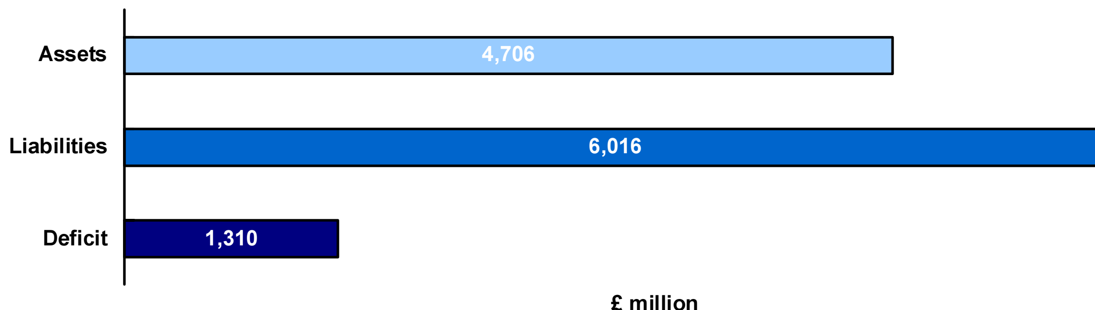
MERSEYSIDE PENSION FUND

Accounts for the year ended 31 March 2012 - Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 34(1)(d) of The Local Government Pension Scheme (Administration) Regulations 2008.

An actuarial valuation of the Merseyside Pension Fund was carried out as at 31 March 2010 to determine the contribution rates with effect from 1 April 2011 to 31 March 2014.

On the basis of the assumptions adopted, the Fund's assets of £4,706 million represented 78% of the Fund's past service liabilities of £6,016 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 11.6% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an average additional contribution rate of 6.4% of pensionable pay for 25 years. This would imply an average employer contribution rate of 18.0% of pensionable pay in total.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 30 March 2011.

In practice, each individual employer's position is assessed separately and the contributions required are set out in our report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

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The funding plan adopted in assessing the contributions for each individual employer is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	**For future service liabilities (Common Contribution Rate)**
Rate of return on investments (discount rate)		
- pre retirement	6.5% per annum	6.75% per annum
- post retirement	5.5% per annum	6.75% per annum
Rate of pay increases	4.5% per annum	4.5% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2013. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2014.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31 March 2011	**31 March 2012**
Rate of return on investments (discount rate)	5.5% per annum	4.9% per annum
Rate of pay increases	4.4% per annum	4.0% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.9% per annum	2.5% per annum

We have also used valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

On this basis, the value of the Fund's promised retirement benefits as at 31 March 2011 and 31 March 2012 were £6,720 million and £7,273 million respectively. During the year, corporate bond yields reduced significantly, resulting in a lower discount rate being used for IAS26 purposes at the year end than at the beginning of the year (4.9% p.a. versus 5.5% p.a.), and in addition there was a reduction in inflation expectations (from 2.9% p.a. to 2.5% p.a.). The net effect of these changes is an increase in the Fund's liabilities for the purposes of IAS26 of about £249 million.

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Mercer Limited
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