Pension Fund Committee

6 June 2011

Actuarial Valuation as at 31 March 2010

Report of Don McLure, Corporate Director, Resources

Purpose of the Report

1 The purpose of the report is to provide Members with details of the valuation report as at 31 March 2010 produced by AonHewitt, the Pension Fund's actuary.

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 Provisional valuation results were presented to the February Committee. This report confirms the final results of the valuation which was signed by the actuary on 30 March 2011.

Key Points

4 The key results as at the valuation date (31 March 2010) are:

- As at 31 March 2010 the Fund had assets with a market value of £1.682 billion compared with liabilities assessed at £2.100 billion.
- This is a shortfall of £418 million relative to the funding target.
- This corresponds to a funding level of 80%
- The aggregate employer future service contribution rate required is 13.1% of Pensionable Pay.
- The aggregate employer contribution rate required to restore the funding level to 100% over a recovery period of 19 years from 1 April 2011 is 19.3% of Pensionable Pay.
- Contribution rates for different employers will differ to take account of their membership profiles and funding ratios and the

assumptions and recovery periods specific to their circumstances.
- From this valuation, most employers are paying shortfall contributions as a monetary amount (not a percentage of pensionable payroll).

Financial Position of the Fund

5 The main purpose of the valuation is to review the financial position of the Fund and to recommend the contribution rates payable to the Fund in the future. The valuation process also includes setting demographic, financial and investment assumptions.

6 The results of the valuation of the Fund as a whole are set out in the table below and are compared to the position at the previous three valuations:

	As at 31st March (£million)			
	2001	**2004**	**2007**	**2010**
Funding Target	1,113.6	1,520.8	1,841.3	2,100.1
Assets	928.9	931.7	1,459.2	1,682.0
Deficit	184.7	589.1	382.1	418.1
Funding Ratio	83%	61%	79%	80%

7 The funding ratio has improved slightly since the last valuation, however the deficit has increased by around £36 million.

8 The main factors leading to the change in funding position since the last valuation are as follows:

- The change in pension indexation from RPI to CPI, the change in the discount rate relative to gilt yields and additional employer contributions paid have improved the position.
- Actual return on Fund assets compared to expected long term return, a significant reduction in index linked gilt yields, and changes to mortality assumptions have all acted to worsen the position.

9 The low risk funding ratio (assuming the assets are all invested in low risk investments) is 53%

Contribution Rates for Participating Employers

10 An overall aggregate contribution rate of 19.3% over 19 years is required to correct the deficit in the Fund. This assumes a stable pensionable workforce which in this context implies that pensionable payroll increases in line with the actuary's salary increase assumption of 5.3% a year.

11 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. Therefore, for most Fund employers shortfall contributions are expressed as monetary amounts which will give more certainty to the amount being paid to meet the shortfall.

12 The aggregate employer contribution applicable from 1 April 2011 can be summarised as 13.1% of pensionable pay for future service and a lump sum payment for deficit recovery with an initial value of £29.1 million, increasing each year in line with the long-term pay inflation assumption (5.3% a year).

13 Details of required individual employer contribution rates and amounts for the three year period from 1 April 2011 are included in the Appendix L of the valuation report.

Recommendation

14 Members are asked to note this report.

15 A copy of the full valuation report has been circulated with this agenda and a copy has also been placed in the Members' library.

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