Division(s): N/A

PENSION FUND COMMITTEE – 10 MARCH 2017

Fund Valuation 2016

Report by the Director of Finance

Introduction

1. This report is to update Committee on the key issues arising from the draft results of the 2016 Fund Valuation.

The Valuation Process

2. This process is carried out within the framework of regulations and required guidance at both whole fund and individual employer level.

3. The actuary takes fund data to assess the value of the "pension promise" by projecting the cost of all possible benefit payments for each member and determine when these benefits are likely to be paid.

4. The value of the fund's assets are compared with the value of the accrued benefits (past service costs / deficit) and the actuary then determines the contributions required to meet the cost of future benefits (future service rate).

5. These two elements combined give the overall employer contribution rate. In both the 2010 and 2013 the employer contribution rate was expressed as a percentage of payrolls (future service rate) plus a cash amount (deficit recovery). For the 2016 this has changed for those employers in where they have been pooled, to a combined percentage rate. This follows advice from the Actuary, that for this group of employers, the approach produces a more stable contribution rate, not dependent on the relative movement of the pensionable pay bill of the various employers within the pool.

Initial Results

6. Good investment returns has meant that the cost of the deficit (past service costs) has fallen. However, the cost of future service has risen, in part due to a revision of assumptions introduced under the 2013 Valuation to reflect potential changes under the 2014 Scheme e.g. take up of the new 50:50 scheme. Overall contribution rates have been maintained at the same rate as set in 2013, at an average combined rate of 19.3% of pensionable pay.

7. The Funding Strategy Statement sets the maximum deficit recovery period as 25 years. A maximum deficit recovery period of 22 years has been used in the valuation to retain meet the aim of deficits being recovered by 2038. For some employers, a shorter deficit recovery period has been set to maintain their overall employer contribution rate at the 2013 level. For these

employers, this provides some flexibility at future valuations in the event that investment returns fall short of the assumed levels.

Pension Fund Forum

8. Initial valuation results were presented to scheme employers who attended the Pension Fund Forum in January 2017.

9. Since this date Pension Services has been in correspondence with all scheme employers to confirm initial results and deal with any queries. The final valuation reports will be signed off on 31 March 2017.

RECOMMENDATION

10. The Committee is RECOMMENDED to note this report.

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Background papers: Nil
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