NORTHUMBERLAND COUNTY COUNCIL PENSION FUND
Pension Fund Panel Meeting 21 June 2019

Extract from LGPS Scheme Advisory Board (SAB) website

Scheme Annual Report 2018

Chair's Statement

On behalf of the Scheme Advisory Board I am delighted to be able to present the sixth Annual Report for the Local Government Pension Scheme (LGPS) in England and Wales. The LGPS is one of the largest defined benefit (DB) schemes in the world and is the largest DB scheme in England and Wales, with 14,800 employers, 5.8m members and assets of £275bn.

The aim of this Annual Report is to provide a single source of information about the status of the LGPS for its members, employers, and other stakeholders. Continually improving key information about the Scheme as a whole is one of the top priorities of the Board. This report aggregates information supplied in the 89 fund annual reports, as at 31st March 2018.

To navigate the Annual Report, please use the menu to the right of this page, or the hyperlinks.

Here are some key LGPS highlights for 2018:

- The total membership of the LGPS grew by 197,000 (3.4%) to 5.8m members in 2018 from 5.6m in 2017.
- The total assets of the LGPS increased to £275bn (a change of 5%). These assets were invested in pooled investment vehicles (54%), public equities (29%), bonds (7%), direct property (3%), as well as other asset classes (7%).
- The Local Authority return on investment over 2017/2018 was 4.4%. This was reflective of the market conditions during the year and set against the UK Return of 0.2%.
- The scheme maintained a positive cash-flow position overall. Scheme income was higher than total scheme outgoings by £500m; this is including investment income.
- Over 1.7m pensioners were paid over the year.

As at the 31st March 2016, the LGPS liabilities were estimated at £254bn indicating an overall funding level of 85%. During the intervening years, the Board has been actively developing proposals to further tackle the estimated funding deficit of £37bn (£47bn in 2013) to improve the sustainability of the LGPS and its future funding levels. The next triennial valuation of the LGPS will be as at 31st March 2019.

As we move into the 2018/2019 reporting period, and the LGPS investment pools having been established for one year, CIPFA have updated guidance to ensure that the reporting of investments remains transparent at all levels within the Scheme.

I would be pleased to hear your views on this our sixth Annual Report (these should be sent to Liam Robson). The Board is keen to ensure we add to the Report and that

the work underlying our compilation and analysis is ultimately recognised through UK, EU and global awards for excellence.

Cllr Roger Phillips

Chair of the LGPS Advisory Board
14 May 2019

Some detail from the Scheme Annual Report 2018

Funding

In line with other UK public sector pension funds, the LGPS undergoes an actuarial valuation every three years. The last triennial valuation of the LGPS assets and liabilities (as at May 2018) was at 31st March 2016 (see below) and the next one will be as at 31st March 2019. The results will be made available on this website as soon as they are available.

2016 Actuarial Statement

In line with the LGPS regulations, the funds' actuarial positions are reviewed every three years. The triennial valuation results shown in the 2017 Annual Report and Accounts were based on membership data and asset values as at 31st March 2016. These valuations set the employer contribution rates from 1st April 2017 to 31st March 2020, and were payable during the accounting period ended 31st March 2017. The 2013 valuations, using fund data at 31st March 2013 have set the contribution rates from 1st April 2014 to 31st April 2017, and have took into consideration funding under the new benefit structure.

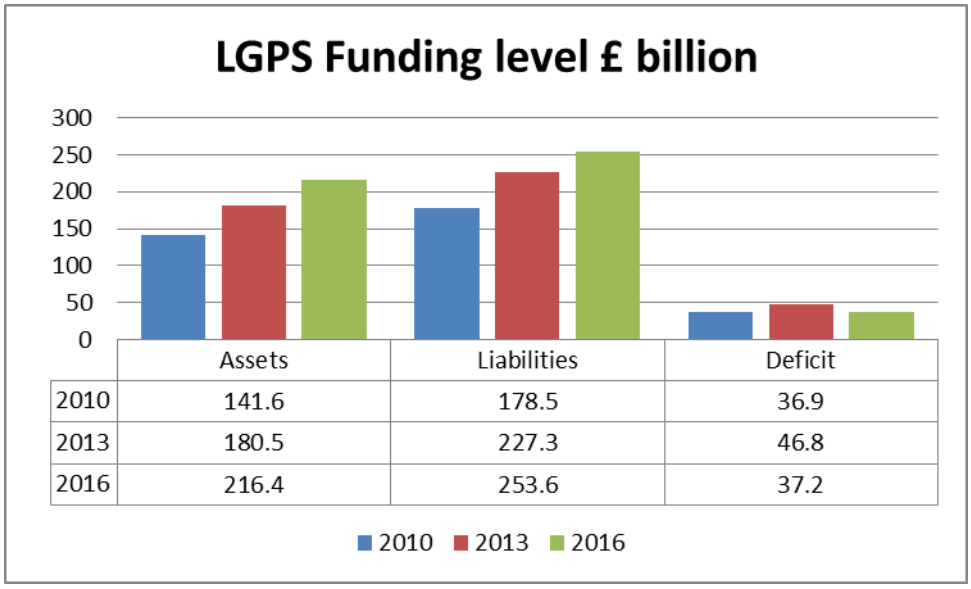
2016 Actuarial Valuation

The 2016 valuation results are available and are included here for reference. The overall result of the 2016 valuation using LGPS fund data at 31st March 2016 with a comparison for 2013 is set out below. The 2016 valuation results were used to set contribution rates from 1st April 2017 to 31st March 2020. It is important to note that each fund will have used different assumptions, and whilst not directly comparable across funds, the aggregated total liabilities provides a prudent estimate for the scheme at the triennial valuation dates.

As at 31st March 2016, the total asset value of the Scheme was £216 billion, compared with £181 billion as at 31st March 2013. The liabilities totalled 254 billion in aggregate. The overall funding level was around 85%.

By way of comparison as at 31st March 2016, the funding level of the 5,945 direct benefit occupational pension schemes within the Pension Protection Fund index was 81.0% (on a insurance buyout basis, which is different from the LGPS actuarial valuation methodology). As at 31st March 2016 the University Superannuation Scheme funding level was 83%.

*See valuation 2010, 2013 and 2016 pages for fund values used in calculations



Development of LGPS funding position

Following the 2013 valuation, the Board published two summary reports. A **summary version** outlined the key findings of the 2013 valuations and provided some brief background. A **more detailed version** gives a fuller overview of the 2013 valuations and provided some wider context as to a) how employer contribution rates are calculated during valuations, and b) how individual fund valuations relate to the Board cost management process which will first be undertaken following 2016 results.

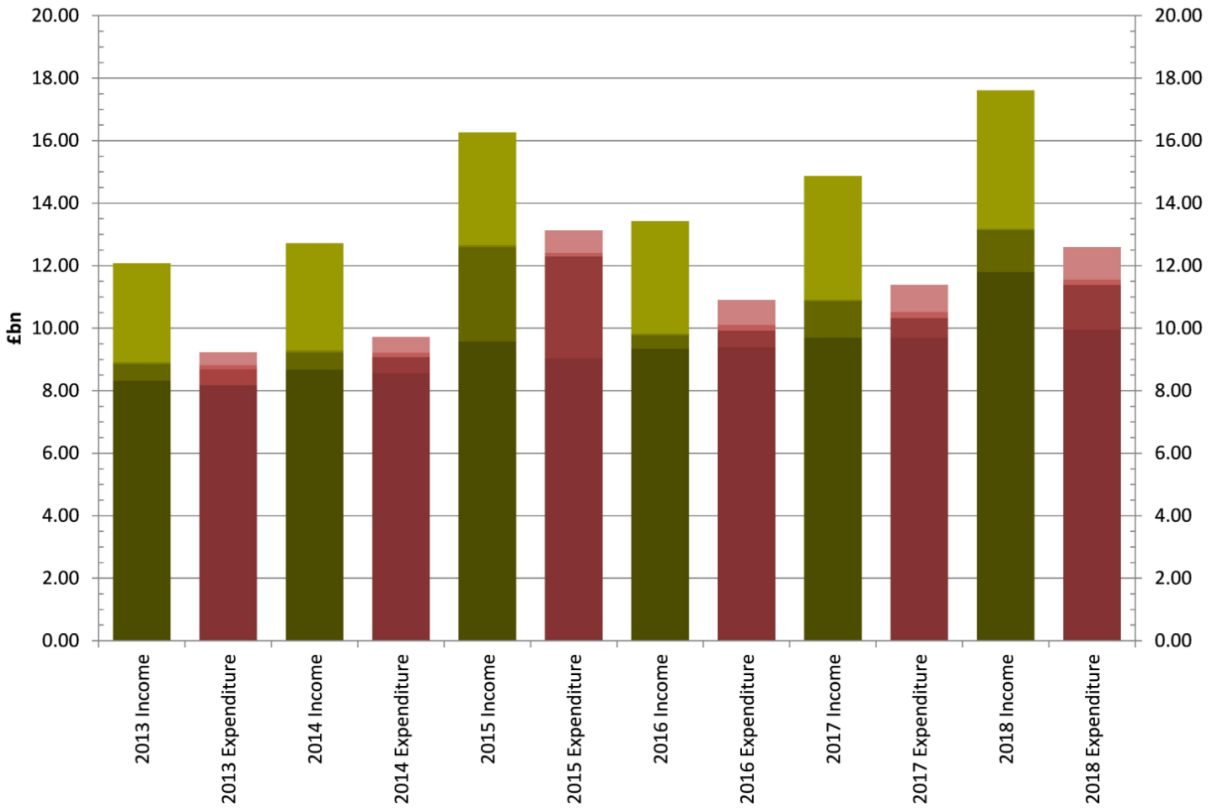
The Board produced similar reports for 2016, available on the Valuations pages

Aggregated information

We have the following aggregated information from the annual report and audited accounts of the LGPS funds as at 31st March 2018 showing the development of the LGPS. Importantly, this notes that active membership increased and contribution payments continue to exceed benefit payments, which is consistent with the scheme remaining open to new entrants.

	2018	2017	2016	2015	2014	2013
Number of actives (000)	2,010	1,964	1,899	1,905	1,819	1,728
Number of deferred (000)	2,159	2,078	1,859	1,834	1,723	1,621
Number of pensioners (000)	1,691	1,642	1,530	1,512	1,459	1,408
Total value of assets	£275bn	£263bn	£217bn	£217bn	£192bn	£180bn
Net return on Investment	4.4%	19.40%	0.10%	12.10%	5.90%	12.50%
Total contributions paid	£11.8bn	£9.7bn	£9.3bn	£9.6bn	£8.7bn	£8.3bn
Total benefits paid	£9.9bn	£9.7bn	£9.4bn	£9.0bn	£8.6bn	£8.2bn
Inflation (CPI) (change over previous 12 months to September)	3.0%	1.00%	0.00%	1.20%	2.70%	2.20%

Income and expenditure year to 31st March 2018



Life Expectancy Index

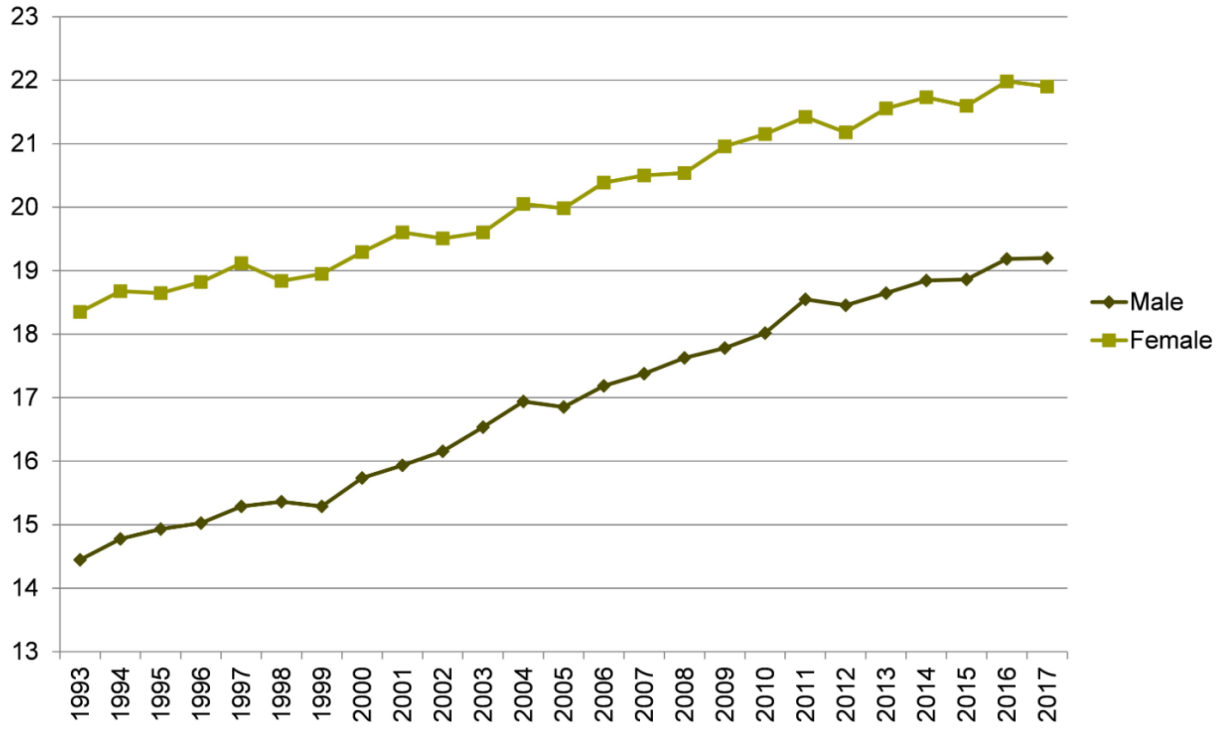
Hymans Robertson and **Club Vita** have developed an **LGPS Life Expectancy Index** to support the work of the LGPS Scheme Advisory Board. This Index will help support the communication of changing life expectancy in the LGPS to its scheme members. The Index will also provide the Board with longevity related information, including early warning of upwards cost pressures to support its role in the cost management process.

The information on this page is not specific to the circumstances of any particular reader or organisation, does not constitute advice, nor should it be relied upon by third parties. Life Expectancy Indices may also be produced by other organisations and use other sources of data.

Changes in observed longevity

The chart below demonstrates the annual progression of the LGPS Life Expectancy Index between 1993 and 2017 for male and female E&W LGPS pensioners. It measures the number of years members are expected to live after reaching the age of 65.

Years in retirement from age 65 (1993 - 2017)



The average rate of increase in life expectancy is around 2 years per decade for males and around 1.5 years per decade for females, although it does not increase uniformly over the 24 year period, with the slower rate of increase since 2011 reducing the per decade average rate.

The beginning of a new trend?

Over the period to 2011 we have observed a significant and sustained increase in life expectancy. However, the period since 2011 has been characterised by more volatility and a general slowing in the rate of increase of life expectancy. Life expectancy is still improving, but not as quickly or as steadily as before.

Some of this volatility could be attributable to one-off events. During 2012/3 we experienced a harsh and sustained winter, during early 2015 it was found that the flu vaccine had not been as effective as expected and during the winter of 2017/18 we experienced the “beast from the east” and the arrival of “aussie flu” – a strain that is particularly dangerous for older people. All these events led to increased numbers of deaths, so slower increases in life expectancy.

In addition to these events, a higher level of deaths than those predicted back in 2011 have been seen, resulting in an apparent ‘levelling off’ of life expectancy over the period since 2011. Overall, the typical period in retirement has only increased by around 0.6 years since 2011 for both males and females, whereas it increased by 2.5 years for males and 1.8 years for females over the previous decade.

This leads to the question of whether we are witnessing the beginning of a new trend and if so, how long this will continue into the future.

Longevity trends, in particular since 2011, have not affected all pensioners in the same way. Club Vita has completed some research with the PLSA into how longevity trends are experienced in different socio-economic groups. The latest summary results for males are included in the table below.

Males	Annualised mortality improvement (age-standardised)		
	2001-2006	2006-2011	2011-2016
England & Wales (population data)	3.0%	2.8%	0.8%
Comfortable	2.0%	2.6%	1.7%
Making-Do	3.0%	2.9%	1.1%
Hard-Pressed	2.8%	3.1%	1.5%

Source: PLSA and Club Vita (2017): Longevity trends – Does one size fit all?

Corresponding to the LGPS life expectancy index, the first two lines of the table show that mortality improvements have significantly decreased in the 2011-2016 period for the population as a whole.

The bottom three lines show mortality improvements for the "Comfortable", "Making-Do" and "Hard-Pressed" sub-groups of the data. Essentially, these groups divide the Club Vita data into high, medium and low socio-economic groups, broadly equal in size. The highest socio-economic group seems to have been resilient to whatever is affecting the general population, with resilient levels of improvements from 2000 to 2016, though these are reduced in the period from 2011. On the other hand, the lower socio-economic groups have experienced a significant drop in improvements in the 2011-2016 period, having seen a higher rate of improvement in the decade to 2011.

What has caused this slowdown in life expectancy improvements? There are many theories, and the real answer will probably be a combination of many factors. Cause of death data indicates an increase in the number of deaths resulting from dementia (and related conditions) than would otherwise have been anticipated. Another common suggestion, supported by the difference in experience between different socio-economic groups, is that the slowdown has been the indirect result of the period of austerity and an increasingly frail elderly population in the UK as a result of repeated harsh winter periods

Consequences for LGPS Funds

What should LGPS Funds (and their Actuaries) do about this as they undertake the 2019 valuations? They will typically take a longer term view, seeking to base their funding assumptions for longevity on a broader view of how longevity has been changing rather than reacting to the most recent experience alone. Understanding the socio-economic profile of the Fund membership also becomes important, together with a view on whether drivers of mortality improvements will affect different groups in different ways. These will inform both the current rate of longevity improvement amongst Fund members and views on how that will change over the next 2 or 3 decades.

If nothing else, recent experience should serve as a reminder that LGPS Funds (and their Actuaries) should continue to monitor longevity trends and seek to better understand the drivers of changes in life expectancy.

Methodology

The LGPS Life Expectancy Index tracks the life expectancy of E&W LGPS pensioners. The methodology ensures the index results are objective and reflect the experience of E&W LGPS members.

The index is based on period life expectancy from age 65. For each year this is a measure of how long you expect to make pension payments to an average member based on death rates in that year.

This approach to measuring life expectancy uses only observable, verifiable data (with data on circa 2/3rds of E&W LGPS pensioners used by the index) and avoids any need for subjective assumptions about how life expectancies will change in the future.

The index allows changes in life expectancy from year to year, and trends in life expectancy emerging over a number of years, to be clearly identifiable.

Reliances and Limitations

- The life expectancy values shown in this chart have been provided by Club Vita to the Advisory Board for inclusion in the Scheme Annual Report. Whilst they can be reproduced, they should not be relied upon or used for any other purpose without the written permission of Club Vita LLP and Hymans Robertson LLP.
- Life expectancies are based on the experience of English and Welsh LGPS Funds that have provided data to Club Vita as at February 2019.
- The life expectancy shown for a particular year is the period life expectancy measured at age 65 - this is based on the exposure and deaths occurring during that year, so do not make any allowance for changes in longevity before or after that year.
- To be clear, the life expectancies shown have been calculated from the crude mortality rates of E&W LGPS pensioners.
- The life expectancy of an individual LGPS pensioner will depend on many factors, including age, gender, health, wealth, future changes in mortality, etc. and the figures shown here are not intended to represent or predict the life expectancy of any one individual member.

Appendix 1 Definition of Period expectation of life

Definition of Period Expectation of Life

Source: Office for National Statistics, “Life expectancy at age 65 by local areas in the United Kingdom, 2004-06 and 2008-10”, 19 October 2011

“Period expectation of life at a given age for an area in a given time period is an estimate of the average number of years a person of that age would survive if he or she experienced the particular area’s age-specific mortality rates for that period throughout the rest of his or her life. The figures reflect mortality among those living in an area in each time period, rather than mortality among those born in each area.” “Period life expectancy at age 65 in 2000 is worked out using the mortality rate for age 65 in 2000, for age 66 in 2000, for age 67 in 2000, and so on.” “Period life expectancies are a useful measure of mortality rates actually experienced over a given period, and for past years, provide an objective means of comparison of the trends in mortality over time, between areas of a country and between countries. Official life tables in the UK and other countries which relate to past years are generally period life tables for these reasons.”