

REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY AND RESOURCES COMMITTEE – 2 MARCH 2015

**REPORT ON: TAYSIDE PENSION FUNDS
ACTUARIAL VALUATION AT 31 MARCH 2014**

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 92-2015

1 PURPOSE OF REPORT

This report updates the Committee on the Actuarial Valuation of the Tayside Pension Fund and the Tayside Transport Pension Fund at 31 March 2014.

2 RECOMMENDATION

Members are asked to note the information contained within this report.

3 FINANCIAL IMPLICATIONS

The purpose of the three yearly actuarial valuation is to ensure that the Pension Fund has sufficient resources to provide for their members' pensions and lump sum benefits. The contribution from employees is fixed by statute and the only adjustable variable at each valuation is the level of employer's contributions.

The outcome of the 2014 actuarial valuation is that the employer's contribution for 2015/16 will be 17.0% of pay. For the financial years 2016/17 and 2017/18 the employer's contribution rate will continue at 17.0%.

4 INTRODUCTION

An actuarial valuation is required every three years in accordance with Regulation 77 of the Local Government Pension Scheme Regulations 1997.

The main purpose of the valuation is to review the financial position of the Funds and to determine the rate at which the employing bodies participating in the Fund, should contribute in the future.

5 VALUATION PROCESS

The primary objective of the Fund is to provide for member's pension and lump sum benefits on their retirement or for their dependants on death before or after retirement.

Contributions are paid by the employees and employers into the Fund. The employees' contributions are fixed by statute. From 1 April 2009 tiered banded contributions at various rates from 5.5% to 12% have been applied. The actuarial valuation determines the contributions payable by the employers.

The actuary values the assets and liabilities of the Fund to calculate whether the Fund has a surplus or a deficit. The level of the surplus or deficit determines how much the employer's contribution should be set at to balance the Funds position.

6 VALUATION OF ASSETS

To determine the value of assets, the actuary makes various assumptions about the level of returns that are going to be achieved by the Fund. The assumptions at 31 March 2014 are:

	Nominal Return (% pa)	Real Return (ie excluding the effects of inflation) (% pa)
Equities	5.9	2.3
Gilts	3.6	0.0
Cash	3.4	-0.2
Bonds	4.1	0.5
Property	5.5	1.9

Additionally, an assumption is made of the level of additional contribution the Fund will receive due to increases in pay. The assumptions for pay increases at 31 March 2014 are as follows:

	Nominal % pa	Real (ie excluding the effects of inflation) % pa
Pay increases	4.6	1.0

7 VALUATIONS OF LIABILITIES

The valuation of the liabilities is made using assumptions on pension increases. The assumption at 31 March 2014 for pension increases is 2.8% per annum. The cost of providing for benefits depends not only upon the amount but also the incidence of benefits paid ie at what point in the future benefits begin to be paid and how long they continue to be paid. The actuary uses statistical assumptions on the incidence of retirement, and mortality to calculate the incidence of benefits paid.

8 INTERVALUATION EXPERIENCE

The actual experience of the Tayside Pension Fund since the last valuation at 31 March 2011 also has an impact on the valuation. Overall the experience of the Fund compared to the assumptions adopted at the previous valuation has been positive overall; however it has been mixed with greater than expected investment returns which had a positive impact as did lower than expected pay increases but greater than expected pension increases had negative impact.

9 TAYSIDE PENSION FUND - VALUATION RESULTS AT 31 MARCH 2014

At 31 March 2014 the Tayside Pension Fund had a deficit of assets over liabilities of £4.759m. This is translated into a funding level of 99.8% (including a 5% volatility reserve to allow for adverse short term financial experience in the period to the next valuation).

Based on the above results the actuary recommends that the Fund's employer's contribution rate is reduced to:

2015/16	-	17.0% of pensionable pay
2016/17	-	17.0% of pensionable pay
2017/18	-	17.0% of pensionable pay

10 TAYSIDE TRANSPORT PENSION FUND - DRAFT VALUATION RESULTS AT 31 MARCH 2014

During the three years to 31 March 2014 the Transport Fund's financial experience compared to the assumptions had a positive impact on the funding level. This report has not been finalised, however there are no anticipated changes to key calculations and assumptions noted below.

At 31 March 2014 the Transport Fund had a deficit of assets over liabilities of £74,000. This is translated into a funding level of 99.9% (including a 5% volatility reserve to allow for adverse short term financial experience in the period to the next valuation).

The actuary recommends a decrease in the employers contributions from the present £840,000.

2015/16	-	fixed contribution of £500,000
2016/17	-	fixed contribution of £500,000
2017/18	-	fixed contribution of £500,000

11 POST 31 MARCH 2011 EXPERIENCE

Since the valuation date the funding position of the Main Fund has remained broadly unchanged. The financial position of the Transport Fund however has declined, primarily due to a reduction in gilt yields which underpins the funding strategy. However the volatility reserve held at the 2014 valuation has essentially offset this deterioration in its funding level.

12 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of sustainability, strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

13 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

14 **BACKGROUND PAPERS**

Barnett Waddingham - Tayside Pension Fund Actuarial Valuation as at 31 March 2014.

Barnett Waddingham - Tayside Transport Pension Fund Actuarial Valuation (Draft) as at 31 March 2014.

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23 OCTOBER 2015