

HERTFORDSHIRE COUNTY COUNCIL
INVESTMENT COMMITTEE
WEDNESDAY 6 MARCH 2002 AT 2 PM

Agenda Item No:

6

ACTUARIAL VALUATION 2001

Report of the Finance Director

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1. Purpose of the Report

- 1.1 To inform the Committee of the results of the 2001 actuarial valuation of the Hertfordshire Local Government Pension Scheme.

2. Summary

- 2.1 The actuary has carried out the triennial valuation of the Fund as at 31 March 2001.
- 2.2 Based on these assumptions, there are two key assumptions which have had an impact on the fund in this valuation; reduced future investment returns and increased mortality rates.
- 2.3 The deficit has grown over the three years from £109.2m to £158.9m, however as the assets have also grown, the funding level has remained at 90%.
- 2.4 Contribution rates will continue to increase for most employers, in line with the steps set out in the 1998 valuation, reaching their maximum level in 2004/05.

3. Conclusion

- 3.1 It is recommended that the Committee approve the implementation of the contribution rates set out in Appendix A.

4.1 Background

- 4.1.1 The Local Government Pension Scheme Regulations require that a triennial actuarial valuation is undertaken to determine the amounts that employers need to contribute to the fund.
- 4.1.2 The actuarial valuation as at 31 March 2001 has now been completed by the actuaries, Hymans Robertson. The final report has not yet been published, however it is not expected to vary significantly from the information provided here.

4.2 Valuation Process

- 4.2.1 The actuary estimates the value of the current and future liabilities of the Fund at the date of the valuation. This is compared to the value of the assets to determine whether the assets are sufficient to meet the liabilities.
- 4.2.2 When calculating the value of the liabilities, the actuary considers separately the benefits in respect of service completed before the valuation date (“past service”) and benefits in respect of service expected to be completed after the valuation date (“future service”).
- 4.2.3 The past service calculation determines the past service funding level. This is the ratio of accumulated assets to liabilities in respect of past service after making allowance for future increases to members’ pay and pensions in payment. A funding level of less than 100% indicates a deficit in the fund.
- 4.2.4 The future service calculations determine the future service funding rate. This is the level of contributions required from the employing bodies to support the cost of benefits accruing in future.
- 4.2.5 When valuing the assets, the actuary adopts a method of smoothing the market value over twelve months. This ensures a fair value of assets is used, rather than the value at a particular day in the year.

4.3 Valuation Assumptions

- 4.3.1 In order to calculate the value of future assets and liabilities, the actuary must make certain assumptions about the factors affecting them.
- 4.3.2 There are two key assumptions which have had an impact on the fund in this valuation; future investment returns and mortality rates.
- 4.3.3 The actuary is predicting that future investment returns will be lower than had been assumed in the previous valuation. The figures are shown below in gross terms.

	2001	1998
Equities	6.75% p.a.	7.2% p.a.
Bonds	5.75% p.a.	6.7% p.a.

This is due partly to the poor investment returns seen in the last twelve months but mainly due to long term trends. The actuary has assumed a 75% equities / 25% bonds split of investments, consistent with the current fund asset allocation.

- 4.3.4 New mortality rate estimates have been produced nationally and these rates have been applied to the calculation of liabilities. These rates are predicting pensioners to live much longer. In the inter-valuation period 36% fewer pensioners died than had been predicted, showing the need to incorporate the new rates.

4.4 Results

- 4.4.1 The results of the valuation for the fund as a whole are set out below with the 1998 results for comparison:

	March 2001	March 1998
	£m	£m
Past Service Liabilities		
Active Members	617.4	464.8
Deferred Beneficiaries	242.0	141.1
Pensioners	<u>669.4</u>	<u>500.8</u>
Total	1,528.8	1,106.7
Assets	1,369.9	997.5
Deficit	(158.9)	(109.2)
Funding level	90%	90%

- 4.4.2 This shows that although the deficit has grown from £109.2m to £158.9m, the funding level has remained the same, because the assets grew at the same rate.

- 4.4.3 The table below shows the major reasons why the deficit has grown:

	£m
Deficit at 1998 valuation	(109.2)
Interest on deficit	(24.9)
Investment returns greater than expected	101.0
Salary and pension increases less than expected	25.9
Net of contributions received and benefits paid	23.7
Effect of reduced future investment returns	(84.3)

Change in mortality assumptions	(75.2)
Other	<u>(15.9)</u>
Deficit at 2001 valuation	<u>(158.9)</u>

- 4.4.4 The investment returns achieved, the lower salary and pension increases and the level of contributions paid in have had a positive impact on the fund. However the future investment returns and mortality assumptions have been the main negative effects.
- 4.4.5 These results have led the actuary to recommend the following contribution rate for the fund as a whole.

	% of employees contributions
Future Service Funding Rate	210
Past Service Adjustment	85
Total Contribution Rate	295

This represents an average of all contributions required.

- 4.4.6 Appendix A sets out the contribution rates for each employer in the fund. The actuary calculates individual contribution rates for all major employers to reflect their particular circumstances. Smaller employers are grouped into the Small Scheduled & Resolution bodies pool or the Small Admitted Bodies pool.
- 4.4.7 The majority of employers will be continuing the stepped increases in rates recommended in the 1998 valuation, with the rates predicted to peak in 2004/05, a year earlier than forecast at the last valuation. It is anticipated that the rates will stay at those levels for 10 years to pay off the deficit, before reverting to the future service funding rate of around 210%.

5. Financial Implications

- 5.1 The financial implications of the valuation will vary by employer. However as the stepped increases from 1998 are continuing, employers will have been able to budget for them.
- 5.2 The increase in contribution rate for the County Council in 2002/03 will cost approximately £1.67m. This has been budgeted for.

Appendix A

Employer	Current	Contribution Rates %		
	Rate 2001/02	2002/03	2003/04	2004/05
<u>Major Scheduled Bodies</u>				
Hertfordshire County Council	245	265	285	285
Hertfordshire Magistrates Courts Committee	275	300	300	300
Hertfordshire Police Authority	200	205	205	205
Hertfordshire Probation Service	285	320	325	325
Broxbourne Borough Council	210	215	220	225
Dacorum Borough Council	260	280	300	300
East Hertfordshire District Council	425	415	415	415
Hertsmere Borough Council	315	325	335	340
North Hertfordshire District Council	290	315	320	320
City & District of St Albans	295	315	335	350
Stevenage Borough Council	255	285	315	335
Three Rivers District Council	350	280	280	280
Watford Borough Council	300	335	340	340
Welwyn Hatfield Borough Council	270	265	265	265
<u>Universities & Colleges</u>				
University of Hertfordshire	165	190	205	205
Hertford Regional College	215	235	235	235
North Herts College	205	215	215	215
Oaklands College	215	240	265	270
West Herts College	215	240	245	245
<u>Small Scheduled Bodies</u>				
West Herts Crematorium Joint Committee	250	280	295	315
Hertford Town Council	250	280	295	315
Markyate Parish Council	265	280	290	305
Nash Mills Parish Council	265	280	290	305
Pirton Parish Council	265	280	290	305
Watford Rural Parish Council	265	280	290	305
Stanstead Abbots Parish Council	265	280	290	305
London Colney Parish Council	265	280	290	305
Hertfordshire Valuation Tribunal	225	250	280	305
Sarratt Parish Council	225	250	280	305
Sandridge Parish Council	225	250	280	305
St Stephens Parish Council	225	250	280	305
Ware Town Council	245	265	285	305
Sawbridgeworth Town Council	245	265	285	305
North Mymms Parish Council	245	265	285	305
Elstree & Borehamwood Town Council	245	265	285	305
Berkhamsted Town Council	250	275	290	310
Abbots Langley Parish Council	275	310	320	330

Shenley Parish Council	245	250	280	305
Other Parish/Town Council	250	270	285	305
<u>Large Admitted Bodies</u>				
Herts Careers Service Ltd	250	270	280	280
Quantum Care	280	300	320	340
Ridgehill Housing Association	350	320	320	320
Riversmead Housing Association	350	350	350	350
University Bus	115	140	170	195
Leonard Cheshire	250	255	255	260
<u>Small Admitted Bodies</u>				
Hertfordshire Action on Disability	250	270	270	270
Letchworth Garden City Heritage Foundation	270	270	270	270
Welwyn Hatfield Sports Centre Trust	275	270	270	270
Other Small Admitted Bodies	250	250	250	250