

BABERGH DISTRICT COUNCIL

FROM: Head of Finance

REPORT NUMBER **F148**

TO: Strategy Committee

DATE OF MEETING 11 January 2007

PENSION FUND

1. **SUMMARY**

- 1.1 The latest assessment of the position on the Pension Fund, as at 30 September 2006, shows that the estimated deficit has reduced since the previous assessment as a result of investment experience and contributions but that, after allowance is made for increased longevity and other factors, there could be a potential increase in the future service contribution rate for the council.

2. **RECOMMENDATION**

- 2.1 That the Council continues with the level of Pension Fund contributions required under Suffolk County Council's current Funding Strategy Statement until the triennial valuation by the actuary as at the 31 March 2007 is completed.

The Committee is able to resolve this matter.

3. **FINANCIAL IMPLICATIONS**

- 3.1 There are no additional costs on the budget for 2007/08. Contributions will only increase in line with pay in accordance with Suffolk County Council's Funding Strategy Statement.
- 3.2 Any future change in contributions will take effect from the year 2008/09 and will depend on the actuarial assessment of the Pension Fund as at the 31 March 2007 and any agreed revisions to the Funding Strategy.

4. **KEY INFORMATION**

- 4.1 Suffolk County Council administers the Pension Fund and there is a statutory requirement for the fund to be valued every three years. In addition, Suffolk County Council carries out regular interim assessments in conjunction with its actuaries, and an assessment of the position as at the 30 September 2006 has just been received. This shows the extent to which estimated Pension Fund assets cover the Council's long-term liabilities.
- 4.2 A comparison of the latest assessment with the triennial valuation for 31 March 2004 and the assessment in March 2005 is set out below. This shows that the estimated deficit has fallen from £10.5m to £9.3m. This is after the actuary has introduced a provision for increased longevity. The next full triennial actuarial assessment of the Pension Fund will be as at the 31 March 2007.

	Valuation 31/3/04	Assessment 31/3/05	Funding update Sept. 2006
	£M	£M	£M
Long-term Liabilities:	36.8	40.0	48.8
Share of Assets	-26.3	-29.5	-39.5
Estimated Deficit	10.5	10.5	9.3
Funding level	71.4%	73.7%	80.9%

- 4.3 Higher bond yields mean that the value of accrued benefits ie long-term liabilities have increased. At the same time, however, positive investment returns have increased, resulting in asset values more than offsetting the liabilities increase to produce an improved funding level of nearly 81%, which is welcome.
- 4.4 The latest assessment does not allow for the provision introduced in April 2006 for scheme members to elect to take more of their pension as a lump sum. Nor does it reflect any changes that arise from the new look Local Government Pension Scheme that is currently the subject of further consultation.
- 4.5 In addition, although the ‘rule of 85’ has been abolished from October 2006 (with transitional arrangements to protect scheme members until 2008) this is not reflected in the latest assessment but will have a further positive effect.
- 4.6 It should be noted that this latest assessment is only an approximation of the position and is not a full valuation. A summary of the main changes in the valuation compared to March 2004 is set out below:

	£M
Deficit at 31 March 2004	10.5
Changes:	
• Interest on deficit	+1.0
• Changes in yields and inflation	+4.7
• Gains on investments	-5.5
• Contributions (normal and towards deficit less benefits accruing)	-1.4
Assessment at 30 September 2006	9.3

- 4.7 On the basis of the valuation at 31 March 2004 and Suffolk County Council’s Funding Strategy Statement, the Council is making contributions into the fund, which should clear the deficit over a 12-year period. This, along with other changes in the position of the Fund, despite an increase in longevity assumptions and the adverse impact of future investment return assumptions, has resulted in the deficit reducing.
- 4.8 As indicated above, the prospects for future investment returns are currently being assessed by the actuary as poorer than in 2004, which impacts on the future service rate. Employer contributions (from 2008/09) towards the deficit and in relation to the future service rate will depend on whether these prospects change between now and March 2007. Should the future service rate need to increase, the Council will need to consider the position and the option of persuading the County Council to amend the Funding Strategy to enable the deficit to be spread over a longer period.

4.9 It should be emphasised that these projections and indications are only illustrative and that the actual contribution rate will only be known and agreed when the full actuarial valuation of the Pension Fund as at the 31 March 2007 takes place.

5. **APPENDICES**

None

6. **BACKGROUND INFORMATION**

Suffolk County Council : Pension Fund Actuarial Assessment as at 30 September 2006.

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