

# London Borough of Harrow Pension Fund

2016 valuation – Funding strategy review

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- 22 November 2016

# 2016 valuation progress report



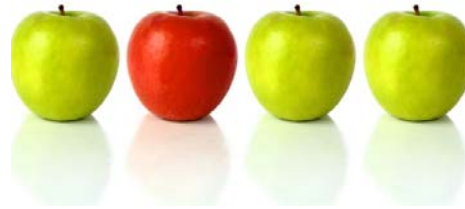
Event	Timescale	Progress
Assumptions agreed with Pensions Committee	21 June 2016	
Data received and cleansed	June/July 2016	
Whole fund results issued to officers	10 August 2016	
Whole fund results discussed with Pensions Committee	6 September 2016	
Employer results issued to officers	27 September 2016	
Submission of results to Scheme Advisory Board	30 September 2016	
Contribution strategies tested using ALM	October 2016	
Employer surgeries held	18 October 2016	
Pension board	2 November 2016	
Funding strategies reviewed with Pensions Committee	22 November 2016	
Final employer results and Funding Strategy Statement agreed	February/March 2017	
Sign off valuation report and R&A	31 March 2017	



# What are we going to cover?



Setting contributions:  
a risk based approach



Approaches for different  
employers



Next steps



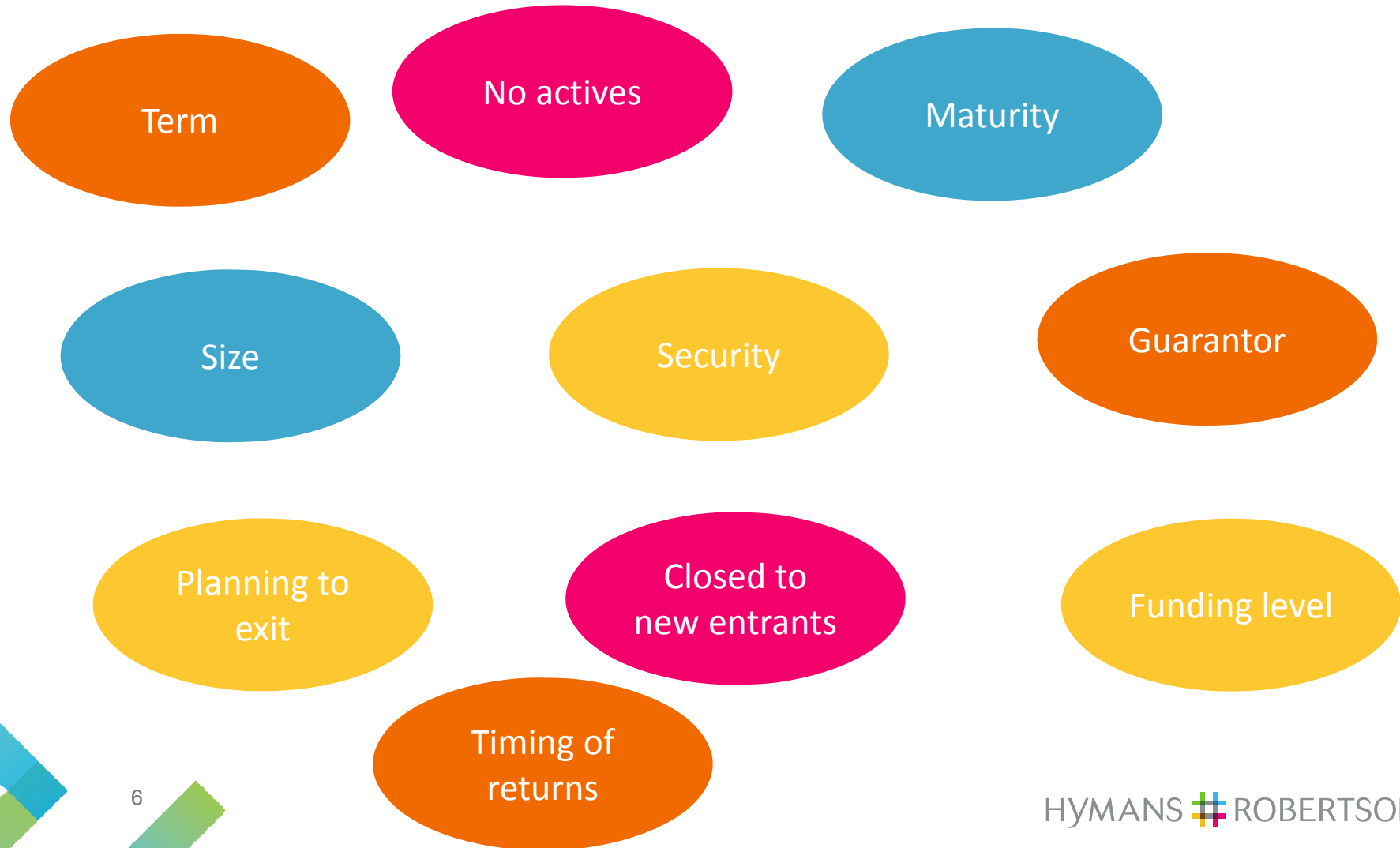
# Setting contributions: A risk based approach

# Risk based approach

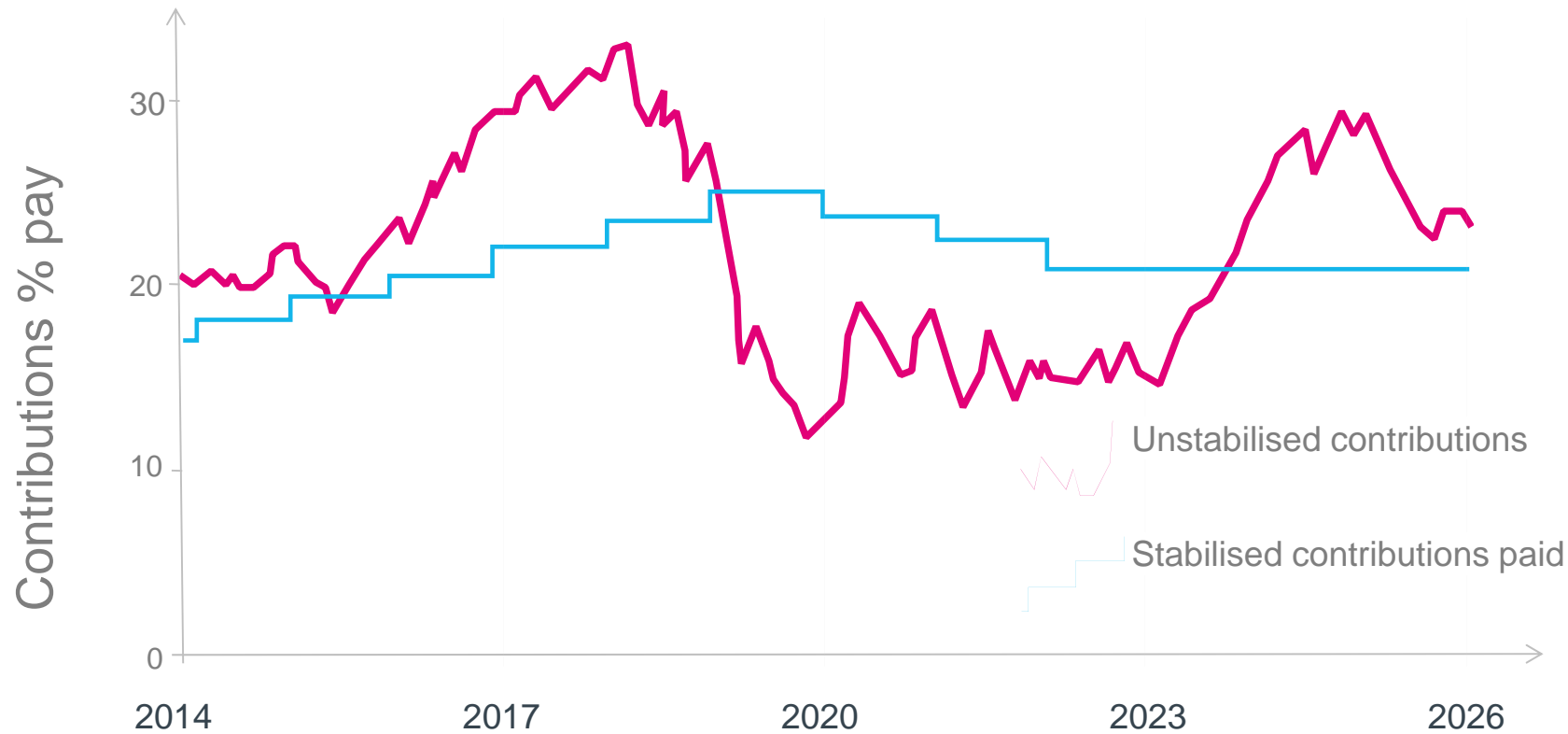
- The future is uncertain
- A single set of assumptions is ineffective
- Important to understand level of risk and how the funding position may evolve under a range of economic scenarios
- Increased number and diversity of employers so....
- One size fits all strategy is not appropriate
- Tailored strategies reduces risk and achieves better outcomes
- Increased scrutiny



# How to set a funding plan

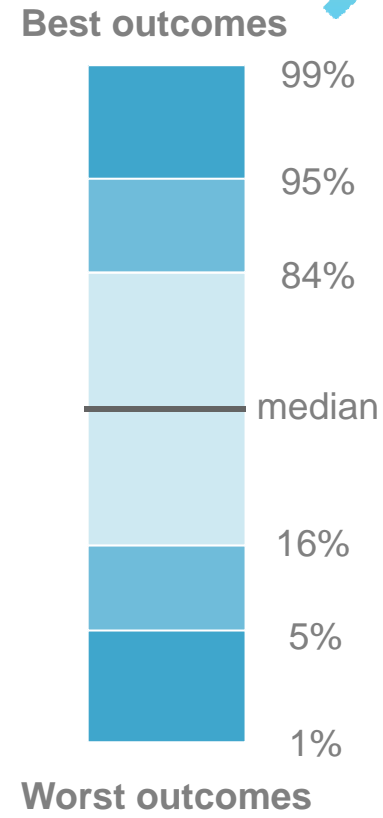
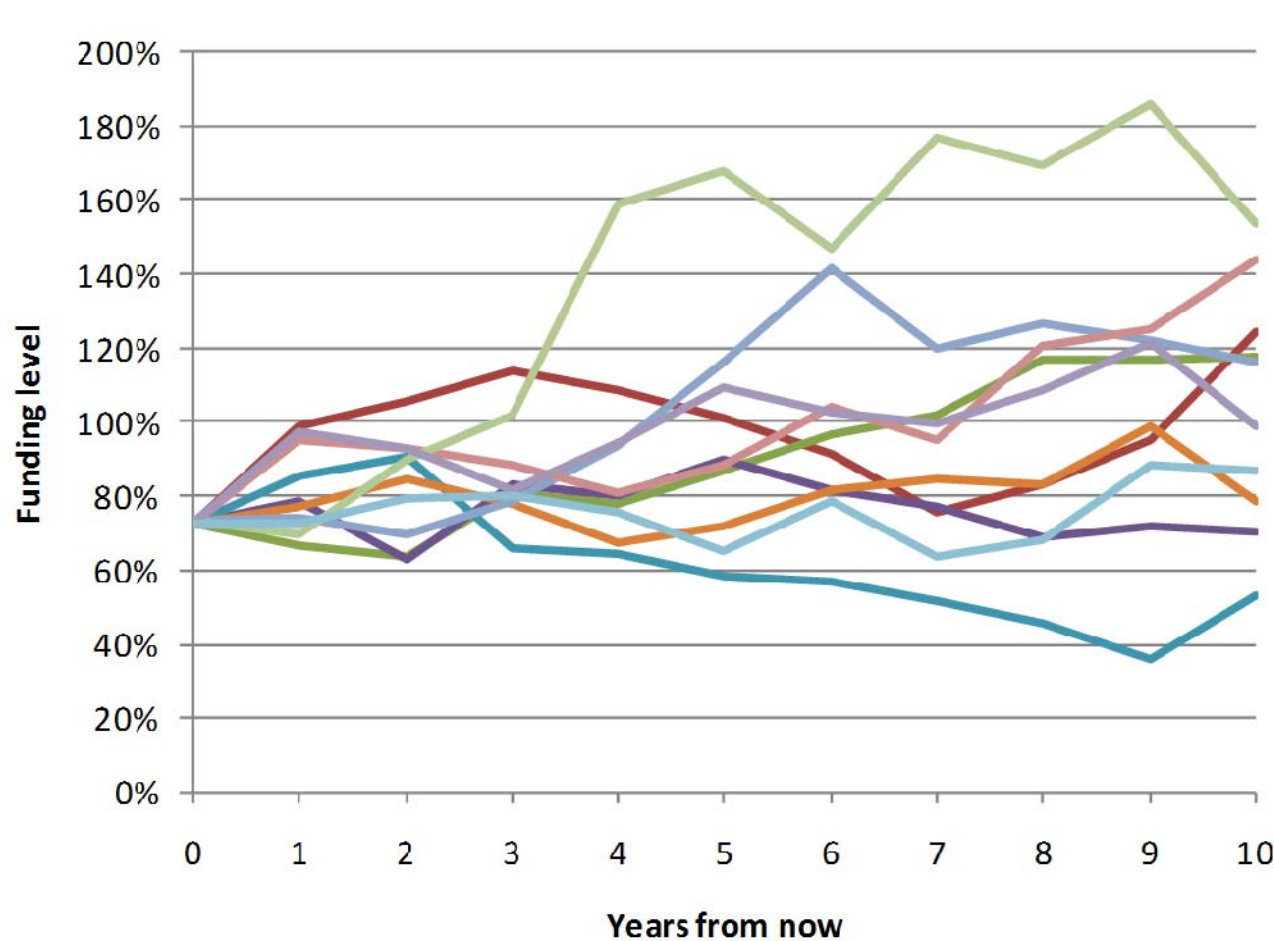


# Stabilisation recap: Harrow Council



**Providing some certainty when setting rates for long term secure employers**

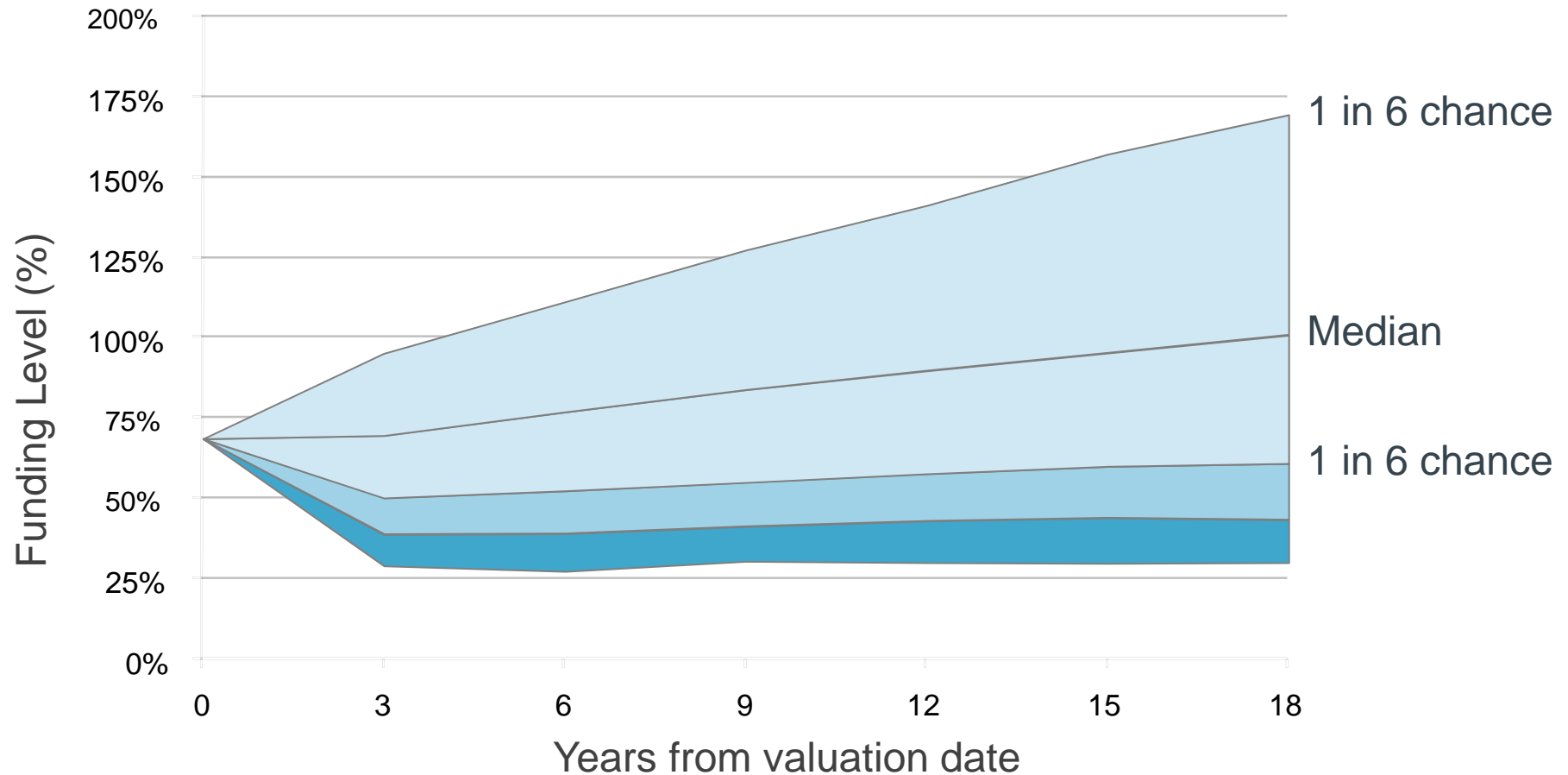
# Setting contributions: Harrow Council



Assess the likelihood of different outcomes



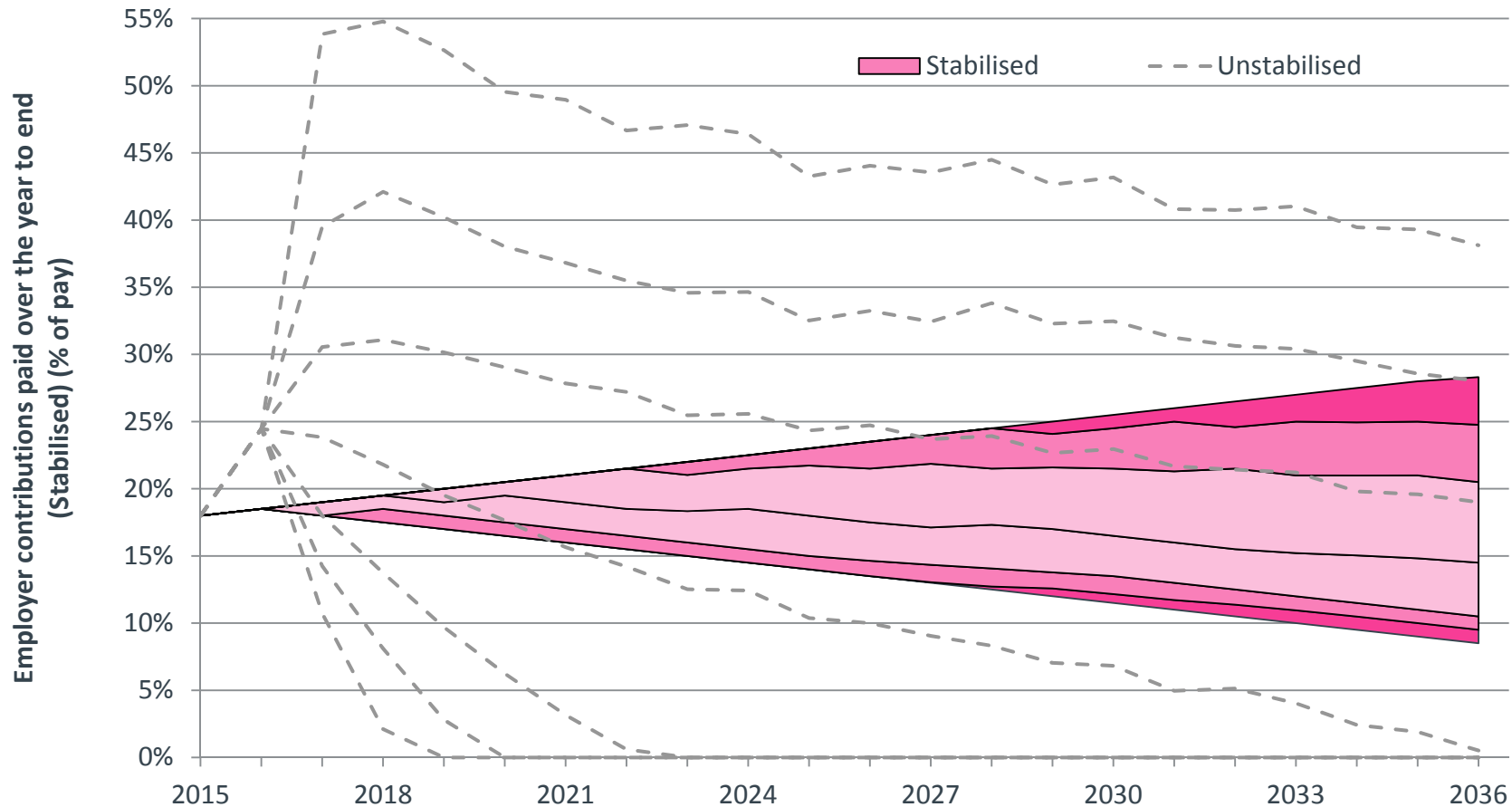
# Setting contributions: Harrow Council



**Need a good chance of meeting funding objective to be prudent**

9

# Contribution rate impact



**Smaller range of potential future contribution rates**



10

# Employer rates: three step approach

Understand employers



What is their funding target?



How long do we want to give each employer to get to the target?



How much risk can each employer take to hit the target?

# Employer rates: three step approach

Understand employers



100% funding (ongoing or cessation assumptions)



How long do we want to give each employer to get to the target?



How much risk can each employer take to hit the target?

# Employer rates: three step approach

Understand employers



100% funding (ongoing or cessation assumptions)



Deficit recovery period

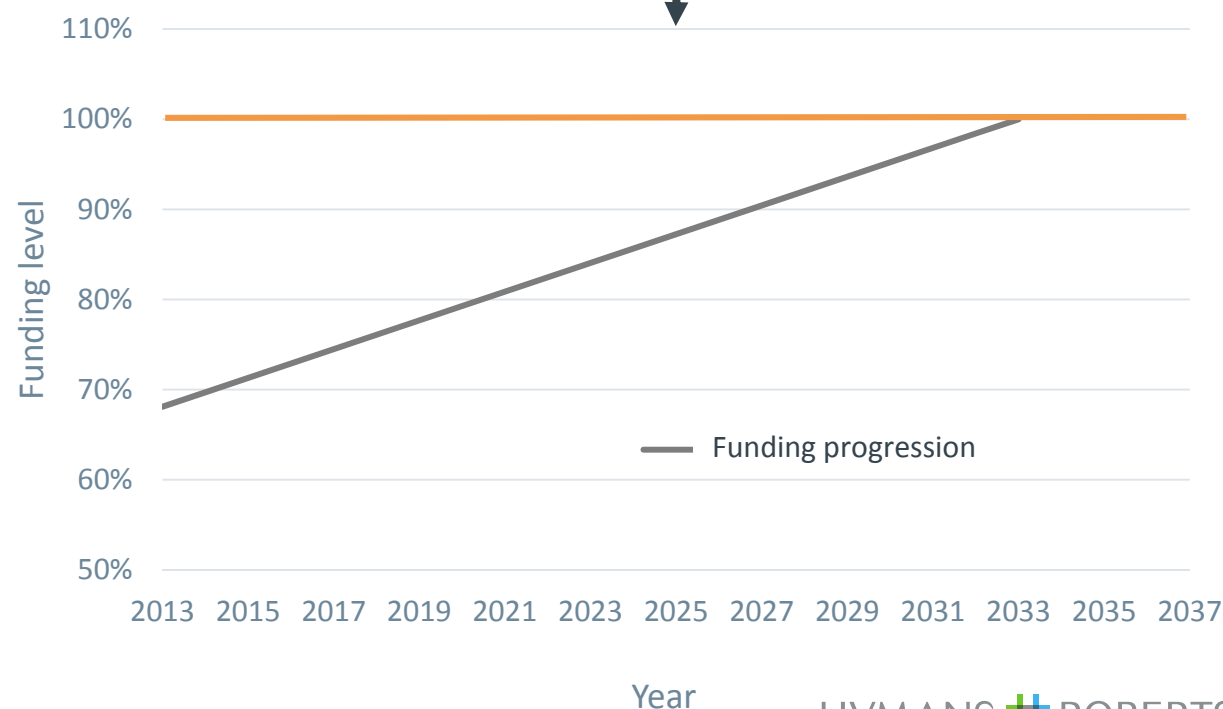


How much risk can each employer take to hit the target?

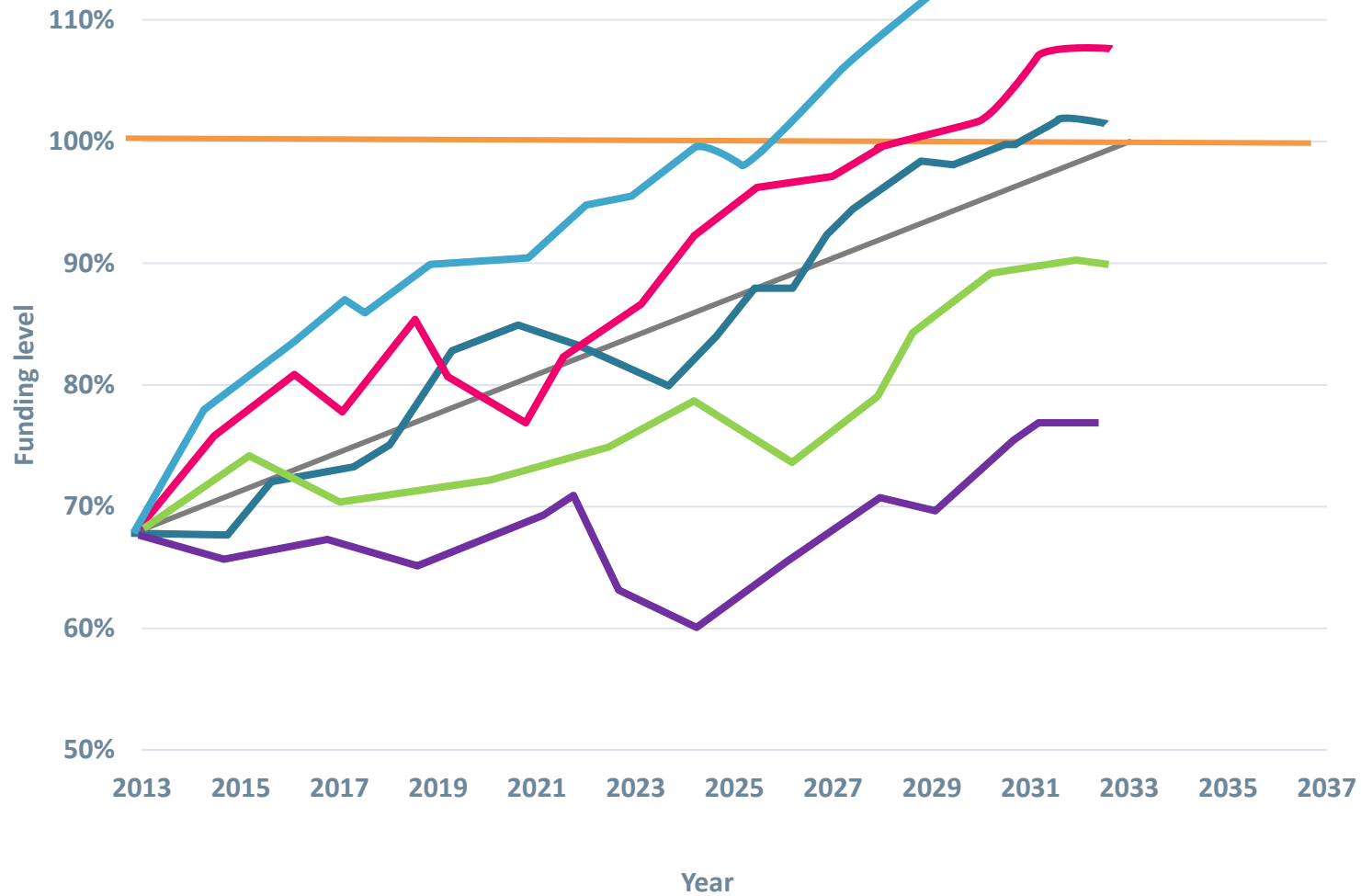
# Traditional approach to funding plans: certainty about the future

Actuary & Fund  
agree one set of  
assumptions

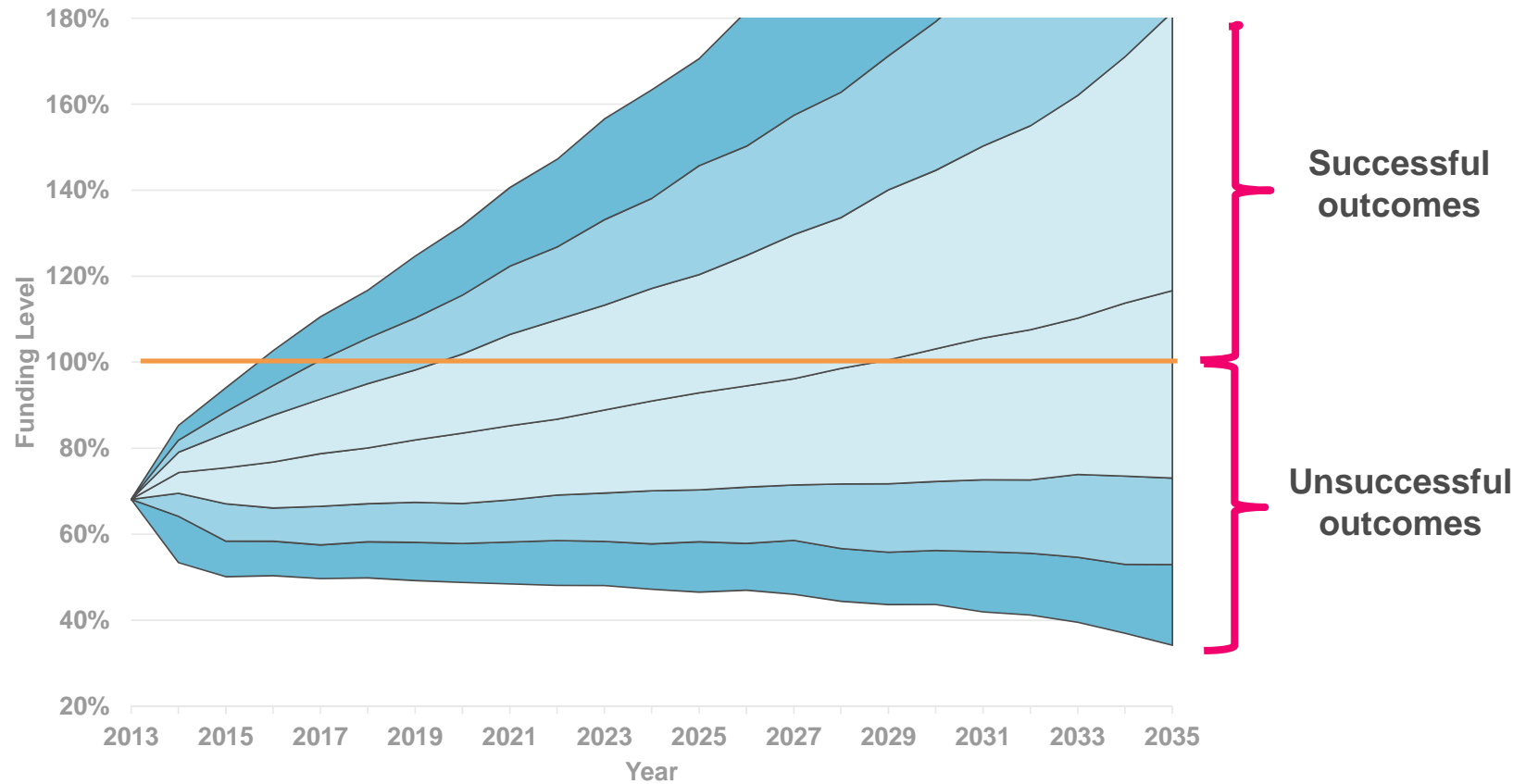
Actuary calculates  
contribution rates



# Risk based approach: recognise uncertainty

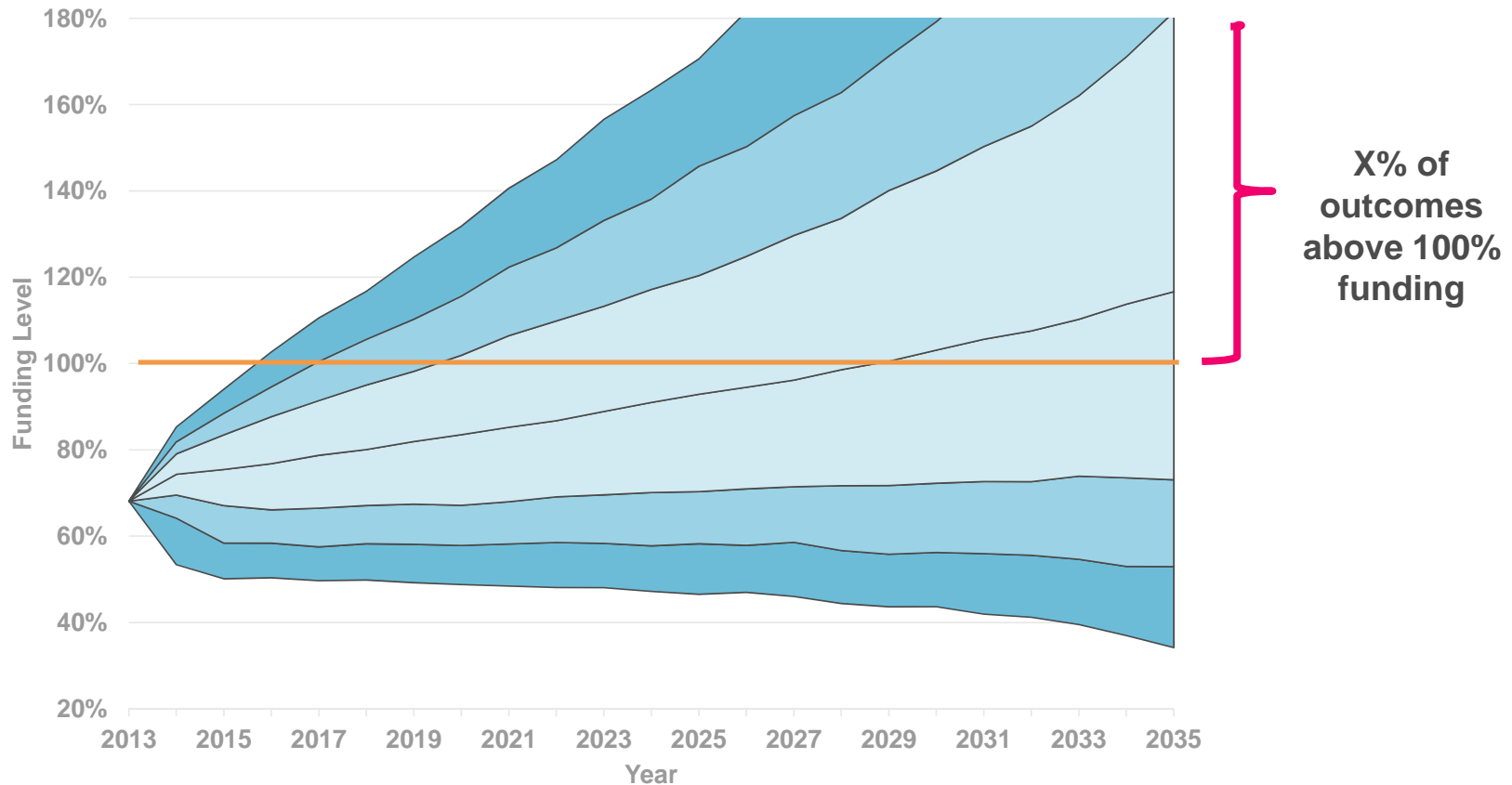


# Setting employer contribution rates





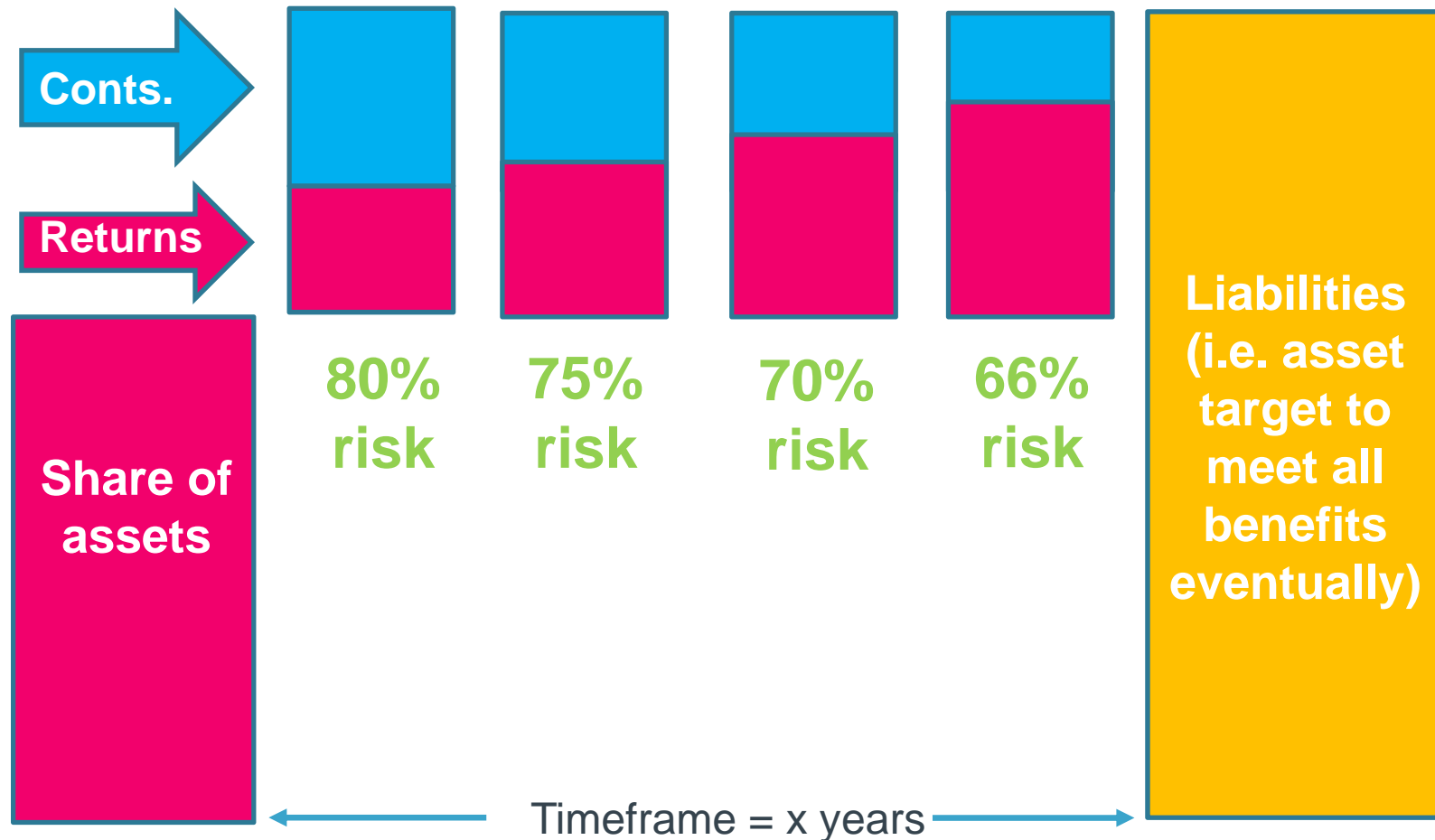
# Setting employer contribution rates



**Choice of 'X' depends on each employer's risk to the Fund**






# Contributions vs risk



# Different approaches for different employers

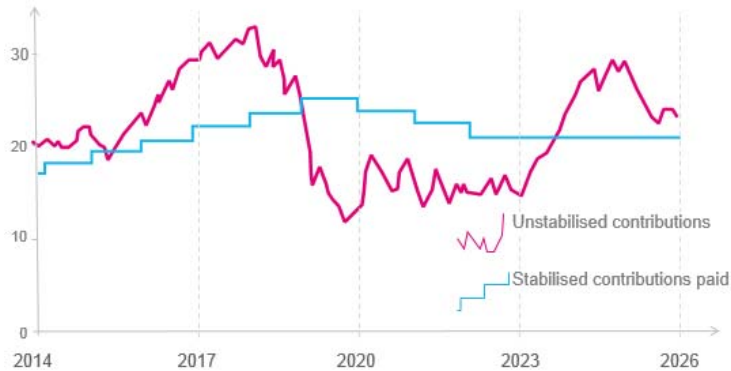


	Council	Academies	Colleges	"TABs"	"CABs"
	Ongoing	Ongoing	Ongoing	Ongoing	Cessation?
	Long	Long	Long	Short	Short
	Low	Low	Low/Medium	High	High
	Stability mechanism	Stability mechanism option	Risk-based rate	Risk-based rate	Risk-based rate

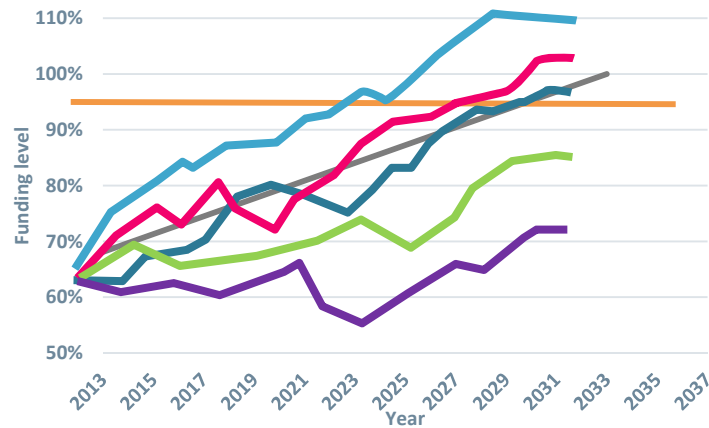


# Funding strategy review

# Policy change 1: risk based rates for all



Contribution stability mechanism for long term, secure employers



Risk-based approach for all other employers





# Policy change 2: Colleges

- Currently pay 'stabilised' contribution rate of Harrow Council
- Proposed new insolvency regime means the LB Harrow Pension Fund is an unsecured creditor
- Colleges not as 'secure' as before?
- Proposed treatment: **risk-based approach used for other employers in the fund**



# Policy change 3: Academies



- Currently pay contribution rate based on market conditions at conversion date
- DfE want similar treatment with local authority schools
- DfE guarantee gives Fund security
- Proposed treatment: offer contribution stability mechanism used for Harrow Council



# Policy reminder: employers planning for exit



Higher funding target?



Less time to get there



Higher likelihood of success required

Increasing security:

Indemnity bond

Charge on asset

Third party guarantee

**Open discussion with employers to reach suitable outcomes**

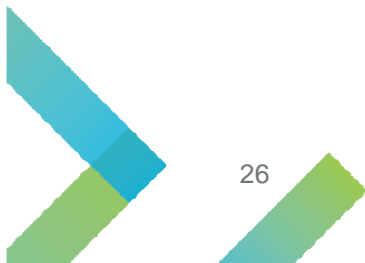


# Next steps

# Next steps



- Agree contributions for Harrow Council following modelling results
- Consult with employers on Funding Strategy Statement (FSS)
- **7<sup>th</sup> March Committee** – Valuation report and FSS sign employer results
- Finalise valuation report and contributions by 31 March 2017



Thank you

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