Hampshire Pension Fund
Actuarial valuation as at 31 March 2019

Town and Parish Councils

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Presentation to Hampshire County Council

QAS Institute and Faculty of Actuaries
Quality Assurance Scheme

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Agenda

- De-grouping – a reminder
- Initial 2019 results
- Other elements of funding strategy
- Post-valuation date experience
- Conclusions

De-grouping

Reminder: approach to de-grouping

- TPCs - allocate assets in proportion to each employer's funding target (liabilities)
  - aligns with factors influencing deficit (e.g. member experience)
  - consistent with current funding strategy when employers exit the Fund / account for pensions
  - same as approach taken when employers exited group arrangements in 2016

Liabilities – based on employer's membership and funding assumptions
£1 of liabilities in the SBG = £1 of liabilities outside the SBG

Assets – based on SBG funding position
2019 SBG FL 95% = 2019 TPC group FL = 95%

Currently deficit payments set in line with Group funding rules (based on payroll)

Deficit payments may change on exit from group (based on liabilities)

If deficit is nil there is no step change

Rationale for pooling Town and Parish Councils

Size / volatility

- Small employers more likely to experience volatile pension costs and less likely to be able to absorb changes
- Addresses lifecycle risk (e.g. older member retires / younger member joins)

Consistency

- Desirable to retain common rates for employers subject to common funding pressures
- Other LGPS Funds operate pools for small employers

Administration

- Administratively simpler?

Less justification for moving TPCs onto individually assessed contributions

But need ability to manage transient / short term employers

Commitment to capping contributions – simple example

£'000s	This year: 2019 / 2020	Next year: 2020 / 2021	
Plan under 2016 valuation	£3.4 (future service) £1.1 (past service) **£4.5 (total)**	3.9% increase to deficit contributions	£3.4 (future service) £1.2 (past service) **£4.6 (total)**
New TPC pool (2016 funding strategy + improved funding)	Adjusted deficit recovery period	Application of cap	£3.9 (future service) £0.9 (past service*) **£4.8 (total)** **£4.6 capped**
Extra prudence and unknowns		Changes to funding strategy	£**?** (future service) £**?** (past service*) **£? (total)**
Amounts certified			£? (future service) £? (past service*) **£? (total)**

Based on pay of £20,000 and deficit contribution over 2019/20 of £1,100
For simplicity, assume pay doesn't increase between 2019/20 and 2020/21

** Deficit contributions expected to increase at 3.6% p.a.*

May be able to cap contributions despite uncertainties but no guarantee

2019 Results

Initial 2019 results (draft)

% of Pensionable Pay	2016 valuation		Initial 2019 valuation	
	SBG	TPC	SBG	TPC
Probability of funding success	71%		75%	
Employer future service cost (Primary rate)	16.9%	19.5%	17.3%	20.3%
Recovery Period	19 years		16 years	
Secondary contributions	5.7%	5.5%	Nil	Nil
Allowance for McCloud / Cost Cap	n/a	n/a	0.9%	0.9%
Total contribution rate	22.6%	25.0%(2)	18.2%	21.2%(3)

(1) Increasing each year in line with the pay increase assumption

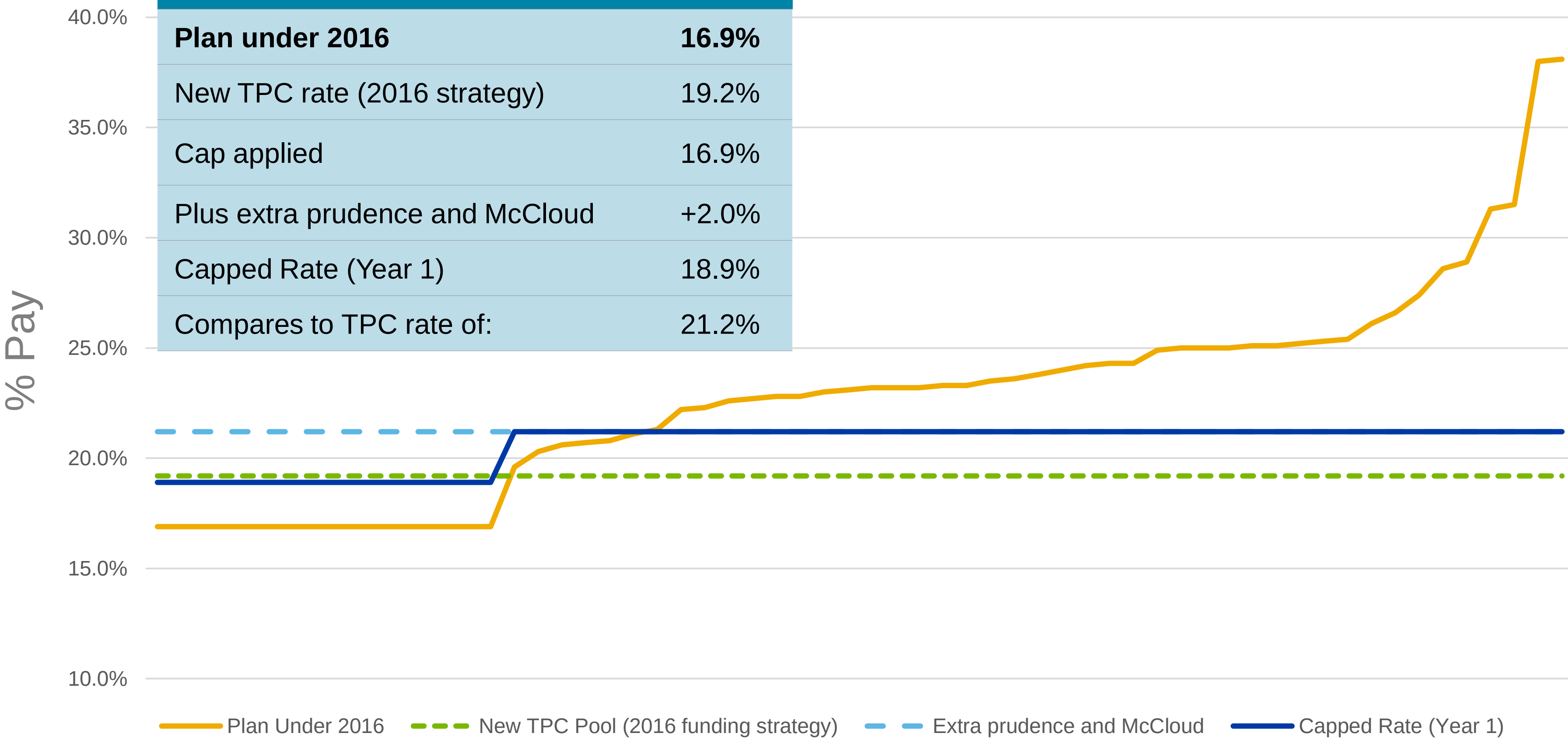
(2) Based on total payroll over the year to 31 March 2016

(3) Based on total payroll over the year to 31 March 2019

The 2019 results may change as we work through the individual employer results if there are changes to the data or employer funding targets

Proposed contributions for TPCs

Example – TPC paying no deficit payments	
Plan under 2016	**16.9%**
New TPC rate (2016 strategy)	19.2%
Cap applied	16.9%
Plus extra prudence and McCloud	+2.0%
Capped Rate (Year 1)	18.9%
Compares to TPC rate of:	21.2%



Cap applied to those paying no deficit contributions 2019/20

Proposed outcome for TPC employers

- Not desirable to certify different rates for different employers
- Permit all employers to benefit from capped rates
- Step to target rate over 3 years
- Year 3 rate slightly higher than target to recover underpayments in first two years

	2020/21	2021/22	2022/23
TPC Pool contributions	18.9%	20.2%	21.4%

Other elements of funding strategy

Strategy proposals/implications

Recovery period – 16 years for all unless stop designating (i.e. close to new members)
Previous proposal (discussed in May) – banded recovery periods, e.g. 5/10/15 years

Prepayments are allowable for secondary contributions (secondary contributions allocated to individual employers)

Surplus/deficit shared in proportion to liabilities (deficit amounts certified as £ amounts)

Funding position of employers in the pool may diverge in future
Only in respect of secondary contributions; all other risks shared

Stepping of contribution changes (see earlier slide with proposals)

Important to set out principles now

Reminder: items pooled at Fund-level

- Lump sum death in service benefit
  - payment of 3 x Pensionable Pay on death
  - ‘premium’ is included within contribution rates

- Ill health early retirement (from 1 April 2016)
  - enhanced pension, without reduction (this can be expensive if the member is young)
  - assets adjusted so all employers assumed to have whole Fund “average” experience

- Partner’s pension on death in service (from 1 April 2016)
  - enhanced pension (can be expensive if the partner is much younger than the member)
  - assets adjusted so all employers assumed to have whole Fund “average” experience

All other funding risks will be shared within the new TPC Group/Pool

Intention is to retain benefits of pooling but recognise transient nature

Summary

- Honoured commitment to cap contributions (before strategy changes/McCloud)
- SBG (so TPC pool) c100% funded so no secondary contributions
- All TPCs will have same recovery period as main councils
- Increase in primary contributions stepped to smooth changes

Most TPCs will see a contribution reduction in 2020/21

Questions?

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