

## Essential Reference Paper D

### PENSION FUND TRIENNIAL VALUATION 2013 – PENSION ARRANGEMENTS

#### 1 Summary

- 1.1 The Council has recently received the results of the triennial valuation 2013 which is used to determine the employer contribution rates for the next three years, with effect from 1<sup>st</sup> April 2014.
- 1.2 The Pension Deficit at the start of this triennial valuation (31<sup>st</sup> March 2013) was £19.717 million. The Pension Fund benefiting from higher than expected Investment returns.
- 1.3 The purpose of this summary report is to set the context for the lump sum payment to be made from reserves to the pension fund and stabilise the employer contribution rate and annual deficit contribution for the period 2014/15 to 2016/17.
- 1.4 The proposal is:
- An additional lump sum payment of £1.008 million,
  - Stabilise the annual Pension Deficit Contribution for the 4 year period April 2014 to March 2018 to £600,000, and
  - Stabilise the employer contribution rate to the pension fund to a fixed rate of 16.6% of pay in each of the next three years.

#### 3. Financial Implications

- 3.1 Following the 2013 valuation the actuary for the pension fund has proposed the following certified employer contribution rates as set out in the table below:

	<b>% of payroll to future benefits</b>	<b>% of payroll to past accrued benefits.</b>	<b>Monetary amount p.a. to finance Pension Deficit. £'000</b>
<b>Current Arrangements for 2013/14</b>	<b>16.6%</b>	<b>0%</b>	<b>428</b>
<b>Proposed certified rates for the year ending</b>			
31 March 2015	<b>16.6%</b>	<b>0%</b>	<b>1,608 (Note 1)</b>
31 March 2016	<b>16.6%</b>	<b>0%</b>	<b>600</b>
31 March 2017	<b>16.6%</b>	<b>0%</b>	<b>600</b>

Note 1: includes one off lump sum contribution of £1.008 million.

3.2 This one off payment would be met from balances and reduce the requirement to reflect increased contributions in budgets for the next three years. This payment will also reduce the deficit earlier and the Fund will benefit from additional cash returns as there will be more assets available for investment.

#### 4. Explanation

4.1 The Local Government Pension Scheme (LGPS) undergoes a financial valuation every three years; this is carried out by the scheme actuary, Hymans Robertson LLP. The triennial valuation is an assessment of the financial health of the pension fund and the results of which is used to determine the contributions that the Council will need to pay to the Fund from 1<sup>st</sup> April 2014 to 31<sup>st</sup> March 2017.

4.2 The previous triennial valuation was carried out at the valuation date of 31<sup>st</sup> March 2010; at this point in time the Council's element of the Fund was shown to be £20.585 million in deficit or 74% funded. The latest 2013 valuation is based on an assessment of the fund as at 31<sup>st</sup> March 2013. The result shows that the deficit position has improved slightly, resulting in a Deficit Contribution of £19.717 million and a funding level of 79%. The assets and the liabilities of the pension fund from the two valuations are summarised in the table below.

	<b>2010 Valuation</b>	<b>2013 Valuation</b>
	<b>£'000</b>	<b>£'000</b>
Assets	80,446	93,138
Liabilities	(59,861)	(73,421)
<b>Deficit</b>	<b>(20,585)</b>	<b>(19,717)</b>
<b>Funding Level</b>	<b>74%</b>	<b>79%</b>

#### 5. Options to address the pension fund deficit

5.1 The Actuary is required by Regulations to set a prudent contribution rate in order to ensure the long term solvency of the pension fund. Therefore any funding deficit identified will be recovered through a 20 year period, and be reflected in employer contribution rates.

5.2 For 2013/14, as recommended in the 2010 valuation, the Council is paying 16.6% of payroll to meet the cost of future accrual of pension benefit and an annual lump sum payment of £428,000 towards reducing the deficit.

5.3 Following the release of the results for the 2013 valuation, the actuary has proposed a future payroll rate of 18.9% to address future benefit

accruals. In addition to a monetary amount of £1.092 million to address the deficit is proposed.

- 5.4 As an alternative option, the actuary also calculated a lump sum payment that could be paid into the fund to stabilise both the contribution rate at 16.6% over the three year period to March 2017 and an annual contribution payment of £600,000 over the next four years (to 31<sup>st</sup> March 2018), as set out in 3.1 and determined to be £1,008 million.
- 5.5 Were the annual deficit contribution to remain at £428,000 for the three year period to 31 March 2017, the council would face a significantly increased annual contribution estimated to be £1 million approximately in 2017/18. The option proposed at paragraph 5.4 enables the Council to stabilise the annual deficit payment over a four year period.
- 5.6 Based on analysis provide by the actuary and using an expected return of 4.8% per annum, by paying a lump sum payment of £1.008 million into the fund this would generate an additional £0.153 million over a 3 year period. This is because there is an opportunity gain, by putting a cash sum into the Fund to repay some of the deficit earlier, particularly if investment returns are in line with or better than the actuary's expectation of returning 4.8% over the long term. The investment returns will be earned sooner by paying in the £1.008 million lump sum up front. Of course the benefit would be increased if investments outperform the actuary's return assumption.
- 5.7 A 1.1% average rate of return is forecast for the council's investments over the next three years. The rate of investment return earned in the pension fund will be significantly more, so there is significant benefit to choose the lump sum payment option.

## **6. Risk Management Implications**

- 6.1 There is a risk that the investment return achieved by the pension fund is lower than expected, market returns could deteriorate over the next 3 years and may not reach the assumption set by the actuary.
- 6.2 It should be noted that other factors also impact on the Pension Fund's performance in both the short and long term. For example changes to the membership demographics compared to the Funding model