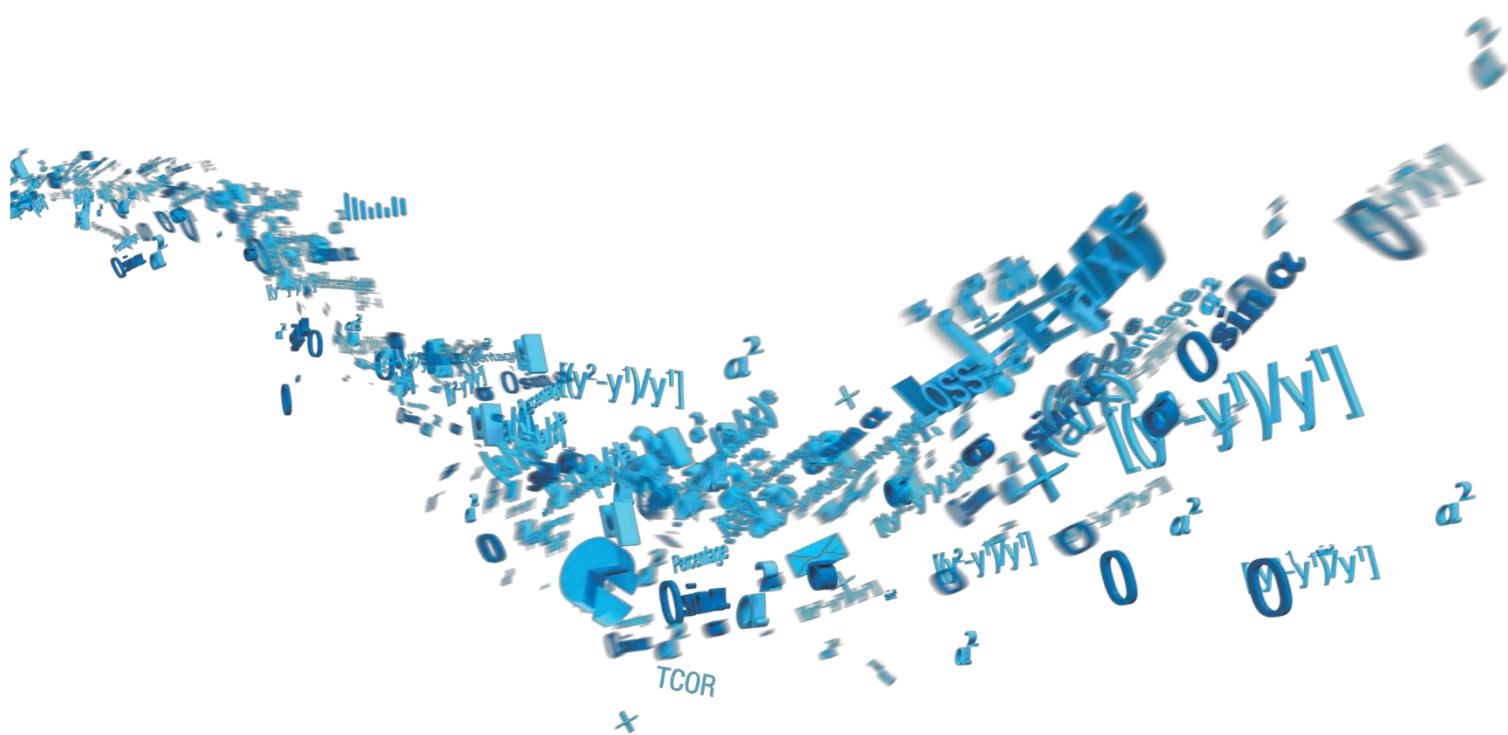
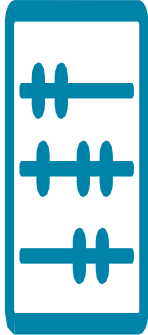


# Unitisation

Notionally allocating assets to employers in the LGPS





- Concerned about asset leakage between employers in your Fund?
- Worried about how you can practically offer employer-specific investment strategies?
- Uncomfortable that your Funding Strategy Statement says the method used to allocate assets to employers can't be verified to audit standard?
- Want quicker and more cost effective valuations?  
then unitisation is for you

## What is unitisation?

Unitisation is a process by which the assets of an LGPS fund can be notionally allocated between the employers in the Fund. The Fund's assets are divided into "units", employers notionally buy or sell units as they pay contributions into the Fund and benefits for their members are paid out of the Fund, and the price of each unit is tracked to enable an employer's asset value to be derived.

As recently as the 1990s many LGPS funds had no need to notionally allocate assets to employers. Employer experience was "pooled", with funding risks shared. The introduction of FRS17 in 2001, together with rising employer contributions weakened the arguments for pooling and calculating individual employer asset shares and funding levels became the norm. Even then, a fund's assets were often only notionally allocated to employers every three years as part of the triennial valuation. Further, in some cases this process is quite approximate and isn't directly based on payments made to or from the fund in respect of each employer's membership<sup>1</sup>.

Aon Empower Results <sup>®</sup>	
Summary of results per employer	
Employer number from cash flow system	W005
Employer name	
Period start date	1 Jun 2018
Period end date	30 Jun 2018
Position at the start of the period	
Assets at the start of the current period	1,397,333,665
Investment strategy at the start of the period	Default
Number of units at the start of the current period	1,397,333,665
Price of a single unit at the start of the current period	1.0000
Position at the end of the period	
Assets at the end of the current period	1,390,321,002
Investment strategy at the end of the period	Default
Number of units at the end of the current period	1,388,740,736
Price of a single unit at the end of the current period	0.9951
Summary of key checks	
Check on the implied payroll	
Implied payroll based on the normal contribution paid over the period, annualised	181,338,300
Implied payroll based on the normal contribution paid over the last period, annualised	191,612,379
Payroll based on the valuation membership data annualised over the year to DOV	202,407,255
Increase in payroll compared to last time period	-5.0%
Increase in payroll compared to valuation data	-10.8%
Check on the implied member rate	
Member contribution rate over the period based on the implied payroll	6.3%
Member contribution rate over the last period based on the implied payroll	6.3%
Member contribution rate based on the valuation membership data at DOV	6.3%
Change in member contribution rate compared to last time period	0.0%
Change in member contribution rate compared to valuation data	0.1%
Check on the pension payroll	
Pension Payroll over the period annualised	47,581,836
Pension Payroll over the last period annualised	47,424,755
Pension (Pensioners) Payroll at the valuation	46,553,875
Increase in pension payroll compared to last time period	0.3%
Increase in pension payroll compared to valuation data	1.9%

Aon Empower Results <sup>®</sup>								
Summary of investment strategies and asset class allocations								
Investment strategies offered by the Fund	Bonds	Equities	Index linked securities	Pooled funds	Direct Property	Cash deposits	Net Current Assets	Total/Sum of allocations
Gilts portfolio	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Bonds portfolio	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%
Low Risk	40.0%	0.0%	40.0%	0.0%	0.0%	20.0%	0.0%	100.0%
Medium risk	30.0%	30.0%	30.0%	0.0%	0.0%	10.0%	0.0%	100.0%
Default	10.1%	70.9%	5.2%	12.4%	0.1%	1.8%	-0.5%	100.0%
Whole of Fund	10.1%	70.9%	5.2%	12.4%	0.1%	1.8%	-0.5%	100.0%
Start assets by investment strategy								
Gilts portfolio	0	0	0	0	0	0	0	0
Bonds portfolio	0	0	0	0	0	0	0	0
Low Risk	0	0	0	0	0	0	0	0
Medium risk	0	0	0	0	0	0	0	0
Default	1,135,266,836	7,943,270,257	579,879,315	1,393,113,018	6,531,949	197,712,053	-56,592,429	11,199,181,000
Total	1,136,786,000	7,910,178,000	569,398,000	1,382,197,000	6,500,000	153,928,000	50,000,000	11,199,181,000
End assets by investment strategy								
Gilts portfolio	0	0	0	0	0	0	0	0
Bonds portfolio	0	0	0	0	0	0	0	0
Low Risk	0	0	0	0	0	0	0	0
Medium risk	0	0	0	0	0	0	0	0
Default	1,129,714,000	7,904,418,000	577,043,000	1,386,299,000	6,500,000	196,745,000	-56,315,623	11,144,403,377
Total	1,129,714,000	7,904,418,000	577,043,000	1,386,299,000	6,500,000	196,745,000	-56,315,623	11,144,403,377
Split of asset between individual and bespoke investment strategies								
Bespoke	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Default	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

The increased emphasis on good governance and risk management and the increase in the number of employers in the LGPS has led to administering authorities to:

- monitor employers between valuations to manage their funding and covenant risk
- offer alternative investment strategies for employers
- demand greater transparency of actuarial valuations and other processes
- seek an approach to notionally allocating assets to employers which reduces cross-subsidies

In response Aon Hewitt's Public Sector Team has adapted a unitisation model used in the private sector for over a decade and transformed it into a powerful tool which not only tracks LGPS employer asset shares on the basis of single or multiple investment strategies but includes an array of data validation checks and reporting to enhance administering authorities' own processes.

<sup>1</sup> At Aon we always use employer cash flows if available

## How does it work?

A starting asset value for each employer is needed (usually taken from the latest triennial valuation date). This is then translated into a number of investment units in the fund. Each month thereafter net cash flows for each employer are calculated and converted into units. Units are tracked monthly allowing for changes in the market value of the fund's assets. An asset statement is produced each month showing total number of units and notional assets allocated to each employer.

These asset values can then be used in triennial valuations, employer accounting, and any employer-related tasks, including regular monitoring of funding ratios.

The unitisation model can also summarise the total cash flows in respect of individual or groups of employers, over a specified period which can then be used in a variety of actuarial (or other management) projects.

Standard checks on the consistency of the cash flows data provided are produced each month. Aon also offers a range of bespoke checks and controls to suit each administering authority's requirements.

## How can it help?

Unitisation effectively represents real time monitoring of employer notional asset allocations (compared to the 'retrospective' approach used at triennial valuations).

It is more accurate than notionally allocating assets as part of the triennial valuation process due to greater focus (it's a well-defined, process in its own right with in-built checks, as opposed to a process required as part of a larger project), and more frequent monitoring of the employer cashflow data recorded by the fund .

### Aon Hewitt's LGPS-specific unitisation model

- facilitates monthly calculations of employer asset shares
- reduces the time and cost of inter-valuation employer calculations
- improves the accuracy of notional asset allocation and reduces the risk of unintended cross-subsidies
- enables individual employer investment strategies
- provides greater insight into the quality and consistency of cash flow and administration data, enhancing the administering authority's financial risk management programme

## What information is needed?

The main barrier to unitisation historically was the lack of cash flow data at employer level. At Aon we already request employer cash flow data and where provided, use it to calculate notional employer asset shares at each valuation. For most of the funds we advise, it's simply a question of providing that information more frequently, typically monthly instead of triennially.

At an employer level	At a fund level (or by investment strategy)
<ul style="list-style-type: none"> <li>▪ Contributions and benefit payments</li> <li>▪ Transfers into and out of the Fund and between employers within the Fund.</li> <li>▪ Expenses</li> </ul>	<ul style="list-style-type: none"> <li>▪ Total fund values per asset class (including details of any transactions during the month)</li> <li>▪ Asset return per asset class (if available)</li> <li>▪ The value of any cash holdings</li> </ul>

We are flexible in how data is provided - during the implementation phase we work closely with administering authorities to determine the best way of extracting the information from their systems and providing it to us.

## Contact Information

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## About Aon

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