Report to:	Pension Committee	**Date:**	30 November 2015
Report title:	Pension Fund Interim Valuation		
Report from:	Gerald Almeroth, Strategic Director – Resources		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Cllr Sunita Gordon		
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Corporate Plan Priorities:	• A Smart Council		
Open/Exempt:	Open		
Signed:	G.Al—	**Date:**	19 November 2015

1. Summary

1.1. This report outlines the results of the interim valuation of the Council's Pension Fund as at 31 March 2015.

2. Recommendation

2.1 That the Pension Committee notes the outcome of the interim valuation.

3. Background

3.1 Full actuarial valuations of the Pension Fund are statutorily required every three years to set minimum employer's contribution rates. The last full valuation was as at 31 March 2013.

3.2 In the years between full valuations, the Actuary carries out an interim valuation which assesses the approximate financial position of the fund by updating key factors from the last full valuation.

3.3 The last full valuation was carried out by the previous actuary Hymans Robertson. Since a slightly different approach to the valuation process was taken by them as compared to that carried out by the new actuary Barnett Waddingham, information has been provided on the results of the interim valuation using both methodologies.

4 Issues

4.1 The interim valuation compares the estimated assets of the fund against the estimated liabilities for future payment of pensions that the fund will need to meet. This interim valuation has been prepared using two methodologies so that the results can be compared back to those produced as part of the last full valuation. Firstly using Hyman Robertson's valuation basis which uses a gilts plus funding model based on market conditions on the valuation date and secondly using Barnett Waddingham's approach using their own Economic Model which they term as a 'smoothed basis' since this uses an estimate of the average position over a six month period spanning the reporting date.

4.2 The next full valuation incorporating updates to all data, assumptions and methodology and based on Barnet Waddingham's model will value the fund as at 31 March 2016 and will determine future contribution rates.

4.3 The table below shows the results of the interim valuation as at 31 March 2015.

	Hyman Robertson Methodology		**Barnett Waddingham Methodology**	
Date	31 March 2014	31 March 2015	31 March 2014	31 March 2015
	£m	£m	£m	£m
Market Value of Assets	451	510	456	510
Liabilities	644	774	634	717
Surplus / Deficit	(193)	(264)	(178)	(207)
Funding Level	70%	66%	72%	71%

4.4 The table shows that under both methodologies the funding level of the fund has reduced, albeit slightly under the Barnett Waddingham methodology. Despite strong performance from all key asset classes resulting in a positive increase in the market value of assets, the funding level has reduced due to a significant increase in the cost of liabilities.

4.5 The actual investment returns earned by the Fund affects the value of the Fund's assets. However the value of the Fund's liabilities is dependent on the assumptions used to value the future benefits payable. The key assumption that has the greatest impact on the valuation of liabilities is the real discount rate. The higher the real discount rate the lower the value of liabilities. Under the gilts plus methodology the difference between fixed and index linked government bonds is used to determine the discount rate. Under the smoothed methodology the published market implied inflation figures by the Bank of England are used creating differences between the valuations of the liabilities.

4.6 Using the Hymans methodology the funding level as at 31 March 2015 is 66% and the average required employer contribution would be 40.6% p.a. of payroll assuming a deficit is to be paid by 2035. In addition, 0.7% p.a. of payroll is required to be paid in respect of expenses. This compares to a funding level of 70% as per the last interim valuation with employer contributions of 37.1% of payroll plus 0.7% for expenses.

4.7 Using the Barnett Waddingham methodology the funding level as at 31 March 2015 is 71% with an average employer contribution of 32.8% of payroll. No additional contributions are required in respect of expenses as these are allowed for within the financial assumptions used. This compares with an estimated funding level of 72% and an average required employer contribution of 30.3% of payroll as at 31 March 2014.

4.8 The actuary formally sets employer contribution rates in the statutory triennial valuation. The interim valuations are advisory and would not normally lead to a change in the contribution rate.

5 Impacts and Implications

<u>Financial</u>

5.1 The financial implications are addressed within the report.

<u>Legal</u>

5.2 There are no legal issues arising from this report.

Sutton

6 Appendices and Background Documents

Appendix Letter	Title
None	N/A

Background Documents
Barnett Waddingham Funding Update Report as at 31 March 2015

Audit Trail		
Version	Final	Date: 18 November 2015
Consultation with other officers		
Officer	**Comments Sought**	**Comments checked by**
Finance	Yes	Lyndsey Gamble
Legal	N/A	N/A

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