



meeting PENSIONS ADMINISTRATION SUB COMMITTEE

date 24 OCTOBER 2005

agenda item number

REPORT OF THE DIRECTOR OF RESOURCES

NOTTINGHAMSHIRE PENSION FUND – INTERIM ACTUARIAL REVIEW

1. **Purpose**

- 1.1 To advise the Pensions Administration Sub Committee of the potential impact on the Pension Funds solvency as a result of the Government's actions to reinstate the 85 year rule.

2. **Information and Advice**

- 2.1 A report was considered by the Pensions Administration Sub Committee at its meeting on 7 July 2005 advising that the regulations that had abolished the 85 year rule with effect from 1 April 2005 were to be revoked. This followed assurances from the Deputy Prime Minister in March following the threat of industrial action. The "Revocation Regulations" came into force on 3 August 2005 and this returned the pension scheme regulations to the position that had existed prior to April 2005.
- 2.2 When the Pension Fund Actuary undertook the latest valuation of the fund this was on the basis that the 85 year rule would no longer apply and that the earliest date of retirement would be raised from the age of 50 to 55 years. These assumptions were entirely appropriate and consistent with the regulations as they stood at that time but the Deputy Prime Minister's announcement in March and the subsequent Revocation Regulations now means that the assumptions that underpin the valuation are no longer consistent with the regulations as they presently stand.
- 2.3 As part of the Revocation Regulations the Government requested Pension Administering Authorities to undertake an interim review of the pension funds position and estimate the likely impact of the reversal of the decision to remove the 85 year rule. This was reported to the Pensions Administration Sub Committee on 12 September 2005.

- 2.4 The Actuary has now carried out a preliminary review and has assessed the effect of the revocation of the 85 year rule regulations. In his opinion the impact across the whole of the Nottinghamshire Pension Funds (including the Admitted Bodies Fund) would be to increase the employers contribution rate as follows:-

	% of Payroll	Cost £
2005/6	1.4%	£8.0m
Longer Term	1.8%	£10.3m

- 2.5 The effect has also been estimated at an employer level for the larger employers in the fund and the results are attached as an Appendix to this report.
- 2.6 The Pension Fund Actuaries, Mercer Human Resource Consulting, have also been carrying out interim reviews for many of their other clients and have advised that the costs for each fund range from 1.3% to 1.7% of payroll for the 2005/6 costs, with the longer term costs ranging from 1.8% to 2.2%. As can be seen from a comparison of the Nottinghamshire figures with other Mercer clients it shows that the Nottinghamshire costs are at the lower end of the range.
- 2.7 It should however be noted that the costs indicated above and in the Appendix to this report only reflect the costs of reintroducing the 85 year rule and are based on some fairly crude assumptions about promotion, starters and leavers etc. In addition the estimates have not taken into account the above average investment performance of the fund since April 2005 and this would serve to offset some of the costs indicated.
- 2.8 In addition, and as detailed elsewhere on the agenda, the Government are in the midst of reviewing many of the provisions of the scheme in the Deputy Prime Minister's Tripartite Committee. The outcome of these negotiations is far from clear at this stage and as can be seen from the report elsewhere on this agenda there are strongly conflicting views being expressed.
- 2.9 The impact of the current Revocation Regulations will therefore need to be set against the investment performance and other potential changes in the Pension Scheme and any offsetting effects will need to be taken into account when considering the employers contribution rate to be applied in the financial year 2006/7.

3. **Recommendation**

- 3.1 That the Pensions Administration Sub Committee notes the contents of this report.

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DIRECTOR OF RESOURCES

Head of Legal Services Comments (JF 12/10/05)

This report is for noting only.

Personnel Implications

Changes to the Pension Scheme emerging from the Deputy Prime Minister's Tripartite Committee could affect the pension benefits payable to employees who are members of the Local Government Pension Scheme.

Equal Opportunities Implications

Nil

Crime and Disorder Implications

Nil