

REPORT TO: POLICY AND RESOURCES COMMITTEE - 9 FEBRUARY 2009

**REPORT ON: TAYSIDE SUPERANNUATION FUNDS
ACTUARIAL VALUATION AT 31 MARCH 2008**

REPORT BY: HEAD OF FINANCE

REPORT NO: 41-2009

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 2008.

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 2008 actuarial valuation is that the employer's contribution for 2009/10 will be 18.5% of pay broadly the same as 2008/09. For the financial years 2010/11 and 2011/12 the employers contribution rate will continue at 18.5%. This will result in a saving in employer's costs for Dundee City Council in 2009/10 of approximately £139k. These figures are in respect of all 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 there will be 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 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 2008 are:

	Nominal Return (% pa)	Real Return (ie excluding the effects of inflation) (% pa)
Equities	7.8	4.1
Gilts	4.6	0.9
Bonds and Property	5.9	2.2

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 2008 are as follows:

	Nominal % pa	Real (ie excluding the effects of inflation) % pa
Pay increases	5.2	1.5

7 VALUATIONS OF LIABILITIES

The valuation of the liabilities is made using assumptions on pension increases. The assumption at 31 March 2008 for pension increases is 3.7% 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 2005 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 positive impact on the Fund.

9 TAYSIDE SUPERANNUATION FUND - VALUATION RESULTS AT 31 MARCH 2008

At 31 March 2008 the Tayside Superannuation Fund had a deficit of assets over liabilities of £37.6m. This is translated into a funding level of 97.6%.

Based on the above results the actuary recommends that the Fund's employer's contribution rate remains broady in line with current levels:

2009/10	-	18.5% of pensionable pay
2010/11	-	18.5% of pensionable pay
2011/12	-	18.5% of pensionable pay

10 TAYSIDE TRANSPORT SUPERANNUATION FUND - VALUATION RESULTS AT 31 MARCH 2008

During the three years to 31 March 2008 the Transport Fund's financial experience compared to the assumptions had a positive impact on the funding level.

This has been offset by an increase in the cost of ongoing accrual of benefits which has caused a need to increase employer contributions.

At 31 March 2008 the Transport Fund had a deficit of assets over liabilities of £3.4m. The actuary recommends an increase in the employers contributions from the present £900,000.

2009/10	-	fixed contribution of £1,000,000
2010/11	-	fixed contribution of £1,030,000
2011/12	-	fixed contribution of £1,060,000

11 POST 31 MARCH 2008 EXPERIENCE

Since the valuation date there has been a marked 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, Depute Chief Executive (Support Services) and Depute Chief Executive (Finance) have been consulted in the preparation of this report.

14 BACKGROUND PAPERS

Barnett Waddingham - Tayside Superannuation Fund Actuarial Valuation at 31 March 2008.

Barnett Waddingham - Tayside Transport Superannuation Fund Actuarial Valuation at 31 March 2008.

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