

Scheme Advisory Board

Triennial valuations in the LGPS (England & Wales)

Results of the 2013 valuations

- The latest valuations for England and Wales were carried out during 2013-14 based on data as at 31st March 2013.
- The overall results show that the 2013 funding levels for funds are broadly similar to those from 2010. The average funding level across the LGPS in England and Wales as at 31st March 2013 is 79%.
- However in cash terms overall deficits have risen from a total of £37bn in 2010 to £47bn in 2013.
- The major downward cost pressures for funds (the good news for funding levels) over the valuation period have generally been:
 - (a) Asset performance (the performance of fund assets in investment markets)
 - (b) New scheme (for some)
 - (c) Pay restrictions
 - (d) Actual contributions paid
- The major upward cost pressures for funds (the bad news for funding levels) over the valuation period have generally been:
 - (a) Increases in longevity
 - (b) Decreases in index linked gilt yields
 - (c) Lower expected future investment returns
- For individual employers the results of the valuation can be quite different from those of the whole fund. A much wider range of differences in funding levels at the employer level has been seen. The reasons for different results could include:
 - (a) Different membership profile (e.g. older than average workforce)
 - (b) Different membership experience than for the fund (e.g. fewer leavers, more deaths, etc)
- For individual employers the changes in contribution levels required have also varied greatly. Employer's contributions are made up of a future service element and a past service element. As many employers now meet deficit contributions through cash payments it is difficult to provide a comparator rate for past service contributions.

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Background

- The LGPS is a funded scheme and periodic assessments are needed to ensure the fund has sufficient assets meet its liabilities. Employer contribution rates may change depending on the results of valuations. Scheme regulations set out when valuations are to be carried out.
- Each LGPS pension fund is required to appoint their own fund actuary, who carries out the fund's valuation. These valuations determine the contribution rates to be paid by employers.
- The fund actuary uses a number of assumptions to value the liabilities of the fund. Liabilities are split between:
 - (a) those that relate to the past (the past service cost), and
 - (b) those that relate to the future (the future service cost)
- The portion of the total employer contribution which relates to the past service cost is known as the deficit contribution, and is often payable in cash terms. The portion of the total employer contribution which relates to the future service cost is known as the future service rate and is normally payable in percentage of pay terms.
- The results of the 2013 LGPS valuations show that LGPS funds generally have broadly similar funding levels to those in 2010, but with increased deficits in cash terms. However this overall picture is not always reflected at individual employer level, where there have been significant variations in funding levels and contribution requirements.
- Total employer contributions vary for a number of factors. Differences in membership profiles and experience can cause fluctuations, while funds may choose to vary factors such as deficit recovery periods between employers based on indicators such as perceived risk. From fund to fund, employer rates may also vary because of investment performance and differences in actuarial assumptions.
- The LGPS is subject to a new cost management process, which is intended to make the scheme more sustainable. Under this process, extra valuations of the LGPS will be carried out at national (not local fund) level every three years from 31/03/2016.
- These national valuations are quite different from the local valuations in a few key areas. If this cost management process shows that the cost of the LGPS has changed then benefits and/or contribution levels may be changed for all employees in the LGPS as a whole (i.e. nationally).

This is the shadow Scheme Advisory Board's short summary of the 2013 LGPS fund valuations, also available as a formatted webpage [here](#). A more detailed version of this report has also been published by the Board and is available [here](#) in PDF format and [here](#) as a formatted webpage.