

Funding Strategy Statement 2010 (draft)

Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 replaced the Local Government Pension Scheme Regulations 1997 providing the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Fund the Administering Authority will prepare and publish its funding strategy;
- In preparing the FSS, the Administering Authority must have regard to the guidance issued by CIPFA for this purpose; and the revised **Statement of Investment Principles (SIP)** for the Fund dated 16 November **2010** published under **Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)**;
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the SIP.

Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit scheme under which the benefits are specified in the governing legislation -

- The LGPS (Benefits, Contributions & Membership) Regulations 2007 (as amended), “the BMC Regulations”

The required levels of employee contributions are also specified in the Regulations. Employer contributions are determined in accordance with the Regulations (currently principally Administration Regulation 36) which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate.

Contributions to the Fund should be set so as to “secure its solvency”, whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

Purpose of the FSS in policy terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made.

Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

- To establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible; and
- To take a prudent longer-term view of funding those liabilities.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled.

Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

Aims and Purposes of the Fund

The aims of the Fund are to:

- Enable employer contribution rates to be kept as nearly constant as possible and at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies
- Manage employers' liabilities effectively
- Ensure that sufficient resources are available to meet all liabilities as they fall due, and
- Maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- Receive monies in respect of contributions, transfer values and investment income, and
- Pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses, as defined in the various Local Government Pension Scheme Regulations:
 - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)
 - The Local Government Pension Scheme (Administration) Regulations 2008 (as amended), and
 - The Local Government Pension Scheme (Benefits, Contributions & Membership) Regulations 2007 (as amended)

Responsibilities of the Key Parties

These are as set out in the relevant regulations as amended from time to time:

- The LGPS (Administration) Regulations,
- The LGPS (Benefits, Contributions & Membership) Regulations and
- The LGPS (Transitional Provisions) Regulations 2007, “the Regulations”.

The Administering Authority should:

- Collect employer and employee contributions
- Invest surplus monies in accordance with the underlying legislation
- Ensure that cash is available to meet liabilities as and when they fall due
- Manage the valuation process in consultation with the actuary
- Prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- Monitor all aspects of the Fund’s performance and funding and amend FSS/SIP.

The Individual Employer should:

- Deduct contributions from employees’ pay correctly
- Pay all contributions, including their own as determined by the actuary, promptly by the due date
- Exercise discretions within the regulatory framework
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- Notify the Administering Authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund Actuary should:

- Prepare valuations including the setting of employers’ contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS
- Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters, and

Advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

Solvency issues and target funding levels

The funding objective:

To meet the requirements of the Administration Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing basis including allowance for projected final pay.

Determination of the funding target and recovery period:

The principal method and assumptions to be used in the calculation of the **funding target** are set out in the Appendix. Underlying these assumptions are the following two tenets:

- That the Scheme is expected to continue for the foreseeable future; and
- Favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates:

- LEA Schools and certain other employers within the Fund have been grouped with the respective Council.

A maximum deficit recovery period of [25] years will apply for scheme employers and a [15] year maximum period will apply to admitted bodies. For employers who do not admit new members, the recovery period will be limited to the future working lifetime of the membership or 15 years if shorter. Shorter periods will also be applied for employers who have a limited participation in the Fund. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may also be applied in respect of particular employers where the Administering Authority considers this to be warranted (see **Deficit Recovery Plan** on page 8).

In current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply where substantial deficits apply. As a result in addition to the maximum deficit recovery period of 25 years, the Fund will operate a default deficit recovery period, set at [20] years for scheduled and resolution bodies and [10] years for non-Transferee admission bodies at the 2010 valuation. All employers in deficit will be required to adopt a deficit recovery period in line with the default period (or shorter) before any reduction in overall contributions would be allowed.

• With effect from April 2011 employer contributions will be expressed and certified as two separate elements:

- a percentage of pensionable payroll in respect of future accrual of benefits
- a schedule of fixed £s amounts over 2011/14, building in an allowance for increases annually in line with the valuation funding assumption for long term pay growth, in respect of the past service deficit or surplus subject to review from April 2014 based on the results of the 2013 actuarial valuation.

Where an employer is in a surplus position the fixed amount deduction from the future service rate will be subject to a threshold of £1,000 below which no deduction will be made.

- Unless agreed otherwise by the relevant Scheme Employer any Transferee admission bodies will be treated in the same way as the original Scheme Employer.
- Where the employer contributions required from 1 April 2011 increase significantly in terms of the employer's pay following completion of the 2010 actuarial valuation, the increase from the rates of contribution payable in the year 2010/11 may be phased in over a maximum period of 3 years.
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer.

Depending on the circumstances of the termination event this assessment and in particular whether another Fund employer is prepared to act as guarantor to the residual liabilities will incorporate a more cautious basis of assessment of the final liabilities for the employer. Where it may be appropriate to use a more cautious basis the financial assumptions used will be derived to be consistent with the equivalent assumptions adopted for the FRS17 accounting standard for current employers in the Fund. This is subject to the financial assumptions used being no less cautious than the equivalent valuation assumptions updated appropriately based on the advice of the actuary. Full details of the approach to be adopted for such an assessment on termination are set out in the separate termination policy report dated 28 January 2008 [to be updated].

- For new Community Admission Body (CAB) admissions only from 1 April 2011, who do not have a guarantor of sufficient financial standing based on the assessment of the Administering Authority, the basis of assessment for both the contributions and termination will be on a gilts or "least risk" basis. The employer's assets will then be deemed to be invested in government bonds of the appropriate duration to the liabilities and be credited with the returns derived from such assets based on the advice of the Actuary. Where a guarantor is available the assessment will be on the normal valuation basis if the guarantor agrees to underwrite the obligations of the employer in the long term.

- From 1 April 2011 all existing admitted bodies up to that date will have the option of adopting a funding basis in line with the existing termination approach based on corporate bond yields. The employer's assets will then be deemed to be invested in corporate bonds of the appropriate duration to the liabilities and be credited with the returns derived from such assets on the advice of the Actuary.
- In all cases the Administering authority reserves the right to apply a different approach at its sole discretion taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.
- The need to minimise the risks to the Fund from its admission arrangements by strengthening its admission arrangements and pursuing a policy of positive engagement.

Deficit recovery plan

If the assets of the scheme relating to an employer are less than the **funding target** at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as a monetary lump sum.

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- Length of expected period of participation in the Fund.

For those employers with no guarantor or bond arrangements in place, a higher **funding target** will be adopted. The contribution rate for these employers will be determined to target a funding position of [120]% for the liabilities of the current active membership. The **funding target** for the non-active liabilities will be as defined earlier. The principles around the recovery period will be as noted earlier after the change in funding target has been applied.

The Administering Authority has the discretion to vary the recovery periods to a maximum period of [25] years and **funding target** in the FSS subject to satisfactory assurances over the financial covenant of an employer.

The normal cost of the scheme (future service contribution rate)

In addition to any contributions required to rectify a shortfall of assets below the **funding target** contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the “normal cost”). The method and assumptions for assessing these contributions on the normal valuation basis are also set out in the Appendix.

Funding For Non-III Health Early Retirement Costs

Employers are required to meet all costs of early retirement strain either by immediate capital payments into the Fund or in certain circumstances by agreement with the Fund, by instalments over a period not exceeding 5 years or if less the remaining period of the body's membership of the Fund.

Link to Investment Policy in the SIP

The results of the 2010 valuation show the liabilities to be 78% (compared to 80% at 31 March 2007) covered by the current assets, with the funding deficit of 22% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for asset out-performance as described in the Appendix on page 14, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Fund's assets in line with the least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the investments or any adjustment to the market implied inflation assumption due to supply / demand distortions in the bond markets. On this basis of assessment, the assessed value of the Fund's liabilities at the 31 March 2010 valuation would have been significantly higher and the declared funding level would be correspondingly lower at 58%.

Departure from a least risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

Proposed Benchmark Investment Strategy and Asset Allocation

The proposed benchmark investment strategy and asset allocation to be set out in the SIP is shown in *Table 1*

Asset	Benchmark	Benchmark Index
UK Equities	25	FTSE ALL SHARE INDEX
Overseas Equities	30	
US Equities		8 FTSE AW NORTH AMERICA UK
European Equities		8 FTSE WORLD EUROPE EX UK
Japan		4 FTSE AW JAPAN
Pacific		4 FTSE AW DEV ASIA PAC EX JAPAN
Emerging Markets		6 MSCI EMERGING MARKETS FREE
Fixed Interest	20	
UK Gilts		4 FTSE A ALL STOCKS
Overseas Gilts		0 JPM GLOBAL GOVT EX UK
UK Index Linked		12 FTSE UK GILTS INDEXED ALL STKS
Corporate Bonds		4 ML 3 NON GILTS
Property	10	IPD ALL PROPERTIES INDEX
Venture Capital/Other Investments	14	GBP 7 DAY LIBID
Cash	1	GBP 3 MONTH LIBID
Total	100	SPECIFIC BENCHMARK

(Table 1: MPF Multi Asset Portfolio)

The funding strategy adopted for the 2010 valuation was based on an assumed asset out-performance of [2%] in respect of liabilities pre-retirement, and [1%] in respect of post-retirement liabilities. Based on the liability profile of the Fund at the valuation, this equated to a long term overall asset out-performance allowance of [1.4%] p.a.

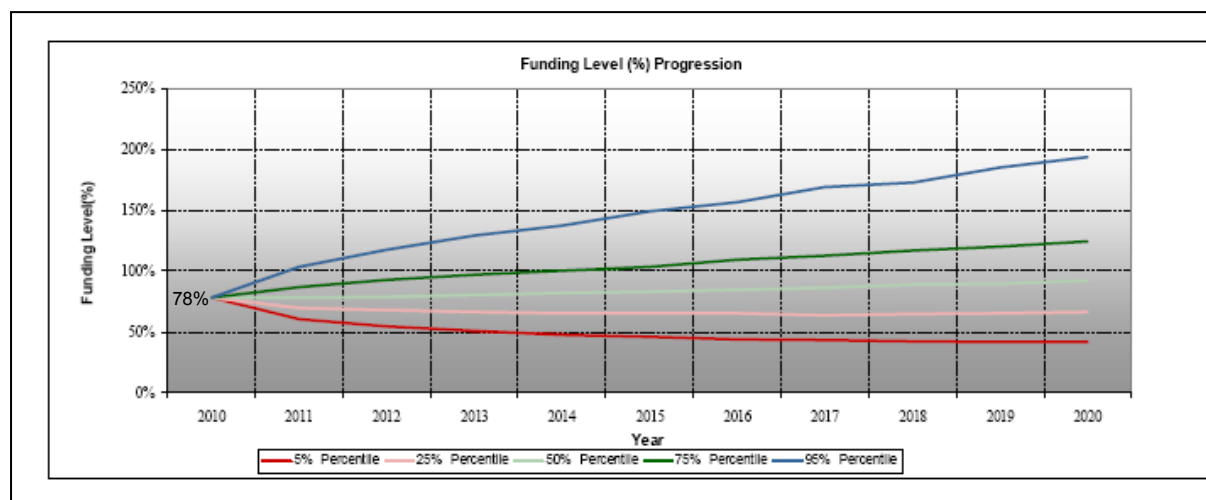
The Administering Authority believes that this is a reasonable and prudent allowance for asset out-performance, based on the investment strategy adopted as set out in the SIP.

Identification of risks and counter-measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the Fund's funding is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall 1.4% per annum assumed in the long term.

The chart below shows a "funnel of doubt" funding level graph, which illustrates the probability of exceeding a certain funding level over a 10 year period from the valuation date. For example, the top line shows the 95th percentile level (i.e. there is a 5% chance of the projected funding level at each point in time being better than the funding level shown and a 95% chance of the funding level being lower). The graph adopts the 2010 actuarial valuation results as a starting point, and allows for the expected contributions into the Fund assuming a [25] year recovery period. An overall out-performance over and above gilts yields has been assumed in line with best estimate market expectations, together with a continuation of the current investment strategy as outlined above.



The following key risks have been identified:

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

Regulatory

- Changes to Regulations, e.g. more favourable benefits package, potential new entrants to Fund, e.g. part-time employees
- Changes to national pension requirements and/or Inland Revenue rules

Governance

Wirral Borough Council as the administering authority for Merseyside Pension Fund has delegated responsibility and accountability for overseeing the Fund to the Pensions Committee.

The Pensions Committee is made up of ten Members nominated by Wirral, one nominated from each of the other four metropolitan authorities and a representative of the other admitted and scheduled bodies elected by ballot. There are three members drawn from trade unions representing all actives, deferred members and pensioners. Aside from the representative Member, changes to Committee membership are subject to the political leadership of the Councils, although efforts are made to limit rotation where possible.

The Committee meets 4 to 5 times a year and has set up an Investment Monitoring Working Party which meets at least 6 times a year to monitor investment performance and developments. The Committee has delegated powers to the Director of Finance for the day to day running of the Fund.

There is a clear decision making process for the operations of the Fund, major decisions are taken and minuted at monthly Fund Operating Group meetings attended by the Director and Deputy Director of Finance and senior MPF managers.

There is a significant resource dedicated on an annual basis for Member training which is provided both internally and externally.

The Pensions Administration Strategy (PAS) sets out clear standards of service to members by defining employer and Fund responsibilities in administering the Scheme and sets out the requirements for the two way flow of information. The employer should notify the administering authority of the following events.

- Structural change in employer's membership e.g. large fall in employee numbers or large number of retirements.
- A closure in accessibility of the scheme to new entrants.
- An employer ceasing to exist.

Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

- If there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- If there have been significant changes to the Fund membership, or LGPS benefits
- If there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- If there have been any significant special contributions paid into the Fund.

Appendix

Actuarial Valuation as at 31 March 2010

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, unless specifically agreed otherwise, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future aging and decline of the current closed membership group.

Financial assumptions

Investment Return (Discount Rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") of [2%] p.a. for the period pre-retirement and [1%] p.a. post-retirement.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date. The allowance for this out-performance is based on the liability profile of the Scheme, with a higher assumption in respect of the "pre-retirement" (i.e. active and deferred pensioner) liabilities than for the "post-retirement" (i.e. pensioner) liabilities.

This approach thereby allows for a gradual shift in the overall equity/bond weighting of the Fund as the liability profile of the membership matures over time.

Individual Employers

Having determined the AOAs as above for the Fund overall, it is important to consider how the financial assumptions in particular impact on individual participating employers. As employers in the Fund will have different mixes of active, deferred and pensioner members, adopting a different pre/post retirement investment return approach is equivalent to hypothecating a different equity/bond mix investment strategy for each employer. Such an approach would be inconsistent with the Fund practice, as set out in the FSS, of allocating investment performance pro rata across all employers based on a "mirror image" investment strategy to the whole Fund except where agreed between the employer and Fund at the sole discretion of the Administering Authority. In completing the calculations for individual employers therefore, a single, composite, pre and post retirement asset out-performance assumption of [1.4%] p.a. has been calculated which, for the Fund as a whole, gives the same value of the funding target as the separate pre and post retirement AOAs.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities. An adjustment to allow for supply/demand distortions in the bond market is incorporated. The Chancellor announced, in his Emergency Budget in June 2010, that retirement pensions would be increased annually by the change in the Consumer Price Index rather than the Retail Price Index. This change will apply from April 2011 and the assumptions make due allowance for this revision as advised by the Actuary.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of [1.5%] p.a. over the inflation assumption as described above. This includes allowance for promotional increases. This has been modified from the previous adopted assumption (of 1.25% above the RPI inflation assumption) to reflect the change in inflation assumption from RPI to CPI. This change reasonably incorporates the effect of the recent announcements on pay restraint in the public sector.

Pension increases

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Mortality

The mortality assumptions will be based on the most up-to-date information published by the Continuous Mortality Investigation Bureau, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, with a loading reflecting Scheme specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a minimum level of longevity 'improvement' year on year in the future in line with the CMI projections subject to a minimum rate of improvement of 1% per annum.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the ill health and proportions married assumptions have been modified from the 2007 valuation. Other assumptions are as per the 2007 valuation.

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below. The financial assumptions for assessing the future service contribution rate should take account of the following points:

- Contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and
- The future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of [3.75]% per annum, with a long term average assumption for price inflation of [3.0]% per annum. These two assumptions give rise to an overall discount rate of [6.75]% p.a.

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2010 valuation this approach gives rise to a slightly more optimistic stance in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against gilt yields and the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “normal cost”) for the 2010 actuarial valuation

Long-term gilt yields

Fixed Interest	4.5% p.a.
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Index-Linked	0.7% p.a.
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Past service Funding Target financial assumptions

Investment return pre-retirement	[6.50]% p.a.
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Investment return post-retirement	[5.50]% p.a.
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CPI price inflation	[3.00]% p.a.
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Salary increases	[4.50]% p.a.
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Pension increases	[3.00]% p.a.
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Future service accrual financial assumptions

Investment return	[6.75]% p.a.
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CPI price inflation	[3.00]% p.a.
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Salary increases	[4.50]% p.a.
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Pension increases	[3.00]% p.a.
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Demographic assumptions

The mortality tables adopted for this valuation are as follows:

	Table	Adjustment
Males normal health pensioners	S1PMA CMI_2009_M [1%]	106%
Female normal health pensioners	S1PFA CMI_2009_F [1%]	97%
Males ill health pensioners	As for male normal health pensioners +3 years	
Female ill health pensioners	As for female normal health pensioners +3 years	
Male dependants	S1PMA CMI_2009_M [1%]	127%
Female dependants	S1DFA CMI_2009_F [1%]	109%
Male future dependants	S1PMA CMI_2009_M [1%]	111%
Female future dependants	S1DFA CMI_2009_F [1%]	103%

Other demographic assumptions are noted below:

Commutation	One half of members take maximum lump sum, others take 3/80ths
Withdrawal	As for 2007 valuation
Other demographics	Based on LG scheme specific experience.
