

PENSIONS COMMITTEE - 18 DECEMBER 2007

ACTUARIAL VALUATION AS AT 31 MARCH 2007 - UPDATE

SUMMARY

This report summarises the latest position on the actuarial valuation of the Pension Fund. A further meeting of the Committee is suggested for January/February 2008 at which the final results will be presented.

RECOMMENDATION THAT

An asset/liability study be commissioned from Mercer, with the cost being met by the pension fund.

1. Introduction

Every three years the Council is required to have an actuarial valuation of its Pension Fund. The initial results of the valuation as at 31 March 2007 have been received from the Council's actuary, Mercer. Discussions have been held with Mercer on the assumptions made and further work is underway. Initial results are summarised below, and the next steps are outlined.

2. Initial Results

The initial results are for the Fund overall, but as the Council comprises around 90% of the Fund they are a good indication of the impact on the borough. They show

- The funding level has improved to 86% from 83% three years ago.
- The required contribution rate for the borough's part of the fund is c.20.5%, compared to the current budgeted rate of 15.5%.
- The actuary recommends annual increases of 1.5% to move towards the required rate. This is the assumption already included in the Council's financial forecasts.

A separate mortality study carried out alongside the valuation compared Bexley's experience with that at national level. Whilst there were some variations, the overall conclusion was that they were not materially different from the aggregate scheme. This has led to the assumptions on mortality included in the actuarial valuation.

3. Next Steps

The actuary is currently working on the implications of the initial results for the contribution rates for the borough and all the admitted and scheduled bodies. Over the next month or so officers will be discussing the proposed contribution rates with these

bodies and consulting them on any necessary changes to the Funding Strategy Statement.

Once this has been completed it is suggested that the actuary is invited to a special meeting of this Committee in late January or early February to present his final report. The final Funding Strategy Statement will also be presented.

Following the last two valuations asset/liability studies have been commissioned in order to obtain advice on the most effective strategy for asset allocation to match investment returns with future liability streams. Officers have discussed the Fund's current asset allocation strategy with Mercer and it is considered that some change may be required and that a review and assessment of risk would be beneficial. However, it is also felt that a much more limited review of liabilities is necessary. It is suggested that a further study be commissioned from Mercer at this stage, so that any necessary action may be taken at the earliest opportunity.

4. Summary of Financial Implications

The annual cost of a 1.5% increase in the Council's employer contribution rate is estimated at around £1m, of which some £280,000 is met from the devolved schools' budget.

The cost of the asset liability study would be met directly by the Pension Fund.

Local Government Act 1972 – section 100d

List of background documents

Letter from Mercer re initial results – October 2007

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