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SUMMARY OF THE 2011 FUNDING REVIEW ANNEX A

ESSEX PENSION FUND

September 2011

MARSH & McLENNAN COMPANIES

Summary

Funding Position

The table below shows the Fund's position at the valuation date and at 31 March 2011.

	Actuarial valuation	Funding review
	31 March 2010	31 March 2011
Liabilities (£m)	4,319	4,589
Assets (£m)	3,085	3,414
Surplus/(Shortfall) (£m)	(1,234)	(1,175)
Funding level	71%	74%
Probability of funding success	51%	53%

The average employer contribution rate set at the 31 March 2010 valuation was 18.7% of pay based on the maximum recovery period of 30 years. The figure at 31 March 2011 over the remaining period of 29 years is 18.8% of pay. As at 31 March 2011, this plan was still on course to reach the funding target of 100% funded at the end of the deficit recovery periods set in 2010.

In order to test the resilience of the funding plan we have also calculated the probability of success of the current funding plan (i.e. repaying the deficit by the end of a 30 year recovery period) using a simplified model. This probability was 53% at 31 March 2011: a typical benchmark in the context of the contribution requirements would normally be a probability of success of at least 50% which is in line with the Fund scorecard measurement.

The Government is considering options to deliver reductions in costs to employers of the LGPS in the short term from 2012 and the potential magnitude is considered separately. At this stage we are awaiting final details of the changes to the Scheme. Whilst we expect Regulations to be laid which would allow contribution rates to be reassessed as a result of any changes consideration will be needed to whether to allow employers to take credit for the changes by way of reduced contribution input to the Fund.

Since 31 March 2011, however, falls in asset values and decreases in gilt yields mean that based on the position at the current date will have deteriorated. The results of the review and an update of the position will be communicated to the employers as part of the employer forum. The funding level will continue to be monitored however, and it will feed into decisions next year in the context of contribution rates post April 2012, when any short term changes to the LGPS are expected to come into effect.

Future Cash Flows

Even ignoring income from invested assets the Fund is likely to remain cashflow positive for the next 12-13 years, i.e. up to 2023/24. However, if we allow for cash generated from investment income through the invested assets at 2010/11 levels the period extends to 2038.

Life Expectancy Assumption

We have analysed the mortality assumption and experience over 2010/11. Whilst we have found that, overall, the CMI model improvements allowed for in the 2010 valuation assumptions provide a good fit with the data observed, it is an area which should continue to be monitored, and the assumptions reviewed again as part of the 2013 actuarial valuation. The data provided for Essex Pension Fund over the last year shows that the number of retirement deaths is around 107% of that expected under the assumption. The difference is not statistically significant, so we are happy at this stage that nothing is apparent to suggest that the current mortality assumption is inappropriate.

Ill Health Assumption

We have compared the actual number of ill health early retirements from active status in the Fund over the last year (ignoring those from deferred status where no allowance is made in the valuation on the basis that they are not financially significant) with the expected number based on the assumption made in the 2010 valuation. Overall the numbers are in line with those expected. However, around 8% more ‘Tier 1’ retirements have taken place than expected in the assumption and as these are generally of more financial significance this has led to a funding strain. Based on an average costing, this leads to an increase in liabilities of around £310,000. While this is small in terms of the Fund as a whole, we will need to review the assumption as part of the 2013 valuation based on a more detailed analysis at that time.

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