

AGENDA ITEM: 6

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Meeting	Pension Fund Committee
Date	21 December 2010
Subject	Barnet Pension Fund Triennial Evaluation
Report of	Deputy Chief Executive
Summary	This report advises the Committee on the actuarial valuation of the Pension Fund as at 31 March 2010 and the contribution rates required of each fund employer to address the fund's deficit.

Officer Contributors	John Hooton, Assistant Director of Strategic Finance Karen Bannister, Interim Treasury Manager
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A – Actuarial Report
For decision by	Pension Fund Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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1. RECOMMENDATIONS

- 1.1 That the deficit position, as identified by the initial triennial valuation results of the London Borough of Barnet Pension Fund as at 31 March 2010 be noted.**
- 1.2 That the revised employer contribution rates for the next three years be agreed, subject to the minor variations as recommended by the Pension Fund Actuaries.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Council – 11th September 2007 – Minute 64.
- 2.2 Pension Fund Committee – 26 March 2008 – Dec. 1 – Exempt
- 2.3 Pension Fund Committee – 10 September 2008 – Dec 11 & exempt.
- 2.4 Pension Fund Committee – 4 February 2010

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 To ensure that the pension fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will provide support towards the Council's corporate priorities in providing better services, with less money.
- 3.2 The objectives of the Pension Fund Funding Strategy Statement include ensuring the long term solvency of the fund and identification of the share of the Fund attributable to individual employers.

4. RISK MANAGEMENT ISSUES

- 4.1 The accuracy of the valuation relies on the accuracy of the data provided to the actuaries. Any errors in the provision of the data could have a significant impact on the required contribution rates, particularly for the smaller scheduled and admitted bodies. This risk has been mitigated by a thorough review of the data by officers within the Pensions Administration and Treasury Management teams and a series of reasonableness and data integrity tests applied by the actuary.
- 4.2 The value of the pension fund assets at any point in time is determined by the market and a large movement in the markets could have a significant impact on the surplus or deficit of the fund.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 Ensuring the long term financial health of the pension fund will benefit everyone who contributes to the fund.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 The recommended employer contribution rate has been incorporated into the draft budget and any variation agreed by the committee will impact on the draft budget. Other financial issues are set out in the body of the report.

7. LEGAL ISSUES

- 7.1 This report is based on the provisions of (i) the Local Government Pension Scheme (Administration) Regulations 2008 (SI 2008/239); (ii) the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (SI 2007/1166); and (iii) The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (SI 2008/238) which have their basis in the Superannuation Act 1972.
- 7.2 As a local authority, the council's employees have the right to be members of the Local Government Pension Scheme and, therefore, the Council is statutorily required to make employer contributions.

8. CONSTITUTIONAL POWERS

- 8.1 Constitution – Part 3 Responsibility for Functions – Section 2 – Responsibility for Council Functions delegated to the Pension Fund Committee through the Pension Fund Governance Compliance Statement.

9 BACKGROUND INFORMATION

- 9.1 It is a regulatory requirement of the Local Government Pension Scheme that the administering authority instructs the actuary to undertake a triennial valuation. The main purpose of the valuation is to review the financial position of the Fund and to determine the rate at which the employers of the Fund should contribute in the future to ensure that the existing assets and future contributions will be sufficient to meet future benefit payments from the Fund.
- 9.2 The primary purpose of the figures produced as part of the triennial valuation is for “budgeting” or setting the future levels of employer contributions payable to the Fund.
- 9.3 The last valuation of the fund was undertaken by the previous actuaries, Hymans Robertson LLP as at 31 March 2007. The results of the 2007 valuation indicated that the assets of the Fund represented 71% of the accrued liabilities of the Fund. The Total Required Contribution Rate was certified as 24% of payroll which assumed that the past service funding level would be restored over a period of 20 years.
- 9.2 The results for the Fund as a whole for a series of potential scenarios, relating to the performance of the Pension Fund's assets compared to the expected return on gilts, are summarised in Appendix A.

9.3 The actual contribution rate will differ for each scheduled and admitted body and these are shown in Appendix A. The main reasons for variations in individual results are due to differences in:-

- Maturity profile of members;
- Experience of employers since 2007 including mortality rates, salary increases, early retirements and workforce changes.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: TE

CFO: AT

The London Borough of Barnet Pension Fund

2010 Actuarial Valuation – Initial Results
December 2010

Alison Hamilton FFA

Agenda

- Purpose of the valuation
- How do we do it?
- Funding models and assumptions
- Initial Results
- Next steps
- Questions and discussion



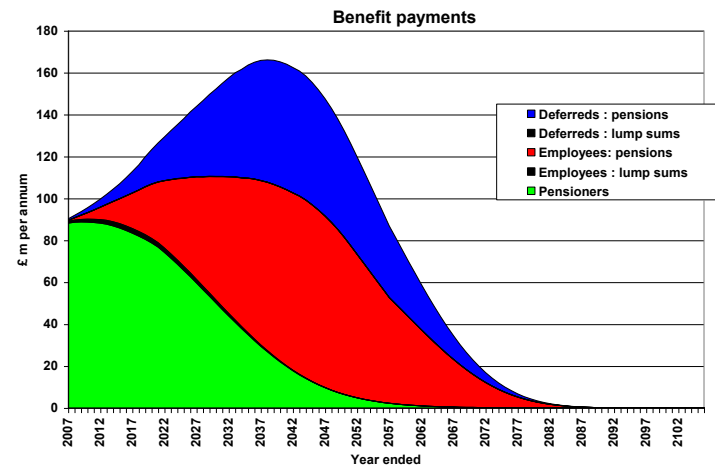
Purpose of the valuation

- Set out in Regulation
 - *Review the financial health of the Pension Fund*
 - to *certify* levels of employer contributions to secure the *solvency* of the Fund
- Also have to look at Funding Strategy Statement
- Actuary to “have regard to desirability of maintaining as **stable** a contribution rate as possible”
 - Function of the assumptions
 - Investment strategy
 - The benefits being promised by the fund



How do we do it?

- Step 1
 - Projection of all possible benefit payments for each member
- Step 2
 - Attach probabilities to each possible payment to get “expected” payments
- Step 3
 - Discount “expected” payments to obtain “value”



How do we do it?

- Look at accrued benefits and future benefits separately
- Past Service
 - Compare assets with value of accrued benefits
- Future Service
 - Determine contribution required to meet value of annual accrual of benefits
- Calculations completed at
 - Member by member level
 - Whole fund level
 - Individual employer level to minimise cross-subsidy



What do we need?

- Data
 - Membership data to determine future benefit payments
 - Financial data (accounts and employer cashflows) to determine asset shares
- Assumptions
 - Made by the actuary
 - Long term
 - For projections
 - Inflation and mortality rates, retirement rates etc
 - For discounting
 - Discount rate / future investment returns



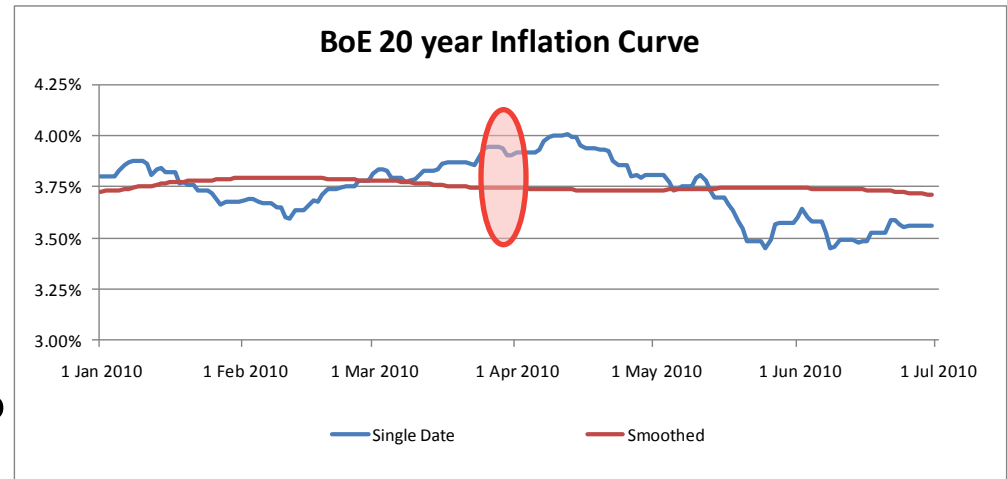
BW Funding Model

- BW “Dynamic Gilts Plus” Model
 - Recognises the assets held by the fund
 - Smoothed asset value
 - Smoothed assumptions
- Liability valuation a function of several market indicators
 - Consistent with the asset valuation
- Aims to get assets and liabilities moving in the same direction at the same time
 - Consistent with stability objective



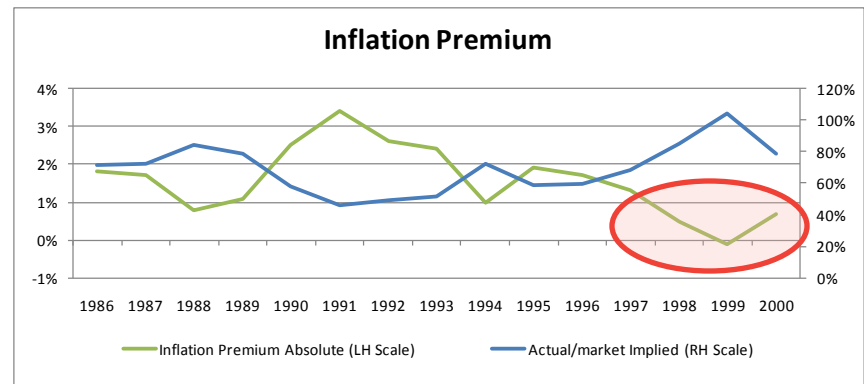
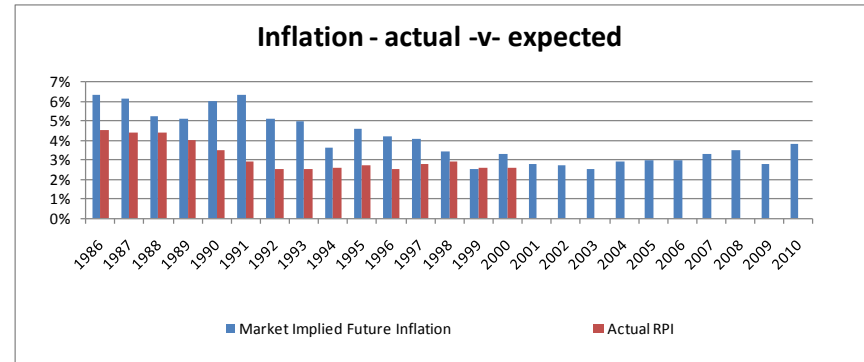
Inflation (RPI)

- Consistent with the market
- Use Bank of England Inflation Curve
- Spot yield of 3.9%
- Smoothed yield of 3.7%
- What about so called “inflation premium”



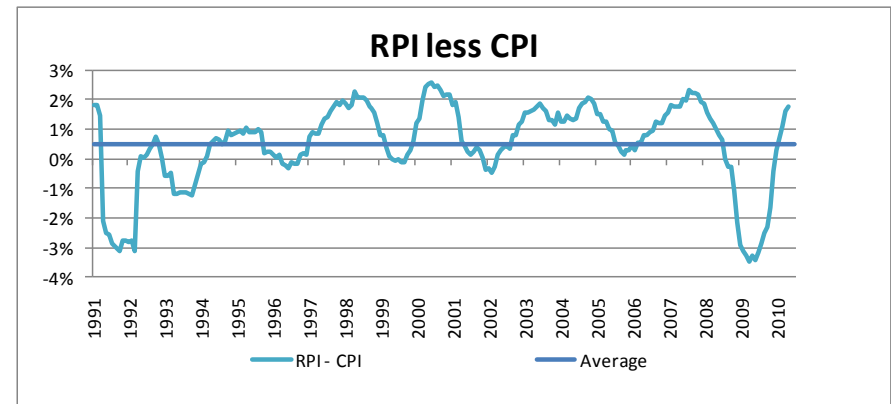
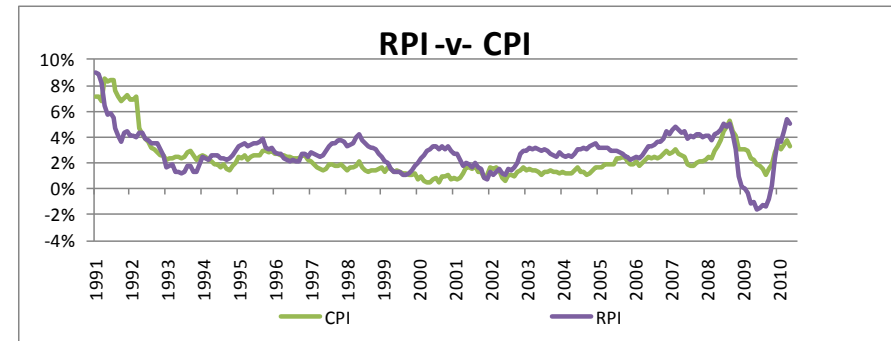
Inflation Premium

- Theory is investors will pay premium for inflation protection
- But how much?
- Maybe up to 0.5% per annum?
- Proposed premium of 0.25% per annum
- RPI assumption – 3.5%



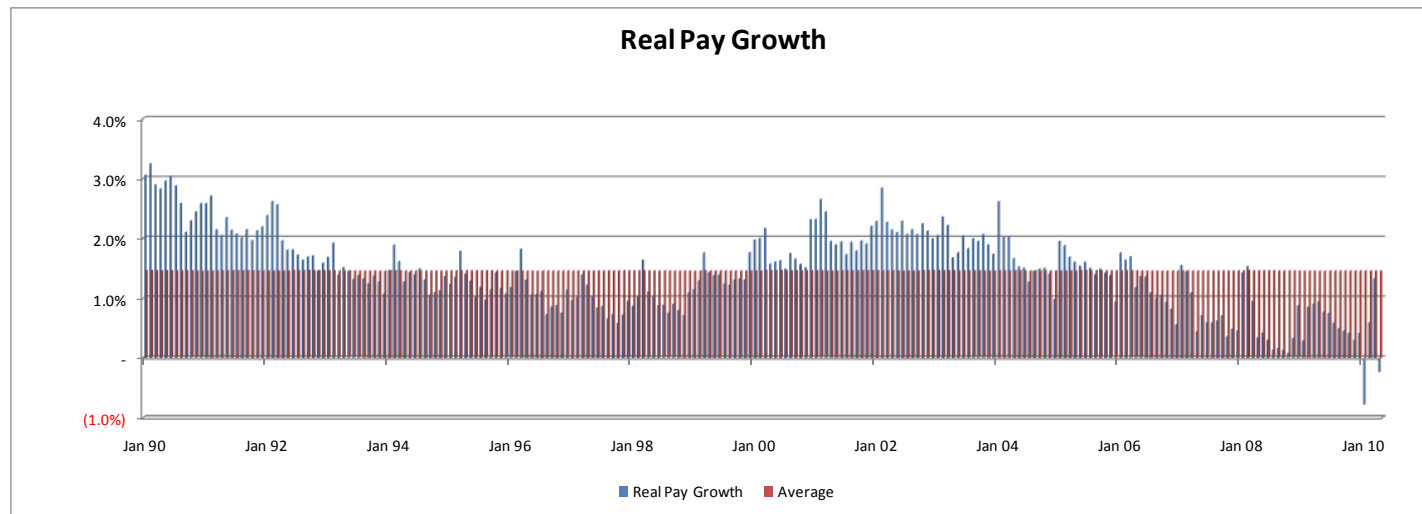
Adjust for CPI?

- Chancellor announces pensions increase to be linked to CPI rather than RPI
- CPI expected to be less than RPI
 - Partly housing costs
- How much?
- Propose 0.5% per annum
- Pension increase assumption
 - 3.0% per annum



Pay Increases

- Historically pay has exceeded RPI price inflation
 - Economic growth
- Typical long term assumption of 1.5% pa
- Looks chunky in the short term
- And public sector pay freeze promised



Step 2 – Probabilities

- Mortality
 - Varies regionally
 - Reflect the Fund pensioners and future pensioners
 - Continues to be heavier than the UK average
- Ill health
 - Lower numbers, but higher amounts
- Turnover
- Retirement patterns

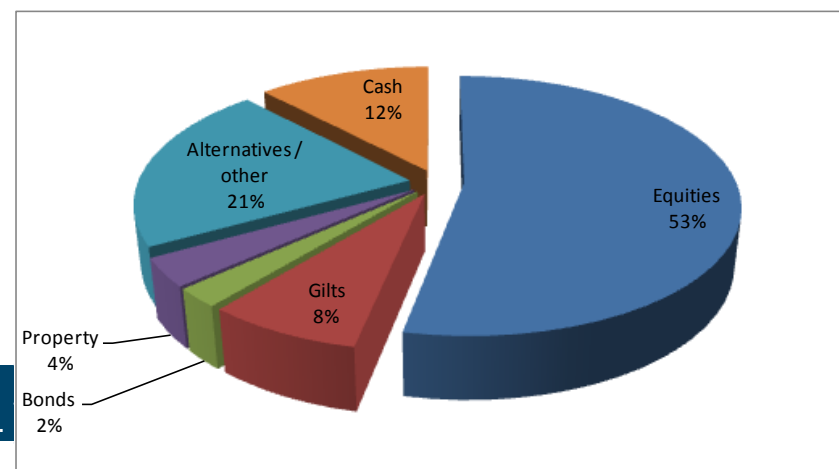
Step 3 Discount rates

- FRS17 valuation
 - Corporate bond yields / cost of borrowing
- Funding valuation
 - Expected future investment returns
- Gilts and bonds
 - Redemption yields
- Equities
 - Something more than gilts
- Property/Alternatives
 - Somewhere between equities and gilts



Deriving Discount Rate

- Apply expected returns to actual asset allocation
- Adjust for risk



Financial Assumptions	March 2010		March 2007	
	% p.a.	Real % p.a.	% p.a.	Real % p.a.
Investment Return				
Equities/absolute return funds	7.4%	3.9%		
Gilts	4.5%	1.0%		
Bonds & Property	5.6%	2.1%		
Risk Adjusted Discount Rate	6.7%	3.2%	6.1%	2.9%
Pay Increases	5.0%	1.5%	4.7%	1.5%
Price Inflation	3.5%	-	3.2%	
Pension Increases	3.0%	(0.5%)	3.2%	

2007-2010 Barnet Experience

Financial Experience	Actual % p.a.	Assumed % p.a.	Difference % p.a.
Investment Return	3.0%	6.1%	(3.1%)
Estimated Pay Increases	4.4%	4.7%	(0.3%)
Price Inflation/Pension Increases	2.9%	3.2%	(0.3%)

- Investment returns less than assumed
- Salary increases less than assumed
- Inflation lower than assumed
- Investment experience the key factor

2007-2010 Barnet Experience

Active Membership Movements	Actual	Assumed	Difference %
Early Leavers	1,885	1,702.6	11%
Deaths in Service	23	28	(18%)
Retirements			
Ill health	25	130.5	(81%)
Age	520	520	-
Voluntary	26		
Redundancy	179		
Efficiency	10		
Total	760	650	17%

Turnover greater than expected

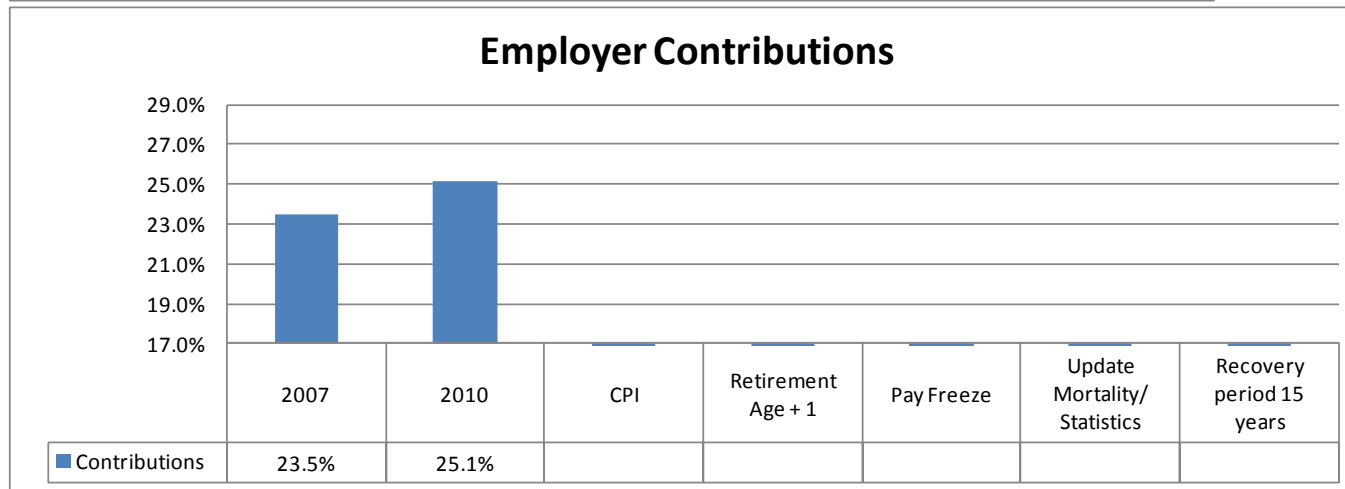
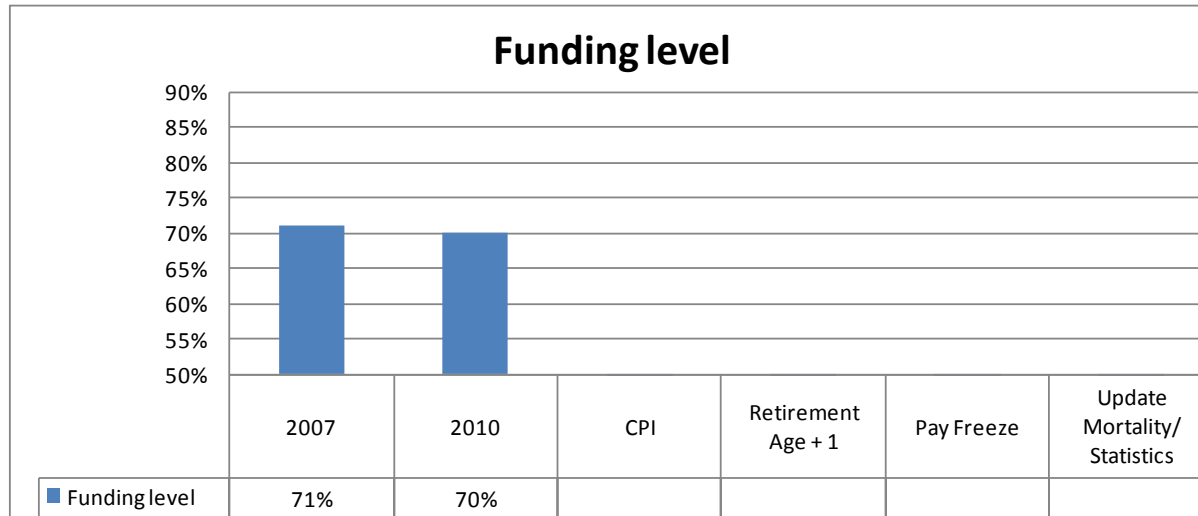
Fewer ill health retirements

Other early retirement cost met

Pensioner Deaths	Pensioners	Dependants	Total
By Number			
Actual	397	177	574
Assumed	286	90	376
% Difference	39%	96%	53%

Mortality higher expected but evidence the rate of improvement continues apace

Initial results 1- Whole Fund

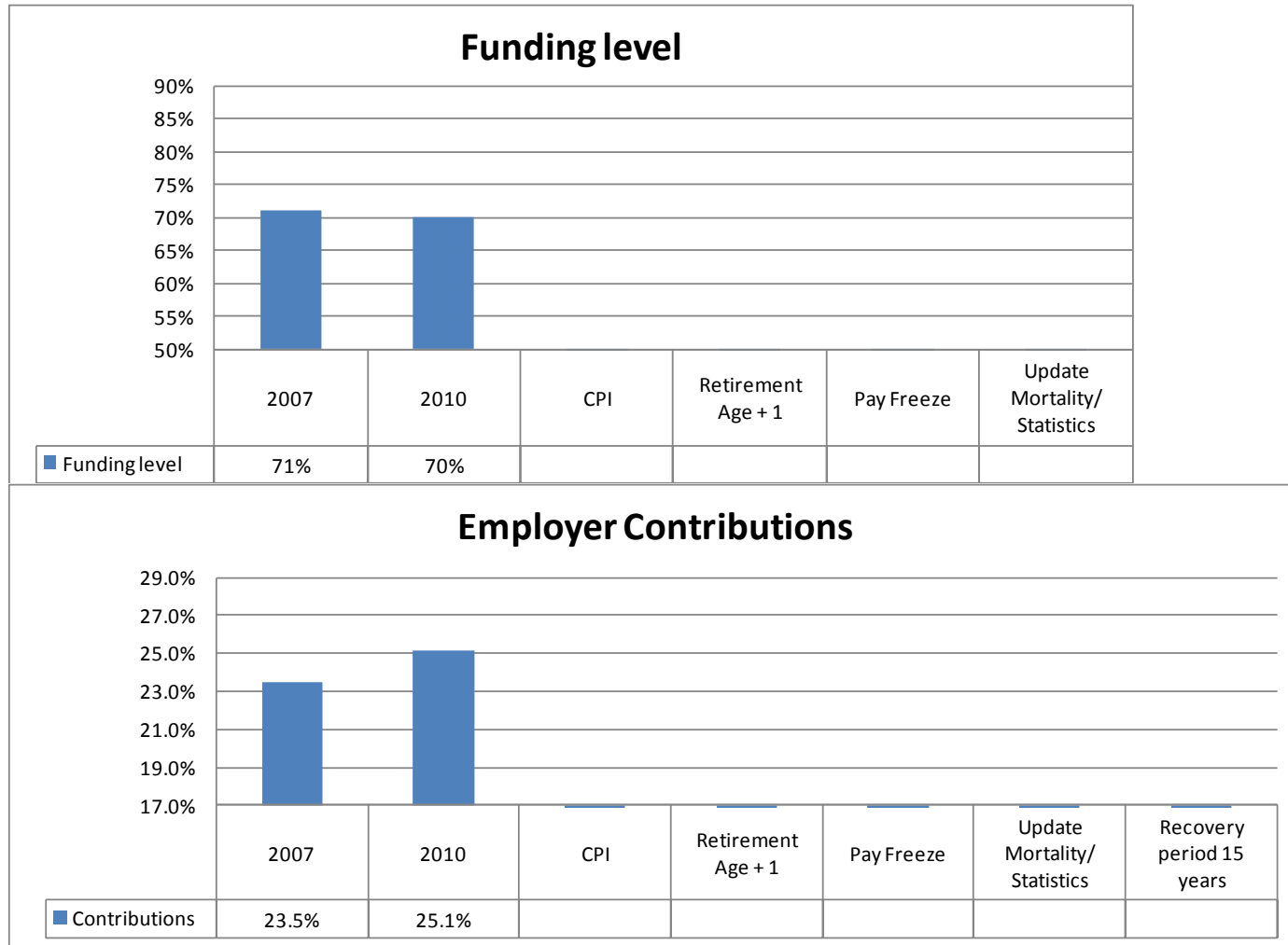


Review of initial assumptions

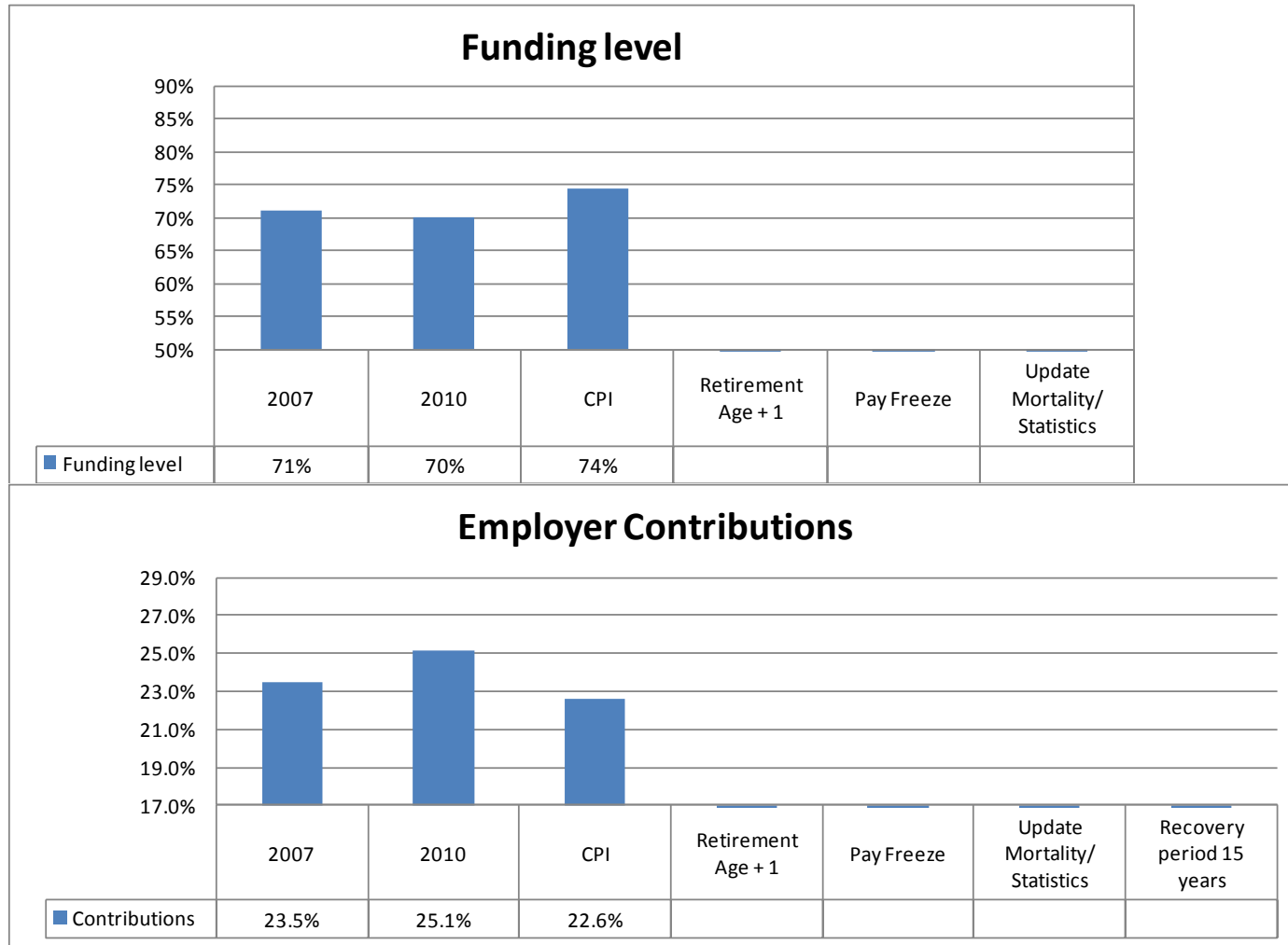
- Allow for CPI
- Pay growth
 - Allow for 2 year pay freeze
- Later retirement age
 - Assume increase in State Pension Age will influence retirement age
 - Assume future retirees retire 1 year after “eligible retirement date”
- Update mortality and demographic assumptions
 - Allow for more future improvement
 - Assume higher incidence of Tier 1 ill health retirements



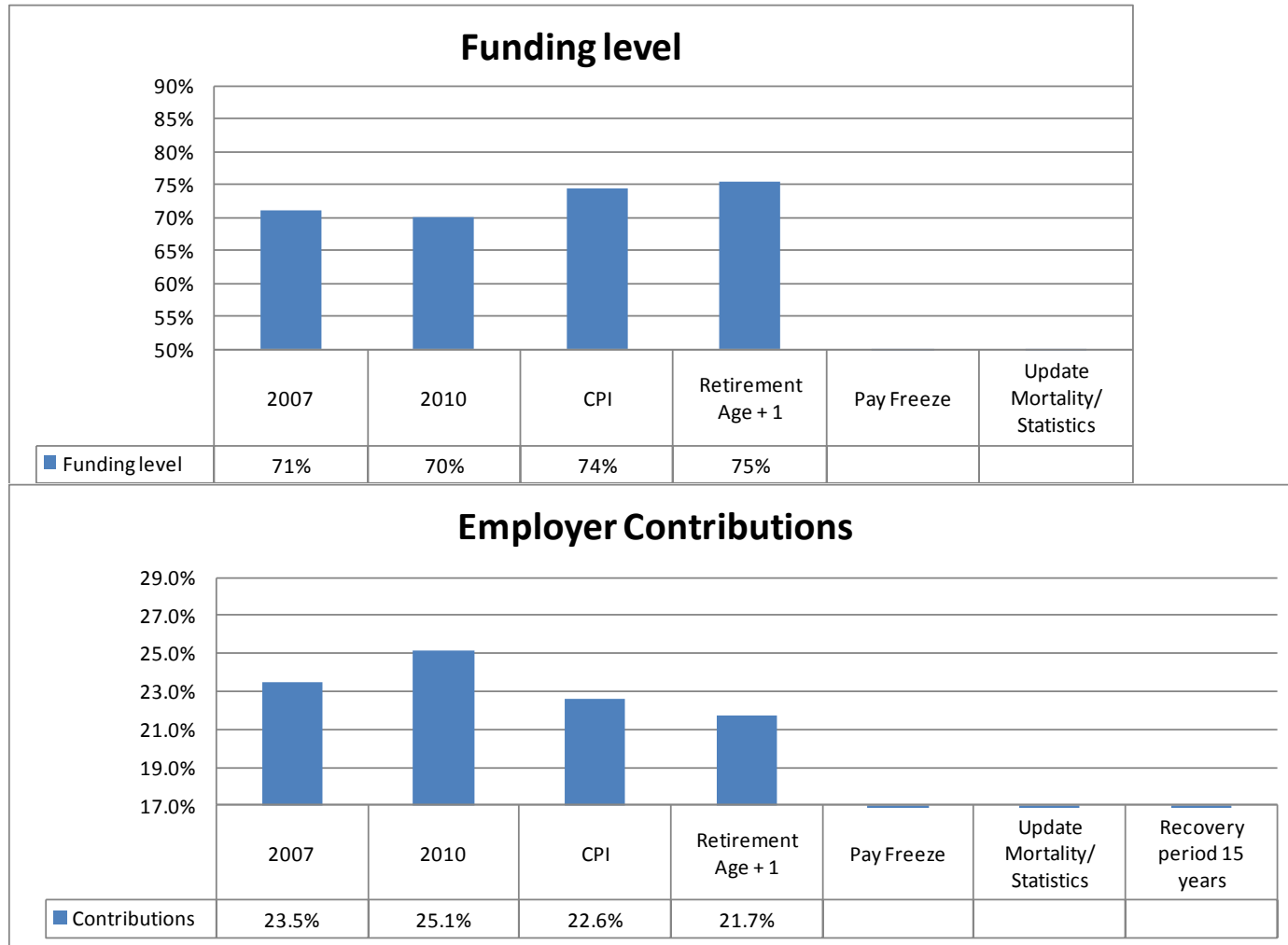
Initial results 2 – Whole Fund



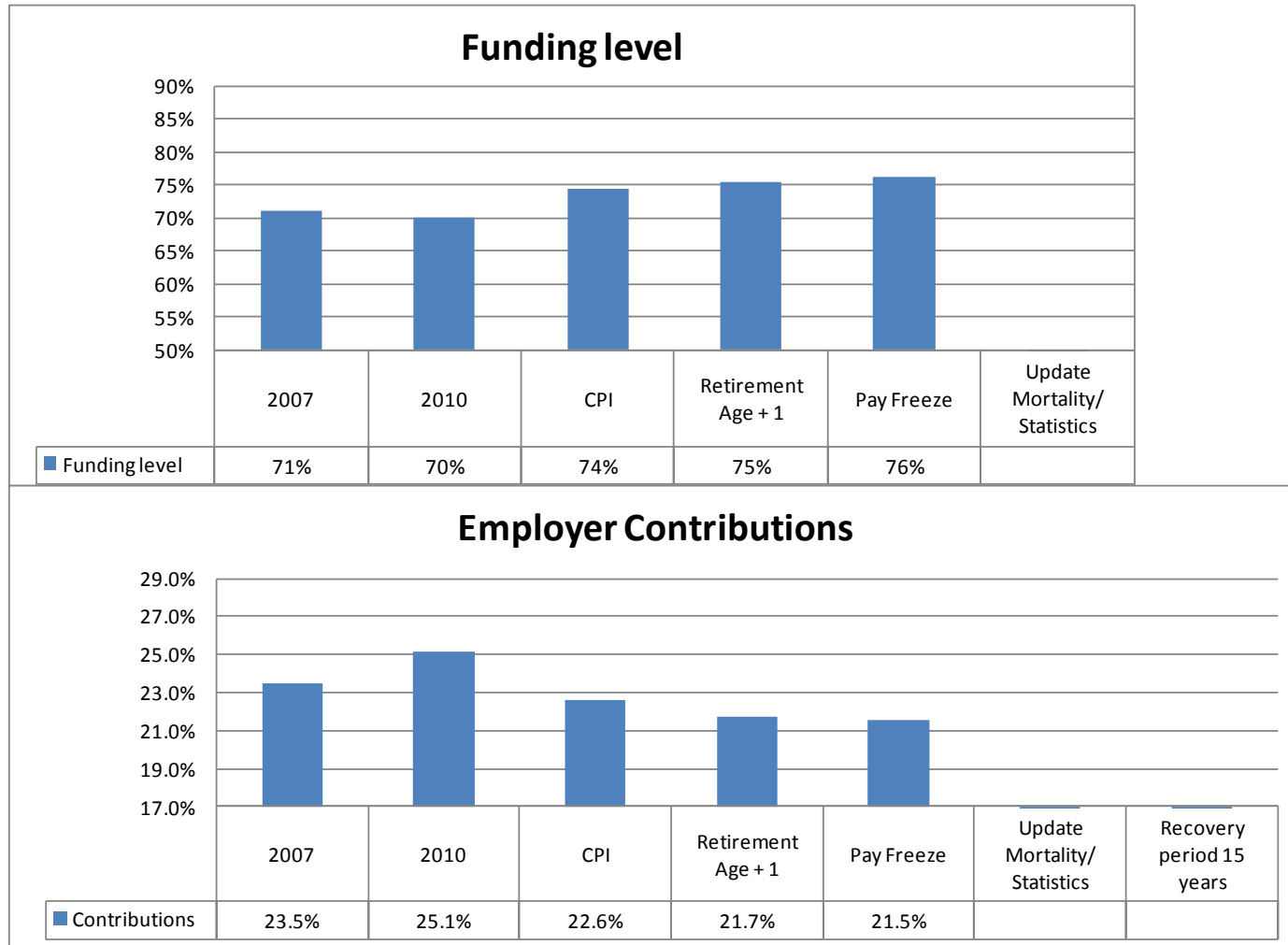
Initial results 2 – Whole Fund



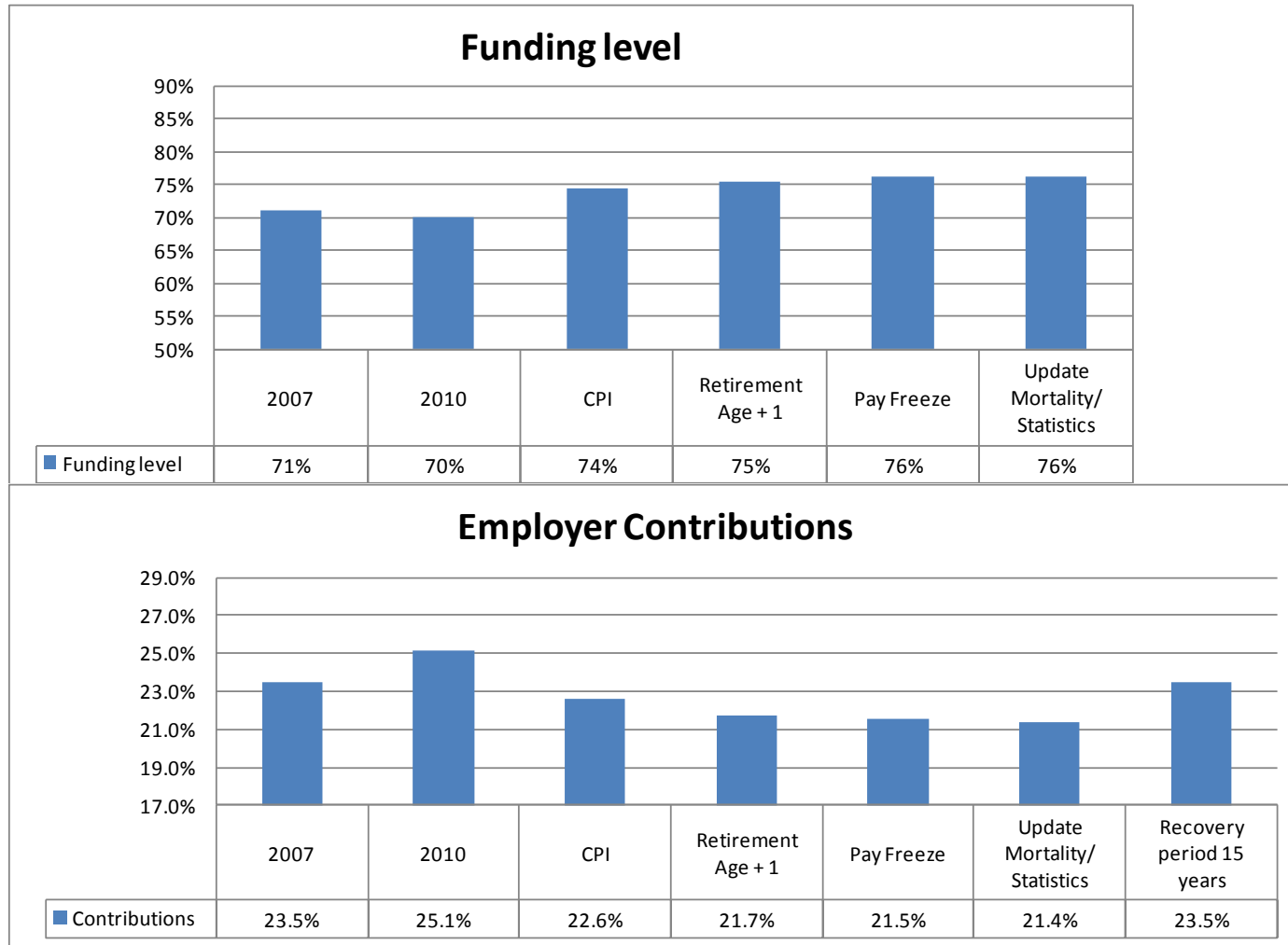
Initial results 2 – Whole Fund



Initial results 2 – Whole Fund



Initial results 2 – Whole Fund



Employer Contribution Rates

Code	Employer	Current Rate 2010/11	Proposed Rate (15 year recovery)
1	London Borough of Barnet	24.8%	23.8%
4	Middlesex University	28.6%	27.6%
10	Barnet College	23.0%	22.2%
12	Woodhouse College	23.0%	22.2%
23	The Friends of Moat Mount Campsite	23.7%	22.7%
24	Fremantle Trust	29.9%	32.4%
26	Open Learning Partnership	12.5%	16.5%
27	Housing 21	19.2%	18.2%
28	Greenwich Leisure Ltd	11.4%	14.5%
29	Barnet Homes	27.8%	29.0%
30	Turners Cleaning	21.1%	20.1%
33	Birkins Cleaning Company	24.8%	25.6%
38	London Academy	24.6%	23.6%
39	Graysons Restaurants	18.0%	17.8%
40	Servite Houses	21.1%	21.7%
41	Connaught	18.7%	18.5%
42	Wren Academy	24.8%	23.8%
43	GO Plant Ltd	21.0%	21.1%
44	Y-Gen	25.1%	24.1%

Code	Employer	Current Rate 2010/11	Proposed Rate (15 year recovery)
<u>London Borough of Barnet Pool</u>			
2	Hendon School	24.8%	23.8%
8	Mill Hill GM High School	24.8%	23.8%
13	St Mary's CE High School	24.8%	23.8%
14	Dollis GM Junior School	24.8%	23.8%
15	Osidge GM Primary School	24.8%	23.8%
16	Finchley Catholic GM School	24.8%	23.8%
18	St Michael's RC GM School	24.8%	23.8%
19	St James GM School	24.8%	23.8%
20	Bishop Douglass RC School	24.8%	23.8%
21	Hasmonean High School	24.8%	23.8%
22	Menorah Foundation GM School	24.8%	23.8%
<u>Academies</u>			
5	Queen Elizabeth's Boys School	24.8%	23.8%
17	Ashmole GM School	24.8%	23.8%
110	Compton Academy	24.8%	23.8%
111	East Barnet	24.8%	25.5%

Please note that these rates are subject to change. The final rates will be signed off on 31 March 2011.

The next steps

- Almost back on track for whole fund
- Each employer will differ
- Prepare the final report?
- What about Scheme changes
- Employees Contributions
- Hutton Review



Questions and Discussion

Alison Hamilton FFA