Item 5

CT/13/60
Investment & Pension Fund Committee
22 November 2013

ACTUARIAL VALUATION 2013

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Committee note the content of this report.

1. Introduction

1.1. Every three years Devon County Council (as the administering authority) is required to have an actuarial valuation of the Devon Pension Fund conducted by a qualified independent actuary. The purpose of the valuation is to establish the Fund's liabilities in relation to its assets and determine the current funding level, and to set contribution rates for the Fund's employers for the next three years.

1.2. The timetable and process for the current valuation was outlined in a report to a previous meeting of this Committee.

1.3. The Actuary met with the Chairman of this Committee and officers in September to agree the assumptions to be used for the valuation.

2. Factors taken into consideration

2.1. The triennial actuarial valuation examines how the assumptions built into the previous valuation have fared and then considers future prospects for the Fund. The Actuary has to certify levels of contribution to secure the solvency of the Devon Fund, but also have regard to the desirability of maintaining as stable a contribution rate as possible.

2.2. The following factors, outlined in paragraphs 2.3 to 2.7, have been considered by the Actuary and have been taken into account in the current valuation, and calculation of the level of deficit and future contribution levels.

2.3. ***Inter-valuation experience*** – The valuation will be impacted by what has happened over the three years since the last valuation, compared to the assumptions made by the actuary at the time. These are summarised in the following table:

	Expected	Actual	Effect on Funding Level
Investment Returns	6.80%	7.40%	Positive
Pay Increases	3.20%	2.00%	Positive
Pension Increases	3.00%	3.50%	Negative
Deaths	1,823	2,070	Positive
Pension Ceasing	£7,860k	£8,259k	Negative

Investment returns have been better than expected, which is good news. The level of pay increases takes into account the effect of increments and promotions for individual members of the Fund, not just the national pay awards. While the number of deaths has been higher than anticipated, the value of pension cessations has been less than anticipated, resulting in a cost to the Fund.

2.4. ***Revised Assumptions*** – These include:

(a) Price Inflation – based on the Bank of England's 20 year inflation curve, average CPI estimated at 2.74% in projecting future liabilities. This compares with an estimate for CPI of 3% at the 2010 Valuation.

(b) Salary Increases – Assumed to be equivalent to CPI over the next 2 years, and CPI + 1.8% thereafter. This is a lower assumption than that made in 2010.

(c) Statistical Assumptions – The key factor influencing pension liabilities is pensioner mortality, i.e. how long pensioners will be receiving their pension. Using tables published by the Actuarial Profession's Continuous Mortality Investigation an assumption of a 1.5% improvement in life expectancy has been made. This equates to a life expectancy beyond the age of 65 of a further 26 years for females and 22.6 years for males.

(d) Discount Rates – In determining the value of accrued liabilities and future contribution requirements it is necessary to discount future payments to and from the Fund. There are a number of different approaches which can be adopted to derive the discount rate. Barnett Waddingham's approach is to reflect the investment return expected to be achieved from the underlying investment strategy. The investment return going forward has been assumed to be 6.1%, which compares with an assumption of 6.8% at the last valuation.

2.5. ***LGPS 2014*** – The new scheme, based on Career Average Earnings is to be implemented with effect from 1 April 2014. The new scheme was brought in by the Government with the intention of reducing the cost of the scheme to taxpayers. It was anticipated that the new scheme would save around 2% on employer contribution rates. However, a number of the factors included in that assumption have already been taken into account by the Actuary, either at the previous valuation or in the revised assumptions shown above, which has reduced the saving that has been attributed to the scheme change to around 0.2% at this valuation. It is anticipated that further savings will be achieved at future valuations.

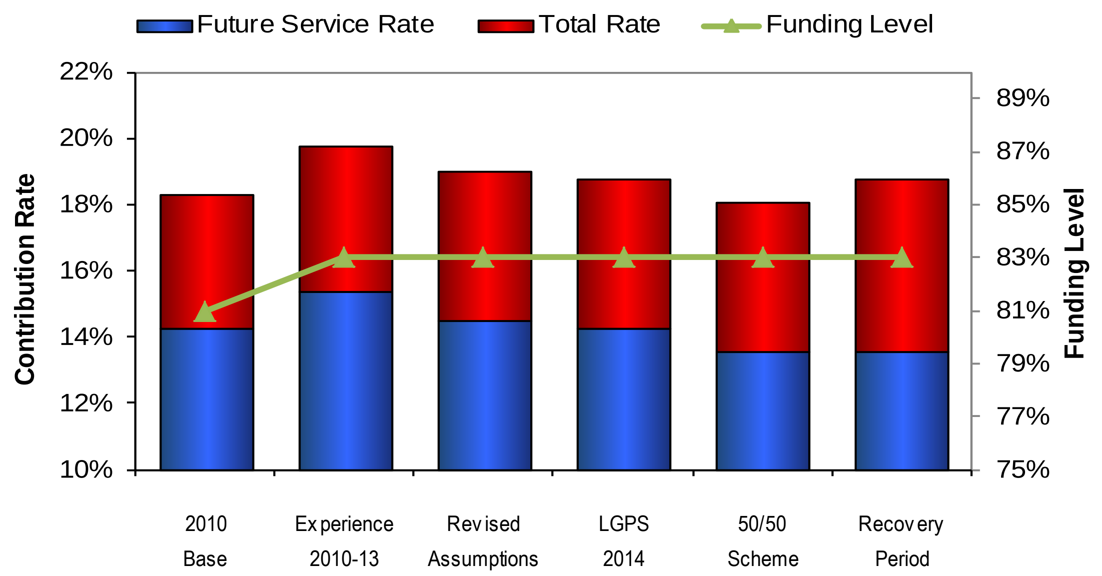
2.6. ***50/50 Option*** – Under the new LGPS a facility will exist for members to pay 50% contributions for 50% of the benefits. The aim of this approach was to encourage employees not to opt out of the Fund. The Actuary has assumed that at any point in time 10% of members will have taken up this option.

2.7. ***Deficit recovery period*** – At the last valuation the length of the recovery period was increased from 25 to 30 years. At this valuation the Actuary has reduced the average recovery period back to 25 years. Reducing the recovery period will decrease the level of risk to the Fund, and reduce the cost of meeting the deficit.

2.8. The effect of the application of the above factors is shown from left to right in the following graph, with the final outcome in the right-hand column.

Item 5

Valuation – Impact of Factors Taken into Consideration



	2010 Base	Experience 2010-13	Revised Assumptions	LGPS 2014	50/50 Scheme	Recovery Period
Funding Level	81%	84%	83%	83%	83%	83%
Future Service Rate	14.3%	15.4%	14.5%	14.3%	13.6%	13.6%
Total Rate	18.3%	19.8%	19.0%	18.8%	18.1%	18.8%

3. Overall results

3.1. The Actuary has determined that the Devon Fund has a funding level of 83%. The Fund's assets were valued at £2,970m against future pension liabilities assessed at £3,589m, giving a deficit for this valuation of £619m. This, along with the comparative figures for the previous valuation in 2010, is shown in the table below:

	2010 Results	***2013 Results***
Assets	£2,327m	£2,970m
Liabilities	£2,857m	£3,589m
Deficit	(£530m)	(£619m)
Funding Level (whole Fund)	81%	83%

3.2. The Actuary has determined that an overall employer rate of 18.8% (of pensionable payroll) is required to meet future service accruals and to clear the current deficit:

	2010 Results	***2013 Results***
Future Service Rate	14.3%	13.6%
Deficit Contribution	4.0%	5.2%
Total Employer Contribution Rate	18.3%	18.8%

Item 5

4. Effects on Individual Employers

4.1. The 18.8% contribution figure and the 25 year recovery period are the average required across the fund. Individual employers within the fund will have their own individual rates and recovery periods reflecting their own unique circumstances. The recovery period for individual employers will be set in a range between 20 and 27 years.

4.2. At the 2010 Valuation it was recognised that payrolls were likely to fall as a result of a reduction in funding levels for local services. This would have had an impact on the level of cash coming in to meet the deficit. As a result while employers have initially paid their deficit contribution as a % of payroll, they have been required to top this up to a fixed cash figure set by the actuary. At this valuation the deficit amounts for each employer will again be certified as a cash figure in order to address this issue.

4.3. In order to achieve as stable a rate as possible, groups of smaller employers have been put together in pools to even out their contribution rates. This reduces the level of volatility in their contributions. This will include a pool for academies in line with the response submitted to the DCLG consultation, subject to the result of that consultation process.

4.4. Where individual contributions have increased, this will be phased in over a three year period, in order to ameliorate the impact.

5. Conclusion

5.1. The 2013 Valuation represents a good result for the Fund, with the funding level increasing from 81% to 83%. The reduction in the average recovery period will help to reduce the cost of pensions in the longer term.

5.2. It is anticipated that employers will be provisionally notified of their individual rates by the end of November. The formal certification of the rates will not be until the end of March, in order to take into account the results of the consultation on academy pooling and any other last minute changes.

Mary Davis

Electoral Divisions: All

Local Government Act 1972

List of Background Papers - Nil
Contact for Enquiries: Mark Gayler
Tel No: (01392) 383621 Room G97