

TECHNICAL BULLETIN

NO.2

JANUARY 2003



TO ALL EMPLOYERS WITH MEMBERS IN THE LOCAL GOVERNMENT PENSION SCHEME. PLEASE ENSURE COPIES ARE PASSED TO RELEVANT STAFF.

2003 Actuarial Valuation

Background

In accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) Regulations 1998 an actuarial valuation of the Strathclyde Pension Fund is being carried out as at 31st March 2002. Given the amount of data involved, and the complexity of the calculations this is a lengthy exercise. (The regulations permit 12 months for completion). The valuation is now almost complete.

Throughout the course of the year we have (understandably) had regular enquiries regarding the valuation results. Without prejudicing the final outcome, it is now possible to share the draft results with employers. The key points are set out below. I hope you find this helpful.

Once the actuary has certified the results, the valuation report will be taken to the Strathclyde Pension Fund Panel for approval. The Panel's next meeting is on 20th February.

Thereafter, each participating employer will receive a copy of the actuary's report. In addition the actuary will attend the Fund's Annual Meeting to give a presentation on the results of the valuation. The 2003 Annual Meeting will be held on the morning of **Friday 20th June**. All employers will receive an invitation together with further details nearer the time.

Draft Results

Funding Level

As at 31st March 2002 the funding position was as follows.

Fund Assets	£6,050m
Fund Liabilities	£5,594m
Surplus	£ 456m

This implies a funding level of **108%**, broadly unchanged from the last valuation in 1999 when the Fund also had a surplus of around 8%.

There are a large number of factors which affect the funding level between valuations. Most significant this time were:

- investment returns less than expected (as markets fell for much of the period); and
- increased longevity assumptions (meaning that pensions have to be paid for longer).

These were offset by:

- release of value locked in at the time of the 1999 valuation (by using what has proved to be a conservative valuation of the assets); and
- The use of a higher discount rate this time (which effectively reduces the value of the liabilities).

Post Valuation Events

The actuary is at pains to stress that the funding position will have deteriorated since the valuation date, as investment markets fell throughout the remainder of 2002.

Future Service Funding Rate

The Future Service Funding Rate is the cost to employers of pensions benefits which will be earned after the valuation date. The actuary calculates the current Future Service Funding Rate as **245%** of employee contributions. This has reduced a little from the 1999 valuation when the Future Service Rate was 260%.

Employer Contribution Rates

Ordinarily, the existence of a surplus at the valuation date would allow actual employer contribution rates to be set below the Future Service Funding Rate. However, because of the post-valuation fall in the funding level, the actuary recommends that no account is taken of the surplus. (Reliance on the surplus now could have a severe negative impact if investment markets failed to recover before the next valuation in 2005).

This implies that employers should pay the Future Service Rate. The actuary proposes that the resultant increase should be phased over the period to the next valuation, and recommends the following common contribution rates for employers:

Year to	Rate (as % of employee contributions)
31 March 2004	230%
31 March 2005	240%
31 March 2006	250%

All of the above will be confirmed before the initial increase becomes effective on 1st April 2003.

Once it is finalised, the actuary's report should answer any technical questions. In the meantime please refer any immediate queries to your usual contact within Strathclyde Pension Fund Office.