Agenda Item 7A

PENSION PANEL MEETING
27 May 2011

Report of the Corporate Director of Finance & Resources

Title: London Borough of Barking and Dagenham Pension Fund 2010 Triennial Valuation	For Information/Decision

1. Purpose

1.1 To report on the results of the Pension Fund 2010 Actuarial Valuations

2. Summary

Local authority pension funds have to be valued every three years, the latest valuation being as at 31 March 2010. This independent valuation is carried out by the Pension Fund actuary, and it is the fund actuary who proposes the employer contribution rates.

The fund is a defined benefit scheme and member contributions are fixed. It a funded scheme while the purpose of the valuation is to;

- meet regulatory requirements;
- ensure that the fund is solvent; and
- determine rate at which employers will contribute over the following three years.

The key results are:

- The Fund was 75.4% funded compared to a funding level of 88% in 2007
- Fund deficit was £180m, compared to £75m in 2007.
- The deficit has mainly been due to the adverse economic conditions the Fund has had to deal with.
- Total contribution rate of the Fund was 24.4% of pay. This comprises the anticipated cost of new benefits being earned by members in future (16.1%) plus the additional contributions required to repay the deficit over a 20 year period (8.3%). However this is a theoretical figure as it is the average across all the Funds.

The table below shows the rates for all employers in the Fund.

Employer Code	**Employer Name**	**Minimum Contribution for the Year Ending**					
		31 March 2012		**31 March 2013**		**31 March 2014**	
		% of Payroll	**£(000)**	**% of Payroll**	**£(000)**	**% of Payroll**	**£(000)**
1	LB Barking & Dagenham	19.5%	0	20.0%	0	20.5%	0
2	University of East London	20.2%	0	21.9%	0	23.6%	0
3	Barking College	18.2%	0	19.2%	0	20.3%	0
8	Disablement Association	22.9%	0	22.9%	0	22.9%	0
9	Barking & Dagenham CAB	17.2%	0	17.2%	0	17.2%	0
17	Enterprise	21.1%	113	21.1%	115	21.1%	0
19	E-Learning Cross River	14.5%	0	14.5%	0	14.5%	0

3. Recommendations

That the Pension Panel:

1. note the outcome of the triennial valuation summarised in this report (full actuarial report attached as Appendix A to this report);

2. note the key assumptions used for the final valuation report; and

3. approve the recommendations proposed by Hymans Robertson LLP.

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LONDON BOROUGH OF BARKING AND DAGENHAM 2010 TRIENNIAL ACTUARIAL VALUATION

1. **INTRODUCTION**

1.1. The valuation of the Pension Fund every three years by a qualified independent actuary is a statutory obligation placed upon the Council by the Local Government Pensions Scheme regulations.

1.2. The primary purpose of a triennial valuation is to determine whether a pension fund has sufficient assets to meet its long-term pension liabilities (i.e. is it “100% funded) by calculating the ‘past service position’ compared to the market value of assets with market linked value of accrual benefits (liabilities).

1.3. Once this has been determined the actuary is required to certify the appropriate contribution rates an employer must make.
Separate rates must be set for any other employers using the fund to provide pensions for their employees. In the Council’s case this involves setting rates for our “admitted and scheduled bodies” whose pensions we administer under the LGPS regulations.

1.4. The Council appointed actuary Hymans Robertson LLP to undertake this valuation.

2. ADMITTED BODIES

2.1. As part of the valuation process the actuary is also required to set the employer contribution rates for the various admitted bodies which also use the LBBD Pension Fund to provide pensions to their work force. The levels of contributions fixed by the actuary have been discussed with the admitted bodies by the Administering body and each employer has been given the opportunity to discuss their individual results with the actuary and the administering authority before the valuation is finalised.

3. VALUATION RESULTS

3.1. The overall position of the fund with Barking and Dagenham’s element is in the table below. The table shows a comparison of the 2010 outcome with a comparison to 2007.

Fig 1. Valuation Results – Funding Level Comparison

Valuation Date	2007	2010
Past Service liabilities	**£m**	**£m**
Employees	285.0	298
Deferred Pensions	80.8	117
Pensioners	239.4	314
Total Liabilities	605.2	729
Market Value of Assets	530.0	549
Surplus / Deficit	(75.2)	(180)
Funding Level	**88%**	**75.4%**

Fig 2. Valuation Results – Common Contribution Rates

	2007	2010
Deficit Recovery Period	**16 years**	**20 years**
Future Service Rate	% of pay	% of pay
Cost of New Benefits Earned in Future	20.3%	22.4%
Expenses	0.5%	0.5%
Total	20.7%	22.9%
Employee Contribution Rate	6.5%	6.8%
Future Service Rate	**14.2%**	**16.1%**
Past Service Adjustment	4.5%	8.3%
Total Contribution Rate	18.7%	24.4%

4. The key funding strategy principles and major demographic assumptions to be adopted by the actuary after discussions with the Director of Finance & Resources are listed below;

- The length of the deficit period is 20 years;
- Ill health retirements - allowance has been made for ill-health retirements before Normal Pension Age
- Withdrawals – Allowance has been made for withdrawals from service
- Family details – a varying proportion of members are assumed to be married (or have an adult dependant) as retirement or on earlier death.
- Commutation – Future pensioners are assumed to elect to exchange pension for additional tax free cash up to 50% of HMRC limits for service to 31 March 2008 and 75% of HMRC limits for service from 1April 2008.

5. FINANCIAL ASSUMPTIONS

Fig 3 – Financial Assumptions

Financial Assumptions	31 March 2007 Funding basis (%pa)	31 March 2010	
		Funding basis (%pa)	Gilts basis (%pa)
Discount rate	6.1%	6.1%	4.5%
Price inflation	3.2%	3.3%	3.3%
Pay increase	4.7%	5.3%	5.3%
Pension increases:			
Pension in excess of GMP	3.2%	3.3%	3.3%
Post-88 GMP	2.8%	2.8%	2.8%
Pre-88 GMP	0.0%	0.0%	0.0%
Revaluation of deferred pension	3.2%	3.3%	3.3%
Expenses	0.5%	0.5%	0.5%

6. MORTALITY ASSUMPTIONS

Various scaling factors have been applied to the mortality tables to reflect the predicted longevity for each class of member and their dependants.

Fig 4 – Mortality Assumptions

Longevity Assumptions	**31 March 2010**
Longevity - baseline	CLUB VITA
Longevity - improvements	Medium Cohort with 1% minimum improvements

7. CONTRIBUTION RATES

7.1. Employer contribution rates differ because of

- Differing membership profiles
- Different experiences as a result of;
    - o Salaries
    - o Mortality
    - o Other demographics
    - o Outsourcing and level of years left in the Fund
    - o Risk
- Differences in levels of maturity
- Previous contributions which has paid to recover deficit

7.2. The Contribution rates agreed by all employers for the 2010 valuations is in the table below:

Fig 5 – Contribution rates

Employer Code	Employer Name	Minimum Contribution for the Year Ending					
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