

Dear

Subject: Actuarial Valuation as at 31st March 2008

Further to a presentation by Glasgow City Council's Executive Director of Financial Services, Lynn Brown, at the Fund's recent Annual Meeting I can now confirm the following summary plan for this year's actuarial valuation.

Background

As you will be aware, an actuarial valuation of the Strathclyde Pension Fund is carried out every 3 years in accordance with the Local Government Pension Scheme (Scotland) Regulations. Such a valuation as at 31st March 2008 is currently underway.

Timetable

The regulations allow 12 months for the valuation to be completed. And in reality the process requires that timescale. Key stages in the timetable are as follows.

Start Date	Responsibility	Event
May 08	Employers	- Deliver year-end payroll data to SPFO
June 08	SPFO	- Agree planning assumptions; advise employers
Jun – Aug 08	SPFO/Employers	- Validate member data
August 08	SPFO	- Submit data to Hymans Robertson (HR)
September 08	HR/SPFO SPFO	- Correct data errors - Submit final data to HR
November 08	HR	- Report provisional Fund results
December 08	SPFO	- Issue Funding Strategy Statement for Consultation
Jan/ Feb 09	HR SPFO	- Report individual employer results - Draft final Funding Strategy Statement (FSS)
March 09	SPF Committee HR	- Approve final FSS and final valuation report - sign off valuation report
April 09	SPFO Employers	- Issue final valuation report to employers - Revised contribution rates effective

- SPFO = Strathclyde Pension Fund Office
- HR = Hymans Robertson, the Fund's consulting actuaries

Member Data

The key task in the early stages of the process is the validation of the individual member data - in respect of some 190,000 scheme members - on which the valuation is based. The assistance of employers in responding to any data queries raised by SPFO between now and September will be greatly appreciated and can have a material positive impact on the outcome of the valuation.

Indicative Funding Position

After the 2005 valuation, the Fund commissioned regular funding projections from the actuary. Estimated progress of the funding position can be summarised as follows.

Date	31 Mar 2005	31 Mar 2006	31 Mar 2007	31 Mar 2008
	£m	£m	£m	£m
Assets	7,005	9,020	9,755	9,555
Liabilities	7,235	8,651	9,026	10,740
Surplus/Deficit	(230)	369	729	(1,185)
Funding Level	96.8%	104.3%	108.1%	89.0%

The position improved steadily from March 2005 as a result of substantial gains from investment returns. These were partially offset by a fall in real gilt yields and resultant increase in the valuation placed on liabilities. A reversal in investment returns in the last quarter and further growth in the valuation of liabilities, due to a combination of continuing pressure on gilt yields and rising inflation, leaves a substantial projected deficit at the end of the intervaluation period. It is expected that the formal valuation process will confirm this position.

Employer Contribution Rates

The same factors which have increased the valuation of liabilities – depressed gilt yields and rising inflation – also increase the expected future costs of pensions provision. As a result, continuing rises in employer contribution rates will be the outcome of the valuation. Actual rates cannot be confirmed until the valuation process is complete. But we advise the following common employer contribution rates for future planning assumptions.

From 1 st April	Rate (as % of employee contributions)	Notes
2008	280	Current Common Employer Contribution Rate
2009	295	Subject to completion of 2008 valuation
2010	310	
2011	330	
2012	350	Subject to completion of 2008 & 2011 valuations; potential cost sharing arrangements.
2013	370	
2014	390	

Those employers who currently pay rates higher than the Common Rate will continue to do so.

We would prefer not to be advising of future increases. But these rates reflect the reality of the costs of pensions provision. Strathclyde Pension Fund enjoys lower employer contribution rates than most LGPS funds in the UK. And we expect this to continue to be the case.

Funding Strategy Statement

Since 2005 the LGPS regulations have also required administering authorities to maintain and publish a Funding Strategy Statement (FSS) setting out various aspects of their policy on managing the Fund. The Strathclyde Pension Fund's current FSS is

available on the SPFO website at:

<http://www.spfo.org.uk/Governance/PolicyDocuments/FundingStratStrategy/>

We will be reviewing the FSS as part of this year's actuarial valuation exercise.

Areas which we are likely to amend include the following.

3.7.1 Deficit Recovery Periods

In light of the indicative funding position outlined above, the Deficit Recovery Period may have to be extended to maintain some stability in employer contribution rates and facilitate the gradual rises also indicated above.

3.7.2 Phasing in of Contribution Rises

In light of the indicative funding position outlined above, the phasing period may have to be extended to maintain some stability in employer contribution rates and facilitate the gradual rises also indicated above.

3.7.3 Pooled Contributions

As suggested in the current FSS we will be considering this further during the 2008 valuation. It is likely that we will maintain our existing policy of setting individual contribution rates for employers with peculiar circumstances, including commercial contractors and employers who are closed to new entrants. But it is probable that we will not extend individual rates more generally.

3.8 Admission Bodies Ceasing

There has been some growth in this area over the last 3 years, but withdrawing from the Scheme remains a complex and expensive process. We will amend the FSS to provide some further clarification in this area.

3.9 Early Retirement Costs

We have already indicated, in our Technical Bulletin no. 23 (April 2008), that we are considering extending the recovery of Strain on the Fund costs to include retirals of members over age 60 retiring on redundancy or efficiency grounds.

Transfer Values

We also intend to add a section outlining our treatment of member transfers, in particular bulk transfers.

A formal consultation exercise on a re-drafted FSS will be carried out towards the end of the year, once provisional results of the actuarial valuation are known. But any early comments on the FSS would be welcome and should be addressed to either your usual SPFO contact or to the Head of Pensions.

I hope the above is helpful. If you require any further information please get in touch with your usual SPFO contact in the first instance.

Yours sincerely

Richard McIndoe
Head of Pensions