

Pension Fund Committee

5 June 2017

Valuation Report



Report of John Hewitt, Corporate Director, Resources

Purpose of the Report

- 1 To provide Members with information on the final outcomes from the actuarial valuation of the Pension Fund as at 31 March 2016.

Background

- 2 Every three years the Pension Fund 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 final valuation report as at 31 March 2016 was produced by the Pension Fund Actuary on 31 March 2017, a copy of the report is included at Appendix A, some of the main outcomes from the report are summarised below.

Valuation Results - Past Service Position

- 4 The table below sets out the past service funding position of the Fund as at 31 March 2016 alongside the results from the previous two valuations:

	31 March 2016 Valuation Results (£m)	31 March 2013 Valuation Results (£m)	31 March 2010 Valuation Results (£m)
Value of past service benefits for			
- Actives	1,113.5	1,004.5	1,050.9
- Deferred pensioners	420.4	310.9	206.0
- Pensioners	1,316.6	1,122.3	843.2
Value of liabilities	2,850.5	2,437.7	2,100.1
Value of assets	2,321.2	2,058.5	1,682.0
Past service deficiency	529.3	379.2	418.1
Funding ratio	81%	84%	80%

Valuation Results – Cost to Employers of Future Benefits

- 5 The table below shows the average employer contribution rate required across the Fund as a whole following the valuation as at 31 March 2016 (to apply for the three year period from 1 April 2017), along with the figures from the previous two valuations as a comparison.

	31 March 2016 Valuation (% of Pensionable Pay)	31 March 2013 Valuation (% of Pensionable Pay)	31 March 2010 Valuation (% of Pensionable Pay)
Value of benefits building up	22.4	19.4	18.8
Death in service cash sum	0.2	0.2	0.4
Administration expenses	0.4	0.4	0.3
Less member contributions	(6.3)	(6.3)	(6.4)
Net cost to the Employers	16.7	13.7	13.1
Recovery Period	21 years	18 years	19 years
Recovery contributions £m (per year over the recovery period)	£28.6m (increasing at 3.5% a year)	£24.3m (increasing at 3.9% a year)	£29.9m (increasing at 5.3% a year)
Recovery contributions %	7.9	7.2	8.7
Total employer contribution rate	24.6	20.9	21.8

Individual employers are set their own contribution rate (detailed in Appendix 7 of the Valuation Report), taking into account the membership profile of their Pension Fund members, and in some cases assumptions and recovery periods that are specific to the employer's circumstances.

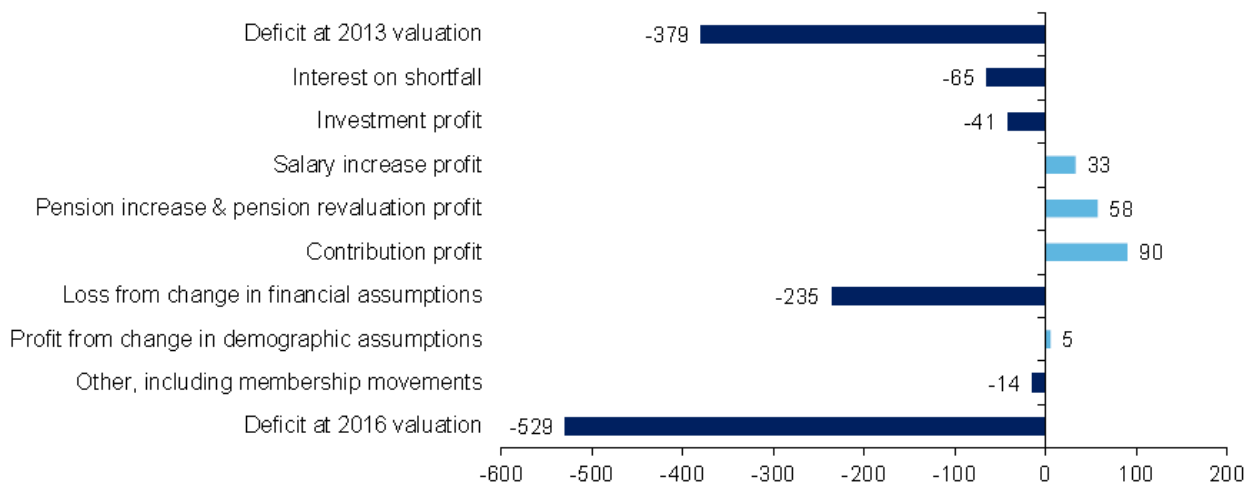
Membership statistics

- 6 The following chart shows the change in membership numbers in the Fund over the last three valuations. The 31 March 2016 valuation shows the number of active members is broadly similar to the previous valuation but an increase of around 1,000 pensioners and 2,600 deferred members, meaning the overall fund membership has increased by around 9% to just over 50,200.



Reasons for change in past service position

7 The overall funding ratio has deteriorated since the last valuation from 84% to 81% with the deficit increasing from £379.2m to £529.3m. The main reasons for the change in funding position are shown in the chart below:



8 The Pension Fund Actuary's analysis shows that the main factors affecting the funding position since the previous valuation have been:

- The change in the financial assumptions (principally the fall in the discount rate relative to inflation)
- Investment returns below the discount rate adopted at the 2013 valuation

which have **worsened** the position; and

- Lower than assumed pension increases and pay growth
- Contributions paid by employers towards paying off the deficit disclosed at the 2013 valuation.

which have **improved** the position.

Communication

- 9 All Pension Fund employers with active employees as scheme members have been provided with a copy of the final valuation report and have been separately notified of the contribution rates that apply to them for the period 1 April 2017 to 31 March 2020. The valuation report is also available on the Council's website at the following link: <http://www.durham.gov.uk/lgps>

Recommendation

- 10 Members are asked to note this report.

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