AGENDA MANAGEMENT SHEET

Name of Committee	**Pension Fund Investment Board**
Date of Committee	**3 August 2007**
Report Title	**The Triennial Valuation**
Summary	Report setting out the latest position on the triennial valuation process.
For further information please contact:	Phil Triggs Group Accountant Tel: 01926 412227 philtriggs@warwickshire.gov.uk
Would the recommended decision be contrary to the Budget and Policy Framework?	No.
Background papers	None

CONSULTATION ALREADY UNDERTAKEN:- Details to be specified

Other Committees	☐	....
Local Member(s)	☐	
Other Elected Members	☒	Cllr Davis - Chair of Pension Board
Cabinet Member	☐	....
Chief Executive	☐	....
Legal	☒	Tony Maione
Finance	☒	David Clarke, Strategic Director of Resources (reporting officer)
Other Chief Officers	☐	....
District Councils	☐	....
Health Authority	☐	....
Police	☐	....
Other Bodies/Individuals	☐	....

FINAL DECISION Yes

SUGGESTED NEXT STEPS:

		Details to be specified
Further consideration by this Committee	☐	....
To Council	☐	....
To Cabinet	☐	....
To an O & S Committee	☐	....
To an Area Committee	☐	....
Further Consultation	☐	....

Agenda No

Pension Fund Investment Board - 3 August 2007

The Triennial Valuation

Report of the Strategic Director of Resources

Recommendation
That the Board consider the report.

1. Introduction

1.1 The Fund's actuary is currently carrying a triennial valuation for the Fund.

1.2 The valuation process requires the compiling and processing of much data from the Pensions Office, most of which has already been referred to the actuary's office.

1.3 The valuation is assessed as at 31 March 2007 but the ensuing employer contribution rates will be effective from 1 April 2008.

1.4 The actuary will be attending the Board meeting at Shire Hall on 3 August.

2. Funding Strategy

2.1 Changes in the assumptions and the funding strategy used for deficit recovery will have an effect on the level of contributions required from the employers. The overall intention is be to retain a robust and relatively cautious funding target, whilst also seeking flexibility in the level of contributions planned to achieve this. The approach to be adopted for contributions effective from 1 April 2008 will be confirmed in the Funding Strategy Statement.

2.2 In order to facilitate further discussion of the preliminary 2007 valuation assumptions on 3 August, the actuary plans to demonstrate a computer model that can interactively explore the effect of changes in deficit recovery strategy.

2.3 This will allow indicative analysis of investment risk in relation to scheme funding, using a simplified approach rather than the more complex modelling required for detailed accuracy, and will assist the members in gaining a better understanding the nature of financial risks for the Fund, and hence management of those risks.

3. Contribution Rates

3.1 When considering the employer contributions rates that will be calculated at the 2007 actuarial valuation of the Fund, three main influences are likely to lead to significant increases from the rates set in 2004:

- continuing improvements in life expectancy and the use of lighter mortality assumptions from those used in the 2004 valuation;
- the fall in the level of bond yield from that at 31 March 2004; and
- the proposed changes to the LGPS effective from 1 April 2008.

Mortality

3.2 The analysis performed to date has shown that the Warwickshire Fund experiences lighter mortality when compared with other LGPS funds in the UK. Once further analysis has been performed using revised data extract, the actuary will be able to comment further on the extent of the comparison with other LGPS funds.

Fall in the bond yield

3.3 The fall in the bond yield has had a significant effect on the valuation of the fund's liabilities, increasing their value. As the bond yield falls, the liability value will rise.

Proposed changes to the LGPS from 1 April 2008

3.4 The new LGPS is recognised as being more expensive than the existing scheme.

3.5 Further factors that the actuary will need to consider are as follows:

Ill health retirements

3.6 Under current practice, an allowance for ill health retirements is included in all employers' contribution rates. A new three-tier ill health arrangement is proposed from 1 April 2008 as part of the new look LGPS. Tier 3 benefits would be paid directly by the employer, with tiers 1 and 2 payable by the Fund.

3.7 The experience of the Warwickshire Fund analysed as part of the 2006 interim review exercise showed that ill health retirements were less frequent than those expected in the 2004 valuation assumptions. However, the experience under the new arrangements is an unknown factor, particularly so for tier 3.

3.8 It is suggested that the current ill health allowance might be removed from all employer contribution rates and be replaced with a direct employer charge in all cases. If this were to take place, this would move all ill-health retirements into line with the 3rd tier of the new proposals.

3.9 By removing the allowance, this could potentially reduce the required employer contribution rates by as much as 1 to 2%. The actuary suggests that any change in this area (and also any other areas) should be covered by employer consultation through revision to the Funding Strategy Statement. The potential cost impact of an ill-health retirement on smaller employers could be significant, and this would also need to be considered further.

Commutation

3.10 As part of the new look LGPS 2008, members are allowed to commute part of their pension at retirement for an additional lump sum based on an exchange rate of 12:1. This rate itself does not represent good value for money for the member and will give rise to cost savings to the Fund.

3.11 From the data provided in February 2007 as part of the 31 March 2007 year-end FRS17 accounting disclosures exercise, the actual retirement lump sum payments made by the Fund over the period from April 2006 to early January 2007 (as indicated by the data provided) totalled approximately £5m. If commutation hadn't been available, i.e., 3/80ths lump sum payments only, this figure would have been only £4m. Therefore it can be seen that the take-up of the additional lump does appear to be significant.

3.12 The data provided so far, shows that an additional lump sum is being opted for in approximately 40% of cases. Based on £s amounts, the data shows an average take up rate of 32% relative to the maximum possible. The actual take-up going forward should continue to be monitored to enable consideration of what appropriate scheme specific allowance should be made at the 2007 valuation.

4. Investment Strategy

4.1 The Fund has recently implemented a change in investment strategy with new allocations in property and hedge fund investments. The characteristics of the new strategy as regards the expected asset out-performance over and above the return available on long dated index-linked gilts, and the volatility of expected returns, are important inputs to the modelling.

4.2 It will be possible, along with Mercer Investment Consulting staff, to consider the Warwickshire specific inputs for these parameters in order that the Mercer modelling tool can be tailored more specifically to the Fund. The actuary will provide further information at the 3 August meeting.

5. Recommendation

5.1 The Board is asked to consider the report and to enter into discussion and debate with the actuary at the Board's meeting on 3 August.

DAVID CLARKE
Strategic Director of Resources
Shire Hall Warwick
July 2007