



Norfolk Pension Fund

**Borough Council of King's Lynn &  
West Norfolk  
Audit Committee  
17 October 2016**

**Alex Younger**

# Agenda



Norfolk Pension Fund

- Introduction
- The pension notes in your accounts
- The Triennial Valuation
- LGPS asset pooling

# The Local Government Pension Scheme (LGPS)



- LGPS is a **FUNDED** defined benefit scheme – unlike majority of public service schemes
- Career Average benefits for new accrual (since April 2014) but retains significant legacy final salary linked obligations
- Administered by Counties, Unitaries and London Boroughs
- 101 funds nationally – managed locally (89 in England & Wales)
- Regulated – Department Communities & Local Government (DCLG) + TPR (increasing oversight by HMT & Government's Actuaries Department)
- Benefits are guaranteed by statute
- Surpluses/shortfalls in funding have in the past been a matter for Employers (cost-share mechanism between Employers and Employees being part of the new 2014 scheme which is intended to address some aspects of costs going forward)

# The LGPS



- National scheme, locally administered
- Local accountability –
  - Pension Committee – ‘Section 101’ - board of quasi trustees
  - New Local Pensions Board with oversight and assistance role (equal number of Employer and Employee representatives)
- Great diversity of membership
- 11,801 Employers nationally (up by 1,130)

Quarter of largest 100 Pension Funds in UK are LGPS

1 in 5 of the working population is in the public sector

## The LGPS in England and Wales:

89 Funds (11 more in Scotland, 1 in Northern Ireland)

£ 217.2bn\* assets

5.1 m Scheme Members (annual increase of 144,000)\*

	2013	2014	2015
Active Members	1.75m	1.819m	1.870
Deferred Members	1.65m	1.723m	1.798
Receiving benefits	1.40m	1.459m	1.487

\*Data – LGPS 2015 Annual Report England and Wales only

# The Norfolk Pension Fund Facts, Figures and Changing Profiles



Norfolk Pension Fund

Administered by Norfolk County Council as a statutory responsibility

At March 2016:

- **£2.9 billion**
- **262 Employers** (152 March 2013)
  - 63 Councils (County, District, Town and Parish) \*
  - Remainder vary widely (e.g. private sector, charities, non uniformed fire and police staff, non teaching staff in academies and colleges)

Membership	31 March 2014	31 March 2015	31 March 2016	Movement in last year
Active	27,254	27,638	<b>28,030</b>	+392
Deferred	26,776	29,125	<b>32,477</b>	+3,352
Pensioners	20,887	21,247	<b>22,215</b>	+968
<b>Totals</b>	<b>74,917</b>	<b>78,010</b>	<b>82,722</b>	<b>4,712</b>

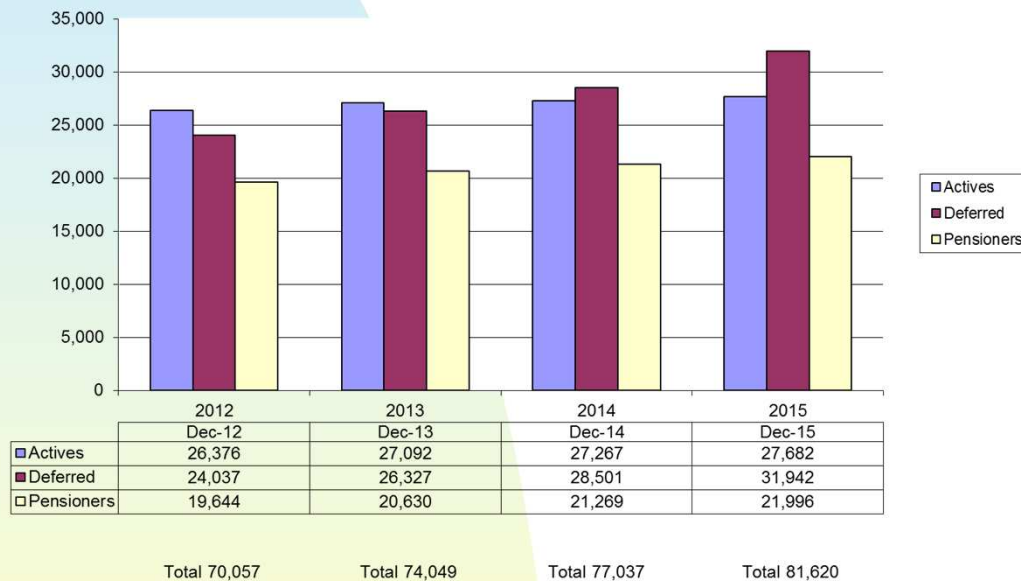
**Norfolk Pension Fund membership equates to 1 in 10 of adult Norfolk population**

\* 7 Borough/District Councils (Scheduled bodies), rest Admitted Bodies and Resolution bodies

# The Norfolk Pension Fund Facts, Figures and Changing Profiles



## Membership



## Average Pensions in payment:

January 2016: average annual pensions in payment were:

### Pension in own right:

- £5,055 (£421 per month)

### Dependants pension:

- £2,731 (£228 per month)

### Average pension:

- £4,760 (£397 per month)



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# The pension notes in your accounts



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## The pension notes in your accounts

- Many employers are required to make pension disclosures in their accounts (FRS102, IAS19, FRS17)
- The disclosures are relatively complicated and sometimes difficult to place in context / summary
- Report prepared by the Fund Actuary on behalf of a participating employer



## How are disclosure calculations made?

- Disclosures are made on an estimated 'roll forward' basis, using the actual results from the last completed formal valuation (31 March 2013 currently)
- In the vast majority of years the accounting disclosures will show a worse funding position than the on-going funding basis
- Accounting disclosures will also tend to exhibit greater volatility of results but there is no direct linkage to the level of cash contributions an employer is required to make

# Financial assumptions

(page 49 of SoA)



- Assumptions are variable year on year - 'market derived'
- The demographic assumptions are those agreed from the last formal 'Triennial Valuation'

## Financial assumptions

My recommended financial assumptions, as described in the accompanying report, are summarised below:

Period Ended	31 Mar 2016 % p.a.	31 Mar 2015 % p.a.
Pension Increase Rate	2.2%	2.4%
Salary Increase Rate	3.2%	3.3%
Discount Rate	3.5%	3.2%

# How are the assumptions used?



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- The asset value is rolled forward using both estimated cash flow and investment returns
- Liabilities are recalculated (using the most recent assumptions)
  - The balance sheet assumptions are calculated at the balance sheet date i.e. the **end** of the financial reporting period
  - The revenue account assumptions are calculated at the **start** of the financial reporting period - i.e. the same as those at the last balance sheet date
- Difference in dates of calculation often produces a disconnect in the direction of movement

# The pension note from your accounts (pages 42/43)

## Comprehensive Income and Expenditure Statement

Local Government Pension Scheme	Discretionary Benefits Arrangements	Total		Local Government Pension Scheme	Discretionary Benefits Arrangements	Total
2014/2015 £'000	2014/2015 £'000	2014/2015 £'000		2015/2016 £'000	2015/2016 £'000	2015/2016 £'000
			<b>Service Costs Comprising :</b>			
2,910	0	2,910	Current Service Cost	3,768	0	3,768
87	0	87	Past Service Costs	65	0	65
			<b>Financing and Investment Income and Expenditure:</b>			
1,712	150	1,862	Net Interest Expense	1,664	113	1,777
<b>4,709</b>	<b>150</b>	<b>4,859</b>	<b>Total Post- Employment Benefit Charged to the (Surplus)/Deficit on the Provision of Services</b>	<b>5,497</b>	<b>113</b>	<b>5,610</b>
			<b>Other Post-Employment Benefit Charged to the CIES:</b>			
			<b>Re-measurement of the Net Defined Benefit Liability Comprising:</b>			
(9,513)	0	(9,513)	Return on Plan Assets (Excluding the amount included in the net interest expense)	870	0	870
21,485	0	21,485	Actuarial (Gains) and Losses arising on the changes in Financial Assumptions	(14,769)	(282)	(15,051)
(1,376)	0	(1,376)	Other	(2,497)	0	(2,497)
<b>15,305</b>	<b>150</b>	<b>15,455</b>	<b>Total Post-Employment Benefit Charged to the CIES</b>	<b>(10,899)</b>	<b>(169)</b>	<b>(11,068)</b>

## Movement in Reserves Statement

Local Government Pension Scheme	Discretionary Benefits Arrangements	Total		Local Government Pension Scheme	Discretionary Benefits Arrangements	Total
2014/2015 £'000	2014/2015 £'000	2014/2015 £'000		2015/2016 £'000	2015/2016 £'000	2015/2016 £'000
(4,709)	(150)	(4,859)	Reversal of Net Charges made to the Surplus/Deficit for the Provision of Services for Post-Employment Benefits in accordance with the Code.	(5,497)	(113)	(5,610)
			<b>Actual amount charged against the General Fund for Pensions in the year</b>			
4,949	0	4,949	Employer's Contribution	1,882	0	1,882
0	254	254	Discretionary Benefits	0	244	244
<b>4,949</b>	<b>254</b>	<b>5,203</b>	<b>Total amount charged against the General Fund for Pensions in the year</b>	<b>1,882</b>	<b>244</b>	<b>2,126</b>

# The pension note from your accounts (pages 44/45/46)

## Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Authority's obligation in respect of its defined plan is as follows:

Local Government Pension Scheme	Discretionary Benefits Arrangements	Total		Local Government Pension Scheme	Discretionary Benefits Arrangements	Total
2014/2015	2014/2015	2014/2015		2015/2016	2015/2016	2015/2016
£'000	£'000	£'000		£'000	£'000	£'000
(167,778)	(3,535)	(171,313)	Present Value of the Defined Benefits Obligation	(155,539)	(3,122)	(158,661)
116,640	0	116,640	Fair Value of Plan Assets	117,182	0	117,182
<b>(51,138)</b>	<b>(3,535)</b>	<b>(54,673)</b>	<b>Net Liability Arising from the Defined Benefit Obligation</b>	<b>(38,357)</b>	<b>(3,122)</b>	<b>(41,479)</b>

## Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

Local Government Pension Scheme	Discretionary Benefits Arrangements	Total		Local Government Pension Scheme	Discretionary Benefits Arrangements	Total
2014/2015	2014/2015	2014/2015		2015/2016	2015/2016	2015/2016
£'000	£'000	£'000		£'000	£'000	£'000
101,793	0	101,793	Opening Fair Value of Scheme Assets	116,640	0	116,640
4,394	0	4,394	Interest Income	3,696	0	3,696
9,513	0	9,513	Return on Plan Assets (Excluding the amount included in the net interest expense)	(870)	0	(870)
4,949	254	5,203	Contributions from Employer	1,882	244	2,126
836	0	836	Contributions from Employees into the Scheme	859	0	859
(4,845)	(254)	(5,099)	Benefits Paid	(5,025)	(244)	(5,269)
<b>116,640</b>	<b>0</b>	<b>116,640</b>	<b>Closing Fair Value of Scheme Assets</b>	<b>117,182</b>	<b>0</b>	<b>117,182</b>

## Reconciliation of the Present Value of Scheme Liabilities (Defined Benefits Obligation)

Local Government Pension Scheme	Discretionary Benefits Arrangements	Total		Local Government Pension Scheme	Discretionary Benefits Arrangements	Total
2014/2015	2014/2015	2014/2015		2015/2016	2015/2016	2015/2016
£'000	£'000	£'000		£'000	£'000	£'000
(142,706)	(3,508)	(146,214)	Opening Balance at 1 April	(167,778)	(3,535)	(171,313)
(2,910)	0	(2,910)	Current Service Cost	(3,768)	0	(3,768)
(6,106)	(150)	(6,256)	Interest Cost	(5,360)	(113)	(5,473)
(836)	0	(836)	Contributions from Scheme Participants	(859)	0	(859)
(21,354)	(131)	(21,485)	Actuarial (Gains) and Losses Arising on the Changes in Financial Assumptions	14,769	282	15,051
1,376	0	1,376	Other	2,497	0	2,497
(87)	0	(87)	Past Service Cost	(65)	0	(65)
4,845	254	5,099	Benefits Paid	5,025	244	5,269
<b>(167,778)</b>	<b>(3,535)</b>	<b>(171,313)</b>	<b>Closing Balance as at 31 March</b>	<b>(155,539)</b>	<b>(3,122)</b>	<b>(158,661)</b>

# The pension note from your accounts (pages 47/48)

## Local Government Pension Scheme Assets Comprised:

Asset Category	Period Ended 31 March 2015				Period Ended 31 March 2016			
	Quoted Prices in active markets	Quoted prices not in active markets	Total	Percentage of Total Assets	Quoted Prices in active markets	Quoted prices not in active markets	Total	Percentage of Total Assets
	£'000	£'000	£'000		£'000	£'000	£'000	
<b>Equity Securities:</b>								
Consumer	5,015	0	5,015	4%	8,409	0	8,409	7%
Manufacturing	6,187	0	6,187	5%	6,106	0	6,106	5%
Energy and Utilities	2,568	0	2,568	2%	2,632	0	2,632	2%
Financial Institutions	7,501	0	7,501	6%	7,668	0	7,668	7%
Health and Care	3,944	0	3,944	3%	3,743	0	3,743	3%
Information Technology	3,963	0	3,963	3%	3,525	0	3,525	3%
Other	5,911	0	5,911	5%	0	0	0	0%
<b>Debt Securities:</b>								
Corporate Bonds (investment grade)	4,907	0	4,907	4%	0	0	0	0%
Corporate Bonds (Non-investment grade)	127	0	127	0%	0	0	0	0%
UK Government	0	0	0	0%	0	0	0	0%
Other	0	0	0	0%	0	0	0	0%
<b>Private Equity:</b>								
All	0	7,671	7,671	7%	7,534	0	7,534	6%
<b>Real Estate:</b>								
UK Property	0	12,389	12,389	11%	13,356	0	13,356	11%
Overseas Property	0	1,422	1,422	1%	1,806	0	1,806	2%
	40123	21482	61605	51%	54,778	0	54,778	46%

Asset Category	Period Ended 31 March 2015				Period Ended 31 March 2016			
	Quoted Prices in active markets	Quoted prices not in active markets	Total	Percentage of Total Assets	Quoted Prices in active markets	Quoted prices not in active markets	Total	Percentage of Total Assets
	£'000	£'000	£'000		£'000	£'000	£'000	
<b>Investment Funds and Unit Trusts:</b>								
Equities	46,947	0	46,947	40%	30,091	0	30,091	26%
Bonds	4,831	0	4,831	4%	30,147	0	30,147	26%
Hedge Funds	0	0	0	0%	0	0	0	0%
Commodities	0	0	0	0%	0	0	0	0%
Infrastructure	0	0	0	0%	0	0	0	0%
Other	0	0	0	0%	0	0	0	0%
<b>Derivatives:</b>								
Inflation	0	0	0	0%	0	0	0	0%
Interest Rate	0	0	0	0%	0	0	0	0%
Foreign Exchange	103	0	103	0%	(362)	0	(362)	0%
Other	42	0	42	0%	0	0	0	0%
<b>Cash and Cash Equivalents:</b>								
All	0	3,112	3,112	3%	0	2,529	2,529	2%
<b>Totals</b>	<b>92,046</b>	<b>24,594</b>	<b>116,640</b>	<b>98%</b>	<b>114,653</b>	<b>2,529</b>	<b>117,182</b>	<b>100%</b>

## The pension note from your accounts (pages 49/50)



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The principal assumptions used by the actuary have been:

	Local Government Pension Scheme	
	2014/2015	2015/2016
<b>Mortality Assumptions:</b>		
Longevity at 65 for Current Pensioners:		
Men	22.1yrs	22.1yrs
Women	24.3yrs	24.3yrs
Longevity at 65 for Future Pensioners:		
Men	24.5yrs	24.5yrs
Women	26.9yrs	26.9yrs
Rate of increase in Salaries	3.3%	3.2%
Rate of increase in Pensions	2.4%	2.2%
Rate for discounting Scheme liabilities	3.2%	3.5%

### Impact on the Defined Obligation in the Scheme

	Approximate % Increase to Employer Liability	Approximate Monetary Increase to Employer Liability (£000)
Real Discount Rate Decrease by 0.5%	10%	15,968
Longevity Increase by 1 Year	3%	4,760
0.5% Increase in Salary Increase Rate	3%	4,675
0.5% Increase in the Pension Increase Rate	7%	11,091



# Triennial Valuation

- All LGPS Funds have a **statutory** valuation every 3 years
- The valuation is a health check of the whole Fund and individual employer positions, and is also needed to set the employer contribution rates
- Valuation currently underway as at 31 March 2016
- This will set the employer contribution rates from 1 April 2017 – 31 March 2020
- **This is the valuation that matters = cash flow**





# Triennial Valuation

## BUT...

- BCKL&WN subject to the Norfolk Pension Funds **Employer Contribution Rate Stabilisation Mechanism (ECRSM)**
- ECRSM smooths the impact of rate changes by limiting the increases / decreases to +/- 0.5% p.a.
- Actuarially modelled 'underpay in bad times and over pay in good' – smooths costs in the longer term



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# BCKL&WN Valuation Position

**31 March 2013:**

	£'000
Liabilities	124,498
Asset share	<u>95,845</u>
Deficit	<u>(28,652)</u>
Funding level / solvency:	77%
Theoretical Employers Contribution Rate:	18.4% + £2,172k per annum

# Stabilised Employer Contribution Rates



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Financial year ending:	Percentage	Cash sum £000's per annum
31 March 2014	14.0%	878
31 March 2015	14.0%	3,136
31 March 2016	14.0%	nil
31 March 2017	14.0%	nil
31 March 2018	14.0%	4,511
31 March 2019	14.0%	nil
31 March 2020	14.0%	nil

# Outlook



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- Based on likely assumptions funding position may not change significantly .... BUT this statement is made without examination of individual employer experience
- **ECRSM continues** – supports predicable contribution rates
- Many employers still substantially below the full theoretical rates
- Individual employer positions available late Autumn (November)
- Rates must be certified by 31 March 2017



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# Reform LGPS Asset Pooling



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# Summer Budget 2015

“pool investments to significantly reduce costs, while maintaining overall investment performance”

“sufficiently ambitious” proposals



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## October 5th 2015 Conservative Party Conference

“...we’re going to work with Councils to create .. Half a dozen British wealth funds spread across the country,”

“It will save hundreds of millions in costs, and, crucially, they’ll invest billions in the infrastructure of their regions.”



## **Autumn Statement – followed by pooling criteria and guidance (November 25<sup>th</sup> 2015)**

**“up to 6 British Wealth Funds ... at least £25 billion  
of Scheme assets each”**

**“reduce costs while maintaining overall investment  
performance”**

**“wider ambition of matching the infrastructure  
investment levels of the top global pension fund”**





## 25<sup>th</sup> November 2015

- **Criteria for pooling** published - not a consultation
- Consultation on **Investment Regulations**: liberalisation to facilitate CIVs
- Backstop legislation** for funds not participating in pools
- **Submit proposals**
  - Initial 19 February 2016
  - Detailed 15 July 2016

# Investment Pooling : ACCESS



ACCESS (a collaboration of central, eastern and southern shires) with assets of £33bn – **all of which are managed by third parties.**

c3,000 employers

c900,000 members

Strong performing funds and potential for substantial benefits for a group of successful like-minded authorities collaborating and sharing their collective expertise.

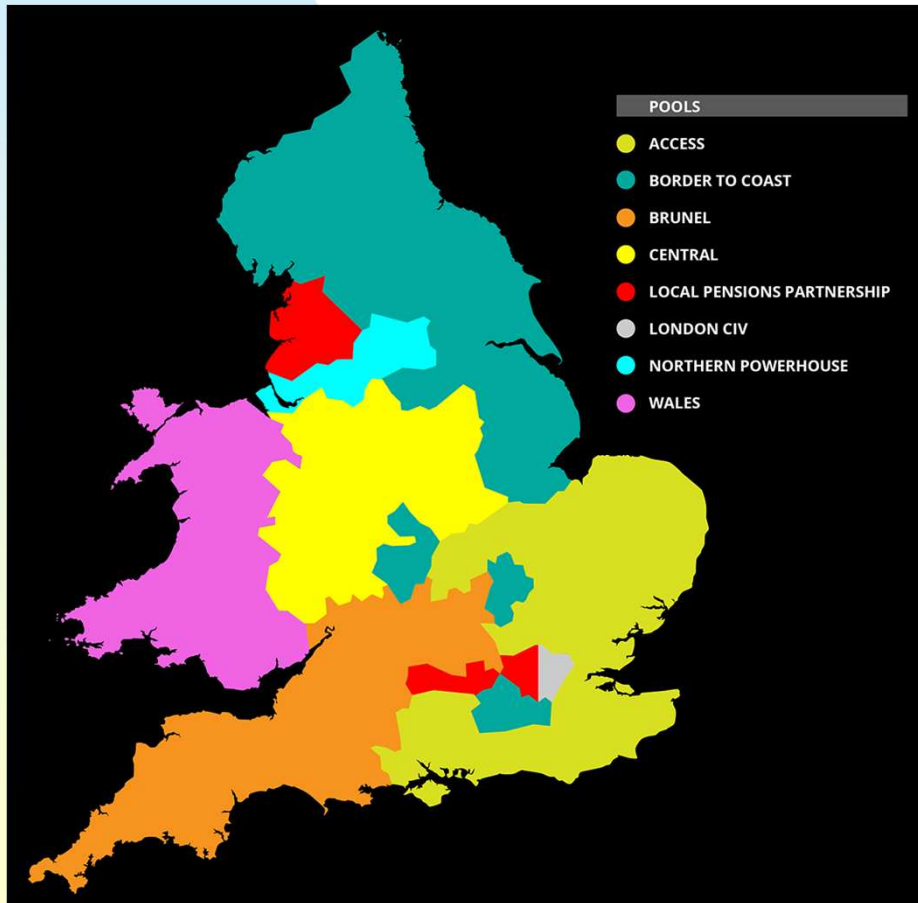
75% of the assets are invested across 12 managers and 71 different managers used across the authorities.



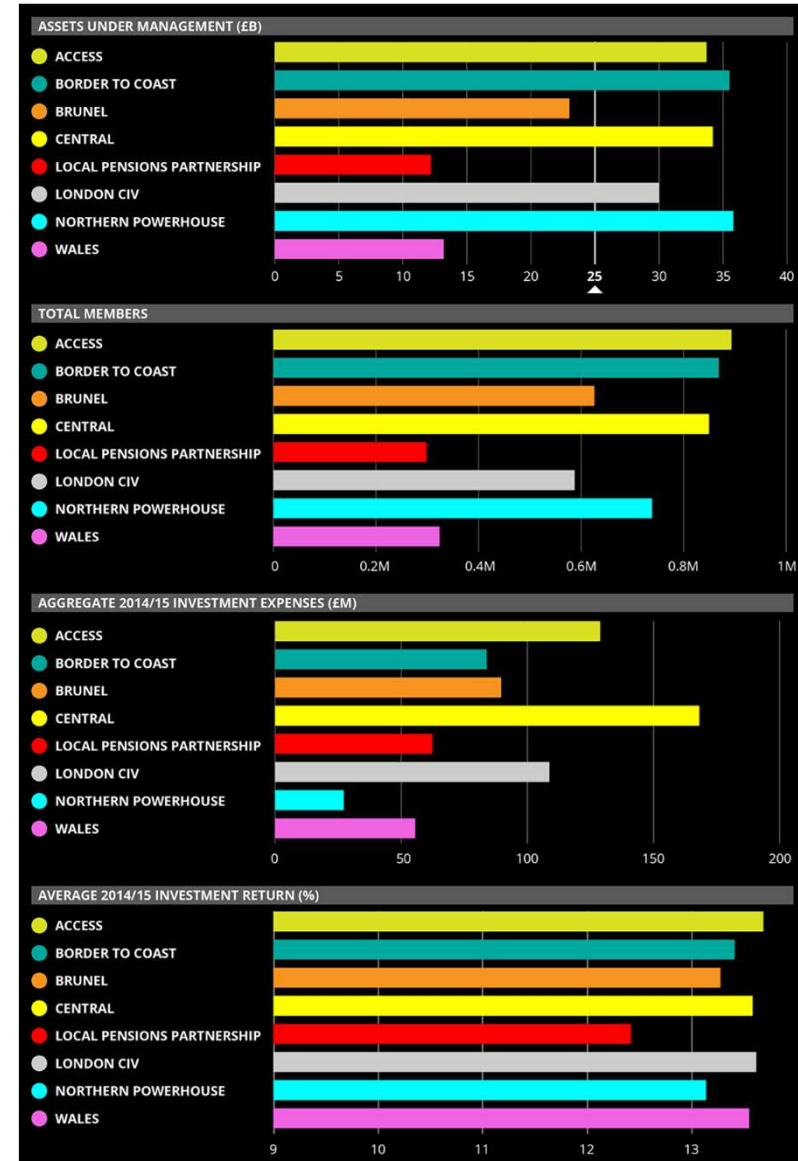


# ACCESS

Effective • Collective • Investment



## Norfolk Pension Fund



# Principles



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The participating authorities reflect a strong commitment to the project and share an approach to achieve common objectives based on a clear set of guiding principles.

Collaborative	Risk management	Objective evidence based decisions
Equitable voice in governance	Professionalism	Equitable cost sharing
No unnecessary complexity	Evolution and innovation	Value for money

Democratic accountability and fiduciary responsibility are vital



**ACCESS**  
Effective • Collective • Investment

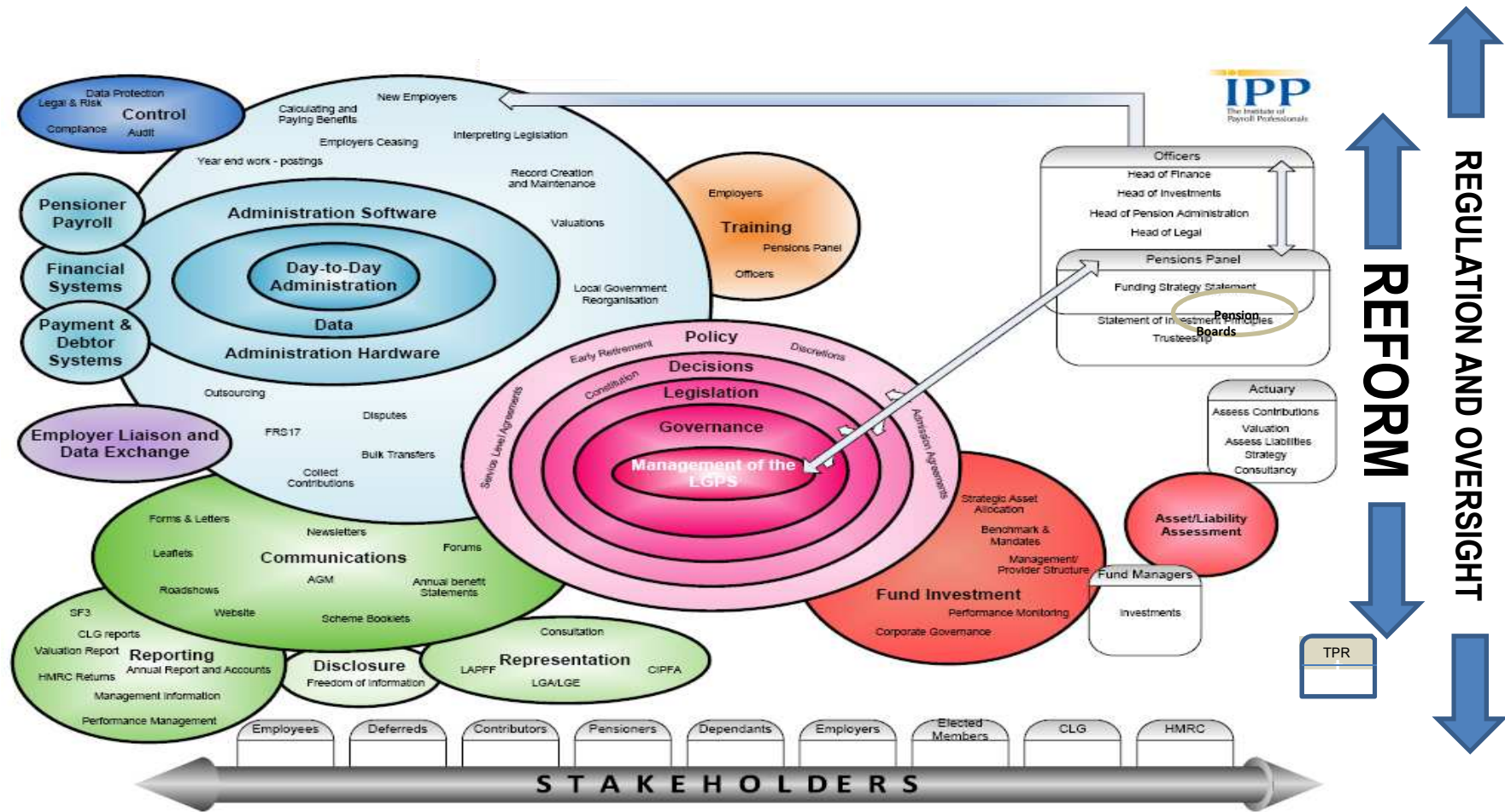
# Impact of pooling?



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- **Still** 101 local Funds, with local accountability and administration
- **Only** operational management of investments is pooled
- On going accountability to and oversight of pools by local Funds:  
**still our assets; still our responsibility**
- Local responsibility for Strategic Asset Allocation
- 3 – 5 (or even 20 year!) implementation
- **No immediate dividend for employers**

# LGPS management and oversight continues...





**Norfolk Pension Fund**

**Questions?**

**Thank you**

Alex Younger

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