

HERTFORDSHIRE COUNTY COUNCIL
INVESTMENT COMMITTEE
THURSDAY 13 MARCH 2003 AT 10.00 AM

Agenda Item No:

10

INTERIM VALUATION 2002

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 2002 interim actuarial valuation of the Hertfordshire Local Government Pension Scheme.

2. Summary

- 2.1 The actuary has carried out an interim valuation of the Fund as at 30 September 2002.
- 2.2 The key factor which has influenced the results is lower investment returns than expected at the last valuation.
- 2.3 The deficit has grown from £158.9m in March 2001 to £384.1m in September 2002 and the funding level has fallen to 74.7%.

3. Conclusion

- 3.1 The valuation results indicate it would be prudent to increase employer contribution rates earlier than planned.

4. Background

- 4.1 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. The last one of these was undertaken as at 31 March 2001.
- 4.2 Given the falls in stock markets over the last two years, the actuary was asked to carry out an interim valuation as at 30 September 2002. The aim of this was to provide an early warning signal to employers of the potential future employer contribution rates.

5. Valuation Process

- 5.1 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.
- 5.2 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”).
- 5.3 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.
- 5.4 The future service calculations determine the future service funding rate. This is the level of contributions required from the employers to support the cost of benefits accruing in future.
- 5.5 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.

6. Valuation Assumptions

- 6.1 In order to calculate the value of future assets and liabilities, the actuary must make certain assumptions about the factors affecting them.
- 6.2 The key assumption which has impacted on this interim valuation is investment returns. The table below shows the difference between the assumptions made at the last valuation and the experience to date:

	Expected %	Actual %
Investment returns	6.0%	-15.6%
Pay Increases	4.3%	4.2%
Pension Increases	2.8%	1.7%

- 6.3 This shows that investment returns were a significant negative influence on the results of the valuation.
- 6.4 This has led to the actuaries reviewing their assumption about investment returns in future. It is now assumed investment returns will be 6.4% in future, compared to the previous assumption of 6.0%.

7. Results

- 7.1 The results of the interim valuation for the fund as a whole are set out below with the results as at March 2001 for comparison:

	March 2001	Sept 2002
	£m	£m
Past Service Liabilities		
Active members	617.4	618.4
Deferred Beneficiaries	242.0	205.7
Pensioners	<u>669.4</u>	<u>695.7</u>
Total	1,528.8	1,519.8
Assets	1,369.9	1,135.7
Deficit	(158.9)	(384.1)
Funding Level	89.6%	74.7%

- 7.2 These results show that the deficit has grown from £158.9m at 31 March 2001 to £384.1m at 30 September 2002. This is largely due to the fall in the value of the assets – the consequence of low investment returns. The table details the movement of the deficit:

	£m
Deficit as at 31 March 2001	(158.9)
Interest on deficit	(14.5)
Investment returns less than expected	(381.4)
Salary increases less than expected	1.4
Pension Increases less than expected	16.2
Accrual of benefits	(64.1)
Contributions	83.0
Future market conditions	120.7
Other Items	13.5
Deficit as at 30 September 2002	(384.1)

7.3 This converts to the following contribution rate for the fund as a whole:

	% of employees' contributions	
	March 2001	September 2002
Future service funding rate	210	200
Past Service Adjustment	85	190
Total Contribution Rate	295	390

7.4 The future service funding rate is lower than previously estimated as the assumption about future investment returns has increased. The past service adjustment (or part of the contribution rate designed to pay for the deficit) has increased significantly because the deficit has grown.

8. Implications

8.1 The actuary will not issue a revised contribution rate certificate at present, however the Finance Director will be having discussions with the actuary to determine if an early increase in contribution rates would be prudent. This will be weighed up against the ability of employers to pay. The earliest such an increase would be considered is for implementation on 1 April 2005. This would ensure employers can factor this into their budgets.