REPORT TO: **FINANCE COMMITTEE - 10 MARCH 2003**

REPORT ON: **TAYSIDE SUPERANNUATION FUNDS ACTUARIAL VALUATION AT 31 MARCH 2002**

REPORT BY: **DIRECTOR OF FINANCE**

REPORT NO: **190-2003**

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 2002.

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 and the only adjustable variable at each valuation is the level of employers contributions.

The outcome of the 2002 actuarial valuation is that the employer's contribution for 2003/04 will be 15.0% of pay, an increase of 0.6% on 2002/03. However, for the financial years 2004/05 and 2005/06 the employers contribution rate will increase from 15.0% of pay to 15.9% and 16.5% respectively. This will result in an increase in employer's costs for Dundee City Council in 2003/04 of approximately £0.5m, a further £0.75m in 2004/05 and a further £0.5m in 2005/06.

These figures are in respect of all City Council employees and therefore include the DLO, DSOs and Housing Department. The effect on General Fund services is estimated to be £0.4m in 2003/04, a further £0.6m in 2004/05 and a further £0.4m in 2005/06.

4 LOCAL AGENDA 21 IMPLICATIONS

There are no local agenda 21 implications.

5 EQUAL OPPORTUNITIES IMPLICATIONS

There are no equal opportunities implications.

6 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.

7 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 statue, at 6% for all staff (5% for manual staff commencing employment before 1 April 1998). 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.

8 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 2002 are:

	Nominal Return (% p.a.)	Real Return (ie excluding the effects of inflation) (% p.a.)
Equities	6.5	3.9
Bonds	5.2	2.6

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 2002 are as follows:

	Nominal % p.a.	Real (ie excluding the effects of inflation) % p.a.
Pay increases	4.10	1.50

9 VALUATIONS OF LIABILITIES

The valuation of the liabilities is made using assumptions on pension increases. The assumption at 31 March 2002 for pension increases is 2.6% 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.

10 INTERVALUATION EXPERIENCE

The actual experience of the Tayside Superannuation Fund since the last valuation at 31 March 1999 also has an impact on the valuation. Overall the financial experience of the Fund compared to the assumptions adopted at the previous valuation had a negative impact on the Fund. As early retirals are now met from additional employer contributions, these no longer impact on the Fund.

11 TAYSIDE SUPERANNUATION FUND - VALUATION RESULTS AT 31 MARCH 2002

At 31 March 2002 the Tayside Superannuation Fund had a deficit of assets over liabilities of £29.3m. This is translated into a funding level of 97%.

Based on the above results the actuary recommends that the Fund’s employer’s contribution rate should rise to 275% by 1 April 2005. The actuary recommends the following phased approach to reach the required contribution rate:

*	2002/03	-	240% of employees contribution (14.4% of pay)
	2003/04	-	250% of employees contribution (15.0% of pay)
	2004/05	-	265% of employees contribution (15.9% of pay)
	2005/06	-	275% of employees contribution (16.5% of pay)

* present contribution rate.

12 TAYSIDE TRANSPORT SUPERANNUATION FUND - VALUATION RESULTS AT 31 MARCH 2002

During the three years to 31 March 2002 the Transport Fund's financial experience compared to the assumptions had a negative impact on the funding level. The number of ill-health retirals was greater than expected again adversely affecting the funding level.

At 31 March 2002 the Transport Fund had a surplus of assets over liabilities of £2.3m, the actuary recommends an increase in the employers contributions from the present 100% of employees contributions as follows:

2003/04	-	150% of employees contributions
2004/05	-	195% of employees contributions
2005/06	-	240% of employees contributions

13 POST 31 MARCH 2002 EXPERIENCE

Since the date of the valuation, equity values have reduced and accordingly it is expected that the funding levels of both Funds will have fallen. The actuary has been aware of this and will have taken some account of this in the contribution rates that have been set. However, if significant additional falls were to occur it may be that an interim valuation before the normal three year cycle is completed would be required. The need for this will be monitored by the Director of Finance.

DAVID K DORWARD
DIRECTOR OF FINANCE **20 FEBRUARY 2003**

BACKGROUND PAPERS

No background papers, as defined by section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.