Division(s): N/A

PENSION FUND COMMITTEE – 6 DECEMBER 2013

2013 VALUATION

Report by the Chief Financial Officer

Introduction

1. This report updates the Committee on the results to date from the 2013 Pension Fund Valuation. At the time of writing this report, we had only received provisional figures, and it is expected a more up to date position will be available when the Fund Actuary presents to the Employers Forum on 13 December 2013.

Provisional Results – Overall Fund Level

2. Under the Scheme Regulations, the Fund Actuary is required to undertake a full valuation of the Fund as at 31 March 2013, and to certify the contribution rates payable by each employer for the three years starting 1 April 2014.

3. The Actuary presented provisional results for the Fund as a whole, alongside their key assumptions, when they met with officers at the end of October 2013. These results showed a cash increase in the total Fund deficit, although given the significant increase in both liabilities and asset values, this actually represented an improvement in the funding level from 79% to 82% (see table below).

	March 2010	March 2013	Change
Smoothed Asset Value	£1.079bn	£1.510bn	+39.9%
Total Scheme Liabilities	£1.366bn	£1.840bn	+34.7%
Deficit	£0.287bn	£0.330bn	
Funding Level	79%	82%	

4. A number of factors have impacted on the deficit position. Factors which have worked to reduce the deficit include annual investment returns at 8.9%, which were above the level assumed in the 2010 valuation of 6.7%. Other positive contributors included lower than assumed pay awards and higher than assumed death rates.

5. The main negative factor which worked to increase the deficit was the change in the financial markets and in particular the significant reduction in gilt yields. These feed through into a lower discount rate, so increasing the current value of the Fund's liabilities. Other negative factors included higher than assumed pension increases, and a lower reduction of pensions in payment in cash terms.

6. Across the Fund as a whole therefore, employers will see an increase in the cash sums payable by way of contributions to past service deficits.

7. The provisional results indicate no change in the cost of funding future pension liabilities, although this reflects a number of factors which have cancelled each other out across the Fund as a whole. However it is likely that these factors will not be equal across individual employers, and as such there will be Fund employers who face an increase in their future service contribution, and others who may see a decrease.

8. Factors which have impacted on future employer contribution rates include changes in membership profile, and the changes in financial assumptions, with the reduction in the discount rate being the biggest negative factor on future contribution rates.

9. There are two elements of the new look LGPS 2014 which have helped counteract the impact of the lower discount rate. The Government Actuary Department suggested that the new look scheme would cost around 2% of pensionable pay less than the 2008 Scheme. However, the main part of this stemmed from the linking of normal retirement age to the State Pension Age. (The saving on the change to career average pay being cancelled out by the improvement in the accrual rate to 1/49th of pensionable pay).

10. For the 2013 Valuation, a significant number of active members are protected by the transitional arrangements, retaining their current normal retirement age. As such the actuary has only allowed a reduction in costs equivalent to 0.1% of pensionable pay. Those employers with more mature workforces, and therefore more members with transitional protection, will see less of an impact here, and therefore higher contribution rates going forward.

11. The second key potential saving from LGPS 2014 is the introduction of the 50:50 option. As the employer continues to pay the full contribution rate for everyone who opts into the 50:50 scheme, they would be in effect over-paying. The higher the take up of the scheme, therefore the higher the potential overpayment. By assuming a level of take up of the new scheme, the Actuary can therefore reduce the overall contribution rate to avoid the over-payment. For the 2013 Valuation, the Actuary has assumed a 10% take up of the 50:50 option, and reduced employer contribution rates by an average of 0.7% of pensionable pay as a consequence.

Provisional Results – Individual Employer Level

12. At the time of writing the report we had just received the first provisional results for individual employers, and these are currently being reviewed and queries discussed with the Actuary. The Actuary hopes to have draft figures for all employers by the time of the Employers Forum.

13. Once draft figures have been produced for individual employers, the Actuary will review the scope for amending deficit recovery periods in order to maintain

contribution rates as a near stable rate as possible, as required by the Regulations.

14. Following the consultation exercise earlier in this year, the results for the academies who have less than 50 active members will be pooled, and all certified at the shared rate. None of the larger academies exercised their right to opt into the pool, nor did any of the smaller academies seek to make a financial case to be treated as a standalone employer.

15. The Government have now issued their own consultation document on the pooling of academies, although the results will not be available to be incorporated into the 2013 Valuation results. Officers sent a consultation response based on this Committee's previous discussion of the issues, setting out the model implemented in Oxfordshire.

RECOMMENDATION

16. The Committee is RECOMMENDED to note the report.

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Background papers: None

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