

# London Borough of Merton Pension Fund

## Actuarial update

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November 2020



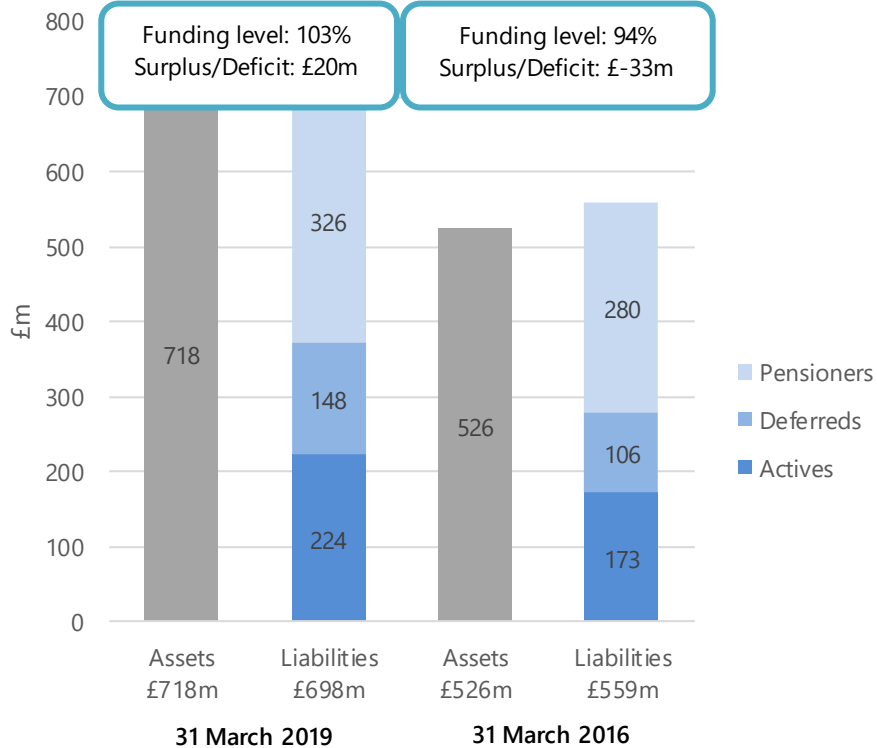
Agenda Item 5

# What's on the agenda?

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# > 2019 Valuation results





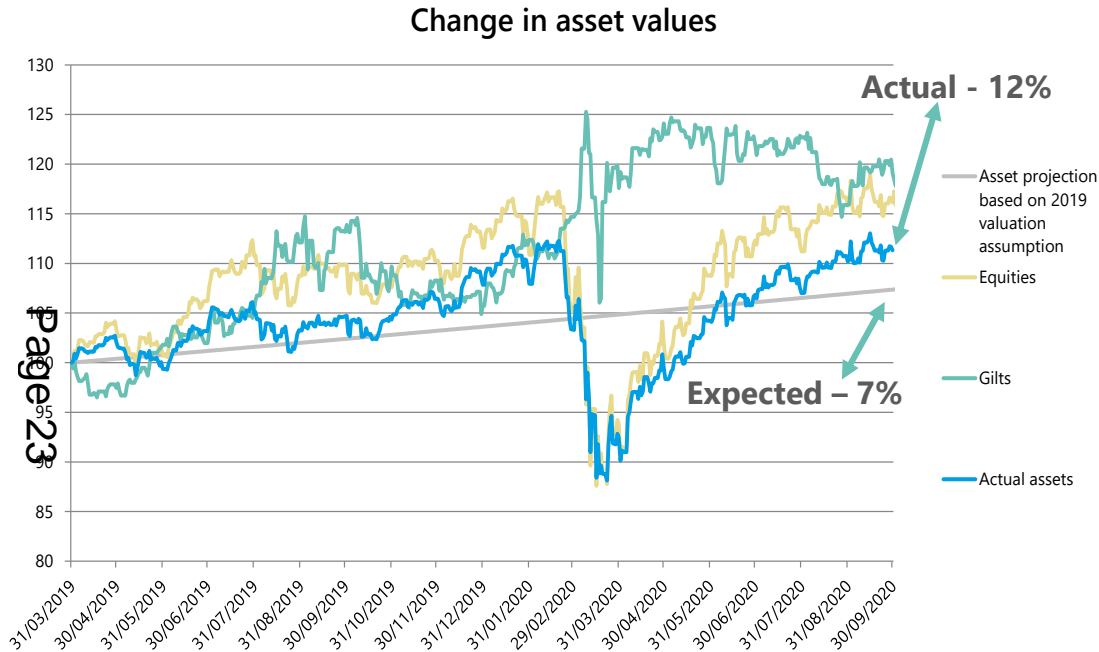
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# What has happened since March 2019?

## ...a lot!

- › COVID-19 Crisis
  - › Market falls and volatility
  - › Mortality experience
- › Regulatory activity
  - › McCloud
  - › £95k exit cap
  - › Employer flexibilities

# Market volatility

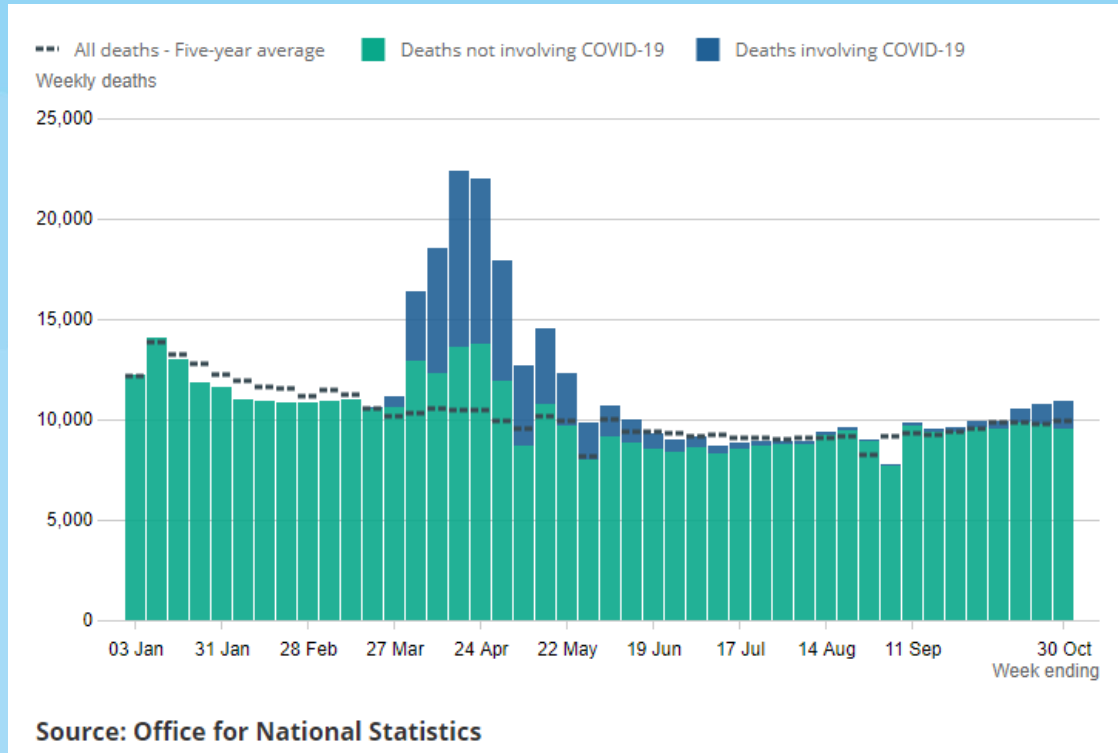


# Funding update

- Returns have been strong but volatile – increase in assets
- Lower future returns expected 0.6% p.a. – increase in liabilities
- Lower inflation expected of around 0.3% p.a. – decrease in liabilities

# Mortality - Excess deaths

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Over 55,000 more deaths than expected in the UK in 2020 (year to date), an increase of around 12%

Around 85% of excess deaths directly attributable to covid-19. Unexplained deaths could include:

- Deaths where Covid-19 was involved, but was not included on the death certificate;
- Deaths indirectly related to the pandemic. For example, increased pressure on health services, cancellation of hospital treatments or fewer people going to Accident and Emergency.



# Recent flurry of consultation activity

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**McCloud  
consultation  
published**

**Response to  
£95k cap  
consultation**

**Employer  
flexibilities**

# McCloud

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## Background

- Two consultations issued (LGPS / unfunded schemes)
- Remedy proposed extends to all members active on 31/3/2012
- Underpin to apply from 1 April 2014 to 31 March 2022
- Higher of pension accrued under CARE and FS scheme

## Funding

- £2.5bn estimated impact in LGPS (GAD estimate)
- Lower on the Fund's pay growth assumption
- Contributions may increase by around 0.5% - 0.7% of pay
- May be more material for some employers

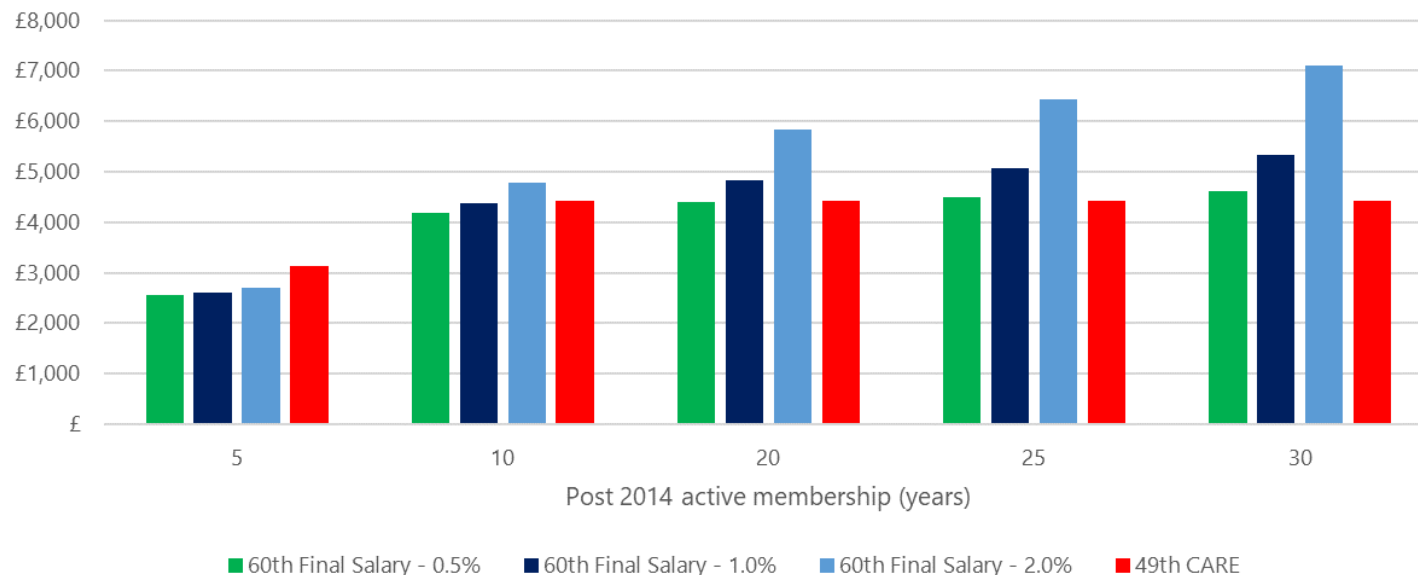
## Administration

- Administration issues are significant
- Review of member records back to 1 April 2014
- Historic data collection required and problematic
- Communications with members



# Pension projections in 2020 terms - pre 2012 joiner

2014 - 2022 pension at retirement - salary of £30k at 2014



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**Greater benefit of underpin for younger members**  
**Ignores different retirement ages for final salary benefits and CARE benefits**

# The £95k exit cap

## Background

- Objective – to avoid six figure redundancy package
- Pension strain cost included in cap
- Predominantly council/academies affected

## Impact

- More members impacted, not only high earners
- Not just those with a package > £95k (GAD – 86%)
- Statutory redundancy/discretionary pay also taken into account

## Administration

- Timing issue between LGPS / HMT Regs
- Communicating options to members

# Member options – strain cost greater than £95k

	Existing provisions - no reduction and no £95k cap	No reduction but pays cash top up	Partial reduction in exchange for statutory pay	Full reduction	Defers to normal retirement age with no reduction
Retirement benefits taken	Immediately	Immediately	Immediately	Immediately	Normal retirement age
Pension	£19,821	£19,821	£18,501	£12,990	£19,821 plus revaluation
3/80th lump sum	£15,752	£15,752	£15,707	£13,987	£15,752 plus revaluation
Statutory redundancy pay	£14,795	£0	£0	£14,795	£14,795
Discretionary compensation	£19,727	£0	£0	£19,727	£19,727
Standardised strain cost	£124,671	£95,000	£95,000	£0	£0
Payment from member	n/a	£29,671	£0	n/a	n/a
Total value of exit package	£159,194	£95,000	£95,000	£34,522	£34,522
Difference vs existing provisions	n/a	£64,194	£64,194	£124,671	£124,671

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Member age 56 at retirement, pay of £60k and 20 years service

# Employer flexibilities



## Contribution reviews

Significant changes during inter-valuation period

Ability to review if change in liabilities / covenant



## Exit payments

Too expensive to stay, too expensive to go

Spreading of exit payments



## Deferred debt arrangements

Unaffordable cessation debt

Continued participation without triggering a debt

Risk remains with employer, revised valuation

# Considerations for funds

- › Consider approach to be taken
  - › Key factors triggering a review / spreading exit / allowing DDA
  - › Impact on other employers
  - › Monitoring
  - › Timing and costs – when, how often, who meets costs
- › Revise FSS
- › Communicating to employers
- › Review any existing arrangements/admission agreements

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# THANK YOU