
REPORT TO: FINANCE & MANAGEMENT

AGENDA ITEM: 10

DATE OF MEETING: 19th FEBRUARY 2002

CATEGORY: OPEN DELEGATED

REPORT FROM: CHIEF FINANCE OFFICER

MEMBERS' CONTACT POINT: TERRY NEAVES (5800)

DOC: s:\cent_serv\committee reports\finance and management\19feb 2002\pension fund revaluation.doc

SUBJECT: PENSION FUND: REVALUATION

REF: TJN/SH

WARD(S) AFFECTED: ALL

TERMS OF REFERENCE: F3

1. Recommendations

The Finance and Management Committee is asked to:-

- ◆ note the outcome of the 3 year revaluation of the Council Pension Fund.

2. Purpose of Report

2.1 To report on the revaluation of the Council Pension Fund.

3. Detail

3.1 At its meeting on 17th January 2002, the Finance and Management Committee received further information on the revaluation of the Council Pension Fund administered by Derbyshire County Council.

3.2 Since that meeting, the County Council has held a meeting for all contributing authorities within Derbyshire with the aim of explaining the current revaluation. South Derbyshire was represented by Cllrs Whyman and Wilkins.

Funding Levels

3.3 Currently the Council Pension Fund along with most other Local Authority Funds is underfunded. This means that the Fund is not sufficient to meet all projected future pension liabilities for existing and past contributors to the fund.

3.4 The aim of the fund managers is to ensure that the fund returns to full funding over the average period of future employment for existing contributors, which in the case of South Derbyshire is 13 years.

3.5 In the case of South Derbyshire the Funding Level at the last valuation (31st March 1998) was 86%. This has reduced to 83%. The main changes are set out in the table below.

Funding level at 31 March 1998	86%
◆ pay increases	-2%
◆ contributions paid	2%
◆ withdrawals	1%
◆ ill-health early retirements	-1%
◆ further early retirements	0%
◆ change in actuarial assumptions	0%
◆ investment performance	-2%
◆ miscellaneous	-1%
Funding level at 31 March 2001	83%

3.6 Clearly on the basis of this revaluation the fund is moving away from full funding rather than towards it.

3.7 As the fund currently stands, this shortfall falls entirely on the employer, as the employees contribution is fixed at 6% and cannot be varied except by national agreement/legislative change.

Employer Contributions

3.8 The actuary has assessed the level of employer contributions required to bring the fund back to full funding over the average remaining working life of fund contributors. This is set out in the table below

Existing Contribution Rate	170%
◆ Change in assumptions	35%
◆ Other changes	-2%
◆ Contribution to liquidate deficiency in fund	155%
	358%
Deduct	
– allowance for equity investment	38%
- special contribution of £1m to pension fund	28%
Contribution Payable from 1 April 2002	292%

3.9 For valuation purposes it is assumed that most of the fund will be invested in bonds. However in reality a larger proportion of the funds assets is invested in equities, which tend to generate a higher return. This is taken into account when assessing the level of employer contribution and reduces the overall level by 38%. Clearly if equity returns do not perform as well as expected then this will create a further shortfall to be met in future years.

3.10 The main reasons for the sharp rise in contributions levels have already been reported to Finance and Management. These are as follows:-

- ◆ **Poor Investment Returns** – although the County Pension Fund has performed better than most other Local authority funds, the returns are still lower than the actuary predicted at the time of the last pension fund revaluation. Effectively this has increased the shortfall on the fund, which must be recovered over future years.

- ◆ **Longevity** – fund members are living longer and therefore drawing pensions for a longer period of time. Longevity rates are also predicted to rise over the life of the fund. Extra provision needs to be made to reflect this increased demand on the fund. (*graph 1*)
- ◆ **Reducing Staff Establishment** – as the number of staff employed by the Council reduces so does the level of contributions into the funds. This can have an adverse impact on the fund, especially when the cost of contributing to the shortfall in the fund is spread over fewer staff.

The Pension Scheme

- 3.11 It has already been stated that the Local Government Pension Scheme is a national scheme, that is administered at a local level.
- 3.12 This means that individual authorities can neither vary the level of employee contribution or benefits payable under the scheme.
- 3.13 In recent years, just as the local government scheme has faced increased funding pressure, many other pension schemes have also experienced similar pressure. In some cases companies have made significant changes to their schemes.
- 3.14 The local government scheme is now being reviewed at a national level with a view to looking at what changes can be made, if any, to make the scheme more sustainable in the future.

4. Financial Implications

- 4.1 As set out within the main part of this report.

5. Conclusions

- 5.1 Clearly the revaluation of the pension fund highlights the increasing cost of funding pensions within the local government scheme and the impact this can have on council budgets.
- 5.2 At this stage this Council can only make representations, if it wishes, along with other Derbyshire Authorities to consider changes to the existing scheme.

6. Background Papers

None.

