REPORT TO: **FINANCE COMMITTEE - 8 MAY 2006**

REPORT ON: **TAYSIDE SUPERANNUATION FUNDS ACTUARIAL VALUATION AT 31 MARCH 2005**

REPORT BY: **DEPUTE CHIEF EXECUTIVE (FINANCE)**

REPORT NO: **268-2006**

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 2005.

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 2005 actuarial valuation is that the employer's contribution for 2006/07 will be 16.5% of pay, the same as 2005/06. However, for the financial years 2007/08 and 2008/09 the employers contribution rate will increase from 16.5% of pay to 17.7% and 18.9% respectively. This will result in an increase in employer's costs for Dundee City Council in 2007/08 of approximately £1.3m and a further £1.3m in 2008/09. These figures are in respect of all City Council employees and therefore include Dundee Contract Services and Housing Revenue Account. The effect on General Fund services is estimated to be £1.1m in 2007/08 and a further £1.1m in 2008/09. Provision for the additional employers contribution will be included in the 2007/08 and 2008/09 Revenue Budgets.

4 LOCAL AGENDA 21 IMPLICATIONS

None

5 EQUAL OPPORTUNITIES IMPLICATIONS

None

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 statute, 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 2005 are:

	Nominal Return (% pa)	Real Return (ie excluding the effects of inflation) (% pa)
Equities	7.1	4.3
Gilts	4.5	1.7
Bonds and Property	5.3	2.5

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 2005 are as follows:

	Nominal % pa	Real (ie excluding the effects of inflation) % pa
Pay increases	4.3	1.5

9 VALUATIONS OF LIABILITIES

The valuation of the liabilities is made using assumptions on pension increases. The assumption at 31 March 2005 for pension increases is 2.8% 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 2002 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.

11 TAYSIDE SUPERANNUATION FUND - VALUATION RESULTS AT 31 MARCH 2005

At 31 March 2005 the Tayside Superannuation Fund had a deficit of assets over liabilities of £108m. This is translated into a funding level of 91%.

Based on the above results the actuary recommends that the Fund's employer's contribution rate should rise to 315% by 1 April 2008. The actuary recommends the following phased approach to reach the required contribution rate:

2006/07	-	275% of employees contribution (16.5% of pay)
2007/08	-	295% of employees contribution (17.7% of pay)
2008/09	-	315% of employees contribution (18.9% of pay)

12 TAYSIDE TRANSPORT SUPERANNUATION FUND - VALUATION RESULTS AT 31 MARCH 2005

During the three years to 31 March 2005 the Transport Fund's financial experience compared to the assumptions had a negative impact on the funding level.

At 31 March 2005 the Transport Fund had a deficit of assets over liabilities of £4.2m, the actuary recommends an increase in the employers contributions from the present 240% of employees contributions. Following a meeting with the Transport Fund employer, Travel Dundee, it was agreed to express the future contributions as a financial value rather than a percentage of employees contributions.

2006/07	-	fixed contribution of £500,000
2007/08	-	fixed contribution of £700,000
2008/09	-	fixed contribution of £900,000

13 POST 31 MARCH 2005 EXPERIENCE

Changes to the Pension Scheme in relation to the withdrawal of the Rule of 85 have been introduced in England and Wales and are proposed for Scotland. This has not been allowed for in the calculated rates. Should the change be introduced in Scotland the actuary may wish to review the certified levels of contribution which would be expected to reduce. The Depute Chief Executive (Finance) will monitor this situation in conjunction with the actuary.

14 BACKGROUND PAPERS

None

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