

**Private & Confidential**

16 February 2016

Dear Colleague

**Gloucestershire County Council Pension Fund (“the Fund”)  
2016 Valuation – Employer Data**

We “Gloucestershire County Council” and “Hymans Robertson” as actuaries to the Fund are currently planning and preparing to carry out the statutory valuation of Gloucestershire County Council Pension Fund (“the Fund”) as at 31 March 2016. As part of our preparation, I am writing to you to explain the importance of the data provided by employers, such as yourselves, in the valuation process and to ask for your support in ensuring that you provide timely, complete and accurate data.

**Purpose of the Triennial Formal Valuation**

Formal valuations are the Fund’s budgeting exercise. This is the process that assesses the value of the pension obligations to be met from the Fund and enables the Fund to plan how to meet these obligations and manage funding risks.

**Importantly, the valuation process determines the employer contribution rates to be paid to the Fund from 1 April 2017.**

**Importance of Membership Data**

The valuation process is critically dependent on the membership data provided to the Fund by employers. As the actuary to the Fund, we are required to calculate the value of pension benefits due to every employee, as well as former employees, who participate in the Fund and ensure that adequate funds are set aside to pay for these benefits. From 1 April 2014, the data required to carry out these calculations increased in complexity as employee benefits are no longer based only on the members’ salary at the valuation date, but are also based on the pay earned each year of their participation in the Fund. All the data requested by the Fund must be completed in respect of all members. There are number of statutory deadlines for carrying out the valuation and reporting the results that the Fund must meet.

The valuation process cannot begin until **all** data has been provided by **all** employers.

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**Impact of missing or incomplete data**

If employers do not supply high quality data to the Fund there are a number of consequences for the Fund, employers and members. Some of these are outlined below:

**Fund**

- The Fund liabilities will be assessed inaccurately and there is a risk that the Fund may be not be holding sufficient monies to meet payments as they fall due.
- The Fund may pay an incorrect level of pension benefits to members or, in extreme cases, may be unable to make benefit payments at all as the correct amount cannot be calculated.
- The Fund may invest assets inappropriately because the nature and timing of liabilities is not fully understood.
- The Fund may be in breach of statutory requirements for holding accurate and complete data resulting in a fine.

**Employers**

- As actuaries, we have a professional requirement to carry out validation checks on the data prior to carrying out the valuation calculations. If data is missing, inaccurate or inconsistent with previously submitted data, estimates or approximations will be made. In order to protect the Fund, we will always make cautious estimates for missing data.

**This can lead to employers paying higher contributions than would be required if their data were complete and accurate.**

The calculations in the box below show the sensitivity of the employer contribution rate to the member data.

**Example: Error in Member Salary**

Sex	DOB	Start Date	FTE Salary £	Liability £
M	01/01/1954	01/01/1998	10,500	50,667
M	01/01/1954	01/01/1998	15,000	76,000

↑

Increases the liability by 50%, increases the employer contribution rate by 10%

**Example: Error in Member Date of Birth**

Sex	DOB	Pension £	Liability £
F	01/01/1923	2,000	15,600
F	01/01/1932	2,000	23,600

↑

Increases the liability by 50%, increases the employer contribution rate by 3%

**Where employer data is considered to be materially incomplete or inaccurate, we will add an explicit premium to the employer contribution rate to protect the Fund from the risk of unrecognised liabilities arising at a future date.**

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- Accounting reports (FRS17, FRS102 and IAS19) are based on the formal valuation data. Incomplete or estimated membership data can lead to material misstatements in an employer's accounting disclosures.
- The Pensions Regulator has jurisdiction over administration in the LGPS. If an employer fails to provide adequate data to allow administration of pension benefits the Pensions Regulator has recourse to apply sanctions, including fining the employer up to a limit of £60,000 per day per breach.

#### Members

- Employee members may receive and rely on annual benefit statements for retirement planning which contain incorrect data.
- Employee members may be paid incorrect benefit amounts as a result of data errors. Any overpayments must be reclaimed which can be a distressing experience.
- Highly paid employee members may incur unexpected tax charges as a result of poor data which doesn't allow fully informed financial planning.

#### **What does the Fund need from employers?**

**Employers are asked to submit their annual return for the year ending 31 March 2016 to the Fund by 30 April 2016 at the very latest to ensure there is a reasonable chance of meeting the valuation deadline.**

Please take care to ensure that the information provided is complete and accurate.

The Fund may need to verify some of the data within the annual return. Your support in addressing any queries raised quickly will be appreciated and will help the Fund to meet the statutory deadlines.

There will be further communication and engagement with employers throughout the valuation process. We look forward to meeting you all on 14 March at the meeting arranged by the Fund at Shire Hall. At this meeting we will discuss:

- key dates when final employer results and recommended contribution rates will be available;
- the approach we will take to engage with employers regarding their covenant assessment and contribution rate; and
- how employers can consult on the Fund's funding strategy statement.

The Fund will also be sending an early warning report in advance of the March meeting to provide an **estimate** of your funding position and we will be providing further details on the potential impact on your contribution rate during our presentation.

**If you have queries about this letter or are concerned about your ability to provide the data required, please contact the Fund's Pension Administration Manager, Alan Marshall, via email [alan.marshall@gloucestershire.gov.uk](mailto:alan.marshall@gloucestershire.gov.uk) as soon as possible.**

Kind regards

Julie West FFA

For and on behalf of Hymans Robertson LLP