Nottinghamshire County Council

Report to Pensions Sub-Committee

8 May 2014

Agenda Item: 8

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

TRIENNIAL VALUATION – INITIAL RESULTS

Purpose of the Report

1. To inform members of the final results of the triennial valuation of the Fund as at 31 March 2013.

Information and Advice

2. The Fund is required to obtain an actuarial valuation of the assets and liabilities of the Fund every three years in order to determine the contributions payable by each employer. The actuary issues a rates and adjustments certificate specifying the common rate of employer's contribution and any individual adjustments to take account of circumstances particular to each employer. These circumstances include the different membership profiles of each employer and the level of assessed deficit of liabilities over assets.

3. The rates and adjustments certificate covers the three years following the year in which the valuation is prepared. The latest triennial valuation of the Fund was required as at 31 March 2013 with rates being certified for years 2014/15 to 2016/17. The initial whole fund results were brought to the meeting of this Sub-Committee on 6 February 2014. The full valuation report from the Fund actuary is now available. This report is attached as an annexe and is also available on the Fund website. Employers within the Fund have been notified of the valuation outcome and the new rates and adjustments certificate.

4. In order to carry out the valuation, the actuaries were provided with detailed information about the membership of the fund and the investments. This information is used to estimate the cash flows in relation to each member. The actuaries have made assumptions over pay increases, inflation, life expectancy and the new scheme in order to come up with this estimate. Further assumptions are used (mainly in respect of expected investment returns) to determine a 'discount rate' which is then used to discount the cash flows to estimate the total of the Fund's liabilities.

5. The basic premise of the discount rate is that investment returns can help to cover liabilities in the future – if the Fund has £100 now and can expect investment returns of 5% pa then that £100 is sufficient to cover £105 of liabilities in 1 year's time. Hence the liability figure (in this example £105) is 'discounted' back to the present value (£100) using the assumed rate of investment return. The actuaries

therefore look at the asset allocation of the Fund and the expected long term returns of each asset class in deciding the appropriate discount rate. It is important to note that a higher discount rate produces a lower liability figure (and vice versa).

6. Under the LGPS governing regulations, the actuaries are required to have regard to the 'desirability of maintaining as nearly constant a common rate as possible'. However, they also have a professional duty to ensure the assumptions made at the valuation are reasonable. Increasingly, these assumptions will come under scrutiny from the Treasury and potentially the Pensions Regulator.

7. The agreed financial assumptions used in the latest valuation are shown below along with comparisons from the previous valuation.

Financial Assumptions		**31/03/13**	**31/03/10**
Central Discount Rate		6.0%	6.9%
Pay Increases:	Long term	4.5%	5.0%
	Short term	2.7%	for those over £21k 0.0%
Retail Price Inflation		3.5%	3.5%
Pension Increases (CPI)		2.7%	3.0%

8. As can be seen, the discount rate has reduced thus increasing liabilities, although the increase is mitigated slightly by assumptions over pay and pension increases. The results for the Fund show liabilities of £4,090 million compared to assets of £3,470 million, giving a funding level of 85%. This is up slightly from 84% at 2010, mainly owing to the investment performance over the period (8.0% pa against the assumed rate of 6.9%). This gives an average future service cost contribution rate of 13.1% of pensionable pay and an average deficit recovery rate (over 20 years) of 5.7%.

9. The contributions determined at this valuation payable by each employer are set out in Appendix 4 of the actuary's report. These are either based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers. Future service contributions are certified as a percentage of payroll. For the majority of employers, deficit recovery contributions have been certified as a monetary amount, payable each year in addition to the future service rate. This is to ensure that deficit contributions are made at the required level regardless of any reductions in payroll. The certified contributions are the minimum that each employer is required to pay.

10. Section 6 of the actuary's report sets out a number of risks and uncertainties regarding the valuation. The major risk is over the projected cash flows of the Fund and further information on this is covered in a separate report. Employer covenant risk (ie the risk that employers may not be able to pay the required contributions) is also identified. Additional work will be carried out to analyse each employer's strength and employers will be monitored to mitigate this risk as far as possible.

Statutory and Policy Implications

11. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

1) That the report be noted.

Report Author:
Simon Cunnington
Senior Accountant – Pensions & Treasury Management

For any enquiries about this report please contact: Simon Cunnington

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.