WIRRAL COUNCIL

PENSIONS COMMITTEE

16 NOVEMBER 2010

REPORT OF THE DIRECTOR OF FINANCE

ACTUARIAL VALUATION AS AT 31 MARCH 2010

1. EXECUTIVE SUMMARY

1.1 This report summarises for Members the results of the 2010 Actuarial Valuation of the Fund.

2. BACKGROUND

2.1 Members will be aware that valuations are carried out every three years. The information from the previous valuation is updated to take into account the movements of the assets of the Fund compared to the present and future liabilities, which are recalculated.

2.2 At the start of the three year period the Actuary, Mercer will have made a number of assumptions to try to forecast the key factors affecting the assets and liabilities over the period. Financially these are the assumed rates of:

- Investment return
- Future increases in pensionable pay
- Future pension increases
- Future increases in index linked stock proceeds.

In addition to the financial assumptions other factors estimated include:

- Average age of retirement
- Rates of ill-health retirement
- Rates of mortality
- Withdrawals from active membership
- Proportions married and age differences between spouses.

2.3 The actual experience over the period is then substituted for the assumptions and the revised value of the assets compared to the aggregate estimated liabilities of every individual member whether active, deferred, or pensioner. A separate calculation is made for each employer so that its share of the assets is compared to the liabilities of its employees.

2.4 Any other factors affecting the finances of the Fund are also taken into account. In the current valuation these include national changes such as the decision to index future cost of living increases to the Consumer Price Index (CPI) rather than the Retail Price Index (RPI).

2.5 The Actuary has also taken into consideration the draft revised Funding Strategy Statement (FSS) which is the subject of a separate report to this meeting of the Pensions Committee and the proposed changes to the Statement of Investment Principles reflecting recommended changes to the Asset Allocation policy following the recent valuation outlined in a further separate report to this Committee.

3. THE VALUATION RESULTS – FINANCIAL IMPLICATIONS

3.1 The market value of the Fund has increased from £4.301 billion as at 31 March 2007 to £4.690 billion at 31 March 2010.

3.2 The past service liabilities have been assessed as follows:

	£million
Active members' accrued benefits	£2,725
Deferred pensioners	£ 703
Pensioners (including dependents)	£2,588
Total	£6,016

3.3 This gives a deficit of £1,326 million and a funding level of 78% compared to a deficit of £1,063 million and a funding level of 80%, at the previous valuation as at 31 March 2007.

3.4 The deficit is in respect of benefits for service to date of current active members and has to be recovered from employers.

The total average contribution rate will therefore be 18.1% (25 year deficit recovery) or 21.7% (15 year deficit recovery, excluding any allowance for the risk premium loading for certain admission bodies).

3.5 This is compared to 17.8% (25 years) and 20.9% (15 years) at 31 March 2007. The actual rates vary however according to the individual experiences of employers. This is best shown by the following table for the major employers:

	Actual	Notional		Recovered from 1 April 2011 as:			
Employer	Old Rate % of pay	New Rate % of pay	Change % of pay	Future Service Rate % of pay	Plus Deficit Repayments 2011-12	2012-13	2013-14
Knowsley	18	18.5	0.5	10.9	£ 7,541,900	£ 7,541,900	£ 7,541,900
Liverpool	21.5	21.8	0.3	12	£22,636,600	£ 22,636,600	£ 22,636,600
St Helens	18.2	18.2	0	11.6	£ 6,326,000	£ 6,326,000	£ 6,326,000
Sefton	17.1	19.6	2.5	11.9	£ 9,082,300	£ 9,082,300	£ 9,082,300
Wirral	17.6	18.3	0.7	12	£10,705,000	£ 10,705,000	£ 10,705,000

3.6 It is intended that the increases resulting from the revised rates will be able to be phased in over three years if the increase in the notional contribution rate is greater than 1%.

3.7 The differences in the above rates will mainly reflect the individual practices and costs to each employer of early and ill-health retirements over past years.

3.8 Details of rates for other employers for the period 1 April 2011 to 31 March 2014 should be available at the meeting.

3.9 All employers will continue to be required to meet costs arising from early retirements over either a period of up to five years or by an immediate lump sum payment. Requests from employers to fund the cost of Augmentation awards made under Regulation 12 in this way will also be considered.

3.10 The Actuary has updated the mortality assumptions. The allowance made takes account of recent improving national trends but modified to reflect local experience. This is an area which will need to be kept under review and it might be necessary to adjust these mortality assumptions again at the next actuarial valuation in 2013.

3.11 The deficit recovery periods used are in line with the policy set out in the proposed revised Funding Strategy Statement; with a 25 year maximum period being used for scheduled bodies and subject to any special agreement, the recovery maximum period for other employers continuing to be set at the present period of up to 15 years. The recovery period for those organisations with a limited lifespan may be less than 15 years.

3.12. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may also be applied in respect of particular employers where the Administering Authority considers this to be warranted.

3.13. The revised FSS reflects the recommendations of the Actuary that in current circumstances, as a general rule, it would not be appropriate for contribution reductions to apply where substantial deficits apply. As a result in addition to the maximum deficit recovery period of 25 years, MPF will operate a default deficit recovery period, set at 20 years for scheduled and resolution bodies and 10 years for non -Transferee admission bodies at the 2010 valuation. All employers in deficit will be required to adopt a deficit recovery period in line with the default period (or shorter) before any reduction in overall contributions would be allowed

3.14 **Method of expressing and payment of employer contributions**

With effect from 1 April 2011 employer contributions will be expressed and certified as two separate elements:

(1) a percentage of pensionable payroll in respect of future accrual of benefits, and

(2) a schedule of fixed amounts over 2011/14, building in an allowance for increases annually in line with the valuation funding assumption for long term pay growth, in respect of the past service deficit or surplus subject to review from April 2014 based on the results of the 2013 actuarial valuation.

4. STAFFING IMPLICATIONS

4.1 There are no staffing implications in this report.

5. EQUAL OPPORTUNITY IMPLICATIONS

5.1 There are none arising directly from this report.

6. HUMAN RIGHTS IMPLICATIONS

6.1 There are none arising directly from this report.

7. COMMUNITY SAFETY IMPLICATIONS

7.1 There are no specific implications arising from this report.

8. LOCAL MEMBER SUPPORT IMPLICATIONS

8.1 There are no specific implications for any Member or Ward.

9. LOCAL AGENDA 21 IMPLICATIONS

9.1 There are no specific implications arising from this report.

10. PLANNING IMPLICATIONS

10.1 There are no specific implications arising from this report.

11. BACKGROUND PAPERS

11.1 Merseyside Pension Fund 2010 Actuarial Valuation – Mercer.

12. RECOMMENDATION

12.1. That the revised contribution rates be agreed.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/218/10