

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

LONGEVITY UPDATE – CLUB VITA Pensions Committee 27th June 2017	Classification PUBLIC	Enclosures Three
	Ward(s) affected ALL	

1. INTRODUCTION

- 1.1 This report provides Members with an update on one of the major risks to the Pension Fund in the shape of increasing longevity, i.e. people living for longer and consequently drawing pensions for an increased period of time.

2. RECOMMENDATION

- 2.1 **The Pensions Committee is recommended to note the report**

3. RELATED DECISIONS

- 3.1 Pensions Sub-Committee meeting 20th March 2014 – Approval to extend the contract with Cub Vita for 3 years to continue monitoring the longevity experience of the London Borough of Hackney Pension Fund.

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

- 4.1 Increasing longevity, i.e. people living longer, has a direct impact on the financing of the Pension Fund. Increased life expectancy means that pensioners will draw their benefits for longer, thereby increasing the cost of providing those benefits. The Fund Actuary, as part of the actuarial valuation, includes within his assumptions a projection of longevity for the Fund's membership. In funding terms, increased longevity will, all else being equal, result in an increase in the Fund's liabilities.
- 4.2 The Fund has for a number of years participated in a dedicated longevity study undertaken by Club Vita, which is affiliated with Hymans Robertson. As part of the Club Vita project, the Fund is able to more accurately monitor direct experience of its members' specific longevity and therefore monitor its own risks in this area. The Fund Actuary is able to include the Club Vita data within the valuation to give a more accurate picture of longevity; this can have a direct impact on the contribution rates employers have to pay.
- 4.3 The cost of participating in the annual review is approximately £10,000 pa. However, the review is a key way for the Committee to monitor a major risk to the Fund and the cost is insignificant in comparison to the Fund's assets of over £1.3bn.

5. COMMENTS OF THE DIRECTOR, LEGAL

- 5.1 This report provides information to the Committee regarding changes in longevity and consequent impact on funding levels for the Pension Fund.
- 5.2 The Council as the administering authority is required to maintain the Pension Fund and has a range of obligations that include the investment of funds not immediately needed to make payments from the fund, the formulation of an investment policy, and the adoption and review of the Investment and Funding Strategy Statements.
- 5.3 The information provided in this report is relevant to the Council's obligations in relation to the maintenance and monitoring of the fund, particularly in relation to its funding strategy and actuarial matters.
- 5.4 There are no immediate legal implications arising from this report.

6. BACKGROUND TO THE REPORT

- 6.1 The life expectancy of members is a key assumption in assessing pension scheme liabilities. Over 220 pension funds, including a large number of LGPS funds, participate in Club Vita and this provides for an extensive database through which longevity trends can be measured. Participation in Club Vita enables the Committee to monitor the Fund's longevity experience both individually and against its peer group. It also allows the actuary to incorporate Fund specific longevity patterns within the valuation process, helping to improve the accuracy of assumptions made. This will help Members to manage the impact of this key risk over the longer term.
- 6.2 Attached as an appendix to this report is a summary of the findings from reviewing the Fund's latest (to December 2016) mortality experience along with a more detailed monitoring report (VitaMonitor) on longevity experience for the LB Hackney Pension Fund and the index report (VitaIndex) which compares the experience of the Hackney Fund to that of its peer group (other LGPS funds within the Club Vita database).
- 6.3 The reports summarise the impact of the longevity experience of the Fund since its last valuation by comparing the actual experience of the Fund with the assumptions made in previous valuations. They also look at emerging trends in longevity and assess how the Fund might allow for future changes in longevity in future valuations. The data used includes postcodes, pension amounts, salaries and reasons for retirement, obtained from the administrators of each of the 221 pension funds involved.

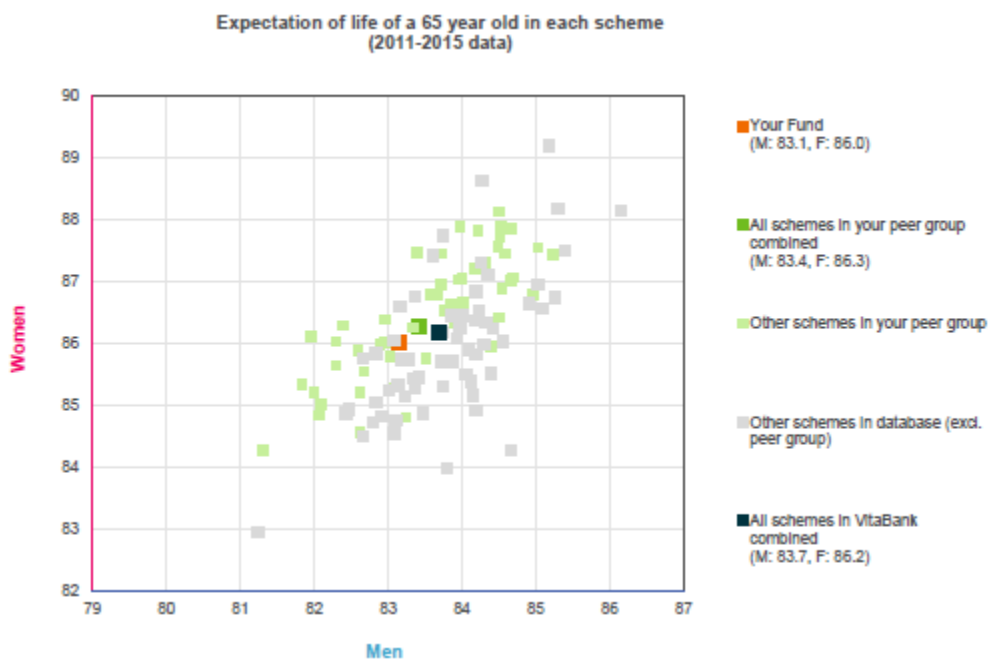
7. HACKNEY PENSION FUND – LONGEVITY EXPERIENCE

- 7.1 Trends have shown that life expectancy is increasing at about 2.0 years per decade for men. Life expectancy for women is also increasing, but at a slightly slower rate. Within the Club Vita databank, average life expectancy at 65 for males is 83.9 (83.9 – 2015), whilst life expectancy for females is 86.3 (2014 - 86.4). However, these figures are averages across the full range of funds within the database. Each fund will have its own demographic profile, with the life expectancies of its members driven by a number of different factors. These factors include:
 - Gender – women can expect to live 2 – 2.5 years longer than men
 - Lifestyle – or how people spend their money outside of work, can lead to considerably different life expectancies. All else being equal, there is a difference of between 4 to 4.5 years in life expectancy between the least healthy and healthiest lifestyles. The

effect of wealth, or affluence of members on life expectancy, is best measured differently for men and women:

- -For men, the last known salary (revalued to current terms) is generally a better indicator of the effect of affluence on longevity, men with the highest levels of affluence having a life expectancy of between 2½ and 3 years longer than those with the lowest.
- - For women, the effect of affluence on longevity is best predicted by the amount of pension in payment, the effect being smaller than that seen in men.
- Occupation – Former manual workers tend to have lower longevity, by around 0.5 years for men and 1 year for women.
- Health at retirement – A pensioner retiring in normal health can expect to survive 3 – 3.5 years longer than a pensioner retiring in ill-health.

7.2 The effect of these different factors on individual funds will depend on the membership profile. Within the LGPS scheme there is a range of life expectancies of between 81.3 and 85.2 for men and between 84.3 and 88.1 for women. For the Hackney fund, life expectancy is 83.1 years for men and 86.0 years for woman. Within the peer group this increases marginally to 83.4 years for men and 86.3 years for women



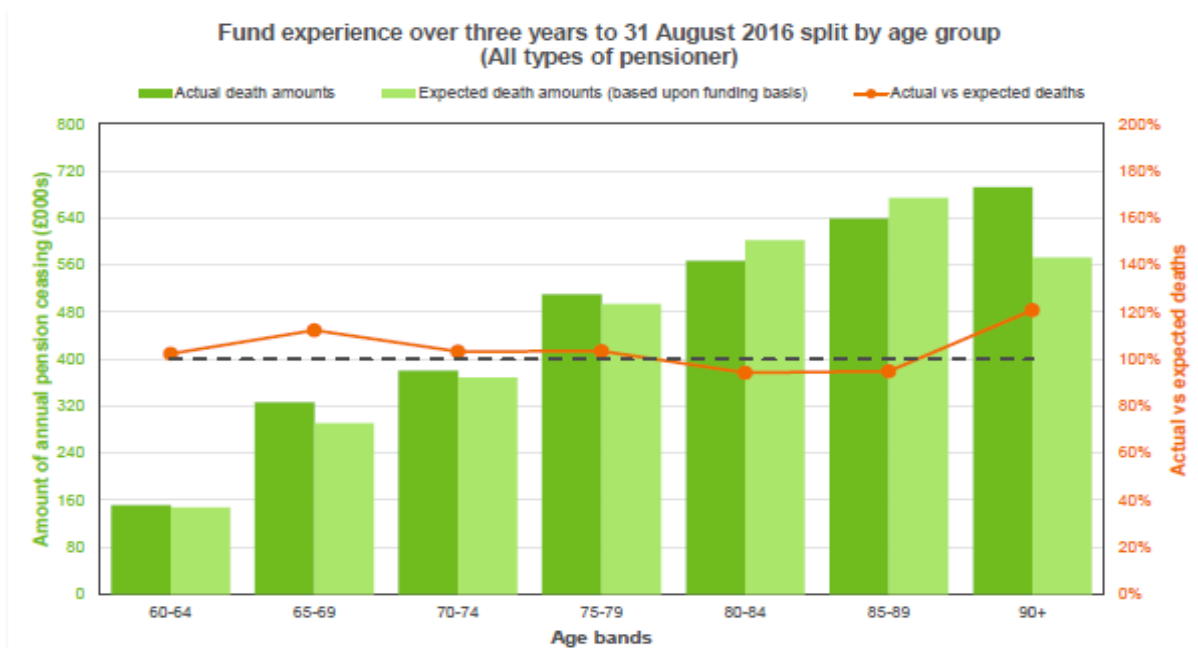
7.3 To put this difference in context, a broad rule of thumb is that each additional year of life expectancy leads to an increase of around 3% in a Fund’s liabilities. The individual members of the fund will exhibit a diverse range of characteristics, with some driving higher and some driving lower life expectancy than the average. In the table below, the arrows ↑, ↓ and ↔ indicate that the Fund’s demographic DNA suggests that it should have on average higher, lower or similar life expectancy to other schemes, respectively. These different drivers, and their effect on the Hackney Fund compared to other funds can be seen in the table below

Longevity Characteristics	What does your demographic DNA suggest about how your fund’s average life expectancy should compare to...?	
	Peer group	VitaBank

Retirement health		↓	↓
Lifestyle	Male	↓	↓
	Female	↓	↓
Affluence	Male	↑	↑
	Female	↑	↑
Occupation		↓	↓

7.4 However well the Fund sets its longevity assumptions, the Fund's actual experience will vary from year to year. This may result in funding gains, if fewer members survive than expected, or funding losses if the opposite occurs. The chart below shows the Hackney Fund's experience over 3 years to 31st August 2016, with the actual amount of pension ceasing for each age band shown against the expected amount ceasing.

The ratio of these two numbers is shown as the orange line. Where the orange is above 100%, there were more deaths in the specified age band than expected, resulting in a funding gain, and vice versa. The table below shows that the last three years have been varied in terms of actual versus expected deaths depending on age category; however the net effect since last valuation has been to decrease liabilities by an estimated 0.1%, as shown in the table below:



Impact on liabilities of membership survival

	Year ending			Since last valuation
	31 August 2016	31 August 2015	31 August 2014	
Extra (less) pension alive at year end (£k)	(68)	(162)	53	(242)
Estimated % increase (decrease) in liabilities	(0.1%)	0.0%	0.1%	(0.1%)

- 7.5 Individual fund experience over the short term can be volatile, as relatively small changes in numbers of deaths can have a significant impact. Club Vita looks to provide additional evidence for funds on current lifespans, using baseline assumptions from the database matched to the characteristics of each member of the Fund. These assumptions (VitaCurves) for Hackney suggest that, based on the broader experience of the Club Vita database, Hackney's liabilities could potentially be reduced by around 1.6%.

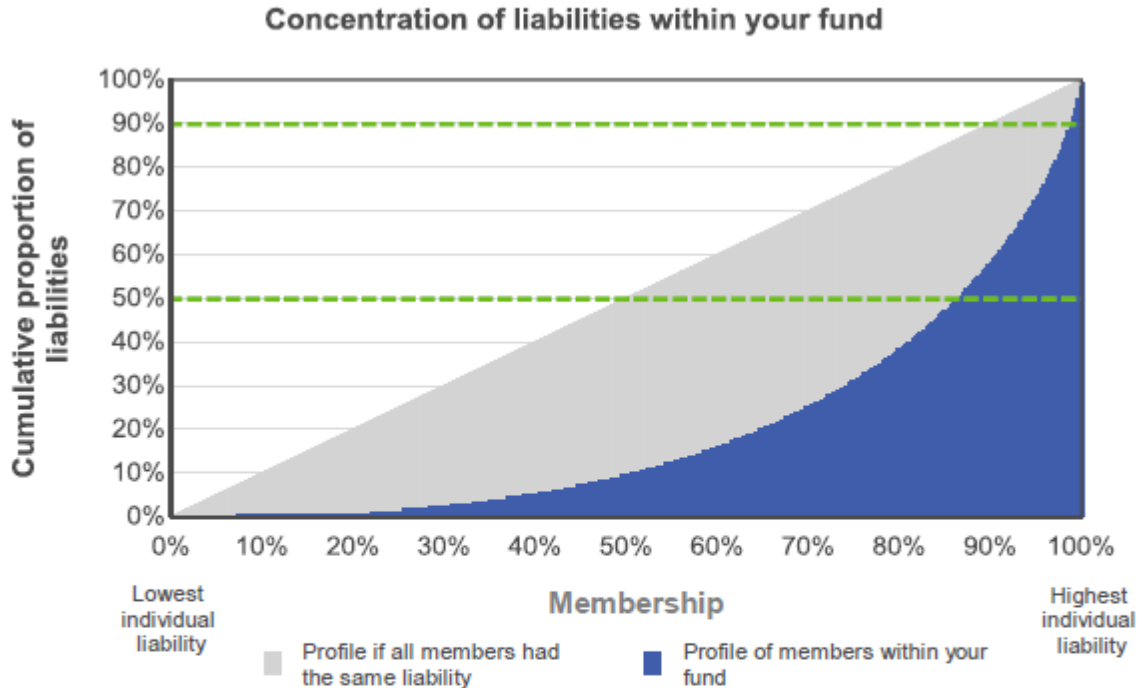
Past service liabilities

Membership group	Approximate change in value placed on liabilities if use VitaCurves rather than current funding assumption ⁽¹⁾
Actives ^(2,3)	-1.3%
Deferred Pensioners ^(3,4)	-1.5%
Pensioners and Dependants ⁽⁴⁾	-1.8%
Overall	-1.6%

Future service contribution rate

Change to future service contribution rate ⁽⁵⁾	-1.6%
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- 7.6 Life expectancies of individual members within the Fund will vary according to a number of factors. As such, some members are likely to live much longer than others, resulting in a far greater liability for those particular members. The chart below shows how a large proportion of the Fund's liabilities are concentrated on a relatively small number of members. The grey triangle shows the profile of the liabilities if each member's liability was equal in value, whilst the blue curve shows the actual concentration of liabilities.



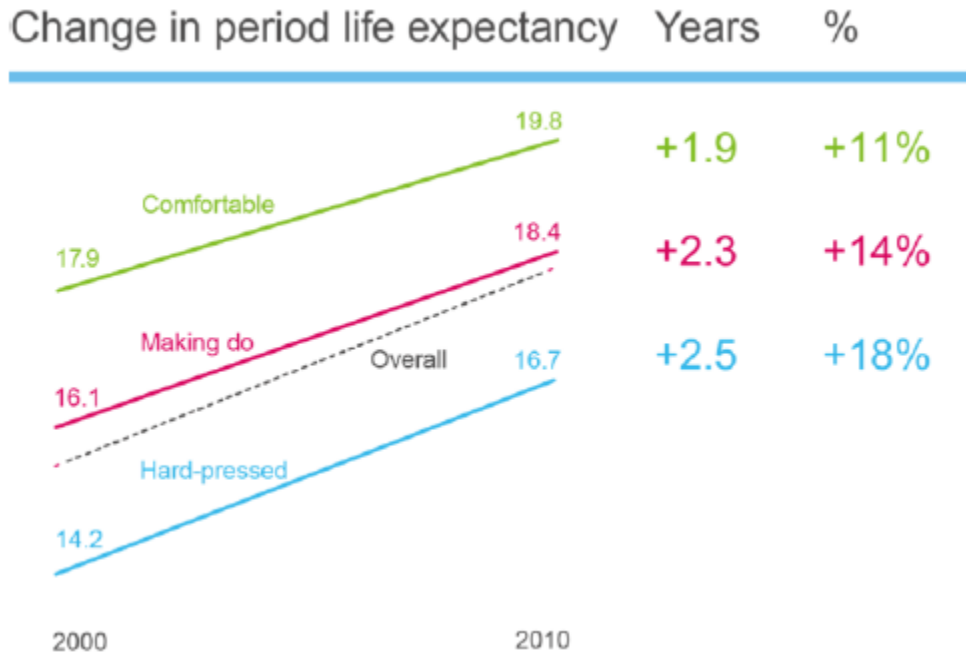
In the chart above, members have been listed from left to right in order of increasing liabilities – i.e. the member with the single largest liability is at the far right. The blue area shows the total liabilities as we move through these members.

7.7 Across the whole Fund:

- 50% of liabilities are concentrated on 14% of members
- 10% of liabilities are accounted for by 1.1% of members (258 individuals)
- The bottom 50% of members account for less than 10% of liabilities
- The concentration of liabilities is around 60% which is not unusual.

7.8 In 2014, Club Vita undertook a project with the NAPF (National Association of Pension Funds) to investigate historic longevity improvements within defined benefit (DB) schemes and they identified:

- A marked difference in improvements in life expectancy between member of DB schemes and the general population in England and Wales
- Differences in longevity for different types of pensioners (comfortable, making do and hard pressed), showed that between 2000 and 2010 the increases in life expectancy for the 'comfortable' were slower than the 'hard pressed' although it may be possible to put this down to things such as the decline in smoking happening later for the 'hard pressed' and other health improvements taking place later. The chart below shows the differing pace of longevity improvements over the period:



7.9 The attached reports provide the Pensions Committee with the detailed analysis behind the summary contents contained in this report.

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Appendices:
 Appendix 1 - Vita Summary Report
 Appendix 2 – VitaIndex
 Appendix 3 - VitaMonitor