

## **EMPLOYER CONTRIBUTION RATES**

### **Report of the Finance Director**

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#### **1. Purpose of the Report**

- 1.1 To update the Committee on the proposed action to give employers the option to increase contribution rates as a result of the interim valuation.

#### **2. Summary**

- 2.1 The interim valuation results reported to the Committee in March 2003 showed a worsening of the funding level mainly due to large stock market falls.
- 2.2 Employers should consider voluntarily increasing rates in advance of the next programmed change in April 2006.

#### **3. Conclusion**

- 3.1 It is recommended that the Finance Director discuss the option of increasing contribution rates with employers to enable them to determine the best course of action.

#### **4. Background**

- 4.1 An interim actuarial valuation of the pension fund was undertaken as at 30 September 2002. The results were reported to the Investment Committee on 13 March 2003.
- 4.2 The report concluded that further discussions were needed between the actuary and the Finance Director in order to determine if a rise in contribution rates was necessary.

#### **5. Current Contribution Rates**

- 5.1 All employers in the Fund are currently paying employer contributions at the rates advised by the actuary at the March 2001 valuation.
- 5.2 Most employers have been increasing their rate in a series of steps in order to gradually reach the required rate. It was then the intention that rates would plateau for a period of 10 years.

#### **6. Future Contribution Rates**

- 6.1 The interim valuation showed a worsening of the funding position; down from 89.6% to 74.7%. The main reason for this was the fall in stock markets which had a negative impact on investment returns compared to the actuary's prediction at the 2001 valuation. The actuary recommends that payment of the deficit is spread over 20 years, and has provided appropriate contribution rates. However a revised certificate will not be issued until the next formal valuation which is due next April.
- 6.2 The suggested contribution increases vary from 5% to 135% of employees contributions depending on the individual circumstances of the employer and the decisions they have made. One employer who has made an additional lump sum payment into the Fund is not required to increase their contributions. Appendix A shows the employers, their current rate and the target rate set by the actuary.
- 6.3 The next formal actuarial valuation is due as at 31 March 2004. The results are expected to be available by the end of 2004. Generally a year's grace is given to prepare for any increases in contribution rates and so any increase from the rates recommended in the actuary's valuation would not normally be expected until 1 April 2006.
- 6.4 It is felt that this is a long time to wait to act on the information provided by the actuary at the interim valuation. If action is not taken now, larger increases may be required at the next valuation, as the current predictions allow little room for manoeuvre should the funding position worsen.

6.5 It is proposed that employers be given the option of introducing further stepped increases in their contribution rates in 2004/05 and 2005/06 in order to lessen the impact of any increases arising from the next valuation.

## **7. Conclusion**

7.1 Providing the option of increasing employer contributions to the Fund will give employers the opportunity to make further progress towards paying off their deficits in the Fund, which will improve the overall funding level.

### Background Papers used by the Author

Investment Committee Reports 13 March 2003

Interim Valuation Report and associated data from Hymans Robertson

## Appendix A

Employer	Current Rate as % of Employees' Contributions	Target Rate
Hertfordshire County Council	285	315
Magistrates Courts	300	330
Police Authority	205	210
Hertfordshire Careers Service	280	335
Probation Service	325	340
Broxbourne Borough Council	220	295
Dacorum Borough Council	300	345
East Hertfordshire District Council	415	445
Hertsmere Borough Council	405	455
North Hertfordshire District Council	325	350
St Albans District Council	335	420
Stevenage Borough Council	315	380
Three Rivers District Council	245	250
Watford Borough Council	340	385
Welwyn Hatfield Borough Council	265	340
University of Hertfordshire	205	245
Hertford Regional College	235	250
North Hertfordshire College	185	220
Oaklands College	265	295
West Hertfordshire College	245	275
Quantum Care	320	455
Ridgehill Housing Association	320	475*
Riversmead Housing Association	350	330**
University Bus	170	195
Leonard Cheshire	255	270
Smaller Scheduled Bodies	285	300
Small Admitted Bodies	250	270

\* rate to be reviewed in light of a lump sum payment

\*\* the payment of a lump sum has reduced their rat

