**Pension Fund Committee**

**28th February 2011**

**Provisional Valuation Results**

## Report of Don McLure, Corporate Director, Resources

**Purpose of the Report**

1 The purpose of the report is to advise Members of the provisional results of the actuarial valuation of the Pension Fund as at 31 March 2010.

**Background**

2 Every three years the actuary carries out a valuation of the Pension Fund, comparing the market value of the assets with the assumed value of the liabilities and this is used to set employer contribution rates for the three year period after the results are certified.

3 The actuary presented indicative provisional whole Fund results to the Annual General Meeting in November, which showed the overall funding position would be broadly similar to the last valuation. Individual employer results were not available at that time but the actuary commented that although contribution rates for scheduled body employers were not likely to change significantly, there may be significant changes for some admitted body employers.

**Actuarial Assumptions Provisional Actuarial Valuation Results**

4 The financial assumptions used by the actuary are as follows, shown alongside the assumptions used at the previous valuation for comparison:

| | 2010 Valuation Basis (%pa) | 2007 Valuation Basis (%pa) |
|---|---|---|
| Discount rate (in service) | 6.8% | 6.2% |
| General pay increases | 5.3% | 4.7% |
| Retail price inflation | 3.8% | 3.2% |
| Consumer price inflation | 3.3% | n/a |
| Pension increases (on benefits in excess of GMPs) | 3.3% | 3.2% |
| Pension increases on post-88 GMPs | 2.7% | 2.7% |
| Deferred pension increases | 3.3% | 3.2% |
| GMP increases in deferment | 5.3% | 4.7% |

5 The demographic assumptions used by the actuary are set out at Appendix A.

**Provisional Actuarial Valuation Results – Past Service Funding Position**

6 The table below sets out the past service funding position of the Fund on this basis alongside the results from the previous valuation for comparison:

| | Provisional 2010 Valuation Results (£M) | 2007 Valuation Results (£M) |
|---|---|---|
| **Value of past service benefits for** | | |
| - Actives | 1,057.3 | 948.0 |
| - Deferred pensioners | 206.8 | 168.6 |
| - Pensioners | 844.0 | 724.7 |
| Funding target | 2,108.1 | 1,841.3 |
| Value of assets | 1,662.9 | 1,459.2 |
| **Past service deficiency** | **445.2** | **382.1** |
| **Funding ratio** | **79%** | **79%** |

**Provisional Actuarial Valuation Results – Overall Employer Contribution Rate**

7 The table at paragraph 10 below shows the contribution rate as a percentage of payroll for the Fund as a whole with shortfall contributions assuming a stable pensionable workforce and a recovery period of 19 years. A stable pensionable workforce in

this context implies that pensionable payroll increases in line with the actuary’s salary increase assumption of 5.3% a year.

8 In the current environment it is unlikely there will be a stable workforce going forward and contribution rates quoted would therefore not be enough to meet the shortfall over 19 years. The actuary has recommended that shortfall contributions are expressed as monetary amounts which will give more certainty to the amount being paid to meet the shortfall. The table also shows the employer contribution rate for the whole Fund it the past service shortfall as at 31 March 2010 is recovered as a series of shortfall contributions which are

- Fixed in cash terms as at 1 April 2011, and increasing each April after that at the rate of 5.3% a year (the salary increase assumption)
- Payable for a period of 19 years from 1 April 2011 in monthly instalments

The initial monetary amount has been worked out as the shortfall contribution set out in the first part of the table assuming members’ pensionable pay over the year commencing 1 April 2011 is £418M (the pensionable salary data provided to the actuary increased by 5.3% a year for two years). These amounts would increase on 1 April 2012 and every subsequent April by 5.3%.

9 Probability of funding success is also shown. The actuary has confirmed an appropriate adjustment has been made to take account of the change to pension increases (from being based on increases to the Retail Prices Index (RPI) to being based on increases to the Consumer Prices Index (CPI)).

10 **Required 2010 Valuation whole Fund contribution rates (with 2007 result shown for comparison)**

| | Proposed 2010 Valuation Basis (% of Pensionable Pay) | 2007 Valuation Results (% of Pensionable Pay) |
|---|---|---|
| Value of benefits accruing | 19.0 | 19.5 |
| Death in service lump sum | 0.4 | 0.4 |
| Administration expenses | 0.3 | 0.3 |
| Employee contributions | (6.4) | (6.3) |
| Employer future service contribution rate | **13.3** | **13.9** |
| Deficiency contributions (recovery period of 19 years) | **6.6** | **6.3** |
| Total employer contribution rate | **19.9** | **20.2** |
| | | |
| Annual deficiency contribution required in 2011/12 | **£27.6M** | |
| Approximate probability of funding success | 67% | |

**Provisional Actuarial Valuation Results – Individual Employer Contribution Rates**

11 The actuary has calculated individual employer contribution rates for each employer with active members in the Fund. Some categories of employer are facing more challenging valuation results than others. In particular, admission bodies that do not have any guarantee from a scheduled body employer, or where there is either a small length of time left on their contract or they are closed to new entrants may be facing significant increases to rates.

12 Most employers are having to take into account the split contributions that will apply from 1 April 2011, with a specific monetary amount being required for the deficit recovery payments as well as the ongoing percentage rate for future service cost.

13 We have now advised employers of the new rates required over the next three years and will work with employers to discuss any difficulties the new rates may cause them.

## Next steps

14 The actuary is expected to produce a full valuation report by the end of March. When this is available copies will be provided to Members and to all contributing employers.

## Recommendation

15 Members are asked to note this report.

**Contact: Nick Orton Tel: 0191 383 4429**

**Demographic Assumptions for the 2010 Actuarial Valuation**

| | |
|---|---|
| **Post-retirement mortality** | <u>Base Rates</u><br>Normal Health: Standard SAPS All Lives base tables making allowance for improvements in mortality in line with the CMI 2009 M/F improvement factors to 2010.<br><br>Ill-health: Standard SAPS Ill-heath tables making allowance for improvements in mortality in line with the CMI 2009 M/F improvement factors to 2010.<br><br><u>Scaling Factors</u><br>Rates adjusted by scaling factors as dictated by Fund experience<br><br>Males (normal health) 105%<br>Females (normal health) 105%<br>Males (ill-health) 110%<br>Females (ill-health) 110%<br><br><u>Future Improvement to Base Rates</u><br>An allowance for improvements in line with the CMI 2009 M/F improvements with a long term rate of 1.25% p.a. |
| **Pre-retirement mortality** | Males: Standard SAPS All lives table scaled by 75%<br>Females: Standard SAPS All lives table scaled by 75% |
| **Early retirements** | All members are assumed to retire at the earliest age at which they can retire as of right, with no reduction to benefits accrued prior to 1 April 2008. Members joining on or after 1 October 2006 are assumed to retire at age 65. |
| **Withdrawals** | Allowance made for withdrawals from service. On withdrawal, members are assumed to leave a deferred pension in the Fund, and are not assumed to exercise their option to take a transfer value. |
| **Retirement due to ill health** | Allowance made for retirements due to ill health. Proportions assumed to fall into the different benefit tiers applicable after 1 April 2008 are:<br>Tier 1 (upper tier) 70%<br>Tier 2 (middle tier) 15%<br>Tier 3 (lower tier) 15% |

Appendix A

## Demographic Assumptions for the 2010 Actuarial Valuation

| | |
|---|---|
| **Family details** | A man is assumed to be 3 years older than his spouse, civil partner or cohabitee. A woman is assumed to be 3 years younger than her spouse, civil partner or cohabitee.<br>90% of non-pensioners are assumed to be married / cohabiting at retirement or earlier death.<br>90% of pensioners are assumed to be married / cohabiting at their retirement date. |
| **Commutation** | Each member assumed to exchange 60% of the maximum amount permitted of their past service pension entitlements.<br>Each member assumed to exchange 80% of the maximum amount permitted of their future service pension entitlements. |
| **Promotional salary increases** | Allowance made for age-related promotional increases. |
| **Expenses** | 0.3% of Pensionable Pay added to the cost of future benefit accrual. |