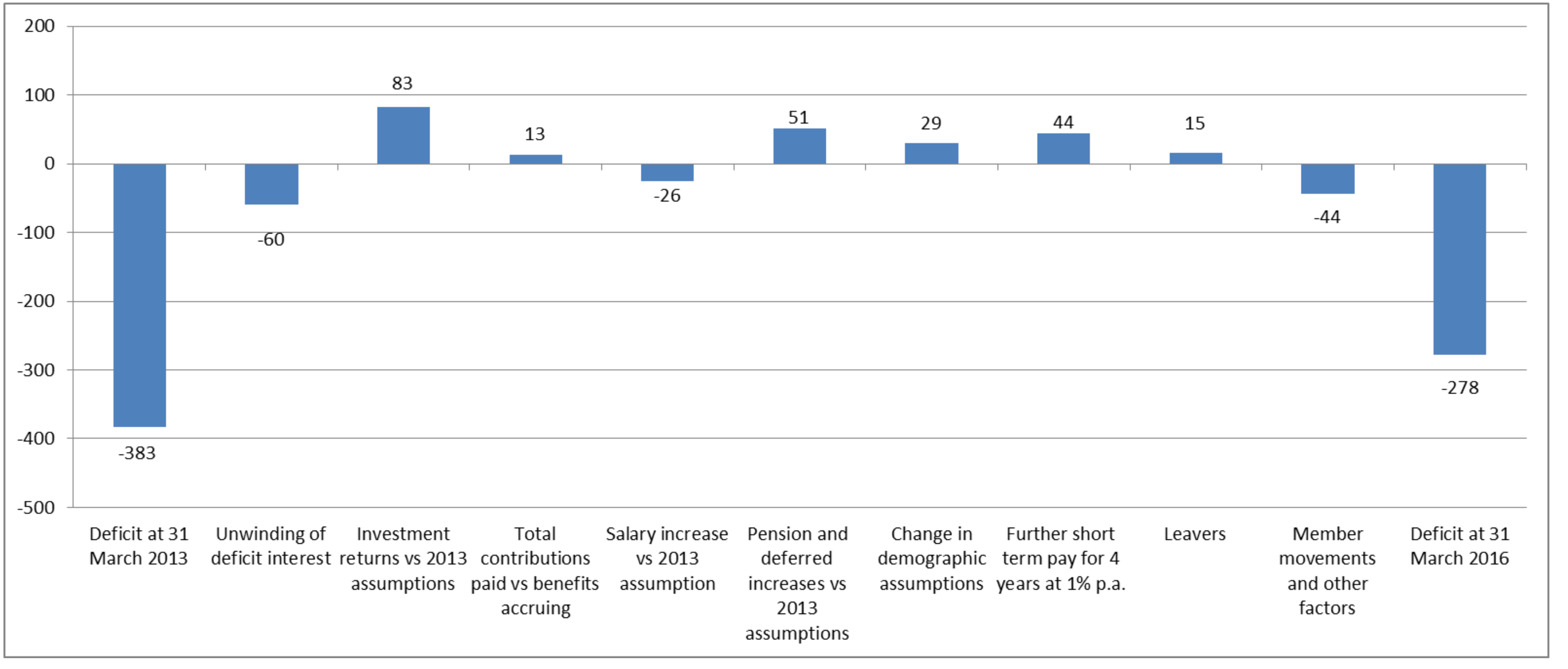
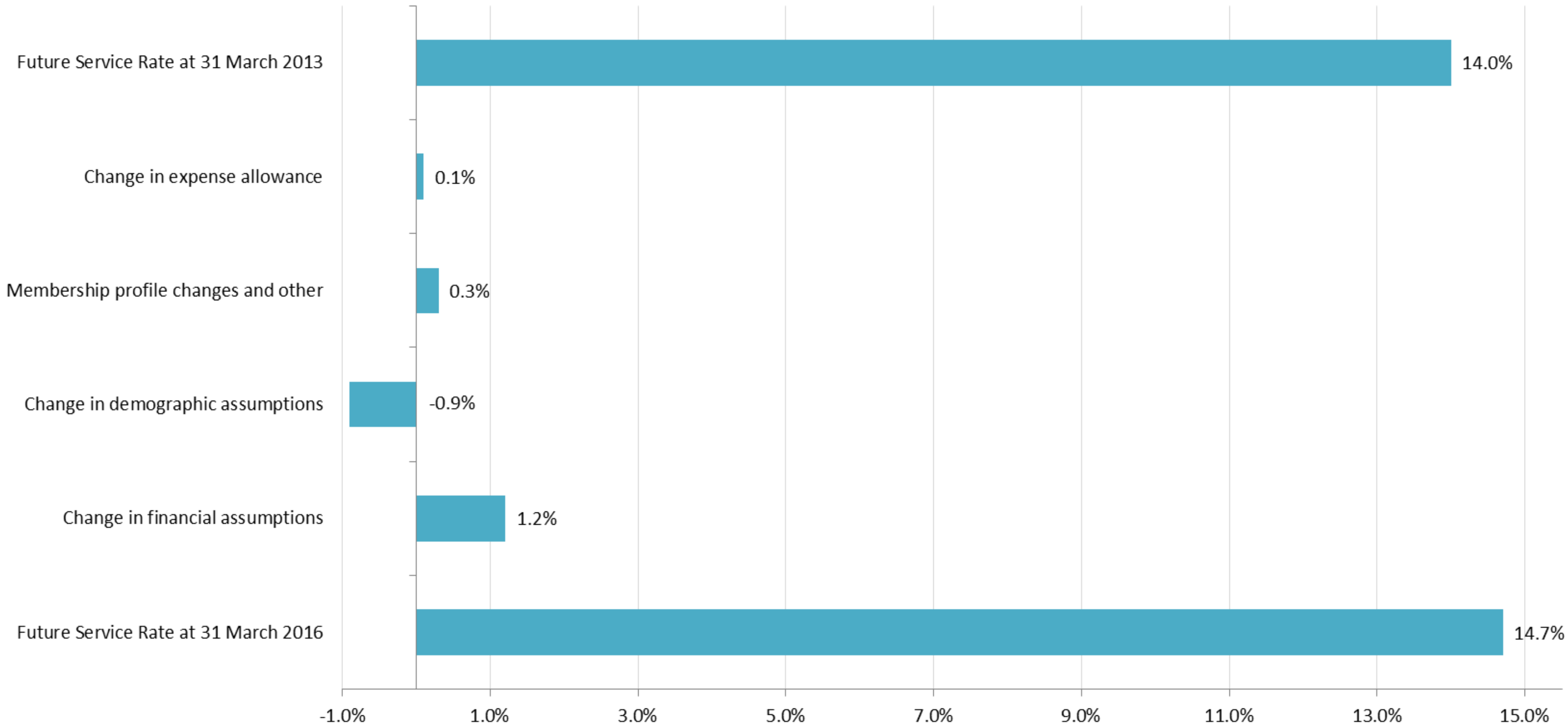
2016 RESULTS - WHOLE FUND
ANALYSIS OF CHANGE IN DEFICIT POSITION



IMPACT ON INDIVIDUAL EMPLOYERS WILL VARY

2016 RESULTS - WHOLE FUND
ANALYSIS OF CHANGE IN FUTURE SERVICE RATE



IMPACT ON INDIVIDUAL EMPLOYERS WILL VARY

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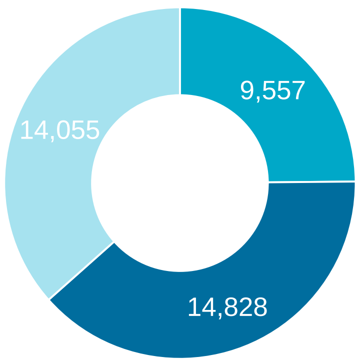
OVERVIEW OF FUND PROFILE

MEMBERSHIP DETAILS

MEMBERSHIP DETAILS PROVIDED BY THE ADMINISTRATORS



MEMBERSHIP DEVELOPMENT

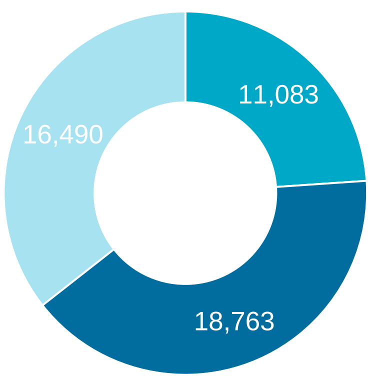
31 MARCH 2013

total membership:
38,440

Pensioners

Deferreds

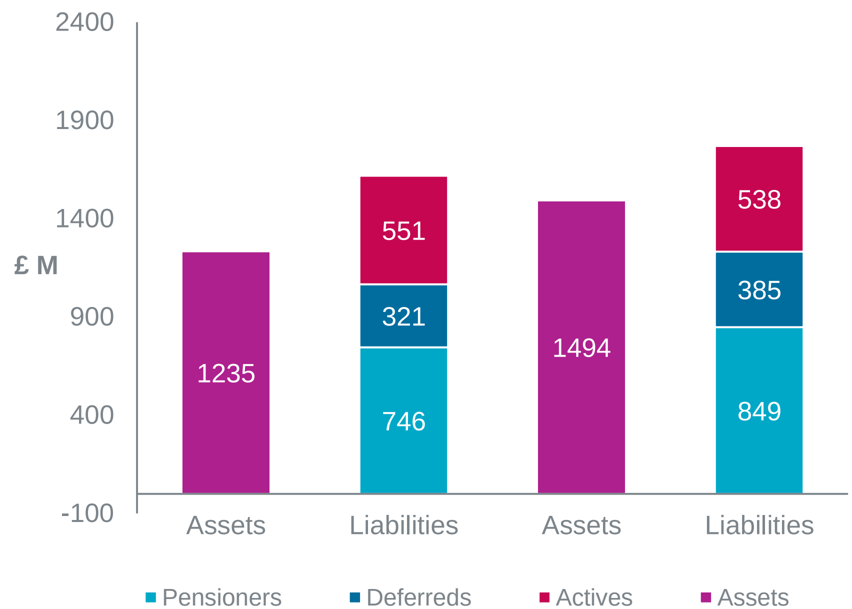
Actives



31 MARCH 2016

total membership:
46,336

31 MARCH 2013 **31 MARCH 2016**



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FUND MEMBERSHIP

MEMBERSHIP ANALYSIS

	31 March 2013	31 March 2016
Active members		
Number	14,055	16,490
Total Pensionable Salaries (£000s p.a.) [1]	206,915	225,113
Average Pensionable Salary (£ p.a.)	14,722	13,650
Average age[2]	49.3	49.2
Deferred pensioners[3]		
Number	14,828	18,763
Total deferred pensions revalued to valuation date (£000s p.a.)	18,133	22,023
Average deferred pension (£ p.a.)	1,223	1,174
Average age[2]	49.1	49.6
Current Pensioners and Dependants		
Number	9,655	11,083
Total pensions payable (£000s p.a.)	45,439	53,030
Average Pension	4,706	4,785
Average Age[2]	68.8	69.6

[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 plus 2.35% p.a. (Gilts + 1.75 p.a.)	CPI plus 2.75% p.a. (Gilts +1.75 p.a.)	CPI plus 2.35% p.a.
Discount rate:	4.95% p.a.	5.35% p.a.	4.55% 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	1% p.a. to 31 March 2020
Fund investment return	A total return of approximately 25% 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 "**C**onsumer **P**rices **I**ndex". 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.
- This presentation is confidential and may not be disclosed in whole or part to any third party without Mercer's prior written consent, unless required by law or order of a court or regulatory body.
- Mercer retains all copyright and other intellectual property rights in this presentation.
- 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 November 2016. It will not be updated unless requested.

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Break until 11.15

Data and the Statutory Requirements in the LGPS

(or why we ask you for what we do)

Debbie Sharp

Pensions Administration Manager

SCPF main function

- Shropshire County Pension Fund **<u>is responsible</u>** for the administration of the Local Government Pension Scheme **<u>within the geographical</u>** area of Shropshire.
- Shropshire Council is responsible for this on **<u>behalf of qualifying employers</u>** and ultimately the Scheme members.
- Must ensure members' benefits are paid **<u>accurately</u>** and **<u>on time</u>**

Legislation to adhere to…

- Local Government Pension Scheme (LGPS) Regulations……..1992, 1997, 2008, 2014
- Public Service Pensions Act 2013
- Pensions Act 2004
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013
- Record Keeping Regulations
- HMRC Regulations
- The Occupational Pension Schemes (Contracting-out) Regulations 1996
- The Occupational Pension Schemes (Transfer Values) Regulations 1996
- The Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008
- The Data Protection Act 1998

…….To name a few!

What does this mean day to day?

LGPS Regulations ..1992, 1997, 2008, 2008…

- How we calculate benefits
- Administration
- Actuarial Process

Public Service Pension Act 2013

Public Service Pensions Act 2013

- Introduced framework of Governance – New Pensions Board
- Extended regulatory oversight by the Pensions Regulator

The Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014

- Requires the Fund to keep specific data about Scheme members
- Must be able to report on and must be reviewed

This year with your data we have:

- ✓ Issued Annual Benefit Statements **<u>on time</u>**
  - ✓ Deferred Members
  - ✓ Active Members
- ✓ Provided Pensions Savings Statements for Annual Allowance **<u>on time</u>**
- ✓ Submitted Valuation data to Actuary **<u>on time</u>**
- ✓ Responded to all statutory data requests **<u>on time</u>**

Pensions Administration Strategy

- States responsibilities and what is expected
- Covers both Fund and employer duties
- Covers statutory obligations
- Fund preference in some cases - Regulations give right to stipulate
- Reviewed every year and employers consulted on any changes made
- Can be found on our website – in dedicated employers area

We understand you are busy

SHROPSHIRE COUNTY PENSION FUND

lgps 2014 for you, for now, for the future

LGPS from an employers perspective

- LGPS is more complex than ever been – Final Salary to CARE and mixture of both!
- Statutory obligation
- Are you resourced properly?
- Prioritising your responsibilities - remember the Pensions Regulator now has oversight
- Membership numbers continuing to grow through Auto Enrolment
- We're here to help – let us know if you need training

The Pensions Regulator

The regulator's statutory objectives:

- *Protect the benefits of pension scheme members*
- *Reduce the risks of calls on the Pension Protection Fund (PPF)*
- *Promote, and improve the understanding of, the good administration of work-based pension schemes*
- *Maximise compliance with the duties and safeguards of the Pensions Act 2008*

- Code of Practice 14 - provides practical guidance on the exercise of functions under relevant pensions legislation in public sector
- The Regulator is focussing attention on: internal controls, record keeping and provision of accurate and high quality communications to members – as seen as key areas of risk
- Visit: www.thepensionsregulator.gov.uk

Data collection going forward

- All to be processed online in coming months – you will be contacted by team
- One size doesn't fit all – different online methods available
- Since August 2015 employers transferring data electronically - 534,248 items
- Data includes: New members, leavers, address changes, contributions, CARE pay…

What if it goes wrong?

SHROPSHIRE COUNTY
PENSION FUND

for you, for now, for the future
lgps
2014

What is a breach?

- ‘an act of breaking or failing to observe a law, agreement or code of conduct’

- Responsible for reporting a breach:
  - Pension Board
  - Scheme Manager (i.e. pensions team)
  - Employers
  - Any professional advisers
  - 3rd party providers

An individual responsibility

- Requirement to report breaches of the law to the Regulator where there is reasonable cause to believe that:
  - a legal duty relation to the administration of the scheme has not been, or is not being complied with
  - the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions

- The report must be must in writing as soon as reasonably practicable

Recording or reporting?

- All breaches will be recorded
- But only some will have to be reported to the TPR
- How do we decide whether to report?

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported/not reported* RAG status	If reported date reported to the Pensions Regulator and copy of report saved	Outcome of report and/or investigations	Outstanding actions	Reason why not reported*

Column F: Traffic light framework for deciding whether or not to report

Where the **cause**, **effect**, **reaction** and **wider implications** of a breach, when considered together, are likely to be of material significance, the breach is 'red'. These must be reported to the regulator.

Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance, the breach is 'amber'.

Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance, the breach is 'green'. These should be recorded but do not need to be reported.

TPR Traffic light - report or not?

Where the **cause**, **effect**, **reaction** and **wider implications** of a breach, when considered together, are likely to be of material significance, the breach is 'red'. These must be reported to the regulator.

Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance, the breach is 'amber'.

Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance, the breach is 'green'. These should be recorded but do not need to be reported.

http://www.thepensionsregulator.gov.uk/docs/ps-reporting-breaches-examples-traffic-light-framework.pdf

“Materially Significant”

Need to consider;

- Cause- dishonesty, poor governance, incomplete/inaccurate information.
- Effect- ineffective internal controls, lack of knowledge/ understanding, potential for further breaches
- Reaction- action taken, notification to interested parties
- Wider implication- issues that make it likely breach will reoccur in the future.

Examples of breaches

A legal duty which is relevant to the administration of the Scheme that has not been complied with….

Could be…

- Failure to enter employee into the Scheme
- Late payment over of contributions
- Late issue of year-end data
- Late issue of annual benefit statements
- Late notification of leaver/retirement details
- No discretions policy

Late issue of year-end data

Scenario

Year-end pay and contributions return in respect of active scheme members submitted late to Fund

Steps that might be taken

Contact the employer to assess the reason

Investigate what went wrong

Put in place steps to ensure no repeat

Record investigation

Materiality

Is the delay/failure likely to be of "material significance"?

Is the employer unwilling or unable to provide the required data? e.g. are it's systems adequate

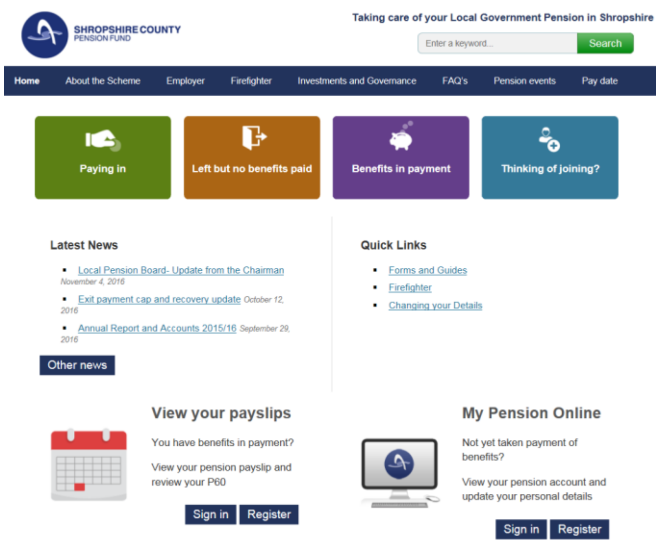
Has the employer responded to the Funds enquiries?

Will the delay impact the issue of Annual Benefit Statements?

Yes to any of the above may imply materiality

SCPF Breaches Policy

- Can be found on our website
- Employers should read the policy and be mindful of the contents
- Remember we have lots of policies – please check them out



Penalties

- Failure to comply with obligation to report a breach is a civil offence
- Pensions Regulator can:
  - Issue warning notice- identifying the alleged breach
  - Impose fines
  - Issue Compliance Notice
  - Make report to the “reporter’s” professional or other body

Final thoughts…

- Remember our main objectives – pay benefits **<u>accurately and on time</u>**
- Educating members

  -Holding presentations/consultations

  -Promoting key benefits to your staff

  -Do you circulate communications?

  -Have you displayed posters/leaflets?

- Remember the LGPS is an excellent staff benefit
- We're here to help
- Future training needs – complete feedback sheet
- Hopefully our focus will ensure we both meet the TPR priorities – internal controls, record keeping and communication to members

Any questions?

SHROPSHIRE COUNTY PENSION FUND

2016 EMPLOYER FORUM

LGPS CURRENT ISSUES

November 2016

John Livesey FIA

Mark Wilson FIA

LGPS EXIT PAYMENTS

PUBLIC SECTOR EXIT PAYMENTS

STATED AIMS

REFORM EXIT PAYMENTS UNDER THE PRINCIPLES OF **"FAIRNESS, MODERNITY AND FLEXIBILITY"…**

… AND REDUCE COSTS. ACKNOWLEDGING THAT PUBLIC SECTOR TERMS MORE GENEROUS THAN PRIVATE

CURRENT LGPS BENEFITS:

- REDUNDANCY LUMP SUM NEGOTIATED BY EMPLOYER
- UP TO TWO YEARS PAY (ALTHOUGH APPROACHES VARY)
- IMMEDIATE RETIREMENT WITHOUT REDUCTION IN BENEFITS IF OVER 55

THIS LAST POINT CAN LEAD TO SIGNIFICANT (AND UNEXPECTED) ONE OFF COSTS FOR EMPLOYERS

AS INCREASE IN BENEFIT VALUE MUST BE MET IMMEDIATELY **= LARGE ONE OFF PAYMENT**

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PUBLIC SECTOR EXIT PAYMENTS

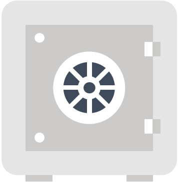
THE GOVERNMENT'S PROPOSAL

ALREADY AGREED:

- **£95,000** CAP ON TOTAL BENEFITS
- RECOVERY FROM HIGH PAID REJOINERS

IN ADDITION...

- CAP SALARY USED IN REDUNDANCY PAYOUTS AT £80,000
- MAX PAYOUT OF 3 WEEKS PER YEAR SERVED, 15 MONTHS PAY TOTAL
- REDUCE AMOUNTS AS RETIREMENT AGE APPROACHES
- LIMIT EARLY ACCESS TO PENSIONS



THIS MAY MEAN:

- INCREASE ACCESS AGE FROM 55
- CAP BENEFITS AVAILABLE (BASED ON £95K CAP)
- REMOVE ENHANCEMENTS ALTOGETHER
- POLICY DETAILS TO BE DECIDED BY EACH GOVERNMENT DEPARTMENT (DCLG FOR LGPS)

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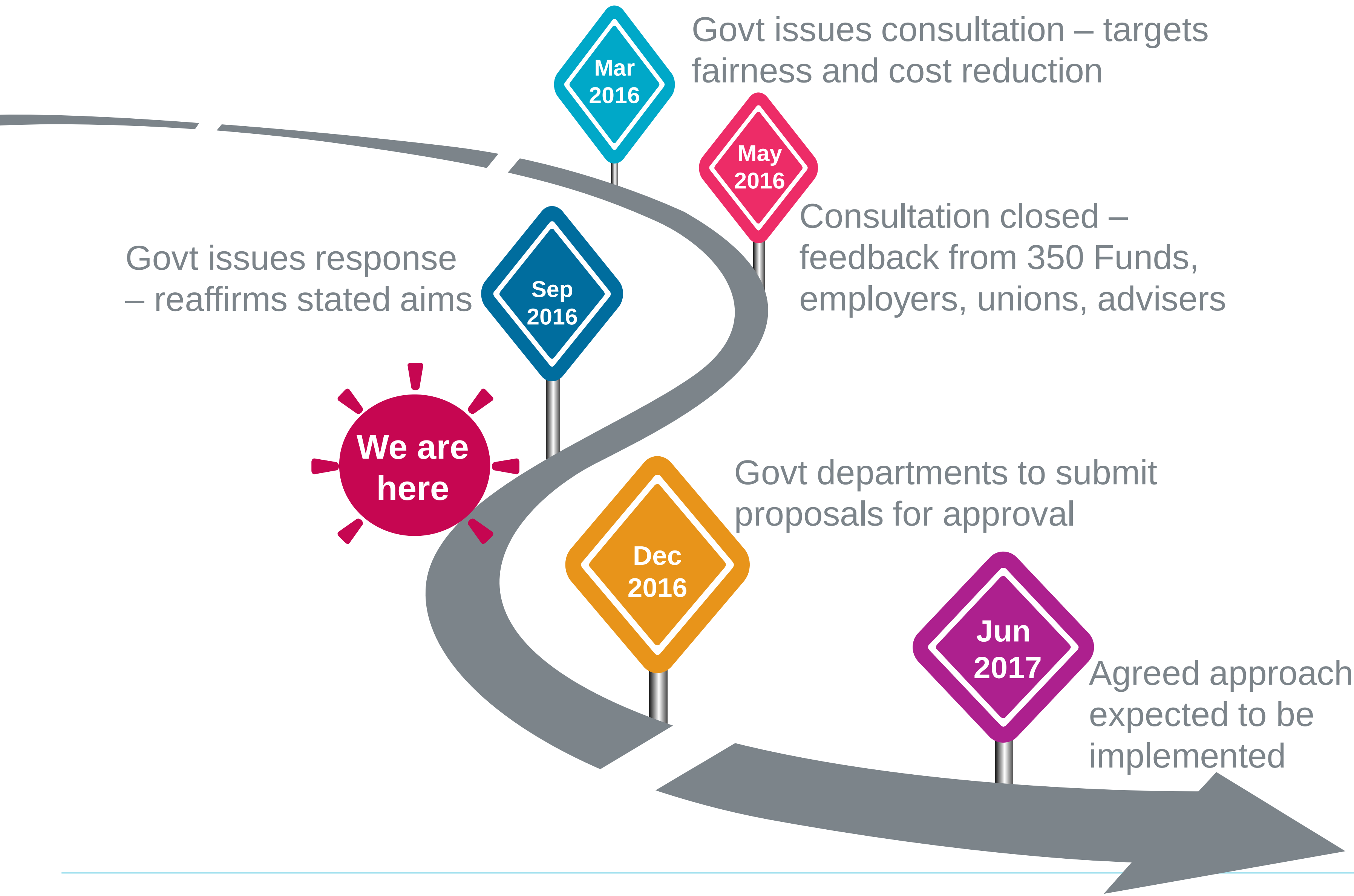
PUBLIC SECTOR EXIT PAYMENTS

TIMELINE



BREXIT

WHAT WE KNOW - THE MARKETS (TO 31 OCT)

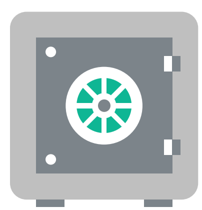
UK stock market up around **10%**

Sterling down over **15%**

Global stock markets up around **25%** (in £ terms)

Long-term interest rates – volatile but same ballpark as end June

Assets up – clear positive for Fund



Exchange rate down.

Has fuelled the increase in asset values.

But has increased expected inflation

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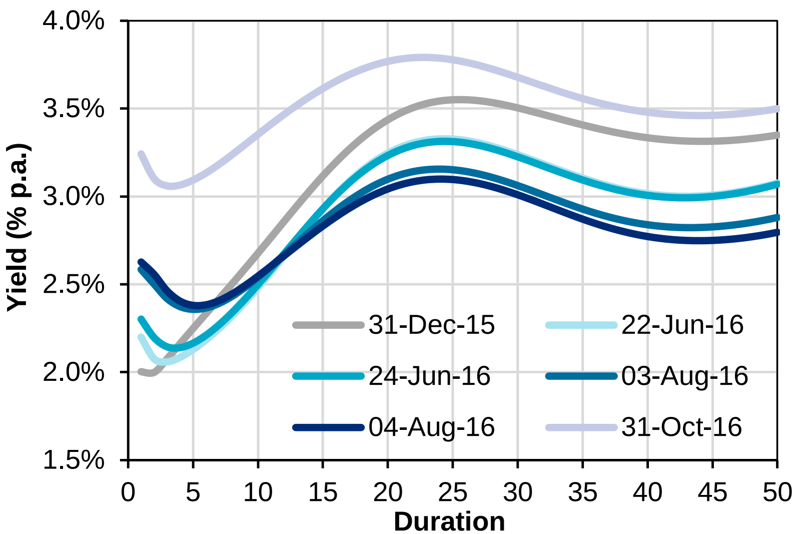
WHAT WE KNOW - INFLATION IMPACT

MARKET IMPLIED (RPI) INFLATION



- Inflation is key – all LGPS liabilities are inflation linked (directly or indirectly)
- CPI inflation (and asset performance in excess of this) determines cost of Scheme
- Expected inflation derived from markets
- Since Brexit expected inflation up around 0.5% pa. (as at 31 October)
- Tallies with general expectations of higher inflation
- Fall in value of GBP is substantial factor

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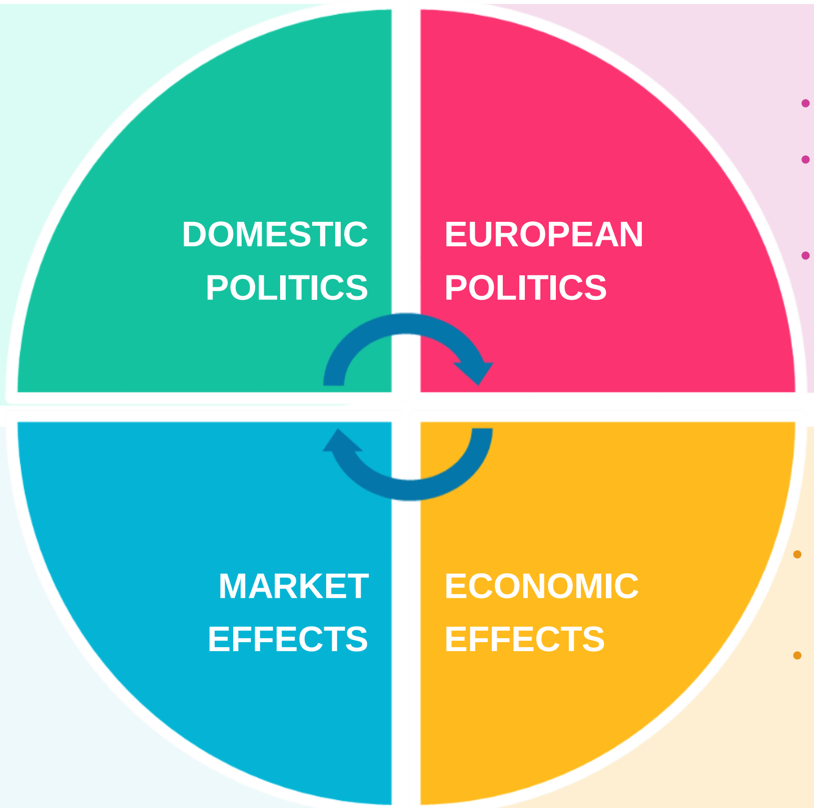
WHAT WE *DON'T* KNOW - KNOWN UNKNOWNS

- High Court ruling / parliamentary debate?
- Negotiating stance?
- Scottish referendum? Irish referendum?

- EU negotiating stance?
- Calls for referenda in other countries?
- Elections in Germany, France and Netherlands in 2017



- Markets up in short term but longer term picture uncertain
- Policy-maker response will also be important (i.e. monetary and fiscal policy)

- Short-term impact on UK economy has been minimal
- Medium to longer-term effects much harder to predict.

Brexit is not taking place within a vacuum – it is just one part of a complex macro-economic picture containing many sources of uncertainty (e.g. China & effect of US election)

NEW FAIR DEAL

NEW FAIR DEAL
ADMISSION PROCESS – CURRENT SITUATION

MOST LGPS OUTSOURCINGS GOVERNED BY BEST VALUE AUTHORITIES STAFF TRANSFERS (PENSIONS) DIRECTION 2007

SOME (PRINCIPALLY ACADEMIES AND OTHER NON LA SCHOOLS) GOVERNED BY FAIR DEAL GUIDANCE

KEY FEATURE OF CURRENT BEST VALUE DIRECTIVE IS THE CONTRACTOR CAN CHOOSE BETWEEN

- JOINING THE LGPS AS AN ADMITTED BODY
- OFFERING A “BROADLY COMPARABLE” SCHEME

IN PRACTICE **ADMITTANCE TO THE LGPS** IS BY FAR THE MOST **COMMON APPROACH**

NEW FAIR DEAL IMPLEMENTED FROM OCTOBER 2013 FOR MOST GOVT DEPARTMENTS

DCLG CURRENTLY CONSULTING ON IMPLEMENTING NFD FOR LGPS – WILL REPLACE BEST VALUE DIRECTION

KEY FEATURES:

- NO MORE BROADLY COMPARABLE SCHEME IN GENERAL. ON TRANSFER CONTRACTOR/NEW EMPLOYER MUST JOIN LGPS
- IF CONTRACTOR/ADMITTED BODY TRANSFERS A "PROTECTED EMPLOYEE", RECEIVING EMPLOYER WOULD HAVE TO BE ADMITTED TO THE LGPS
- POSSIBLY SOME FLEXIBILITY ON RENEWAL OF EXISTING CONTRACTS WHERE BROADLY COMPARABLE SCHEME IS ALREADY IN EXISTENCE
- EXIT PAYMENT AT END OF CONTRACT INCLUDES REPAYMENT OF SURPLUS

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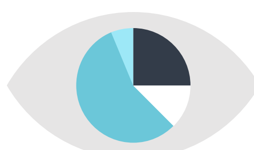
PROTECTED EMPLOYEES

PROTECTED TRANSFEREE:

- ACTIVE/ELIGIBLE MEMBER FROM SCHEME EMPLOYER (PART 1 OR 2) OR ADMITTED BODY
- UNDERGOING COMPULSORILY TRANSFER
- NEW EMPLOYER NOT OFFERING OTHER PUBLIC SECTOR PENSION

MEMBER REMAINS PROTECTED AS LONG AS THEY WORK ON THAT CONTRACT – REGARDLESS OF WHO THE EMPLOYER IS

APPLIES TO MOST **LGPS EMPLOYERS** INCLUDING **ADMISSION BODIES**



DOES NOT APPLY TO FURTHER AND HIGHER EDUCATION EMPLOYERS, POLICE & CRIME COMMISSIONERS

AWAITING GOVERNMENT RESPONSE TO CONSULTATION – POLICIES/PROCESSES WILL NEED REVIEW IN DUE COURSE

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COST MANAGEMENT

COVERS THE LGPS AS A WHOLE

- APPLIED ACROSS ALL FUNDS IRRESPECTIVE OF THEIR OWN EXPERIENCE

KICKS IN FROM 1 APRIL 2019 (AT THE EARLIEST)

MEASURES **"MEMBER COSTS"** AND **"EMPLOYER COSTS"** – ONLY **"MEMBER COSTS"** GET ADJUSTED FOR

IGNORES INVESTMENT RETURNS, CHANGES IN DISCOUNT RATE LIABILITIES FOR HISTORIC LEAVERS

TWO PROCESSES – **HMT & SAB**

CURRENT KNOWNS – 50/50 SCHEME, REVALUATION OF BENEFITS, TRANSFER CLUB **– MAY WELL BREACH TOLERANCE**

CURRENT UNKNOWNS – **PAY GROWTH, LONGEVITY**

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NATIONAL SCRUTINY AND SECTION 13 REVIEW

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NATIONAL BENCHMARKING AND KPI'S

NATIONAL BENCHMARKING BASIS CURRENTLY CPI PLUS 3% P.A.

18 LGPS PENSION FUND KEY PERFORMANCE INDICATORS (KPIS) DERIVED FOR SCHEMES TO SELF-ASSESS THEMSELVES

3 OF THESE KPI'S RELATE TO FUNDING

KPI Name	Description
Funding level and contributions	Rising funding level
	Strong employer covenants
	Rising contributions
	Net inward cashflow
Implied deficit recovery	Well-articulated deficit recovery plan
	Reducing deficit recovery
	Best practice deficit recovery period
Required returns to target full funding on a standard basis	Return consistent with strategy

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FUNDING FRAMEWORK
SECTION 13 VALUATION DRY RUN – SHROPSHIRE OUTCOME

Funding Levels:

LOCAL BASIS	STANDARDISED BASIS
76%	88%

Long Term Cost Efficiency Measures:

MATURITY (RANK)	LONG TERM COST EFFICIENCY MEASURES						
	RELATIVE CONSIDERATIONS				ABSOLUTE CONSIDERATIONS		
	DEFICIT REPAID	DEFICIT PERIOD	REQUIRED RETURN	REPAYMENT SHORTFALL	RETURN SCOPE	DEFICIT EXTENSION	INTEREST COVER
6.5 (43)	17%	6	4%	6%	1.6%	0	YES

Solvency Measures:

MATURITY (RANK)	SOLVENCY MEASURES					
	RISKS ALREADY PRESENT			EMERGING RISKS		
	SAB FUNDING LEVEL	OPEN FUND	NON - STATUTORY EMPLOYEES	LIABILITY SHOCK	ASSET SHOCK	EMPLOYER DEFAULT
6.5 (43)	88%	YES	10%	+4%	+4%	+0%

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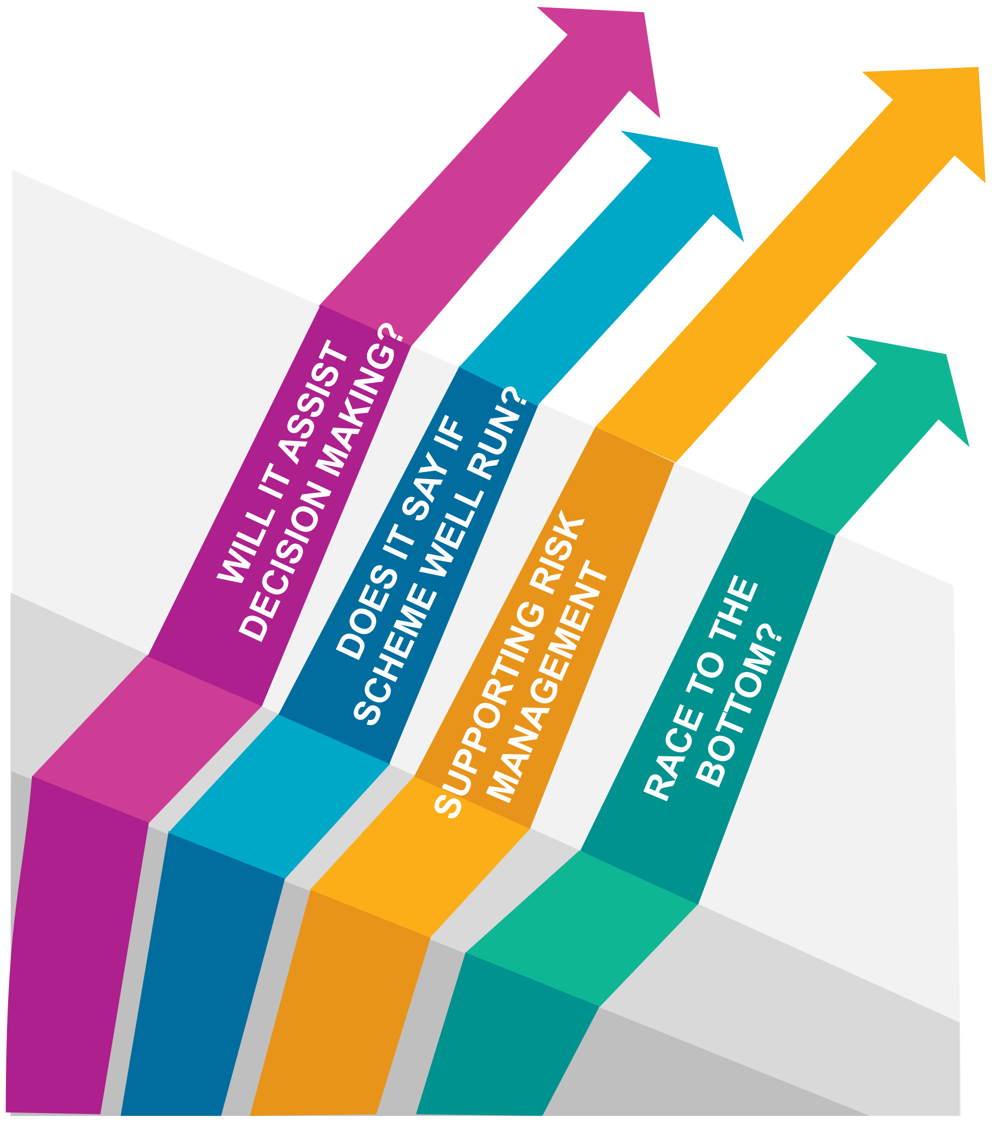
IMPROVING GOVERNANCE – WHERE DOES THE REPORT FALL SHORT?



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APPENDIX

BREXIT SCENARIOS

More favourable | Less favourable | Least favourable

Quick resolution - Hard Brexit

- UK leaves EU, reverts to WTO rules, has conclusive trade negotiations with EU.
- Brexit creates winners and losers on industry sector level.
- Economic activity recovers by 2018 causing short term inflation.
- GBP recovers modestly by the end of the period.

Quick resolution - Soft Brexit

- Sharp slowdown in economic activity in 2016 HY2, GBP weakens.
- Political resolution in mid-2017 (EEA type arrangement, or even a vote reversal).
- Political clarity returns the markets to the pre-referendum levels.
- No 'EU exit' referenda in pan-Europe and market-friendly parties win elections.

Protracted uncertainty - Inflationary

- UK fails to negotiate access to the single market on good terms.
- UK economy slows down sharply, in a recession through 2018.
- Monetary and/or fiscal stimulus and falling GBP impose inflationary pressures.
- Anti-EU parties lose popularity in Europe after 'Brexit' sets an example.

Protracted uncertainty – Disinflationary

- No fruitful negotiations with EU by 2019, UK remains in the single market.
- Economic growth is close to 0% in 2018, BoE cuts rates to 0%.
- Continued uncertainty keeps global bond yields low and dampens equity markets.
- GBP falls slightly.

Global contagion

- Negotiations between UK & EU are acrimonious, extreme political instability.
- Anti-EU parties popular in EU, sovereign debt problems re-emerge in Eurozone.
- UK moves into a recession and global growth slows, no GBP impact.
- Yields continue to fall and inflation remains subdued.

Loss of confidence in UK

- Negotiations between UK & EU are acrimonious, extreme political instability
- Anti-EU parties popular in EU, sovereign debt problems re-emerge in Eurozone.
- Global growth slows while UK falls into a deep recession.
- Further cuts in UK credit rating, GBP declines which is inflationary.

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TODAY

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Thank you for listening.

Please visit the table stated on your badge to collect your organisations individual results.