Agenda Item No: **6**

Wolverhampton City Council **OPEN INFORMATION ITEM**

Committee / Panel	**PENSIONS COMMITTEE**	Date	**21/11/2012**
Originating Service Group(s)	**WEST MIDLANDS PENSION FUND**		
Contact Officer(s)/ Telephone Number(s)	**GEIK DREVER** **2020**		
Title/Subject Matter	**ACTUARIAL VALUATION 2013**		

RECOMMENDATION

That the contents of the report be noted.

ACTUARIAL VALUATION 2013

1. RECOMMENDATION

1.1 That the contents of the report be noted.

2. BACKGROUND

2.1 The actuarial valuation is carried out on the instructions of Wolverhampton City Council (the “Administering Authority”) in accordance with the requirements of Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008, as amended.

The primary aims of the actuarial valuation are to;

- Review the financial position of the Fund;
- To assess the Fund’s funding position relative to its funding objective;
- Where appropriate revise the Funding Strategy Statement, Statement of Investment Principles and Investment Strategy.
- Taking the above into account, to determine the appropriate level of employer contributions for the three year period commencing April 2014.

2.2 This report is to inform members of the changes since the 2010 valuation, the timetable of key events in the valuation cycle and the consultation process. The Fund actuary, Mercer, will present to Committee the key assumptions and outcomes for members information.

3. MARCH 2010 VALUATION OUTCOME

3.1 The valuation as at 31 March 2010 showed a funding shortfall of £2,614m based on the assumptions made for calculating its funding target. This represented a funding level of 75% of the Fund’s funding target.

The actuary certified an average employer contribution rate of 18.1% of Pensionable Pay, made up of the average future service contribution rate of 11.9% (the Common Contribution Rate) plus an average past service deficit contribution rate of 6.2% (aligned to the recovery period outlined in the Funding Strategy Statement). Employers were allowed to elect for variations within the parameters of the FSS to stabilise contribution requirements. No employer was allowed to reduce contributions except in very limited circumstances.

Contributions for each individual employer were certified as a combination of a percentage of payroll in respect of future accrual of benefits and cash lump sum amounts in respect of past service shortfall contributions under the recovery plan.

4. KEY CHANGES SINCE THE LAST VALUATION

4.1 At the 2010 actuarial valuation, the invested assets of the Fund were valued at £8.1bn and at the 30th September 2012 stood at £8.9bn. Annualised returns for the 3-year period to the 31st March 2010 were +1.9% against a benchmark return of +2.0%, with comparable returns for the 3-year period to the 30th September 2012 being +7.3% and +7.1% respectively. The long-term target return resulting from the 2010 investment strategy review is 7.0-8.0%, as detailed in the Fund's Statement of Investment Principles. However, the Fund has targeted a total return of +9.6% per annum in the 3-year period since the last valuation, with current performance representing a shortfall on that target. The investment strategy and target returns will be reviewed following the 2013 valuation exercise.

4.2 The number and profile of employers within the Fund has changed significantly since the 31 March 2010 valuation and this is summarised in the following table:

Employer Type	Number of employers at 2010 valuation	New employers since 2010 valuation	Cessations since 2010 valuation	Number of employers at 31 October 2012
Scheduled - District	7	0	0	7
Scheduled - University/College	22	0	0	22
Scheduled - Resolution	7	0	0	7
Scheduled - Academy	14	109	0	123
Scheduled - Other	9	1	0	10
Community of Interest admission body	76	7	10	73
Transferee admission body	41	47	19	69
Total	**176**	**164**	**29**	**311**

It is notable that there has been a significant increase in the number of Academy conversions a number of which are currently being processed by the Fund. There is an expectation that a further 20 known schools will convert to Academy status before the valuation date. In addition, there are a further 50 prospective admission bodies seeking participation in the Fund, a number of which may be active before or during the valuation period.

4.3 The membership profile of the Fund has also changed since the 2010 valuation with a reduction in active members and an increase in deferred and pensioner members. The effects of automatic enrolment legislation are yet to be felt and this will transpire over the next valuation period. A summary of the change in membership profile is detailed below:

Membership Category	31.3.2010	31.10.2012	Percentage difference
Active	104,612	95,044	-9.1%
Deferred	77,786	85,602	+10.0%
Pensioner	56,433	65,710	+16.4%
Beneficiary	10,438	11,034	+5.7%

5. PLANNING OF 31 MARCH 2013 VALUATION

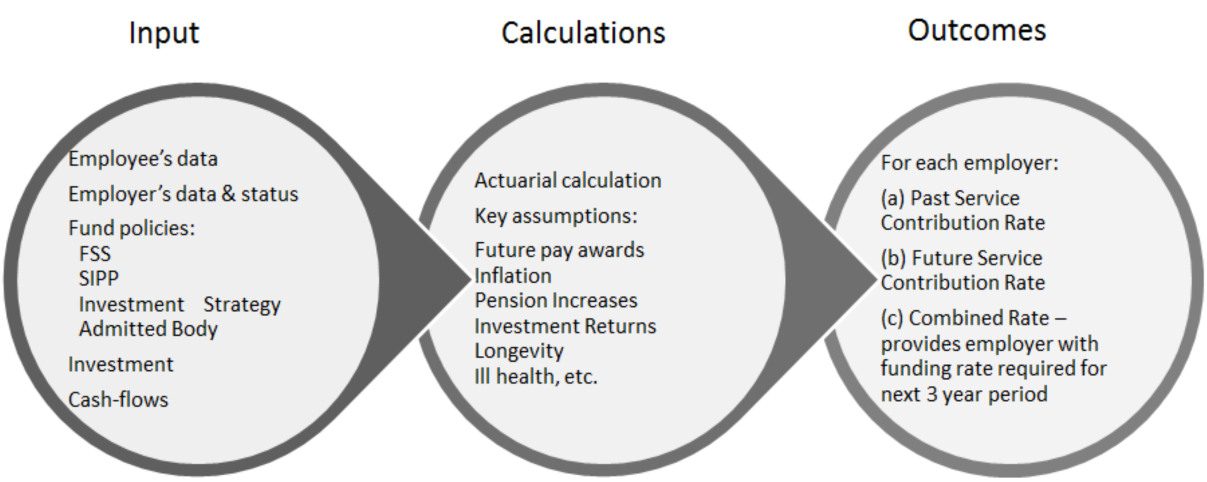
5.1 Initial engagement with the Fund actuary has taken place and the following timetable of key events has been proposed.

5.2 In summary, the draft proposed timetable of key events is as follows:

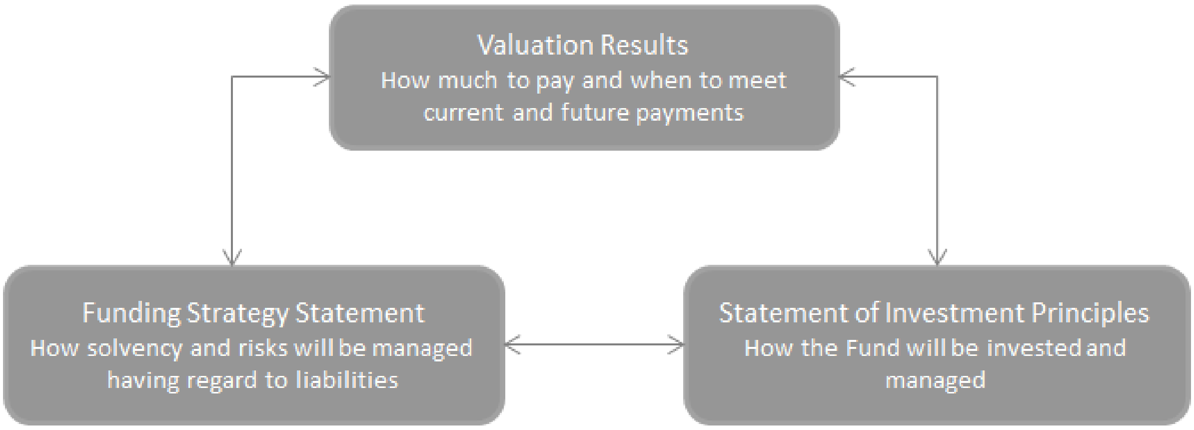
Date	Stages
6.12.2012	Employer AGM – initial contact with employers
30.4.2013	Individual employers to have submitted financial and end of year data to the Fund
31.7.2013	All financial and member data submitted to Fund actuary
1.10.2013	Provisional rates received from Fund actuary
Oct 2013	Interpretation and explanation of provisional results to employers
Nov 2013	Initial valuation results reported to Joint Consultative Panel and Pensions Committee
Nov 2013	Individual specific contribution results produced and communicated to employers, to include consultation over Funding Strategy Statement
31.3.2014	Approval of rates and adjustment certificate and valuation report finalised

5.3 The valuation process requires the collection of data and review of the relevant Fund policies. The Fund actuary uses this data and, based on a number of key assumptions, calculates the future contribution rate for the Fund as a whole and then each employing body. This can be summarised as follows:

Actuarial valuation – summary of key components



5.4 The process also links the valuation to the Fund's Funding Strategy Statement and Statement of Investment Principles which are reviewed accordingly. The overview of the relationships is as follows:



5.5 A key factor for the employer contribution requirements from 1 April 2014 will be the impact of the new LGPS benefit structure and new Regulations are expected in 2013 to coincide with the valuation. This will be taken into account by the Actuary when determining the individual employer future service contributions. The past service contributions, which are based on the deficit position, will not be affected by the new LGPS.

6. CONSULTATION PROCESS

6.1 The Employer Annual General Meeting (AGM) has been arranged for 6 December 2012 at the Molineux Stadium, Wolverhampton, and all employing bodies have been invited. The Director of Pensions and the Fund's actuary will present the background to the valuation process, including an updated funding position.

6.2 From October 2013 individual employers will be consulted over the provisional valuation results and the proposal is for this consultation to be conducted separately according to the groups of employers detailed in the table above (4.2). When employers receive their specific contribution rates in November 2013, meetings will be arranged with those employers who have specific issues or problems, as and when required.

6.3 From November 2013 the initial valuation results will be reported to the Joint Consultative Panel and the Pensions Committee.

7. FINANCIAL IMPLICATIONS

7.1 The results of the 31 March 2013 actuarial valuation may have financial implications for participating employers, including the Administering Authority, in setting employer contribution rates for the three years commencing April 2014.

8. LEGAL IMPLICATIONS

8.1 The report contains no direct legal implications for the Authority.

9. ENVIRONMENTAL IMPLICATIONS

9.1 The report contains no direct implications for the Authority's Environmental Policies.

10. EQUAL OPPORTUNITIES IMPLICATIONS

10.1 This report has no implications for the Council's equal opportunities policies.