



Local Government
Pension Scheme



Norfolk Pension Fund

Welcome to the Norfolk Pension Fund

Employer Forum

**Glenn Cossey
Director of the Norfolk Pension Fund**

29 November 2022

Agenda

- **Triennial Valuation update – overview and results**
Rob Bilton and Alex Morrison, Hymans Robertson

BREAK

- **Understanding your results**
Rob Bilton and Alex Morrison, Hymans Robertson
- **Funding Strategy Statement consultation**
Rob Bilton and Alex Morrison, Hymans Robertson
- **Ask the Panel**
Norfolk Pension Fund and Hymans Robertson

The team is available for 1:1s after the webinar

To arrange a call or virtual meeting please email

richard.ewles@norfolk.gov.uk

A reminder of LGPS benefits

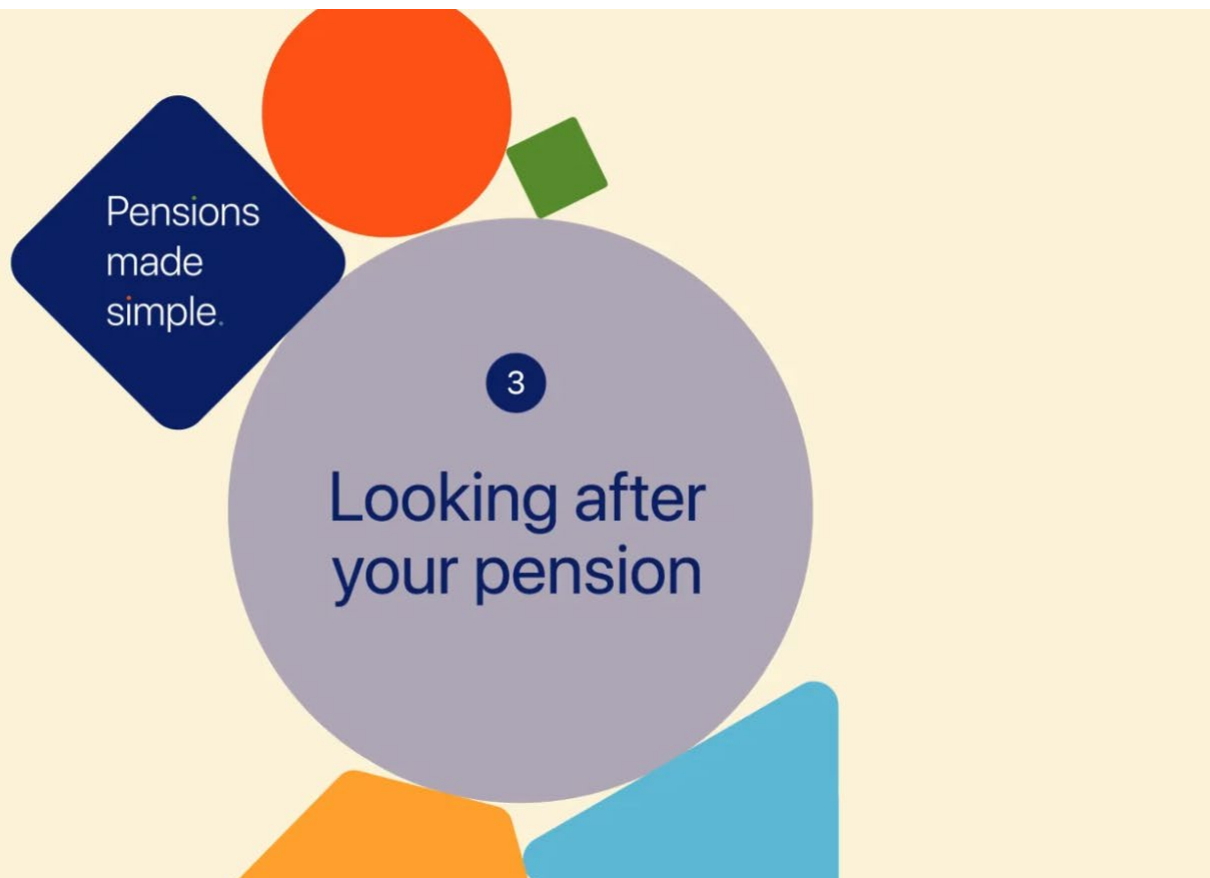
- Rising cost of living means many people are struggling to cope with everyday finances
- With money tight, some may be reconsidering their LGPS membership
- To help you help your scheme members understand their pension, the Norfolk Pension Fund and the LGPS provide a range of resources with information on the Scheme
 - www.norfolkpensionfund.org
 - A Brief Guide to the LGPS booklet
 - Posters
 - LGPS *Pensions made simple* videos

Please see the November edition of the Employer Newsletter for details on how to access these resources

Pensions made simple videos



Norfolk Pension Fund



Norfolk Pension Fund

Employer forum: 2022 valuation

Robert Bilton FFA

Alexandra Morrison

29 November 2022

What we will cover today

- 1 Background to the 2022 valuation
- 2 Inputs at 2022
- 3 Models
- 4 2022 valuation results
- 5 Understanding your results
- 6 Funding Strategy Statement consultation



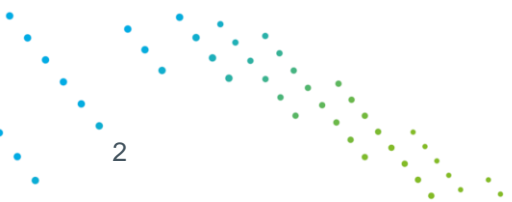
Rob Bilton

robert.bilton@hymans.co.uk



Alex Morrison

alexandra.morrison@hymans.co.uk



How the Fund works



Collect money
(contributions)



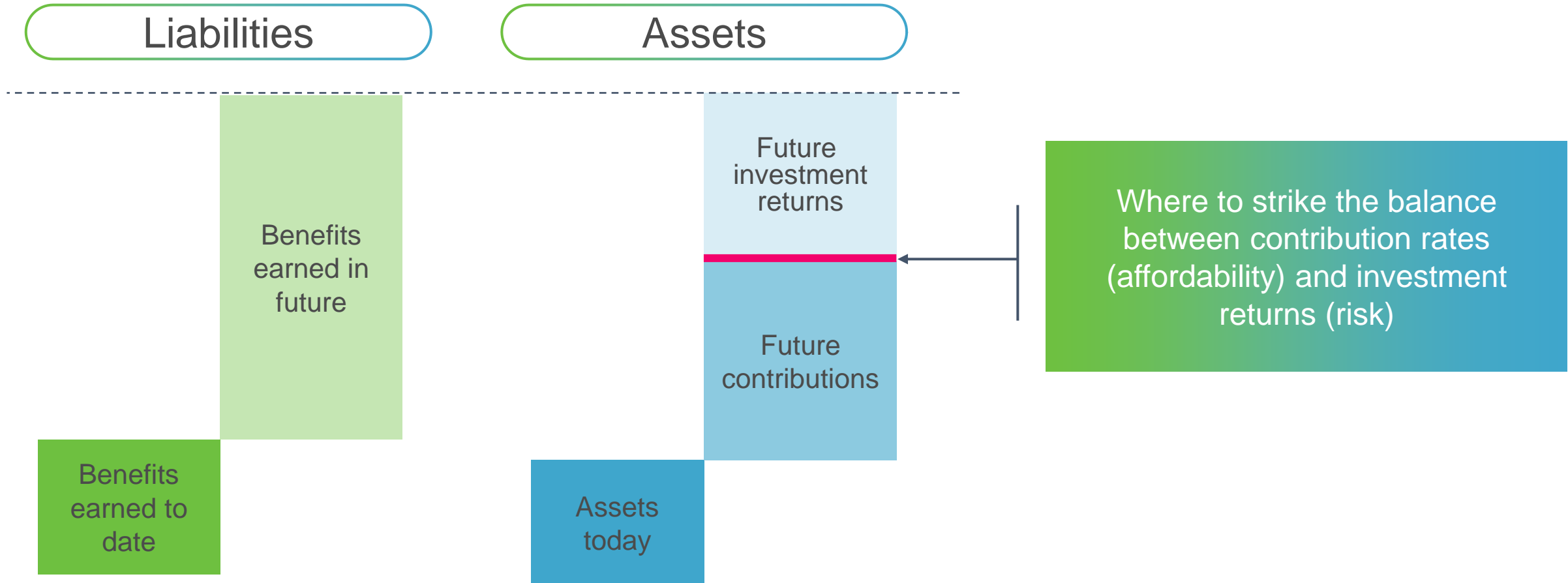
Invest money
(its assets)



Pay money out
(benefits)

Contributions and investment returns fund all the benefits

Key funding decision



Why we do a valuation?



Calculate employer contribution rates



Compliance with legislation



Analyse actual experience vs assumptions



Review Funding Strategy Statement



Part of continual 'health check' on fund solvency

The valuation is a key risk management for the fund

How we do the valuation

Inputs

Data for each member

Financial and demographic assumptions

Funding and investment strategy

LGPS benefit structure

Actuary's models



Primary outputs



Individual employer results schedule



Updated Funding Strategy Statement



Final valuation report

2022 valuation timetable

Q4 2021 – Q1 2022

Pre-valuation work:

- Planning
- Data cleansing
- Review of high-level funding & investment strategy
- Review of stabilisation mechanism for precepting employers

Q3 2022

Initial results & discussions with Officers

Q1 2023

Funding strategy statement finalised

Final valuation report signed off by 31 March 2023

Q2 2022

Data cleansed and submitted to actuary

Review of assumptions

Review of strategy for Academies

Q4 2022

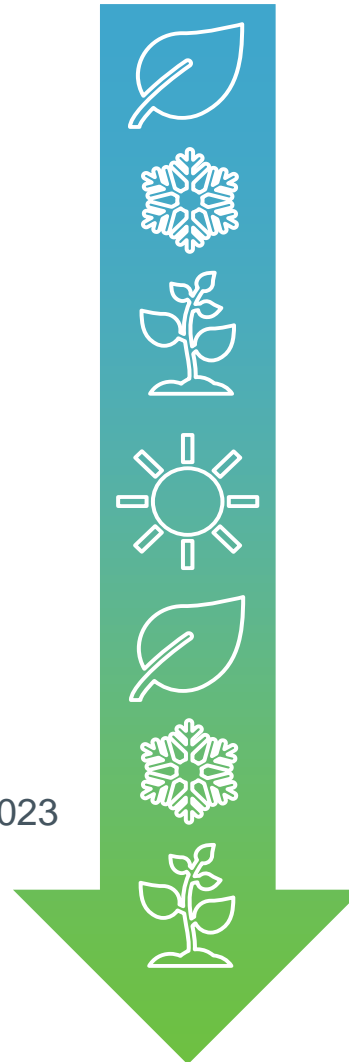
Employer results issued to employers

Employer Forum

Funding Strategy Statement consultation

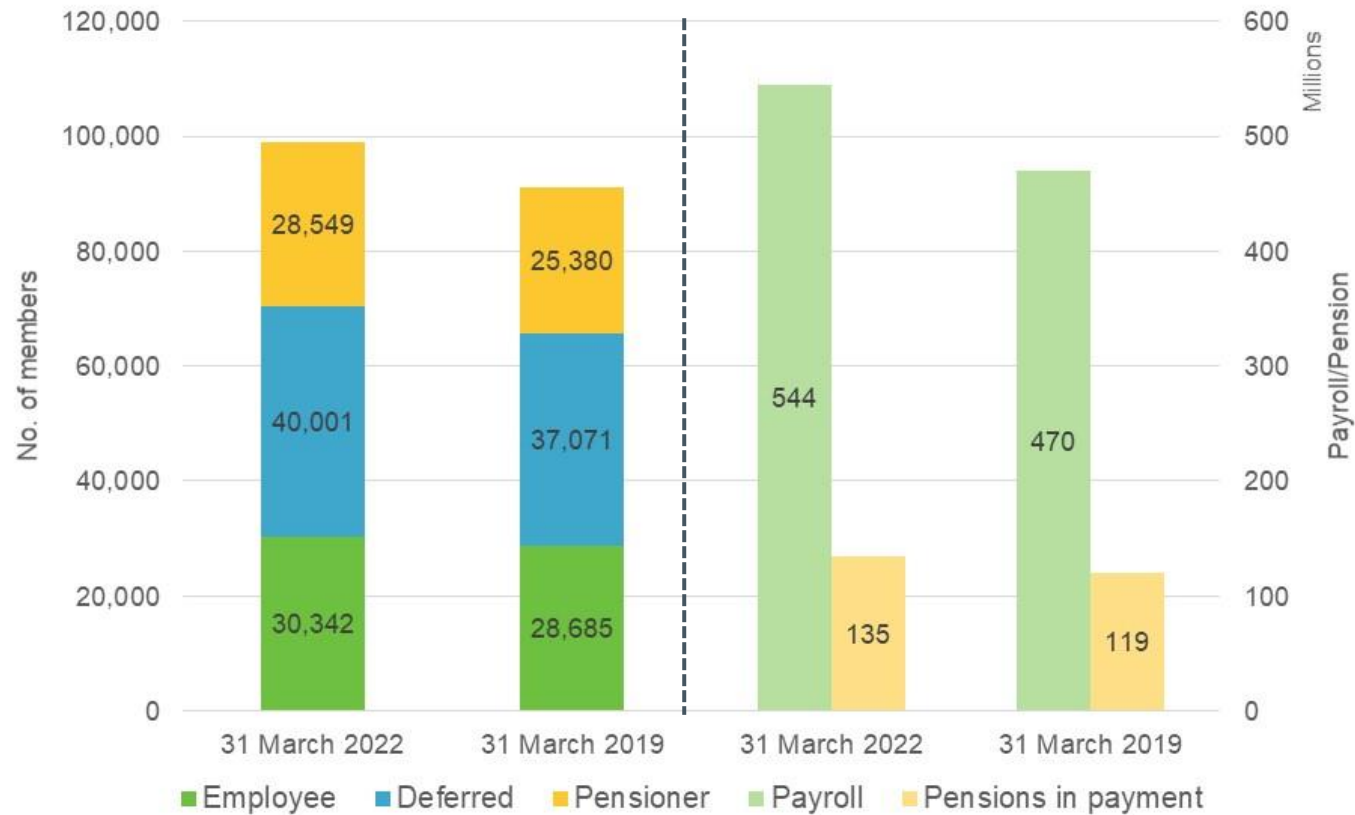
1 April 2023

New employer contributions start to be paid



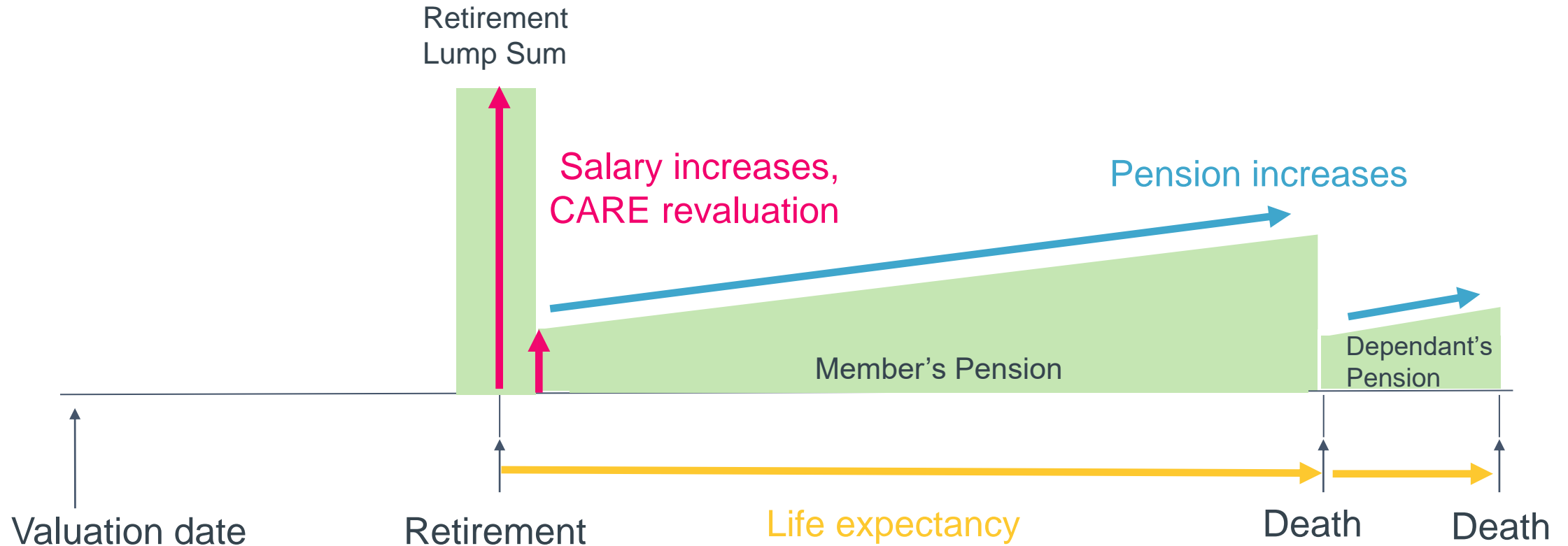
Inputs at 2022

Membership data as at 31 March 2022



High quality membership data – thank you!

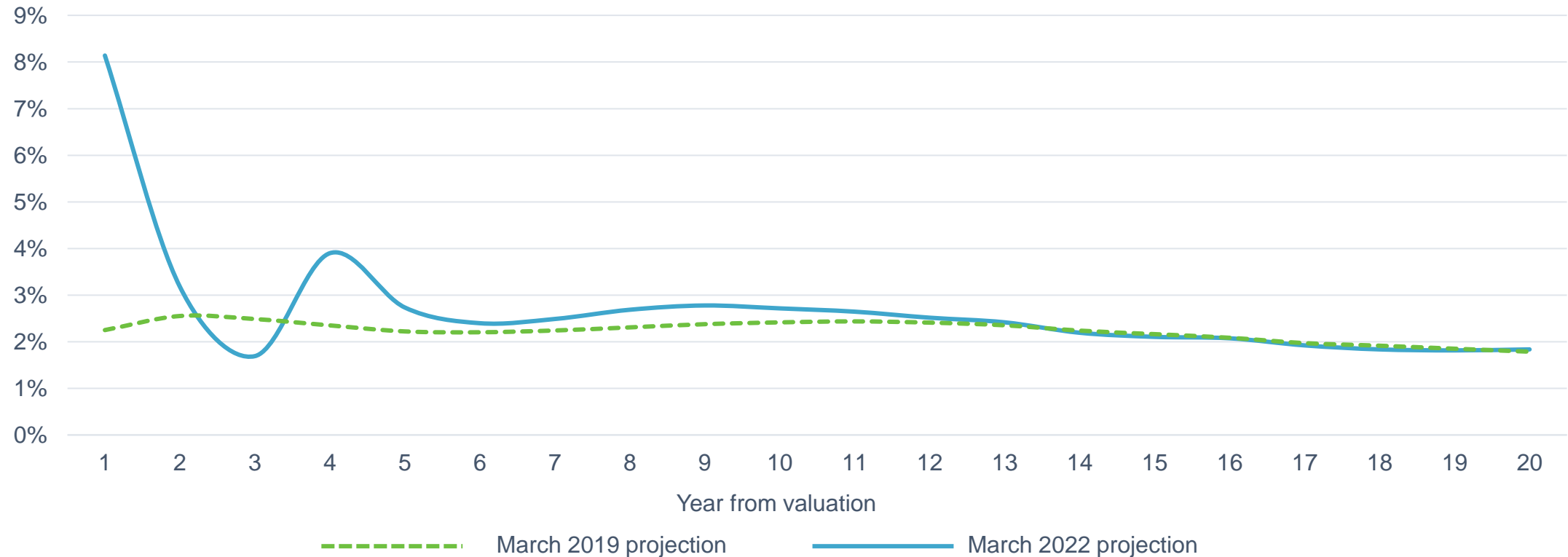
Assumptions – why they are needed



No significant changes in assumptions, except for inflation...

CPI inflation – 2019 vs. 2022

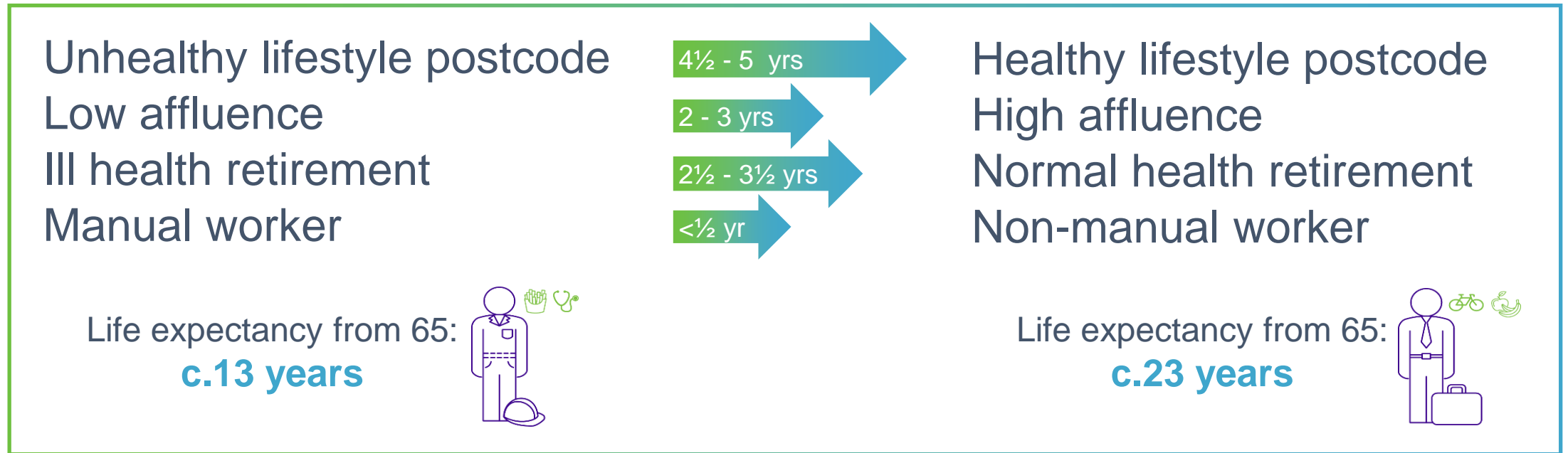
Annual CPI inflation – 2019 vs. 2022



Average level of future inflation: 2019 = 2.3% pa, 2022 = 2.7% pa

Focus on life expectancy

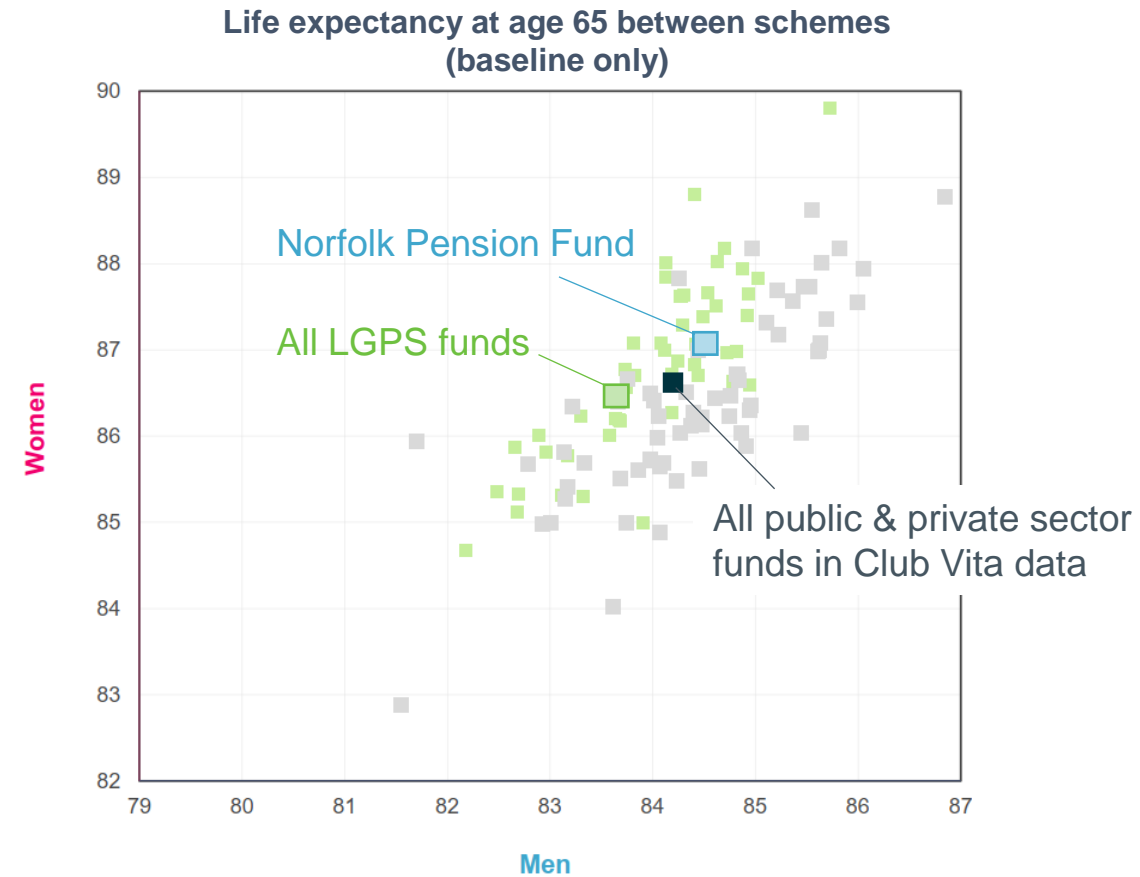
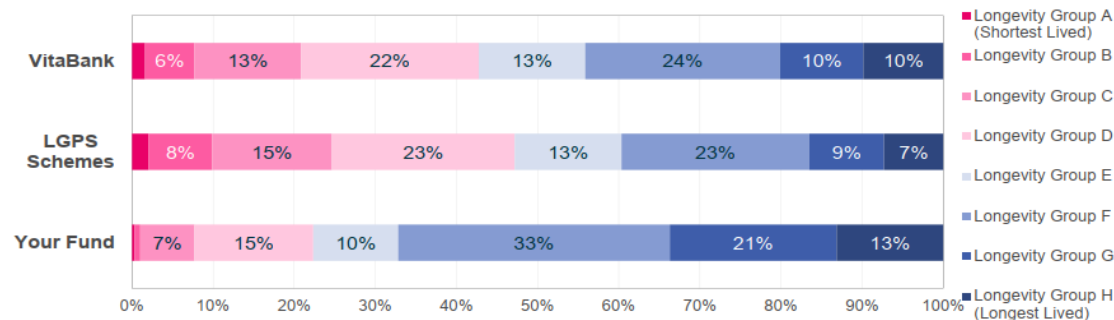
- Observed life expectancy varies significantly between members



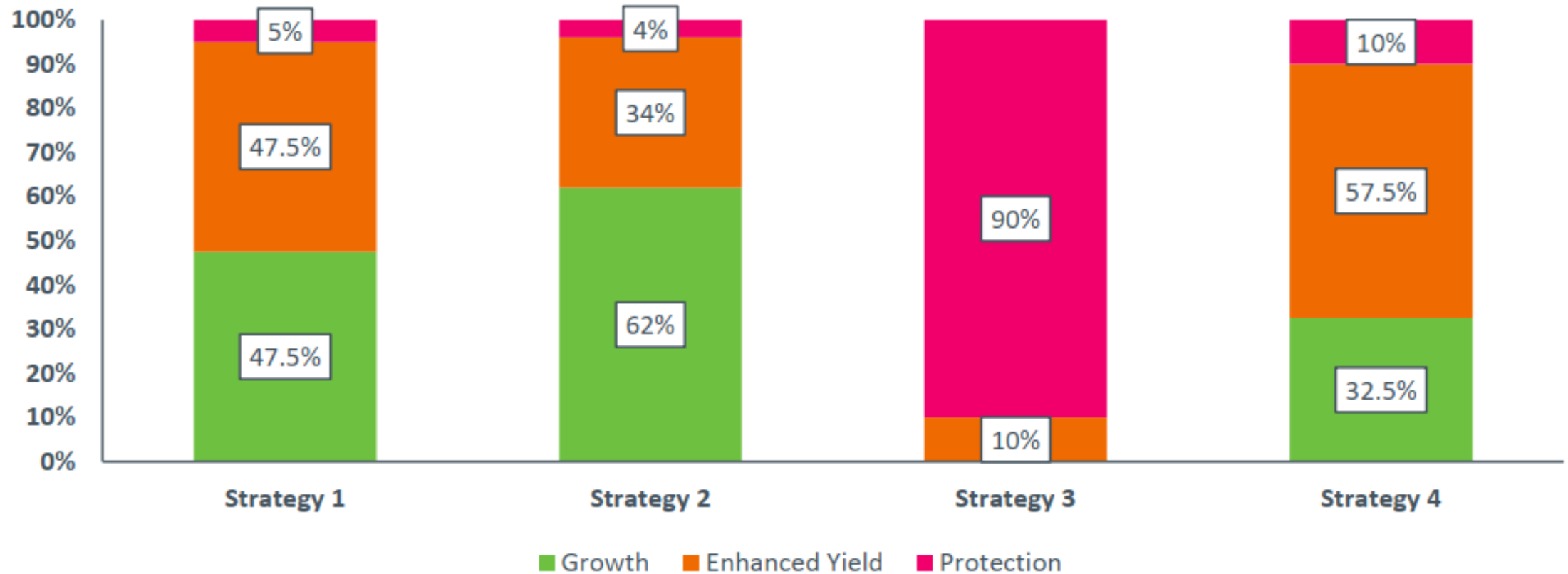
Very important to capture this variance in the life expectancy assumption

Spotlight on life expectancy

- Variance in member life expectancy is captured by using Club Vita analysis
- Fund's membership has a higher average life expectancy than the LGPS average
- Larger proportion of members in 'longest-lived' longevity group

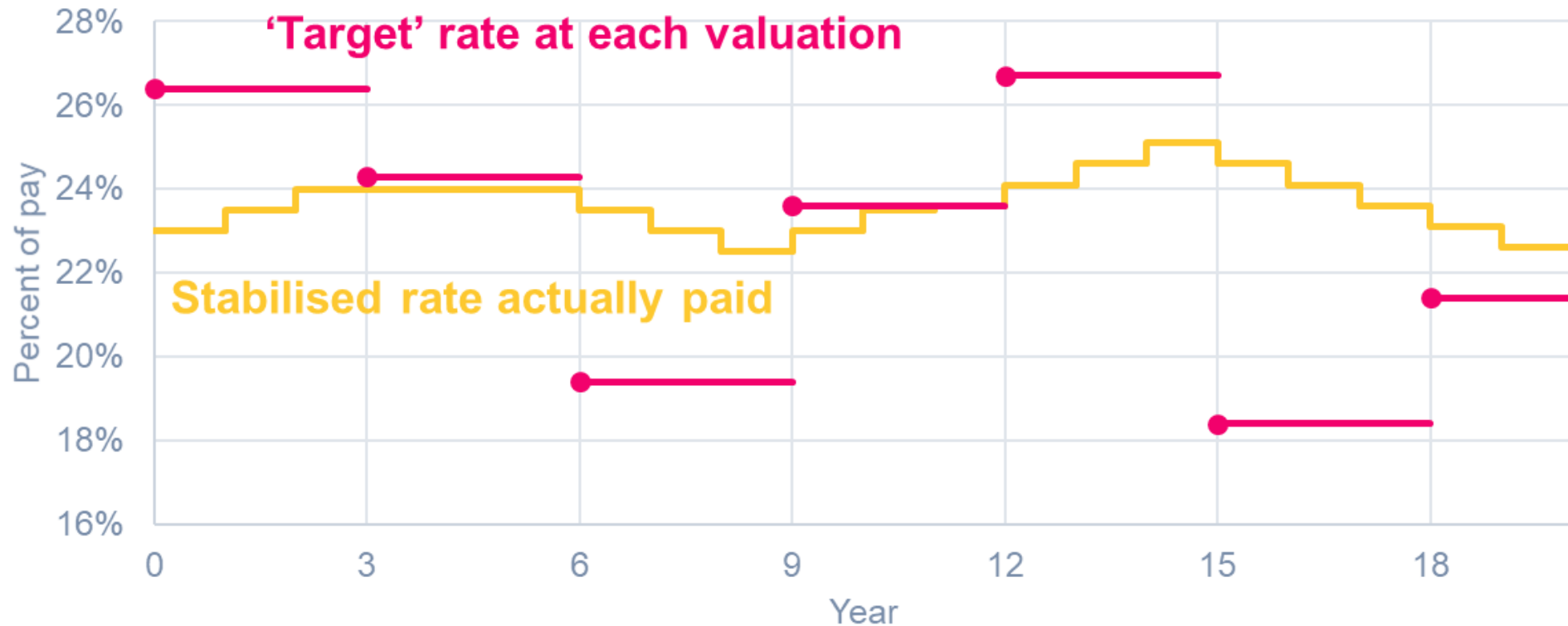


Q1 2022 – review of the investment strategy



No changes to the investment strategies

Q1 2022 – review of stabilisation mechanism



Stability mechanism remains appropriate

Funding strategy – recap

2019 valuation funding strategy

Employer type	Funding target	Time horizon	Likelihood of success	Stabilised contributions	Investment strategy
Councils	Ongoing	Long (20 years)	75%	Yes	Majority – 1 Some employers in 2
Academies	Ongoing	Long (20 years)	75%	Yes	1
Colleges	Ongoing	Long (15 years)	75%	No	1
Transferee Admission Bodies	Ongoing	Short (contract period)	75%	No	1
Community Admission Bodies	Ongoing	Short/Medium (maximum 15 years)	75%	No	Majority – 1 Some employers in 4

Funding strategy – update

2022 valuation funding strategy

Employer type	Funding target	Time horizon	Likelihood of success	Stabilised contributions	Investment strategy
Councils	Ongoing	Long (20 years)	75%	Yes	1
Academies	Ongoing	Long (20 years)	75%	Yes	1
Colleges	Ongoing	Long (15 years)	75%	No	1
Transferee Admission Bodies	Ongoing	Short (contract period)	75%	No	1
Community Admission Bodies	Low-risk exit	Short/Medium (maximum 15 years)	75%	No	Majority – 4 Some employers in 1

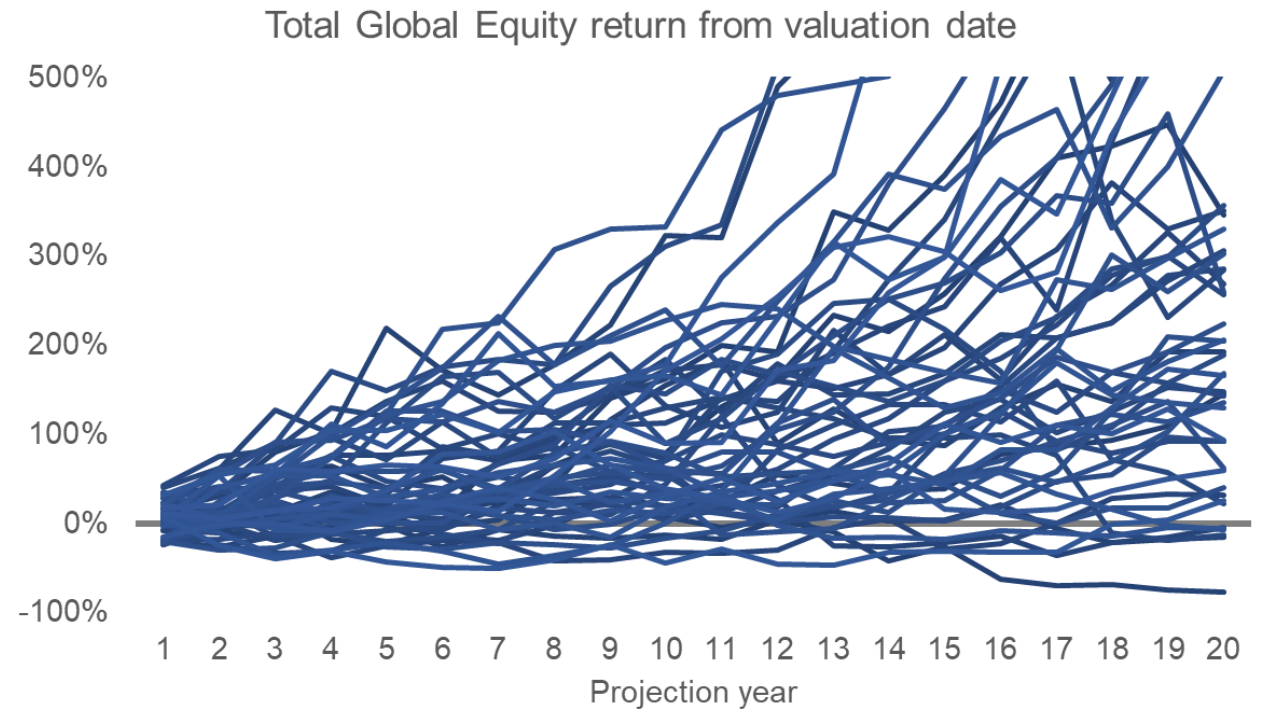
Enhanced exit planning for CABs but no other material changes to funding strategy

Models

(this will be quick, we promise!)

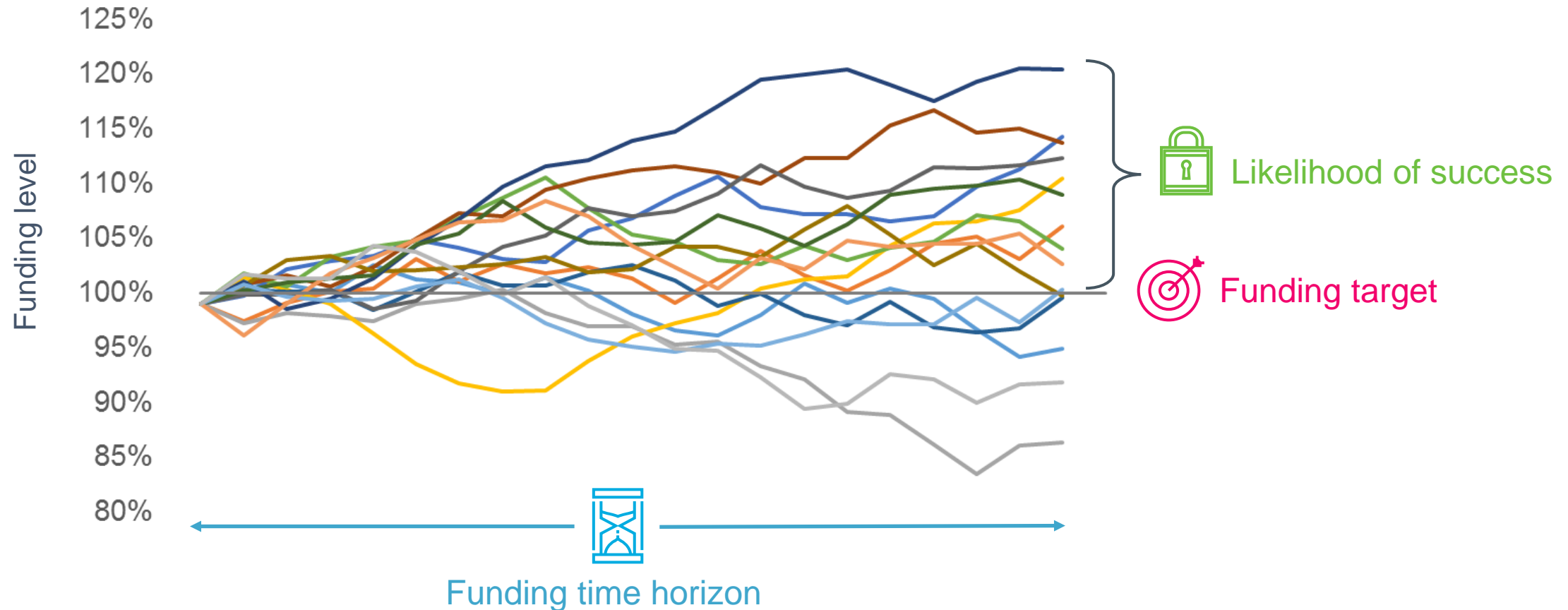
Risk-based valuation approach

- Future investment returns and inflation are uncertain and volatile
- Use a valuation approach which reflects the real-world
- Capturing uncertainty allows users to better understand risk in the funding plan
- Model 5,000 different future economic scenarios



Similar evolution to weather forecasts

Setting risk-based contribution rates



Set contribution rate to have sufficiently high likelihood of meeting the funding target at the end of the time horizon

2022 valuation results (outputs)

Single reported 2022 funding position

- Funding position has improved since 2019
- Important to remember limitations with funding level
 - It only considers past service
 - It is a snapshot on one particular day, it will fluctuate

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	(£m)	(£m)
Employees	1,514	1,217
Deferred Pensioners	998	806
Pensioners	2,101	1,840
Total Liabilities	4,613	3,863
Assets	4,901	3,835
Surplus/(Deficit)	289	(29)
Funding Level	106%	99%

Numbers may not add up due to rounding

Funding level improvement comparable to LGPS peers*

* 2022 valuation results - early insights - Hymans Robertson

What's changed since 2019

Expected development

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Last valuation at 31 March 2019	3,835	3,863	(28)
Cashflows			
Employer contributions paid in	380	-	380
Employee contributions paid in	99	-	99
Benefits paid out	(449)	(449)	0
Net transfers into / out of the Fund	11	*	11
Other cashflows (e.g. Fund expenses)	(9)	-	(9)
Expected changes			
Expected investment returns	487	-	487
Interest on benefits already accrued	-	505	(505)
Accrual of new benefits	-	421	(421)
Expected position at 31 March 2022	4,354	4,340	13

Impact of actual events

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Expected position at 31 March 2022	4,354	4,340	13
Events between 2019 and 2022			
Salary increases greater than expected	-	35	(35)
Benefit increases less than expected	-	(57)	57
Early retirement strain (and contributions)	4	5	(0)
Ill health retirement strain	-	0	0
Early leavers more than expected	-	(8)	8
Commutation less than expected	-	11	(11)
McCloud remedy	-	8	(8)
Other membership experience	-	11	(11)
Higher than expected investment returns	542	-	542
Changes in future expectations			
Investment returns	-	(83)	83
Inflation	-	313	(313)
Salary increases	-	0	0
Longevity	-	17	(17)
Other demographic assumptions	-	22	(22)
Actual position at 31 March 2022	4,901	4,613	289

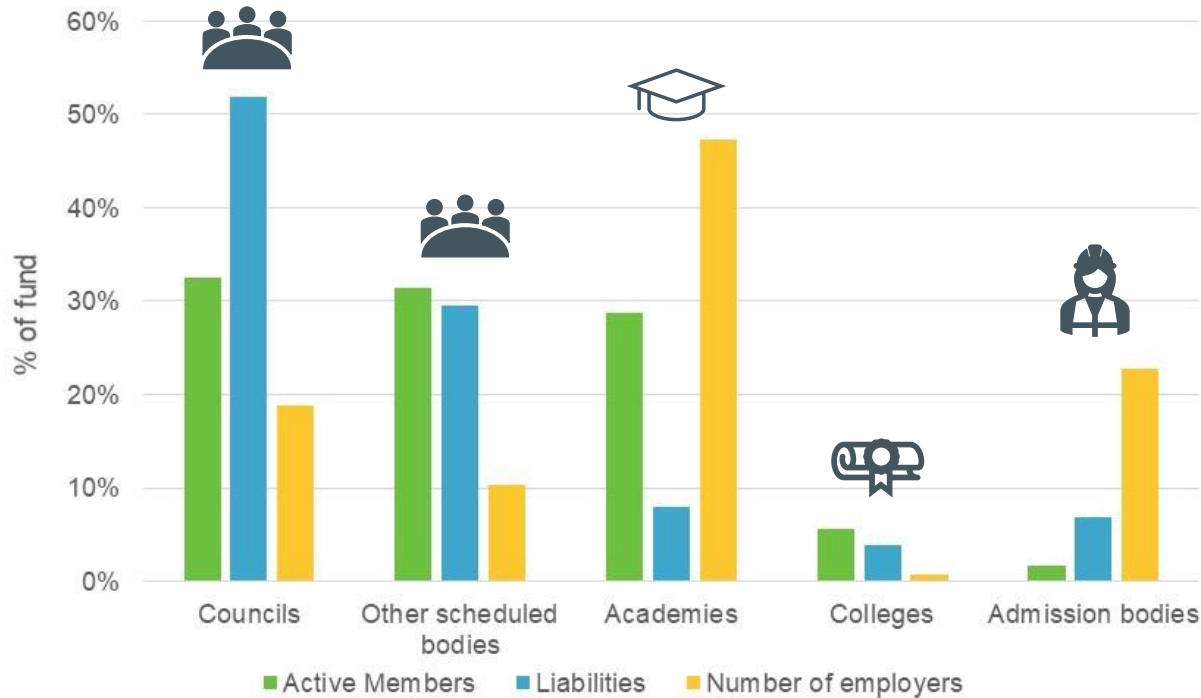
Numbers may not add up due to rounding

Investment returns and future inflation, key drivers at 2022

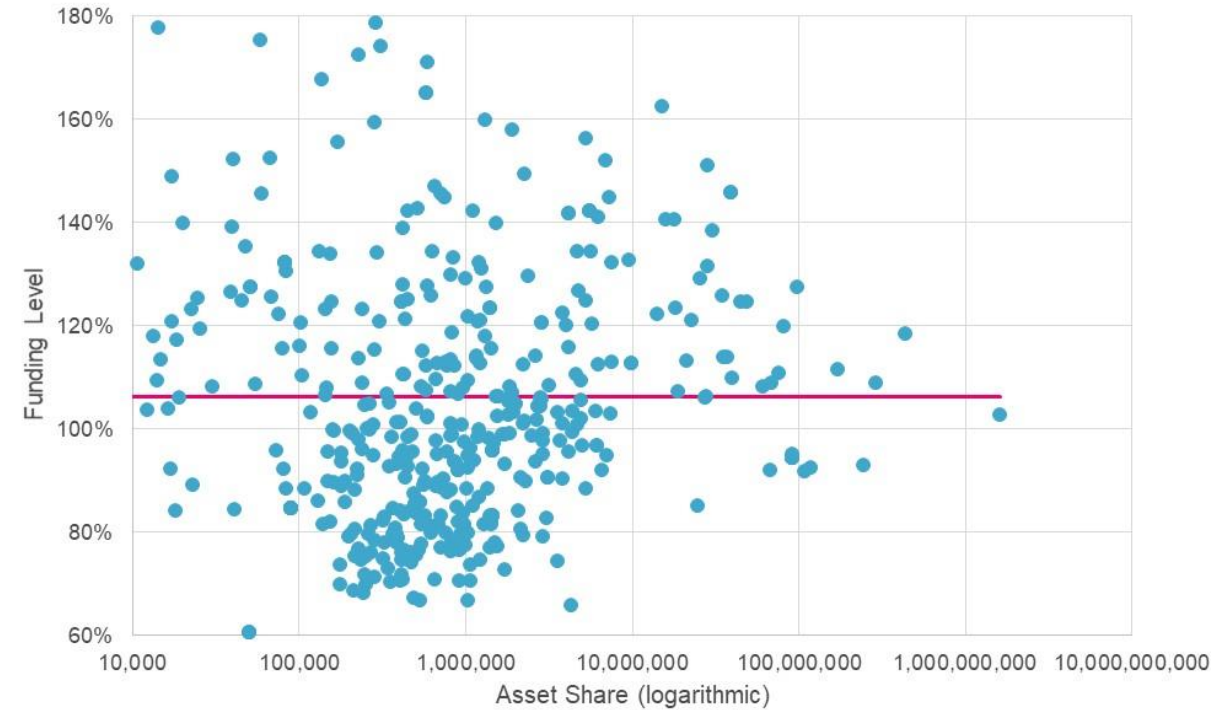
* We do not collect the level of detail necessary to value the impact on the liabilities as a result of transfers in/out

Employer-level results

Fund employers by type



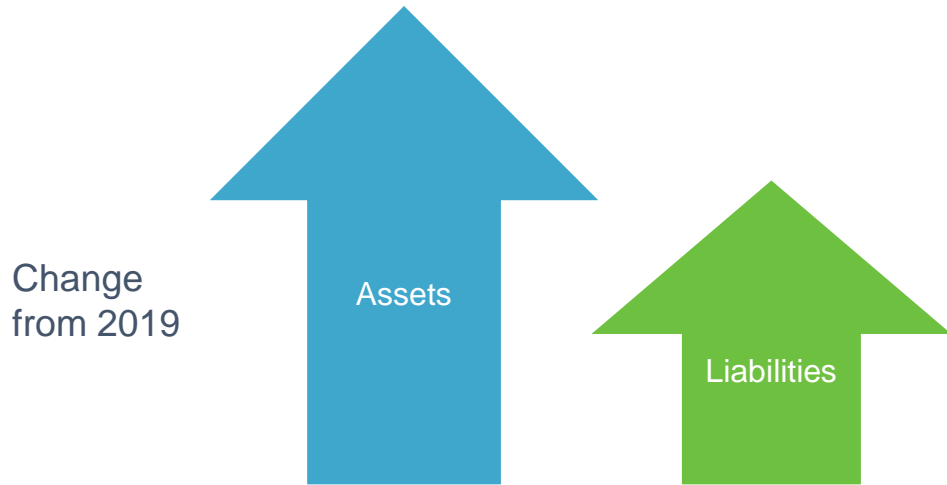
Employer funding level vs asset share



Funding is carried out at individual employer level

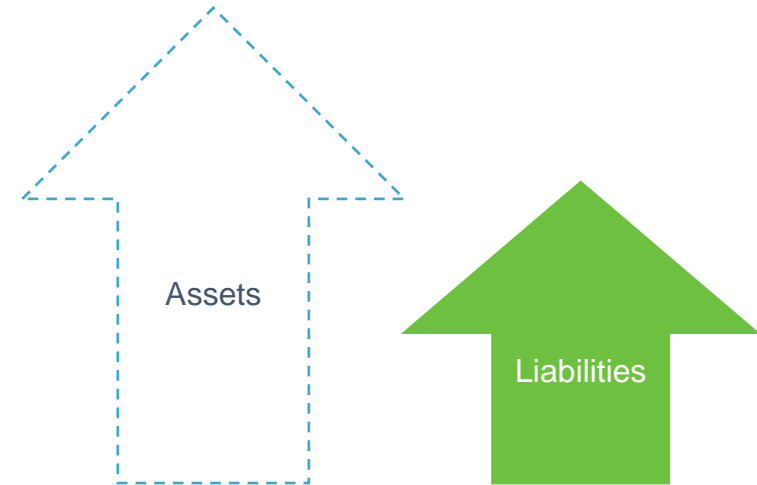
Funding theme at 2022 valuation

Funding position + secondary contributions



Generally an improvement in funding position and lower secondary contributions...

Primary contributions



...but primary rates don't benefit from asset performance and have seen upward pressure due to inflation pressures

Net impact will vary by employer, depending on funding profile

Other factors causing diversity in results

Funding profile

Balance between past and future service matters at 2022

Membership experience

Events such as ill-health retirements, salary increases will affect your funding position

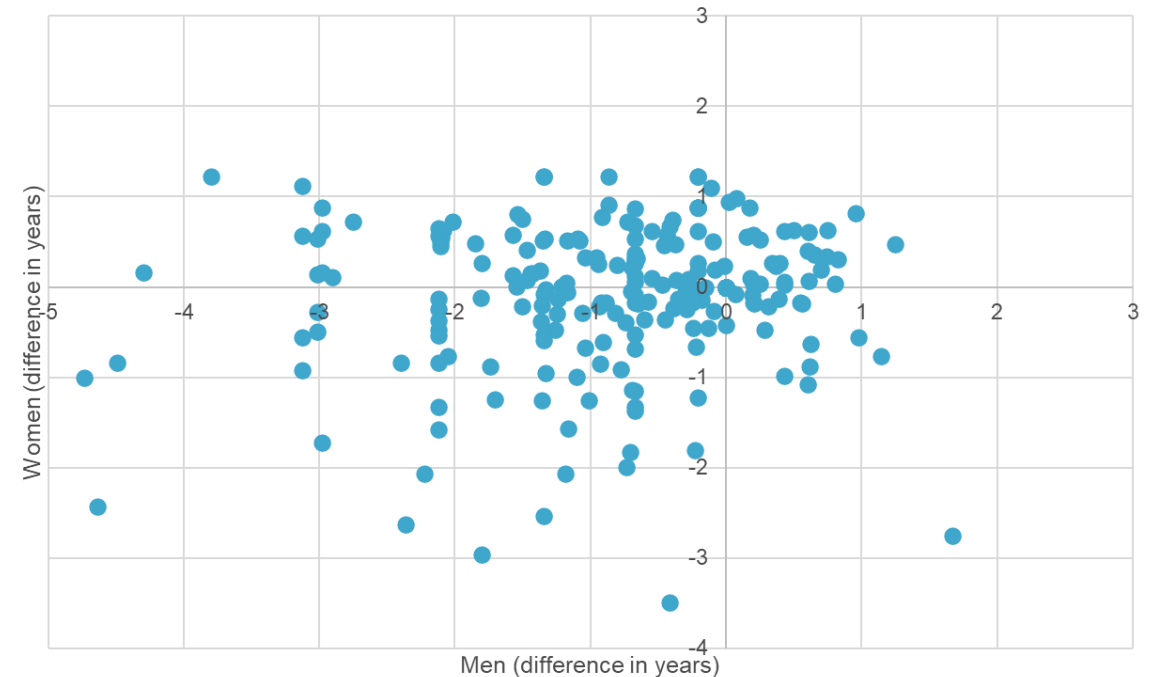
Membership profile

Differences such as age and gender will affect the contribution rate

Contributions being paid

Higher contributions will result in a larger funding level improvement

Difference in average life expectancy (from fund average) for each employer



No two employers are the same

Understanding your results

Page 1 - contribution rates

Estimated cost of future benefit accrual

Adjustment to primary rate to end up at total rate
(typically in respect of accrued benefits)

Contribution rates

	Primary	Secondary	Total
Employer contribution rates for year ending	% of pay	% of pay	£
31 March 2023			21.2% 96,000
31 March 2024	25.3%	-0.9%	0 24.4% 0
31 March 2025	25.3%	0.0%	19,000 25.3% 19,000
31 March 2026	25.3%	0.0%	93,000 25.3% 93,000

Contribution rate in payment this year

Contribution rate for next three
financial years

The above contribution rates are the minimum rate required by the Fund. In most circumstances you can pay additional contributions to improve your funding position but this should be referred to the actuary first. The Primary Rate includes an allowance of 0.6% of pay for administration expenses. Employer contribution rates are due in addition to employee contributions. The average employee contribution rate is 6.4% of pay.

Page 1 – your funding strategy

The contribution rates payable from 1 April 2023 have been determined based on the following funding strategy and employer circumstances:

Funding strategy	Last valuation / Opening position	This valuation
Funding target (see FSS for details)	Ongoing	Ongoing
Funding time horizon (years)	15	15
Likelihood of achieving funding target by end of horizon	75%	75%
Investment strategy	1	1
Open / Closed to new entrants	Open	Open

The contribution strategy gives a 75% likelihood that both past and future service benefits will be at least fully funded on the Fund's Ongoing basis at the end of a 15 year time horizon. This funding strategy has been determined by the Administering Authority, taking into account the type of organisation the Employer is and the nature of its participation in the Fund. The approach to setting employer contribution rates, and the Employer's funding target, is explained further in the draft FSS. Further details on the Employer's investment strategy is included in the Fund's Investment Strategy Statement.



Further details in Section 2 of updated FSS

Page 2 – funding level at 31 March 2022

Remember

- Snapshot position at 31 March 2022 only
- Does not include future benefits
- Different from what you disclose in accounts (FRS102/IAS19)
- If you are in a 'pool', it will show the pool's total funding position

Funding position

Your funding position as at 31 March 2022 is shown below, along with a summary of the assumptions and data underlying it.

Employer funding position (£000)	Last valuation / Opening position	This valuation (Ongoing)
Past service liabilities - Employees	8,880	12,097
Past service liabilities - Deferred pensioners	3,584	6,497
Past service liabilities - Pensioners	6,633	7,761
Past service liabilities - Total	19,097	26,356
Asset share	19,391	27,973
Surplus/(deficit)	294	1,617
Funding level	102%	106%

Page 3 – assumptions

Assumptions

The financial and longevity assumptions underlying the funding positions disclosed are detailed below. Details of the demographic assumptions are available in the FSS.

Financial assumptions p.a.	Last valuation / Opening position	This valuation
Investment return (Ongoing)	4.2%	4.3%
Salary increases	3.0%	3.4%
Benefit increases/revaluation	2.3%	2.7%

Financial assumptions used to calculate funding level. Additional assumptions are used for contribution rates – see Appendix D of the FSS.

Longevity assumptions	Last valuation / Opening position	This valuation
Baseline longevity	2018 VitaCurves	2021 VitaCurves
Future improvements (Ongoing basis)	CMI 2018: A=0.5%(M)0.25%(F), LTR=1.25%,Sk=7	CMI 2021: A=0.25%, W=0, LTR=1.5%, Sk=7

Detail on life expectancy assumptions
Future improvements detail is technical!

Based on the above longevity assumptions, and taking into account characteristics of the individual membership of the Employer, the average life expectancies are summarised below.

Life expectancy from age 65 31 March 2022	Ongoing
Current pensioners - male	21.8
Current pensioners - female	24.8
Future pensioners - male	22.5
Future pensioners - female	26.3

The average life expectancy from age 65 for your members (current and ex-employees). Different from 2019 which was a whole fund figure. Rows may be blank if you have no members in that category

Figures for future pensioners are a weighted average of active and deferred members.

Page 4 – membership data

- Membership snapshot at 31 March 2022 (with comparison to last valuation/date of joining)
- Based on data you have provided to the fund
- Check it is in line with expectations
- The foundation for your valuation results

Membership Data

All the results in this schedule are based on the membership data summarised below which was supplied to us by the Fund for the purpose of the valuation.

Member	Membership data	Last valuation/Opening position	This valuation
Employee members	Number	257	242
	Total actual pay (£000)	4,568	5,004
	Total accrued pension (£000)	603	782
	Average age weighted by liability	50	51
Deferred pensioners	Number	288	393
	Total accrued pension (£000)	250	413
	Average age weighted by liability	48	50
Pensioners	Number	77	82
	Total accrued pension (£000)	407	477
	Average age weighted by liability	69	70

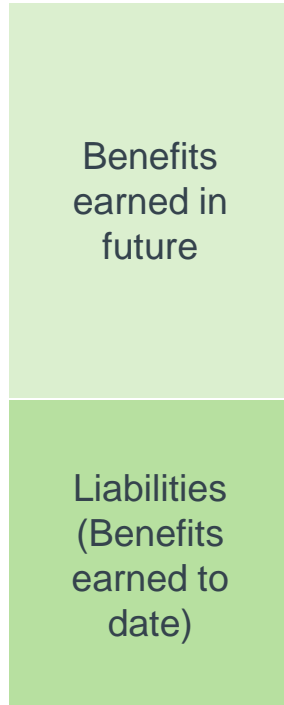
Page 5 – reconciliation

- Explains how and why your assets and liabilities have changed from the last valuation/date of joining
- A lot of detail, may be useful if you receive actuarial support

(£000)	Source of change	Assets	Liabilities	Surplus/(deficit)
Last valuation / Opening position		19,391	19,097	294
Cashflows	Employer contributions paid in	3,250		3,250
	Employee contributions paid in	1,055		1,055
	Benefits paid out	(1,559)	(1,559)	0
	Net bulk and individual transfers in/(out) ¹	90		90
	Other cashflows (e.g. expenses)	(72)		(72)
Expected changes in liabilities	Interest cost on benefits already accrued		2,663	(2,663)
	Accrual of new benefits		3,858	(3,858)
Membership experience vs expectations	Salary increases greater/(less) than expected		(63)	63
	Benefit increases greater/(less) than expected		(289)	289
	Early retirement strain (and contributions)	0	0	0
	Ill health retirement strain ²		290	(290)
	Early leavers (more)/fewer than expected		(79)	79
	Pensioner deaths (more)/fewer than expected		(1)	1
	Commutation less/(greater) than expected		75	(75)
	Impact of bulk transfers		0	0
	Other membership experience		486	(486)
Changes in market conditions	Investment returns on the Employer's assets	5,818		5,818
	Change in future inflation expectations		2,171	(2,171)
Changes in actuarial assumptions	Change in demographic assumptions (excl. longevity)		163	(163)
	Change in longevity assumptions		123	(123)
	Change in salary increase assumption		(2)	2
	Change in discount rate		(577)	577
This valuation		27,973	26,356	1,617

Employer results FAQs

1. “Why is my contribution rate a percentage of pay plus a monetary amount”



“Primary rate” is in respect of future benefits
Cost of future benefits is directly linked to pay

Higher pay → Higher benefit → Higher cost

“Secondary rate” is in respect of accrued benefits
Cost of accrued benefits is not directly linked to pay

Fixed amount to fund → Fixed level of contributions

Employer results FAQs

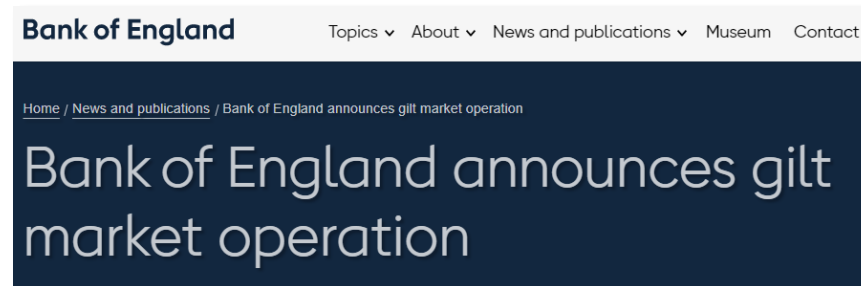
2. “I am over 100% funded, why do I have to pay a secondary contribution rate?”



Funding level is a measure on one particular day
Contribution rates are set with the long-term in mind

Employer results FAQs

3. Do you take into account any changes after the valuation date?

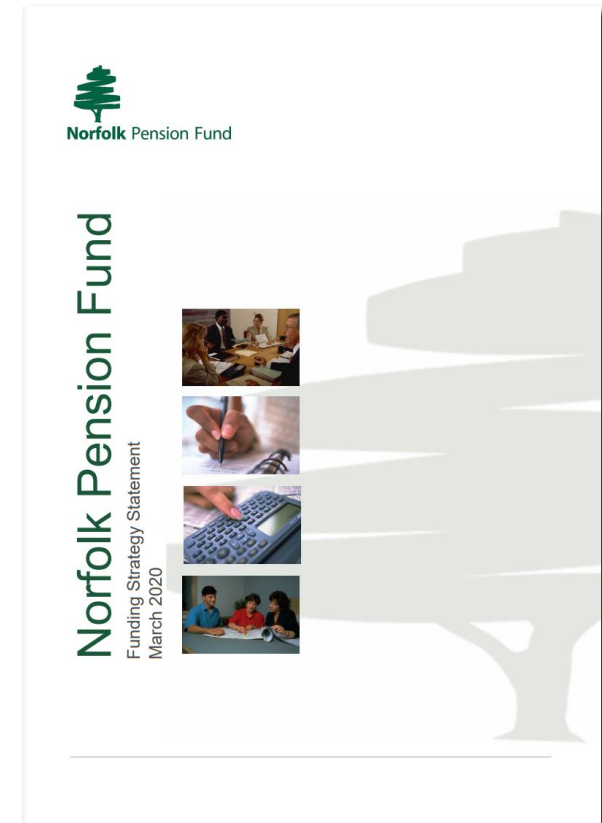


No allowance for post-valuation events

Funding Strategy Statement consultation

Funding Strategy Statement review

- No material changes in funding strategy at 2022 valuation
- Used the opportunity to review structure and layout of the FSS
- Improve accessibility and navigation for stakeholders
- Updated FSS has been sent around for consultation to all employers



Please read, understand what it means for you and let the fund know any thoughts

Layout changes



- Maps an employer's journey through the Fund
 - Provides key information for employers and advisors
 - Signposts relevant policies
 - Compliant with CIPFA guidance
-
- Regulatory Framework
 - Roles & responsibilities of key parties
 - Risks & controls
 - Actuarial assumptions
 - Satellite policies

Core document as a handbook to funding decisions

Core document

- Section
- 2 How employer contribution rates are set
 - 3 When additional contributions may be payable
 - 4 How assets and liabilities are calculated
 - 5 New employers joining the fund
 - 6 Bulk transfers of staff into and out of the fund
 - 7 Employers leaving the fund

Please read the sections that apply to you

Satellite policies

Why?

- Complexity of LGPS funding has increased in recent years
- Makes it easier for users to find the information they need

Specific policies include:

- Pre-payment of contributions
- New employers
- Bulk transfers
- Salary strain policy
- Academies & Free Schools
- Contribution review between valuations
- Employers exiting the Fund

Consider the policies that may apply to your participation

Next steps

Q4 2021 – Q1 2022

Pre-valuation work:

- Planning
- Data cleansing
- Review of high-level funding & investment strategy
- Review of stabilisation mechanism for precepting employers

Q3 2022

Initial results & discussions with Officers

Q1 2023

FSS consultation closes on 31 January 2023

Funding strategy statement finalised

Final valuation report signed off by 31 March 2023

Q2 2022

Data cleansed and submitted to actuary

Review of assumptions

Review of strategy for Academies

Q4 2022

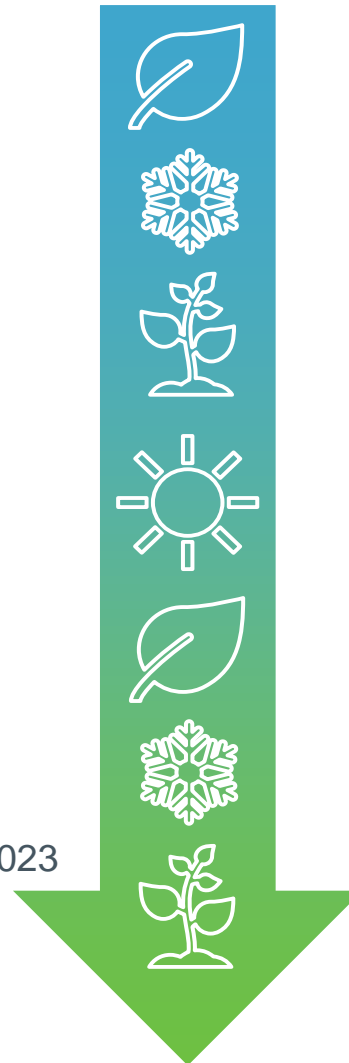
Employer results issued to employers

Employer Forum & consultation period

Funding Strategy Statement consultation

1 April 2023

New employer contributions start to be paid



What you need to do



Read the results schedule

Check the data is correct, understand your current funding position and the rate that will come into payment from 1 April 2023



Review the updated Funding Strategy Statement

Understand how the fund's strategy applies to your participation in the fund



Talk to the fund if needed

Ask any questions and let them know about any possible changes in circumstances

Thank you

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