

PENSIONS COMMITTEE – 6 FEBRUARY 2008

PENSION FUND - ACTUARIAL VALUATION

SUMMARY

This report notes that the latest draft of the actuary's report on the triennial actuarial valuation of the Council's pension fund has now been received and summarises the outcome of the valuation. It also proposes a Funding Strategy Statement for adoption.

RECOMMENDATIONS - That

- (1) The draft report of the actuary on the valuation of the Pension Fund as at 31 March 2007 be agreed, subject to the Council agreeing the increase in Bexley Council's employer contributions from 1 April and amending the Council's financial plans accordingly;
- (2) The Controller of Finance and IT Services in conjunction with the Chairman be authorised to agree the final actuarial valuation report; and
- (3) The Funding Strategy Statement at Appendix B be approved.

1. Introduction

The Council is required to have an actuarial review of its pension fund every three years and this Committee has delegated powers to agree the subsequent report of the actuary. However, where the impact on the Council's budget exceeds £1m the financial implications must be agreed by full Council. An update report was provided to the Committee's last meeting, and the Council's actuary has now completed the valuation and a draft report is attached.

The actuary, Steve Jacquest of Mercer Ltd, will attend the meeting of this Committee to present his report.

The actuary is unable to provide a final report at this stage as the Department for Communities and Local Government have not issued all the final regulations to apply to the new Local Government Pension Scheme from April 2008. The final report has to be agreed by 31 March 2008 and implemented from 1 April 2008. It is therefore proposed that the Chairman and the Controller of Finance and IT Services agree the final report when it is produced.

Three copies of the actuary's final report will be placed in the Members' Room.

This report gives further details of the outcome of the valuation and considers associated matters. The asset liability study agreed at the Committee's last meeting is now being carried out.

2. Valuation Method and Assumptions

The objective of the valuation is to ensure that the assets of the fund are sufficient to cover existing and future liabilities. Any shortfall is met by an increase in the employers' contributions from the Council and the other admitted bodies.

The valuation method used is the same as in the previous valuation. It assesses the extent to which current service liabilities have been funded and secondly assesses the cost of future service liabilities. Assets have been assessed at market value.

The key assumptions for future service are:-

- | | |
|----------------------|-------|
| • Price inflation | 2.75% |
| • Pay inflation | 4.5% |
| • Investment returns | 6.5% |

The Actuary has assumed that the fund's overall assets will outperform the return from investing solely in risk free investments such as government bonds by 1.75% reflecting the proportion of funds invested in equities. This is an increase of 0.25% over the last valuation and reflects the increase in the proportion of equity investments in the last few years and possible further increases.

Consistent with the assumption in 2004 that the fund's deficit would be recovered over a 20 year period is the latest assumption that this now reduces to 17 years following contributions to that deficit over the last three years.

On demographic assumptions the Actuary has made further changes:-

- substantial extra allowance for increased life expectancy of members. An additional three years for the period of payment of pensions has been assumed.
- the allowance for ill health retirements has been halved, based on actual experience in Bexley over recent years.

3. The Results of the Valuation

Fund membership has increased over the last three years and is summarised below.

	31 March 2004	31 March 2007
Employees	4,284	4,437
Pensioners	3,131	3,443
Former Employees	2,955	3,566
TOTAL	<u>10,370</u>	<u>11,446</u>

The number of employees in the fund has risen slightly as has the average age of current employees in the fund (from 46.0 to 46.5). This rise adds to long term costs.

The market value of the fund stood at £403.2m at 31 March 2007 compared to £297.4m at the time of the last valuation. In terms of existing liabilities the fund has a deficit of £66.0m as at 31 March 2007 and the overall funding level stands at 86% (compared to £60m and 83% previously).

The small change in the funding deficit is the net result of some larger movements:-

	£m
Deficit at 31 March 2004	-60
Investment return excess over liability growth	43
Reduction in gilt yields	-31
Changes in demographic assumptions	-35
Salary growth above assumptions	-3
Change to asset outperformance assumption	18
Other variations	<u>2</u>
Deficit at 31 March 2007	<u>-66</u>

The Actuary considers that, for all employees in the Bexley Fund, the long-term contribution rate would be 13.6% (this compares to 11.1% three years ago). However, the deficit on the Fund requires a further contribution of 6.0% a year to recover the shortfall over the remaining period of 17 years.

The London Borough of Bexley's employees account for over 90% of the Fund. This results in a total contribution rate for the Council of 20.2% made up of:-

- Future service contribution rate 13.4%
- Deficit recovery over 17 years 6.6%
- Allowance for non-ill health retirements 0.2%

If this were implemented immediately it would add around £3m a year to the current contribution rate of 15.5%. The Actuary considers it reasonable to phase in this rate largely over one valuation period of three years.

The recommended levels of contributions over the three years covered by the actuarial report are, therefore:-

<u>Employer</u>	<u>Current</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>
London Borough of Bexley	15.5%	17.0%	18.5%	20.0%

Subject to the results of subsequent valuations, the level of employer's contributions would ultimately rise to around 20.2%.

4. Impact on Other Employers

The contributions and phasing for other employers participating in Bexley's Pension Fund recommended by the Actuary are shown in Appendix A.

These bodies have been consulted on the results of the Actuary's report and discussions held with them about implementing their new contribution rates so that they could take account of the changes in their budgetary processes. Copies of the Actuary's final report and certificates will also be sent to them.

5. Funding Strategy Statement

The Council is required to update and publish its Funding Strategy Statement consistent with the valuation. This document is considered by the Actuary as part of the valuation process, and acts as a bridge between the Statement of Investment Principles and the valuation. A draft of the updated document has been consulted with the Actuary during the valuation, and with admitted and scheduled bodies. A final draft is now attached for this Committee's approval.

6. Summary of Financial Implications

A 1.5% increase in the employer's contribution rate for the Council is estimated to cost some £1m a year of which some £300,000 is met from the devolved schools budget. These amounts are consistent with the assumptions made in the Council's financial plans.

The effect of the increase in the employer's rate for MCCH Society Ltd in 2008/09 is a cost of only £2,000, and this should be reflected in the Council contribution to the Learning Disabilities Pooled Budget. The cost of meeting the increasing rates for Care Partners Trust, Bexley Care Trust, Bexley Heritage Trust and Inspire Community Trust will be the subject of negotiation with the organisations concerned, but could amount to £29,000 for the Council's budget for 2008/09 and a further £9,000 in each of subsequent two years. Other changes in employers' contributions have no direct effect on the Council and there is no impact on employee contributions.

The net impact on the Council of the changes to the admitted bodies' employer contributions is, therefore, likely to be a cost of £31,000 in 2008/09 and £11,000 in each of the following two years.

The budgetary impact of the revised phasing of contributions will, subject to Council approval, be included in the Council's Budget and Corporate Policy and Resource Plan.

Local Government Act 1972 – section 100d List of background documents

Bexley London Borough Pension Fund – Actuarial Valuation as at 31 March 2007 – Mercer Human Resource Consulting – January 2008.

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EMPLOYERS' CONTRIBUTION RATES from 1 APRIL 2008

	<u>Employer's Contribution Rate (%)</u>			
	<u>Existing</u>	<u>2008/09</u>	<u>2009/10</u>	<u>2010/11</u>
<u>Scheduled Bodies</u>				
Bexley College	12.2	13.1	14.0	14.9
<u>Admitted Bodies</u>				
Rose Bruford College	15.5	16.0	16.6	17.1
MCCH Society Limited	12.4	12.6	12.6	12.6
London and Quadrant Housing Trust	26.0	28.1	30.2	32.3
Orbit Housing Association	18.9*	21.6*	21.6*	21.6*
Kent Community Housing Trust	24.7	24.7	24.7	24.7
Bexley Heritage Trust	8.9	10.3	11.6	13.0
Danson Youth Trust	16.2	16.8	16.8	16.8
Care Partners Trust	22.9	23.8	23.8	23.8
Business Academy Bexley	9.6	10.8	12.0	13.2
Business Academy Bexley (Nursery)	9.6	10.3	10.3	10.3
Bexley Primary Care Trust	12.3	12.8	13.2	13.7
Inspire Community Trust	12.0	12.4	12.9	13.3

* Orbit will also have to pay a lump sum contribution each year to meet their deficit in place of a higher percentage contribution on their remaining 3 admitted staff.

Kier Managed Services Ltd were admitted to the Pension Fund from 1 October 2007 and are paying a contribution rate of 19.0%.