

2013 Actuarial Review – Framework for Setting Contribution Rates
(Appendix 'A' refers)

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Executive Summary

The triennial actuarial valuation of the Fund is due to be carried out as at 31 March 2013. The valuation process is the basis by which employer contribution rates are set for the next three years. The valuation process leads to the production of the Funding Strategy Statement which sets out how the Pension Fund intends to bring its assets and liabilities into balance over an agreed period. The Fund is required to engage with Fund employers in the production of the Funding Strategy Statement.

Given the overall significance of this valuation process it is proposed to set out a framework for the setting of contribution rates at this early stage to enable this process of engagement to take place earlier in the valuation process than has been customary.

Recommendation

The Committee is recommended to approve the framework for the 2013 actuarial review set out in Appendix 'A' as the basis for engagement with Fund employers and the initial development of the Funding Strategy Statement.

Background and Advice

Attached at Appendix 'A' is a proposed framework within which the setting of employer contribution rates arising from the 2013 actuarial valuation of the fund will take place.

The 2013 actuarial valuation of LGPS Funds is probably the most significant valuation in the history of the LGPS. There are a number of significant factors coming together at one point in time which will impact on the actuary's calculations. These include:

- The introduction of the new CARE scheme from April 2014 which will affect the calculation of the future service contribution rate.

- The continuing instability in the financial markets, particularly the bond markets which impacts on various factors used within the actuary's calculations.
- The introduction of auto-enrolment on a rolling basis which will impact on fund membership, contributions received and future liabilities.
- The continuation of public sector austerity which will have an impact both on pay growth, scheme membership and the cash flow profile.
- The need to continue to make progress in reducing the past service deficit within the context of ongoing pressure on employers' budgets.

All of these factors combine to make this probably the most challenging valuation in LGPS history.

By setting a clear set of ground rules for the valuation now the Committee will be ensuring that all stakeholders are clear on the parameters for the valuation and have time to prepare to deal with their impacts. It also allows the Committee to fulfil its responsibility to engage with Fund employers around the preparation of the Funding Strategy Statement which forms one of the key outputs from the valuation process.

Given these challenges and the need to ensure both a continuing focus on the reduction of the past service deficit and to maintain stability in contribution rates the following are proposed as the key features of the framework for the valuation, which will have a specific impact in terms of change:

- Changes in the actuarial assumptions around pay growth and life expectancy to reflect current data;
- Changes to the way in which the discount rate is calculated by assuming a normalisation of bond yields at a future point accompanied by the removal of the increased investment return assumption as a risk reduction measure.
- Continuation of the reduction in the deficit recovery period to 16 years;
- Setting contributions to the past service deficit as cash sums for each employer so that they are not affected by reductions in active membership; and
- Removing the options to include an allowance for early retirement in the contribution rate and to make pension strain payments by instalments.

By setting out these ground rules and the overall objectives of the contribution plan that flows from the valuation process now the Committee is very clearly setting out how it plans to address both the past service deficit and contribution stability for Fund employers, while allowing itself the opportunity to reflect on and respond to feedback from Fund employers.

Consultations

Setting this framework allows a process of engagement and consultation with Fund employers to be commenced which will inform the Committee's eventual consideration of a new Funding Strategy Statement following the completion of the actuarial review.

Implications:

This item has the following implications, as indicated:

Risk management

The various proposals set out in Appendix 'A' in terms of changes to the current approach to the valuation are all intended to reduce the risk to the Pension Fund of not eliminating the past service deficit over a reasonable period of time and ensuring that the Fund has the resources available to meet pension liabilities as they become due.

Financial

There are no immediate financial implications for the Fund arising from the setting of this framework

**Local Government (Access to Information) Act 1985
List of Background Papers**

Paper	Date	Contact/Directorate/Tel
N/A		
Reason for inclusion in Part II, if appropriate		
N/A		