SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **15 MAY 2014**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **ACTUARIAL VALUATION 2013: OUTCOME**

SUMMARY OF ISSUE:

Report setting out the final outcome of the 2013 triennial actuarial valuation in respect of the Surrey County Council Pension Fund

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RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

1 note the report and adopt the 2013 Actuarial Valuation and Rates & Adjustments Certificate.

2 approve the final version of the Funding Strategy Statement.

REASON FOR RECOMMENDATIONS:

An actuarial valuation is a statutory requirement for the pension fund.

DETAILS:

Background

1 The Surrey County Council Pension Fund has a funding objective:

"To achieve and then maintain a funding target that requires assets equal to 100% of the present value of benefits based on completed service including provision for the effects of future salary growth and inflation up to retirement."

2 In order to achieve this objective, it is necessary to assess the fund's financial position on a periodic basis and implement future contribution rates with a view to achieving the desired status of 100% funding. LGPS pension funds are actuarially valued on a triennial basis and the fund's actuary, Hymans Robertson, has just completed the fund's valuation as at 31 March 2013.

3 Negotiations with all employer bodies have been successfully concluded.

4 This report sets out the final outcome of the valuation with the final version of the actuary's report and certificate included as Annex 1 to this report.

Valuation Results: Deficit and Funding Level

5 At 31 March 2013, the pension fund had a funding level of 72.3%, i.e., the Fund's assets of the fund are adequate to meet 72.3% of the future liabilities.

Individual Employer Contribution Rates

6 While the fund is managed as a whole, it is effectively a number of sub-funds for each individual employer. This means that each employer contributes according to a contribution rate that specifically reflects the individual employer's membership profile. Under guidance from the actuary, we have continued to set deficit recovery contributions as monetary amounts. Employee contributions are payable in addition to the employer contributions.

7 Where there are prospects of early retirement, thus giving rise to additional short-term costs in the form of immediate access to pension benefits, this will result in an element of actuarial strain (but specifically not including any redundancy cost). Additional contributions will be paid on top of the rates indicated in respect of early retirements where appropriate.

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Process

8 The process commenced from 1 April 2013 with the preparation and transfer of actuarial data to the actuary. The actuary was very complimentary on the quality of the Surrey Pension Fund data, advising officers of a quality rating of over 99% accuracy. Such a high standard makes the actuary's work far easier in terms of the process required to produce an accurate assessment and meaningful contribution rates and deficit payments required to tackle the overall fund deficit. Acknowledgement should be made of the Pensions Administration Team's work over the years in terms of ensuring high quality data is held in respect of the Fund's membership.

9 One outcome of the valuation was the disbanding of the pooling arrangements in respect of parish councils and other admitted bodies. Whilst such a pooling system would work with a complete merger of all parish councils' pension liabilities, if one parish council was required to withdraw from the pool, the contributions paid may have borne little resemblance to the individual pension liabilities that had built up. On production of the initial actuarial results just before Christmas, the Fund was advised by the actuary to take the decision that each employer must pay contributions according to their own liability profile, and this was advised to the affected employers.

10 All employers were advised of new rates from 2 January 2014 onwards. Staff worked diligently in terms of dealing with many queries and feedback. The pension fund is statutorily bound to take into account the financial circumstances of every employer and staff were able to refer specific instances back to the actuary with some flexibility offered where relevant and appropriate. All negotiations were complete by 31 March 2014, apart from one instance where agreement was reached with an employer on 23 April 2014.

Future Funding Plan

11 The Pensions Fund's funding plan is set out in the Funding Strategy Statement (FSS) in Annex 2. Individual employer funding plans and each employer's contribution rates have been determined in accordance with the FSS.

12 Depending on each employer's individual circumstances, different approaches to the funding of benefits will be adopted, as part of the FSS consultation process. For the vast majority of employers, the two main features of the funding plan are that contribution rates should be assessed on the basis of recovery of the deficit over a period of 20 years. The increase in contributions is being phased where appropriate. The contribution rates will continue to be reviewed triennially.

13 The employer bodies of the Fund were consulted on 20 March 2014 with a final draft of the Funding Strategy Statement sent to all relevant employers. Comments and feedback were invited and, where appropriate, such feedback has been incorporated into a final FSS statement. 9

CONSULTATION:

14 The Chairman of the Pension Fund Board has been consulted on the proposed changes and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

15 Risk related issues are contained within the actuary's report in Annex 1 and the FSS in Annex 2.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

16 The costs of the actuarial valuation will be funded from the administrative expenses of the pension fund.

CHIEF FINANCE OFFICER COMMENTARY

17 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed within the report and its appendices, and that the actuarial report will provide the Pension Fund with a solid framework in which to achieve a full funding status over the long term.

LEGAL IMPLICATIONS – MONITORING OFFICER

18 The actuarial report is a statutorily required document.

EQUALITIES AND DIVERSITY

19 The report will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

20 There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT:

21 The following next steps are planned:

- Commencement of the 2014/15 year's work programme in line with the actuarial assumptions.
- Final Actuarial Report and Funding Strategy Statement to be posted onto the Pension Fund website.
- Progress monitoring will take place and, if necessary, matters will be discussed at future Board meetings.
- Next actuarial valuation to take place as at 31 March 2016.

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Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Annex 1: Actuarial Report 2013 and Rates & Adjustments Certificate
Annex 2: Funding Strategy Statement

Sources/background papers:
None
