ITEM No …16………..

REPORT TO: **POLICY AND RESOURCES COMMITTEE – 26 APRIL 2021**

REPORT ON: **TAYSIDE PENSION FUND ACTUARIAL VALUATION AT 31 MARCH 2020**

REPORT BY: **EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

REPORT NO: **129-2021**

1 PURPOSE OF REPORT

This report updates the Committee on the Actuarial Valuation of Tayside Pension Fund at 31 March 2020.

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 employers' contributions.

The outcome of the 2020 actuarial valuation is that the employers' contributions for financial years 2021/22, 2022/23 and 2023/24 will continue at 17.0% for all Dundee City Council employees including Housing Revenue Account. Provision for the employers' contribution is included in the appropriate revenue budgets.

4 INTRODUCTION

An actuarial valuation is required every three years in accordance with Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014.

The main purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2021 to 31 March 2024. Regulation 60 specifies four requirements that the actuary "must have regard to" and are detailed below:

- the desirability of maintaining as nearly constant a primary rate as possible;
- the current version of the administering authority's funding strategy statement;
- the requirement to secure the solvency of the pension fund; and
- the long-term cost efficiency of the Scheme (i.e. the LGPS for Scotland as a whole), so far as relating to the pension fund.

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. 1st April 2009 introduced the application of tiered banded contributions at various rates from 5.5% to 12%. 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 2020 in relation to the previous valuation are as follows:

	2020 Valuation		2017 Valuation	
Asset Class	Nominal Return % p.a.	Real Return (relative to CPI) % p.a.	Nominal Return % p.a.	Real Return (relative to CPI) % p.a.
Equities	6.40	4.00	7.50	4.70
Gilts	0.90	-1.50	1.90	-0.90
Bonds	1.90	-0.50	2.60	-0.20
Property	5.90	3.50	6.30	3.50

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 2020 are as follows:

	2020 Valuation		2017 Valuation	
	Nominal Return % p.a.	Real Return (relative to CPI) % p.a.	Nominal Return % p.a.	Real Return (relative to CPI) % p.a.
Pay increases	3.40	1.00	3.80	1.00

7 VALUATIONS OF LIABILITIES

The valuation of the liabilities is made using assumptions on pension increases. The assumption at 31 March 2020 for pension increases is 2.4% per annum (2.8% at previous valuation). The cost of providing for benefits depends not only upon the amount but also the incidence of benefits paid i.e. 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 2017 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 with greater than expected investment returns which have had a positive impact. Reduced improvements on mortality and lower than expected increases in both salary and pensions also contributed positively to the valuation.

9 TAYSIDE PENSION FUND - VALUATION RESULTS AT 31 MARCH 2020

At 31 March 2020, Tayside Pension Fund had a surplus of assets over liabilities of £289m (£212.75m at previous valuation). This is translated into a funding level of 109% (including a 10% 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 common contribution rate remains at the 17% p.a. of pensionable pay, utilising the surplus to maintain a stable contribution rate via a negative secondary rate adjustment from the primary rate of 22.9% (21.5% at previous valuation).

10 **POST 31 MARCH 2020 EXPERIENCE**

Since the valuation date the funding position has improved although the period has seen significant volatility in financial markets, and this is anticipated to continue throughout the inter-valuation period.

11 **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.

12 **CONSULTATIONS**

The Council Management Team have been consulted in the preparation of this report.

13 **BACKGROUND PAPERS**

Barnett Waddingham - Tayside Pension Fund Actuarial Valuation as at 31 March 2020.

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **29 MARCH 2021**