Leicestershire County Council Pension Fund

Funding and risk report as at 31 March 2019

HEADLINE

31 March 2019	Ongoing funding
Assets	£4,305m
Liabilities	£5,628m
Surplus/(deficit)	(£1,323m)
Funding level	76.5%

Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2016 to 31 March 2019, for the Leicestershire County Council Pension Fund ("the Fund"). It is addressed to Leicestershire County Council in its capacity as the Administering Authority of the Fund and has been prepared in my capacity as your actuarial adviser.

At the last formal valuation the Fund assets were £3,164m and the liabilities were £4,153m. This represents a deficit of £989m and equates to a funding level of 76.2%. Since the valuation the funding level has increased by c0.3% to 76.5% as detailed in the table above.

This report has been produced exclusively for the Administering Authority. This report must not be copied to any third party without our prior written consent.

Should you have any queries please contact me.

Anne Cranston

Anne Cranston AFA

What's happened since the 2016 formal valuation?

The main drivers of change since the latest formal valuation are:

- The outlook for future returns from investment classes has fallen since the triennial valuation. This has increased the value placed on the past service liabilities;
- The outlook for future inflation has also risen which increases the value placed on the past service liabilities, as benefits increases are linked to the Consumer Price Index;
- The impact of these changes in market conditions is an increase in deficit of £736m; and
- Investment performance was better than expected (35.2% vs 12.5%) leading to a gain of £602m.

The above changes have contributed to the increase in the overall funding level of approximately 0.3% and an increase in the deficit of around £334m.

What's happened over the last quarter?

- The funding level has fallen by approximately 0.6% over the last quarter.
- This is due to a combination of worsening market conditions being mostly offset by better than expected investment returns.

Other points to note

- This report has been prepared using a single set of market-related assumptions derived in line with your Funding Strategy Statement and market yields at the calculation date, as per the table overleaf.
- Contributions will be re-assessed following the 2019 formal valuation. Contributions are set allowing for many future economic scenarios, rather than relying on a single set of market-related assumptions. The assumptions underlying your funding target will also be reviewed at that time.

CURRENT POSITION

31 March 2019	Ongoing funding
Assets	£4,305m
Liabilities	£5,628m
Surplus/(deficit)	(£1,323m)
Funding level	76.5%

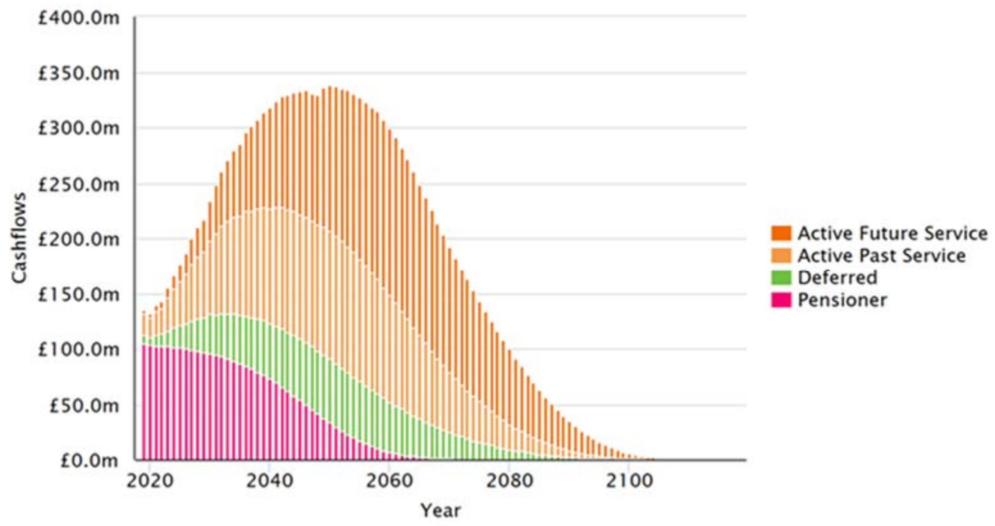
Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2016	(989)
Contributions (less benefits accruing)	(83)
Interest on surplus/(deficit)	(117)
Excess return on assets	602
Impact of change in yields & inflation	(736)
Surplus/(deficit) as at 31/03/2019	(1,323)

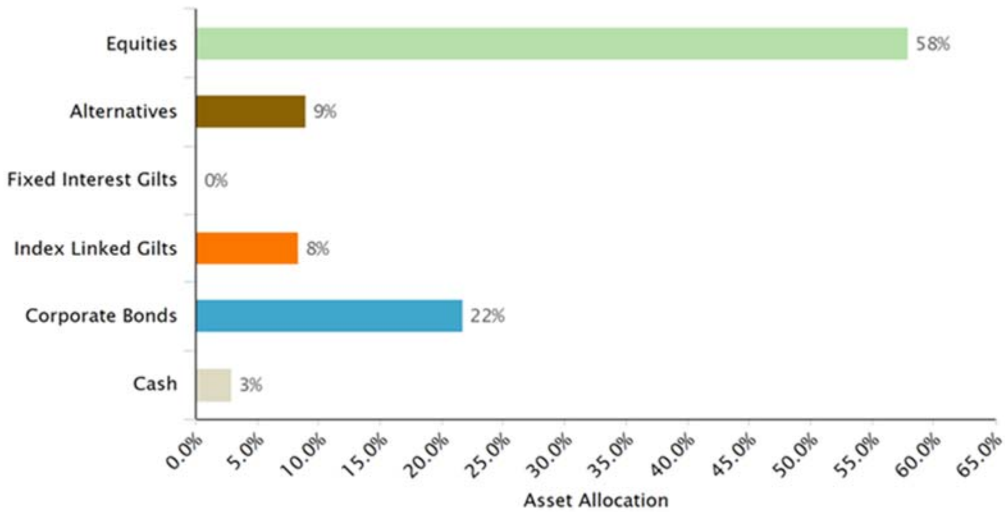
	31 March 2016	31 December 2018	31 March 2019
Market Yields (p.a)			
Fixed Interest Gilts	2.17%	1.76%	1.48%
Index-linked Gilts	-0.96%	-1.54%	-1.81%
Implied Inflation	3.16%	3.35%	3.35%
AA Corporate Bonds	3.36%	2.76%	2.36%
Price Indices			
FTSE All Share	3,395	3,675	3,978
FTSE 100	6,175	6,728	7,279

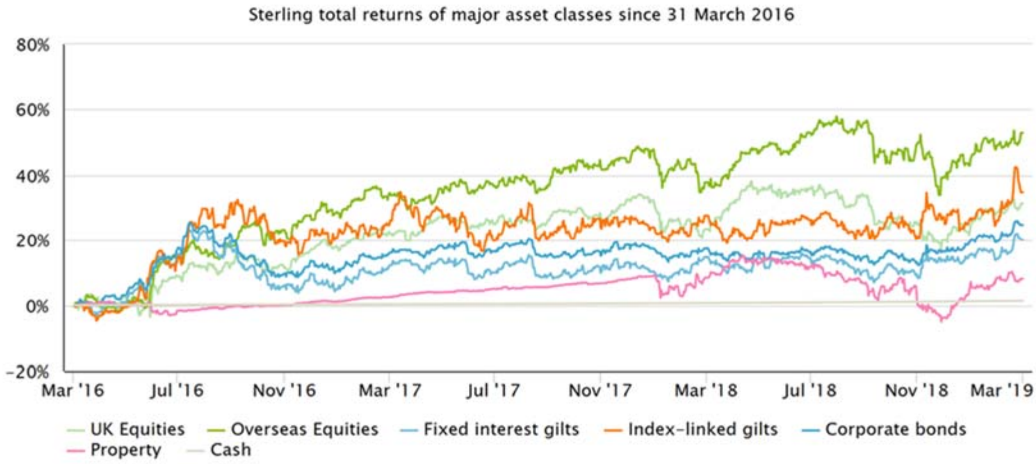
PROGRESS


85.0%
82.5%
80.0%
77.5%
75.0%
72.5%
70.0%
Funding Level
Mar '16
Sep '16
Mar '17
Sep '17
Mar '18
Sep '18
Mar '19
Ongoing funding


£-800.0m
£-1,000.0m
£-1,200.0m
£-1,400.0m
£-1,600.0m
Surplus / Deficit
Mar '16
Sep '16
Mar '17
Sep '17
Mar '18
Sep '18
Mar '19
Ongoing funding


£400.0m
£350.0m
£300.0m
£250.0m
£200.0m
£150.0m
£100.0m
£50.0m
£0.0m
Cashflows
2020
2040
2060
2080
2100
Year
Active Future Service
Active Past Service
Deferred
Pensioner





Sensitivity Matrix as at 31 March 2019 for Ongoing funding basis (£m)

Shift in equity level (using FTSE 100 levels as proxy)

Shift in bond yields (% p.a.)	5,095 -30%	5,823 -20%	6,551 - 10%	7,279	8,007 + 10%	8,735 + 20%	9,463 + 30%
+0.6	(1,714)	(1,426)	(1,138)	(850)	(562)	(273)	15
+0.4	(1,862)	(1,574)	(1,286)	(998)	(709)	(421)	(133)
+0.2	(2,019)	(1,731)	(1,443)	(1,155)	(867)	(579)	(291)
0.0	(2,187)	(1,899)	(1,611)	(1,323)	(1,035)	(747)	(458)
-0.2	(2,366)	(2,078)	(1,790)	(1,502)	(1,214)	(926)	(637)
-0.4	(2,557)	(2,269)	(1,981)	(1,693)	(1,405)	(1,117)	(829)
-0.6	(2,762)	(2,474)	(2,185)	(1,897)	(1,609)	(1,321)	(1,033)

less than 50% | 50% - 85% | 85% - 95% | 95% - 100% | 100% - 105% | 105% - 115% | greater than 115%

Notes

The most recent actuarial Funding and risk (“Navigator”) report shows an estimated funding level at 31 March 2019 that is marginally above the 2016 published funding level.

It is worth emphasising that this assessment of the health of the whole Fund is a crude one - produced by a single, simple, mechanical projection of the 2016 position allowing only for market changes (asset returns, market yields) and estimated contributions and benefits paid.

As part of the Fund’s triennial 31 March 2019 valuation, the actuaries will not only collect new membership data to refresh their analysis, but are also revisiting the actuarial assumptions that are to be used in their calculations. It should be noted that, after a positive 3 years for asset returns, the actuary’s expectation is that the relative and absolute position of the Fund (and most of the employers underneath) at the 2019 valuation will continue to be a healthy one.

One interesting aspect of the 2019 valuation will be the impact of increasing scrutiny. Whilst setting contributions continues to be the key output from the valuations, there will be continuing interest in the “health of the Fund” and how that it is presented to the various different scrutineers – the existing declaration of the health via a single funding level will be reviewed and may change from the current approach.

As such, the funding level that will be reported as at 31 March 2019 in the 2019 formal valuation is likely to differ from that stated within this Navigator report.

Please also note that our calculations currently make no allowance for possible benefit improvements in respect of the McCloud ruling and GMP equalisation.

Reliances and limitations

This report was commissioned by and is addressed to Leicestershire County Council in their capacity as the Administering Authority and is provided to assist in monitoring certain funding and investment metrics. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. **Decisions should not be taken based on the information herein without written advice from your consultant.** Neither I nor Hymans Robertson LLP accept any liability to any other party unless we have expressly accepted such liability in writing.

The method and assumptions used to calculate the updated funding position are consistent with those disclosed in the documents associated with the last formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. The calculations contain approximations and the accuracy of this type of funding update declines with time from the valuation; differences between the position shown in this report and the position which a new valuation would show can be significant. It is not possible to assess its accuracy without carrying out a full actuarial valuation. This update complies with Technical Actuarial Standard 100.