Cambridgeshire Pension Fund

Northamptonshire Pension Fund

Pension Bulletin No. 22

LGPS Valuation at 31 March 2013

In this special Pension Bulletin we provide an overview of the valuation process and answer some of the key questions you may have as a Local Government Pension Scheme (LGPS) employer.

What is the actuarial valuation?

Every three years, each LGPS Fund must obtain a valuation "health check" of the assets and liabilities of the Fund. This valuation determines the funding position of the Fund and each employer in the Fund. It calculates any deficit (or surplus) that exists at both a whole Fund level and individual employer level.

The date of the next valuation is 31 March 2013, which means that calculations will be based on market conditions and membership at that time. These calculations are then used to set the contribution rates which you need to pay to the Fund for the period 1 April 2014 to 31 March 2017.

Your employees and ex-employees will have built up pension entitlements in the LGPS. These benefits are fixed as they are set according to regulations. The regulations also specify how much your employees must contribute themselves by means of employee contributions. The actuarial valuation therefore calculates the balance of cost to be paid by the employer in order to fund and therefore meet the pension promises made to members. This calculation also makes allowance for asset values and expected future investment returns.

What do I need to do?

In the short term you need to make sure that you keep the pensions team up to date on your membership and any changes up to 31 March 2013 in particular. Furthermore, with reference to Pensions Bulletin 20, you need to ensure you complete and return your end of year return at the earliest opportunity and certainly no later than 30 April 2013.

We will also be shortly sending out a questionnaire to employers to establish each employer's "strength of covenant". Please respond to this questionnaire once received, as it is directly relevant to the calculation of your employer contribution rate.

The importance of ensuring that any information supplied to the pensions team is as accurate and up to date as possible should not be underestimated. Errors or omissions can lead to extra work and therefore delays in the valuation process. Although the pensions team and the Fund actuary carry out checks on the membership information, any errors that are not picked up could lead to your contribution rate being over or understated.

The Fund actuary will deal directly with the pensions team to obtain full membership data across the whole Fund, and the actuary will calculate the funding positions and required employer contribution rates using market conditions at 31 March 2013.

How long does the valuation take? When will I see preliminary results?

As you will appreciate, to carry out calculations relating to the many thousands of Fund members will take some time. In broad terms we expect the sequence of events to be:

1. Late spring/early summer 2013 – the Fund provides full membership data to the actuary, and this is carefully checked against the previous valuation and contribution records since then. During this period we will also be arranging meetings to discuss the results of the employer covenant questionnaire.
2. Summer/early autumn 2013 – the actuary carries out the calculations for all members of the Fund, and groups these for each employer in the Fund.
3. Autumn 2013 – the actuary delivers preliminary results to the Fund.
4. Late autumn 2013 – preliminary results are issued to the employers, together with a consultation on the Funding Strategy Statement (i.e. the principles and methods which the actuary uses to calculate contribution rates).
5. Winter 2013/2014 – the results are discussed between the Fund and the employers, so that contribution rates can be set.
6. March 2014 – the rates are finalised in the formal actuarial valuation report, which is signed by the actuary and made publicly available in spring 2014.
7. 1 April 2014 onwards – the new rate of contribution is paid by you to the Fund.

Can I get an early indication of what my 2013 results will look like?

Any employer can ask for a funding update at any time, although there will be a charge from the actuary to carry out this work.

Please be aware that any update will only be indicative, and may differ from the eventual valuation results and contribution rates agreed. In particular this is because contribution rates arising from the valuation will vary from employer to employer depending on the Funding Strategy Statement, which will only be revised in the winter of 2013/14.

What is likely to happen to my contribution rate from 1 April 2014?

Unfortunately, for most employers, based on current market conditions, it is almost certain that contribution rates will have to rise due to market movements which have taken place since 2010. In particular, the impacts of the Eurozone crisis and Quantitative Easing mean that interest rates have fallen, bond yields have remained historically low and deficits have increased over the period.

Different employers will be affected in different ways, for instance:

- **Employers with a "stronger covenant" are likely to see a lower rise in their contribution rates;**

- **Contributions from 2014 may be expressed as a percentage of payroll to cover current and future costs plus a fixed monetary amount each year for deficit repair. This split will be different depending on the membership profile of each employer;**

- **For a few employers the period over which deficits should be repaid may be reconsidered. This is to make sure that similar types of employer are treated in the same way. A shorter deficit period means higher annual payments and vice versa;**

- **Employers which have seen significant changes in their staffing are more likely to see significant changes in their contributions.**

We will be assessing the "strength of covenant" for all Fund employers and will contact employers in connection with this exercise shortly.

How will the public sector pension reforms affect my contribution rates?

The full details of changes to the LGPS have not yet been finalised, although we have a reasonably good idea of what these are likely to be. The main points to note are:

- They will not affect the amount of deficit, because they only affect pensions built up after March 2014;

- **Overall** they are expected to reduce employer contribution rates by something like 1.5% to 2.0% of payroll (all other things being equal, which they aren't - see below);

- The detail of the changes means that the impact will be different for different employers. For instance, employers whose members are generally older will see less impact, and in some cases might even see an increase in cost. Employers with generally younger workforces are more likely to see savings from the changes being made to the scheme (again, all other things being equal).

For a typical employer, therefore, the reforms will:

- Make no difference to the amount of deficit repair contributions required (and as mentioned above these are likely to have increased due to market movements since 2010 anyway);

- Give a small reduction in costs **all other things being equal**. However, contributions are likely to have increased because of factors including worse market conditions and lower bond rates, and this will almost certainly outweigh any saving resulting from the LGPS reforms.

It is currently likely that you will see upwards pressure on contributions at the next valuation.

How can I find out more?

In the first place, if you ever have any queries please contact a member of the Employers Team using the contact details below and we will do all we can to help you. As part of the valuation process, we will be providing all employers with more details as and when these become available.

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