WIRRAL COUNCIL

PENSIONS COMMITTEE

19 NOVEMBER 2013

SUBJECT:	**2013 TRIENNIAL ACTUARIAL VALUATION**
WARDS AFFECTED:	**ALL**
REPORT OF:	**STRATEGIC DIRECTOR OF TRANSFORMATION AND RESOURCES**
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 This report updates Members of the provisional results from the Fund's Triennial Actuarial Valuation.

1.2 This matter was discussed in detail at an Investment Monitoring Working Party on 23 October.

2.0 KEY ISSUES

Statutory Framework and Purpose of the Valuation Process

2.1 The Local Government Pension Scheme (Administration Regulations) 2008 provide the statutory framework for the valuation process - they require an actuarial assessment of the Fund's assets against the current value of the pension benefit liabilities, with a corresponding funding level to be declared every three years.

2.2 The fundamental purpose of the valuation is to secure the long-term solvency of the scheme. It also needs to ensure that all pension benefit promises can be met and sets the employer contribution rates for the financial period 1 April 2014 to 31 March 2017.

2.3 In order to undertake the valuation, the Actuary must have regard to the draft funding assumptions and principles adopted by the Fund. These include any deficit repair strategy, investment strategy and the LGPS reform from 1 April 2014.

All contributory policies and statutory statements to support the valuation process are covered under separate reports at this Committee meeting.

2.4 At the 2010 Triennial Valuation, the Actuary made a number of assumptions in relation to the key factors affecting the assets and liabilities over the inter-valuation period. Financially these are the assumed rates of:

- Investment return
- Inflation based on Consumer Price Index
- Future increases in pensionable pay
- Future pension increases

Additionally, a number of demographic assumptions were made in regard to:

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

2.5 The actual experience in relation to investment performance, cash flows and member demographics are compared to the assumptions made at the previous valuation. In addition to this the actual value of the Fund is compared to the aggregate estimated liabilities on a whole fund basis. This process enables the Actuary to declare the specific funding level at the valuation date of 31 March 2013.

2.6 A separate exercise is then undertaken to identify notional sub-funds, comprising of assets and liabilities linked to each participating employer's experience – this is tracked at each Triennial Valuation.

2.7 The Actuary has taken into account the change of the pension benefit basis from Final Salary to Career Average Salary with CPI revaluation, along with the alignment of Normal Pension Age(NPA) to State Pension Age (SPA).

Provisional Valuation Results – Financial Implications

2.8 The Market value of the Fund has increased from £4,706m as at 31 March 2010 to £5,819m at 31 March 2013.

2.9 The past service liabilities have been assessed as follows:

	£million
Active members' accrued benefits	2,975
Deferred pensioner	1,187
Pensioners (including dependants)	3,526
Total	**7,688**

2.10 This gives a deficit of £1,869m and a funding level of **76%** at 31 March 2013.

This compares to the previous deficit position of £1,310m and a funding level of 78% at the previous valuation as at 31 March 2010.

2.11 The deficit is in respect of benefits for past service liabilities and has to be recovered from employers.

2.12 The cost of future accrual determined at the 2010 valuation was 11.6% of pensionable pay. This has been used as the baseline position in calculating the cost of the new LGPS being introduced from April 2014.

Following the realignment of the proposed financial and demographic assumptions, the **Future Service Rate** emerging from the 2013 valuation has increased to **13.9%**, despite an average whole Fund cost saving of 1.8% emanating from the introduction of the new Scheme.

The level of savings is dependent on the specific profiles of individual employers. Specifically, those employers with a high number of members with protections under the 85 year rule and the 2008 Scheme underpin (afforded to members aged 55 at 1 April 2012) are likely to be subject to a lower level of saving.

2.13 As part of the Funding Strategy consultation, employers were asked to consider whether they would wish their Future Service rate to reflect a 10% take-up of the 50/50 scheme. This take-up rate is in line with the Government Actuary Department's published costing for the new Scheme. Adopting this assumption will reduce the rate by 0.6%, but it will not be offered to employers with a small number of pensionable employees.

2.14 It is intended that employers who face significant increases in contributions following the 2013 Valuation, may phase the increase over a maximum period of 3 years.

2.15 The final valuation position will be declared following approval of both the Funding Strategy Statement and Statement of Investment Principles. Individual employer contributions will be certified and notified to employers thereafter, with the new rates taking effect from 1 April 2014

3.0 RELEVANT RISKS

3.1 It is imperative that the Administering Authority take a prudent view when negotiating the financial and demographic assumptions for the 2013 Triennial Valuation, in order to secure the long term solvency of the Scheme.

However, to achieve a successful outcome to the valuation there is a clear need to consider affordability of contributions and build in flexibility to the funding of employer contributions. There is a tangible risk that certifying unaffordable cash payments will lead to a number of employers' exiting the Fund leaving unrecoverable debt.

3.2 As part of the valuation, the Actuary has assumed that future costs for the LGPS 2014 will be managed by linking Normal Pension Age to State Pension Age.

In managing the risk that this link does meet the costs of the new Scheme, proposals have been made that Actuaries develop an LGPS longevity index. This would enable Fund actuaries to track the match between increases to SPA and longevity within the Scheme, recommending mitigating action should they diverge.

These measures will combine to ensure that in future not all the longevity risk falls on the employer but is shared with employees.

4.0 OTHER OPTIONS CONSIDERED

4.1 No other options have been considered.

5.0 CONSULTATION

5.1 There has been consultation with all constituent employers on the Funding Strategy Statement which determines the financial and demographic assumptions that drive the valuation process.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH SECTOR

6.1 Consideration of employer covenant is crucial during the valuation process to deliver affordability within the Fund's solvency parameters. The objective is to maintain appropriate scheme participation of third-sector organisations.

7.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

7.1 The 2013 valuation has resulted in a major challenge to Scheme funding, as liabilities have increased significantly since 2010 due to the current, historically low gilt yields.

7.2 Given the difficult market conditions, unfortunately most employers will see a significant increase in their contributions from 1 April 2014. This is in despite of the move to a new Scheme and the implementation of an employer cost cap.

7.3 In addition, employers are entering a period when they have to deal with the additional costs of Auto-Enrolment legislation and the loss of the National Insurance rebate as a result of state pension reform. Both of these changes will place increasing pressure on employer budgets and resources.

8.0 LEGAL IMPLICATIONS

8.1 The Local Government Pension Scheme Regulations prescribe the statutory obligation to obtain an actuarial valuation of the Fund triennially at 31 March

9.0 EQUALITIES IMPLICATIONS

9.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

The differing characteristics and financial strength of employers have been reviewed to ensure that appropriate contribution easements have been applied equitably across all employers to prevent adverse risk falling on any individual employer.

10.0 CARBON REDUCTION IMPLICATIONS

10.1 None arising from this report

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

11.1 None arising from this report

12.0 RECOMMENDATION/S

12.1 That Members note the provisional valuation results. The final valuation report and schedule containing employer’s contributions will be reported to this committee in due course.

13.0 REASON/S FOR RECOMMENDATION/S

13.1 There is a requirement for Members of the Pension Committee to be kept up to date with legislative developments to carry out their decision making role in order to enable them to make informed decisions.

REPORT AUTHOR: Yvonne Caddock
Principal Pension Officer
Telephone: 0151 242 1333

email: yvonnecaddock@wirral.gov.uk

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
Actuarial Valuation As At March 2010	**16 November 2010**