By:	Chairman Superannuation Fund Committee Head of Financial Services
To:	Superannuation Fund Committee - 19 November 2010
Subject:	**ACTUARIAL VALUATION**
Classification:	Unrestricted

Summary: To report the initial results of the 31 March 2010 actuarial valuation of the Fund.

FOR INFORMATION

INTRODUCTION

1. Barnett Waddingham have undertaken the actuarial valuation of the Fund as at 31 March 2010.

2. Initial results at Fund level were shared with KCC Officers on 5 October and the local authority results were presented to a meeting of the Kent Finance Officers on 2 November by the actuary Graeme Muir. Graeme will be present at the Committee to present these initial results. The aim is to get results to the other employers by 30 November.

3. Individual Chief Finance Officers in the local authorities are still sharing the initial results with their members so at this stage the individual local authority results are not included in this report.

INITIAL RESULTS

4. The approach and initial results of the valuation are summarised by Barnett Waddingham in the attached Appendix.

5. It has always been expected that this would be a very challenging valuation largely because of the poor investment returns across the 3 year period of approximately +1% per annum compared with the return assumed by the actuary of +6.1%. The Kent Fund performed broadly in line with the WM Local Authority Average and the 1% per annum return reflects the poor returns on equities and property in-particular in the first 2 years of the valuation period.

6. At Fund level the highlights of the valuation are:

   (1) An <u>improvement</u> in the funding level from 73% to 77%.

   (2) A reduction in the contribution rate from 22.3% to 20.8%.

7. Two main factors can be identified that explain this surprising and highly welcome outcome:

   (1) As they explained when appointed the Barnett Waddingham "Dynamic Gilts Plus" Model is more flexible and smoothes asset values and key assumptions. Barnett Waddingham have delivered on this.

   (2) A number of recent events have helped the situation:

   - The Chancellor of the Exchequer's decision to link pension increases to CPI not RPI reduced the employer contribution rates by 3%.

   - An increase in retirement age of +1 year reduced the contribution rate by 1.1%.

   - The 2 year pay freeze reduced the rate by 0.9%.

   - Updated mortality improved the rate by 0.4%.

8. The largest scheme employers; KCC, Medway, Police and Fire, show on initial results reductions of 1.1% to 2.6%. Reductions for District Councils range from 0.2% to 5%. Generally the higher the rate paid previously the bigger the reduction.

9. In the context of the Comprehensive Spending Review these reductions are very important – many of the Councils have budgeted for an increases in their contribution rate and will now receive a reduction. Barnett Waddingham are working with individual Chief Financial Officers to fine tune options, particularly around the impact of reductions in payroll which linked to budget savings on how much they should pay into the Fund.

RECOMMENDATION

10. Members are asked to note this report.

Nick Vickers
Head of Financial Services

Ext 4603