REPORT TO: **POLICY AND RESOURCES COMMITTEE - 26 MARCH 2012**

REPORT ON: **TAYSIDE SUPERANNUATION FUNDS ACTUARIAL VALUATION AT 31 MARCH 2011**

REPORT BY: **DIRECTOR OF FINANCE**

REPORT NO: **134-2012**

1 PURPOSE OF REPORT

This report updates the Committee on the Actuarial Valuation of the Tayside Superannuation Fund and the Tayside Transport Superannuation Fund at 31 March 2011.

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 Superannuation Funds have 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 2011 actuarial valuation is that the employer's contribution for 2012/13 will be 18.0% of pay. For the financial years 2013/14 and 2014/15 the employer's contribution rate will continue at 18.0%. This will result in an annual saving in employer's costs for Dundee City Council from 2012/13 of approximately £0.6m. These figures are in respect of all Dundee City Council employees and therefore include Dundee Contract Services and 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 77 of the Local Government Pension Scheme Regulations 1997.

The main purpose of the valuation is to review the financial position of the Funds and to determine the rate at which the employing bodies participating in the Fund, should contribute in the future.

5 VALUATION PROCESS

The primary objective of the Fund is to provide for members 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. From 1 April 2009 tiered banded contributions at various rates from 5.5% to 12% have been applied. 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 employers 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 2011 are:

	Nominal Return (% pa)	Real Return (ie excluding the effects of inflation) (% pa)
Equities	6.9	3.4
Gilts	4.3	0.8
Bonds and Property	5.5	2.0

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 2011 are as follows:

	Nominal % pa	Real (ie excluding the effects of inflation) % pa
Pay increases	5.0	1.5

7 VALUATIONS OF LIABILITIES

The valuation of the liabilities is made using assumptions on pension increases. The assumption at 31 March 2011 for pension increases is 3.0% per annum. The cost of providing for benefits, depends not only upon the amount but also the incidence of benefits paid ie 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 Superannuation Fund since the last valuation at 31 March 2008 also has an impact on the valuation. Overall the experience of the Fund compared to the assumptions adopted at the previous valuation had a positive impact on the Fund.

9 TAYSIDE SUPERANNUATION FUND - VALUATION RESULTS AT 31 MARCH 2011

At 31 March 2011 the Tayside Superannuation Fund had a deficit of assets over liabilities of £35.8m. This is translated into a funding level of 98.0%.

Based on the above results the actuary recommends that the Fund's employer's contribution rate is reduced to:

2012/13	-	18.0% of pensionable pay
2013/14	-	18.0% of pensionable pay
2014/15	-	18.0% of pensionable pay

10 TAYSIDE TRANSPORT SUPERANNUATION FUND - VALUATION RESULTS AT 31 MARCH 2011

During the three years to 31 March 2011 the Transport Fund's financial experience compared to the assumptions had a positive impact on the funding level.

At 31 March 2011 the Transport Fund had a deficit of assets over liabilities of £1.6m. This is translated into a funding level of 97.0%. The actuary recommends a decrease in the employers contributions from the present £1,060,000.

2012/13	-	fixed contribution of £800,000
2013/14	-	fixed contribution of £820,000
2014/15	-	fixed contribution of £840,000

11 POST 31 MARCH 2011 EXPERIENCE

Since the valuation date there has been a fall in equity markets. The actuary does not consider this to have significantly affected the funding levels but the certified contribution rate contains an allowance for this.

12 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.

13 CONSULTATIONS

The Chief Executive and Depute Chief Executive (Support Services) have been consulted in the preparation of this report.

14 BACKGROUND PAPERS

Barnett Waddingham - Tayside Superannuation Fund Actuarial Valuation as at 31 March 2011.

Barnett Waddingham - Tayside Transport Superannuation Fund Actuarial Valuation as at 31 March 2011.

MARJORY STEWART
DIRECTOR OF FINANCE **08 MARCH 2012**