Bath & North East Somerset Council

MEETING:	**AVON PENSION FUND COMMITTEE**	
MEETING DATE:	**9 DECEMBER 2011**	**AGENDA ITEM NUMBER**
TITLE:	**INTERIM VALUATION**	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Exempt Appendix 1 – Interim Valuation Report		

1 THE ISSUE

1.1 The LGPS regulations require the Fund to carry out an actuarial valuation every three years. Between these mandatory valuations, the Fund requests interim valuations periodically to assess whether the funding strategy is on track. Given the volatility in the investment markets and the proposed changes to the LGPS, the Fund commissioned an interim valuation as at 31 March 2011, rolled forward to 31 August 2011.

1.2 For the Committee report Mercers have added an update (referred to as the "addendum" elsewhere in this report) at beginning of the report covering:

a) the funding level to 30 September and

b) the latest proposals for changes to the LGPS

1.3 The interim valuation provides an update as to the current funding level of the Fund. It does not re-calculate contribution rates or deficit payments. **It is important to note that the interim valuation is a snapshot of the funding level at a particular point in time.**

1.4 The Actuary will be at the meeting to summarise the interim valuation report and answer any questions. A workshop has been held prior to the Committee meeting to explain the report in greater detail, the basics of the valuation process and the proposed changes to the scheme.

2 RECOMMENDATION

That the Committee:-

2.1 Notes the information set out in the report.

3 FINANCIAL IMPLICATIONS

3.1 The actuarial valuation sets the contribution rates and deficits payments required from scheme employers for the three years following the valuation. The Interim valuation provides some insight into how close the current funding position is to the funding strategy set out at the 2010 valuation.

3.2 It therefore provides an indication of the scale of the potential increases / decreases in contributions required at the next valuation (due in March 2013).

4 THE INTERIM VALUATION REPORT

4.1 The Interim Valuation report from the Actuary is in Exempt Appendix 1.

4.2 The interim valuation which updates the 2010 valuation uses the same membership data (except where there have been material changes) and demographic/actuarial assumptions. However the financial assumptions are updated to reflect changes in market values as at 31 March 2011 and 30 August 2011. An addendum to the report then updates the position to 30 September 2011.

4.3 As at 31 March 2011 the funding level was largely unchanged from 31 March 2010 valuation at 83% (82% at 31 March 2010). The deficit had contracted from £552m to £532m. However, when rolled forward to 31 August 2011 the funding level fell to 74% (deficit of £914m). This deterioration was due to a fall in the value of the assets (driven primarily by falls in equity markets) and the fall in the UK gilt yields since 31 March 2011. Gilt yields are the basis for the discount rate and when yields fall (bond prices rise) the discount rate falls which increases the value of the liabilities.

4.4 The funding level has fallen further to c.69% when the valuation is rolled forward to 30 September. During September equity markets fell and there was a further fall in bond yields (as investors sought security in “safe haven bond markets” which included the UK), both of which led to an increase in the deficit (to c. £1,130m).

4.5 It is important to note that the interim valuation is a snapshot of the funding level at a particular point in time. However any potential savings in employer contributions arising from the short term scheme changes will have to be considered within the context of the deterioration in the funding level since the last valuation.

4.6 The report also provides an analysis of the ill-health and mortality experience of the Fund since the 2010 valuation. The evidence suggests that the mortality assumption remains appropriate whereas there has been a higher level of “Tier 1” ill-health retirements than assumed in the 2010 valuation. These assumptions will be reviewed at the 2013 valuation using the trend in Fund experience.

4.7 Section 4 of the report discusses the potential impact on the Fund in terms of contribution rates and cash flows of the possible changes to the scheme. *However, as this report was prepared before the current proposals were published the current proposals are addressed in the addendum in more detail.* The latest proposed changes will be discussed at the workshop prior to the Committee meeting. In addition, the Fund’s response to the CLG consultation paper on the short term changes is covered later on this agenda.

4.8 The Interim valuation was discussed with employers at the Investments Forum held on 25 November 2011.

5 RISK MANAGEMENT

5.1 The funding strategy is key to ensuring pension liabilities can be met in the future and therefore the strategy must be regularly monitored so that the Fund and employers are aware as to whether the current funding level deviates from the long term funding plan and the scale of any shortfall / surplus. Such information can assist employers in planning their medium term budgets and assist the Fund officers in managing those employers that pose a greater financial risk to the Fund.

6 EQUALITIES

6.1 This report is for information only.

7 CONSULTATION

7.1 N/a

8 ISSUES TO CONSIDER IN REACHING THE DECISION

8.1 N/a

9 ADVICE SOUGHT

9.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

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Background papers	
Please contact the report author if you need to access this report in an alternative format	