

27 August 2010

To: Chief Executives  
All Employing Authorities

Dear Colleagues

**Funding Strategy Statement and Outlook for Contribution Rates  
2011/12-2013/14**

**1. Actuarial Valuation 2010**

As you will be aware the Pension Fund is valued every three years by the Fund's Actuary, Hymans Robertson, and the next valuation is due as at 31 March 2010. It is the Actuary's responsibility to certify an employer's contribution rate, which will ensure that there is enough money in the Fund to meet members' guaranteed benefits, both now and in the future. If there is more in the Fund than required (a surplus) the actuary is able to reduce the employers' contribution rate and if there is less in the Fund than required (a deficit) then the actuary must increase the employers' contribution rates to bring the Fund back up to 100% funding.

Hymans Robertson carried out the last valuation at 31 March 2007 when the Fund was in deficit being 89% funded. The employers' contribution rate was calculated at 18.5% (15.2% of pensionable pay to meet the cost of future service benefits plus 3.3% of pay to recover the past service deficit over a 20 year period). The Actuary agreed to phase in the increase in the employer contribution rates over a 6-year period. As a result the employer contribution rates have increased over the past three years to 17% of pensionable pay for the 2010/11 year for most employers (with the exception of those on separate rates).

The Actuary is currently in the early stages of work for the 2010 valuation but the early indications are that the employer contribution rates will require to be increased over the next three years.

Any rise in rates in the current economic climate is undesirable. We asked the Actuary to undertake additional modelling to determine the effects if the increases are introduced in modest steps. I am happy to report that the results of this modelling will allow the Actuary to set more modest rate increases for most employing authorities. The principles used when valuing the Scheme are set out in our Funding Strategy Statement which has been updated to reflect the use of the additional modelling.

## **2. Consultation on the Funding Strategy Statement**

The Actuary will take into account the Scheme Funding Strategy Statement when undertaking the Actuarial Valuation. The Statement (see attached) has been amended in order to reflect the different stepped approach for some employers.

It is normal practice for NILGOSC to consult with all employing authorities on any changes made to its Funding Strategy Statement. Paragraph 7.4 describes the policy on introducing contribution rate rises in steps.

I would be grateful if you could pass any comments that you have on the draft Funding Strategy Statement to my Communication Officer, by way of email to [michelle.duffy@nilgosc.org.uk](mailto:michelle.duffy@nilgosc.org.uk), by 30 September 2010.

## **3. Employer Contributions rates for 2011/12-2013/14**

Under the terms of the Funding Strategy Statement (paragraph 5.2.5) your organisation will have an individually assessed employer contribution rate which it is not possible to calculate at this stage. However I am confident that it will not be lower than the rate currently being paid.

## **4. Scheme Affordability**

Despite the stated aim of our Funding Strategy Statement to have stable Employer contribution rates there is no doubt that they have risen significantly in the last 6 years. Contribution rates will fluctuate in line with the financial markets in which the Scheme assets are invested. Nine years ago the scheme was in surplus and employer contribution rates were around 4.6%. As markets recover the rates will eventually reduce again.

The Department of the Environment has set up a Local Government Pension Scheme Policy Review Group which encompasses representatives of Scheme employers and Trade Unions. The Group is currently considering how future increases in Scheme costs can be shared between Employers and Employees. The Group can also consider any other policy issue such as Affordability.

If you have concerns about the cost of the Scheme then you should pass these on to the Department as it makes the Scheme Regulations. It can be contacted at the following address:-

Local Government Policy Division  
Goodwood House  
44-58 May Street  
BELFAST  
BT1 4NN

In addition to the Department's Policy Group, HM Treasury has also commenced its own review of wider Public Sector Pensions by way of the Commission chaired by John Hutton. It is too early to predict the outcome of this review although the Commission is committed only to review pension provision for future accrued service therefore service accrued to date in the Local Government Pension Scheme should be guaranteed.

## **5. Autumn Valuation Seminars - September 2010**

This circular has briefly reported on a number of significant issues for Scheme employers. A series of seminars will be arranged to cover the topics of the Actuarial Valuation, the Funding Strategy Statement and the Employer Contribution Rates at which our Actuary will also attend. These will give you an opportunity to ask any questions you have and for NILGOSC to provide more detail about the Valuation process.

I hope you, or a representative from your authority, will be able to attend one of the seminars the Committee is running in Belfast and Londonderry. If you wish to attend a seminar please complete the enclosed fax reply or e-mail [michelle.duffy@nilgosc.org.uk](mailto:michelle.duffy@nilgosc.org.uk).

Yours sincerely

A handwritten signature in black ink, appearing to read 'D W Morrice', written in a cursive style.

D W Morrice MBE

Secretary

**FAX REPLY- 0845 308 7344**

**AUTUMN VALUATION SEMINAR**

<b>Name:</b>	
<b>Position:</b>	
<b>Employer Name:</b>	
<b>Address:</b>	
<b>Email:</b>	
<b>Telephone Number:</b>	

**I wish to attend the following NILGOSC Autumn Valuation Seminar.**

<b>Date</b>	<b>Time</b>	<b>Venue</b>	<b>Location</b>	<b>Please Tick</b>
<b>22 September 2010</b>	<b>10.30am to 12.30pm</b>	<b>Park Avenue Hotel</b>	<b>Belfast</b>	
<b>22 September 2010</b>	<b>2.00pm to 4.00pm</b>	<b>Park Avenue Hotel</b>	<b>Belfast</b>	
<b>23 September 2010</b>	<b>10.00am to 12.00pm</b>	<b>City Hotel</b>	<b>Londonderry</b>	

**Signed** ..... **Date:** .....

**Please send your reply to Michelle Duffy** at the fax number below on or before 15 September 2010. Alternatively you may contact Michelle by telephone on **0845 3087345** or by e-mail at: **michelle.duffy@nilgosc.org.uk**