

Wiltshire Pension Fund *The Cost of Reinstating the Rule of 85 from April 2005*

Executive Summary

This report sets out the results of our costings of re-instating the Rule of 85 from April 2005 for the Wiltshire Pension Fund. It is based on an interim actuarial valuation of the Fund as at 31 March 2005. The main conclusions are as follows:

- Adopting the same approach as for the 2004 formal valuation, the funding level as at 31 March 2005 is 79% (compared to 75% as at 31 March 2004). This corresponds to a past service deficit of £219m (£240m as at 31 March 2004).
- Making allowance for longer life expectancy the corresponding result at 31 March 2005 would be a funding level of 76% and a past service deficit of £265m. Thus the funding level as at 31 March 2005 is broadly unchanged from that as at 31 March 2004.
- The employers' share of the average cost of future service benefits as at 31 March 2005 (i.e. ignoring any past service deficit) is calculated to be 13.4% of pay, broken down as follows:
 - 11.4% of pay assuming all age retirements occur at age 65; *plus*
 - 0.5% of pay to allow for transitional protections for those over age 52; *plus*
 - 1.5% of pay to allow for the full reinstatement of Rule of 85.
- This compares to the employers' rate of 13.0% in the formal valuation as at 31 March 2004.
- Allowing for longer life expectancy increases the average employer's share of future service benefits by a further 1.0% of pay and the past service adjustment by 1.2% of pay.
- The cost of reinstating the Rule of 85 for 2005/06 is thus 1.5% of payroll (or £3.5m based on a total estimated payroll of £230m for 2005/06 for the Fund as a whole). This cost would rise to £4.6m (2.0% of pay) by 2013/2014 once the effect of transitional protections unwinds.
- These assume that all non ill-health retirements occur at the earliest age that members can retire without incurring a reduction to their accrued pension.
- Allowing for retirement patterns in line with the past experience of representative sample funds, the assessed cost of future service benefits falls from 13.4% to 12.9% of pay, a change to the potential saving from the abolition of the Rule of 85 of 0.5% of pay. This assumes age retirements occur on average 1 year after Rule of 85 age (minimum 60). We have also illustrated the effect of assuming all age retirements occur at age 64. In this case the cost is 11.9% of pay.
- Given the Funding Strategy Statement's commitment to *stability* of employer contributions, it is not proposed that the *minimum* level of employer contributions is increased as a result of this interim valuation. However, employers may pay contributions at a higher rate than specified in the Rates and Adjustment certificate issued as part of the formal valuation as at 31 March 2004.
- We recommend that employers are advised of the outlook for future contributions and are given the opportunity to increase contributions if they wish.
- We would be pleased to discuss any aspect of our report with the Administering Authority.

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 **Hymans Robertson**

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