

**FALKIRK COUNCIL**

**Subject: LONGEVITY ANALYSIS - CLUB VITA**  
**Meeting: PENSIONS COMMITTEE**  
**Date: 12 DECEMBER 2013**  
**Author: CHIEF FINANCE OFFICER**

**1. INTRODUCTION**

- 1.1 This report invites the Committee to consider a proposal from Hymans Robertson, the Fund Actuary, to carry out an in depth analysis of the Fund's membership data in order to compile a bespoke model of life expectancy for the Fund.

**2. BACKGROUND**

- 2.1 One of the main risks faced by pension funds is that life expectancy will continue to increase at a rapid pace and that pensioners will collect their pensions for increasingly longer periods.
- 2.2 Longevity risk is taken into account by the Actuary when setting employer contribution rates at the three yearly valuation. However, the actuary currently uses longevity assumptions based on national UK demographic data rather than data that is specific to the Fund.
- 2.3 In general terms, UK demographic tables assume a higher level of life expectancy than may be appropriate for a Fund such as the Falkirk Fund. To the extent that liabilities are affected by mortality assumptions, this could mean that the Fund's liabilities are being overstated.
- 2.4 An analysis of Fund life expectancies will have to take account of the fact that around 25% of Fund's active members and pensioners live outside the Clackmannanshire, Falkirk and Stirling Council areas.

**3. ADVANTAGES OF CLUB VITA**

- 3.1 Recognising the growing importance to pension funds of accurate demographic data, Hymans Robertson founded "Club Vita" in 2007. The "Club" is a limited partnership, includes around 160 participants and tracks the records of over 1.8 million pensioners. Clients of Hymans Robertson in Club Vita include the Pension Protection Fund, Aviva, BP and Diageo.
- 3.2 Membership of Club Vita enables pension fund data to be analysed according to gender and postcode and then re-analysed according to affluence, using salary before retirement as the key determinant of affluence. The degree of analysis is therefore considerable whilst the participation of a large number of local authority pension funds allows peer group comparisons to be made and acts as a further point of validation for the results.
- 3.3 Fundamentally, the analysis seeks to provide i) an estimate of current life expectancies within a Fund and ii) an estimate of how these might change in the future. In terms of setting mortality assumptions for valuation and funding purposes, Club Vita analysis provides the Fund Actuary with robust data for the Fund as a whole and for individual employers.

3.4 Participation in Club Vita has the following benefits:

- it demonstrates that a Fund has a mature approach to managing longevity risk;
- it makes funding assessments and employer contribution setting more accurate;
- it makes any de-risking strategy more likely to succeed;
- it demonstrates that, in line with the Regulator's advice, mortality assumptions are being evidenced; and
- it allows some data cleansing and mortality checking to be undertaken.

3.5 A map showing the variety of life expectancies in the Falkirk area (as determined by existing Club data) is attached as an Appendix.

#### **4. FEES AND POSSIBLE FINANCIAL BENEFITS**

4.1 The annual subscription fee for Club Vita is £10,000. The initial contract is for a period of three years.

4.2 Whilst there can be no guarantee that participation in Club Vita would lead to a relaxation in current mortality assumptions (and an improvement in the Fund's funding level), it is instructive to note that out of 25 LGPS Funds, 22 experienced an improved funding position following their participation in Club Vita.

4.3 If, as has happened with these LGPS Funds, the past service deficit of the Falkirk Fund could be reduced by 1%, this would equate to £3.1m, well in excess of the cost of the Club Vita Subscription.

#### **5. CONCLUSION**

5.1 After investment risk, longevity risk is the next greatest risk faced by the Fund.

5.2 Club Vita is an established provider of longevity research for pension funds. Other analytical products do exist, however, these would not carry sufficient weight with the actuary to allow mortality assumptions to be changed.

5.3 Participation by the Falkirk Fund in Club Vita would demonstrate the Fund's commitment to monitoring and managing longevity risk. Participation also offers the possibility of an improvement in the funding level through a reduction in liabilities.

5.4 Whilst the cost of Club Vita is significant - £30,000 over 3 years – this appears to be outweighed by the visible improvement in the management of longevity risk and the prospect of a reduction in the valuation of liabilities.

**6. RECOMMENDATIONS**

- 6.1 The Committee is asked to approve the proposal from Hymans Robertson for the Fund to participate in Club Vita to enable a detailed analysis of the Fund's longevity experience to be undertaken.**
- 6.2 In the event that the Pensions Committee accepts the proposal, a spokesperson from Hymans Robertson should be invited to the next available Committee meeting to present the results.**

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**Date: 28 November, 2013**

**BACKGROUND PAPERS**

NIL