

Merseyside Pension Fund

Funding Strategy Statement 2013 (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 November 2012 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 provides defined benefits with its benefit structure having been reviewed recently by the Government. Members will have final salary benefits for service accrued prior to 1 April 2014 with Career Average Revalued Earnings ("CARE") benefits accruing on and after this date.

The benefits are specified in the governing legislation -

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

New legislation The Local Government Pension Scheme Regulations 2013 governs the Scheme from 1 April 2014.

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)
- The Local Government Pension Scheme Regulations 2013 from 1 April 2014

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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 Local Government Pension Scheme Regulations 2013 from 1 April 2014

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.

This allows us to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation when looking to potentially stabilise contribution requirements we will consider whether we can build into the funding plan the following:-

- some allowance for interest rates and bond yields to revert to higher levels over the medium to long term; and
- whether some allowance for increased investment return (in excess of AOA) can be built into the funding plan over the agreed recovery period.

In considering this the Actuary, following discussions with the Administering Authority, will consider if this results in a reasonable likelihood that the funding plan will be successful.

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.
- Academies are treated as separate employers but consistently with the relevant LEA schools
- Certain employers will follow a bespoke investment and funding strategy pertaining to their own circumstances related to their risk and maturity characteristics. This will be documented separately.

A maximum deficit recovery period of [22] years will apply for scheme employers and a [12] 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 [12] 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 7).

- Employer contributions are expressed and certified as two separate elements:
 - a percentage of pensionable payroll in respect of future accrual of benefits
 - a schedule of £s amounts over 2014/17, 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 2017 based on the results of the 2016 actuarial valuation.

Where an employer is in a surplus position the fixed amount deduction from the future service rate (subject to a minimum of zero) 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 2014 increase significantly in terms of the employer's pay following completion of the 2013 actuarial valuation, the increase from the rates of contribution payable in the year 2013/14 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 [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.
- All admitted bodies that were in existence at 1 April 2011 will have the option of adopting a funding basis 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.

When considering the recovery period for an individual employer in the Fund the Administering Authority has the discretion to vary the recovery periods from those set out above. In all cases this will be limited to the maximum period of [22] years as applied to Scheme Employers subject to satisfactory evidence of the financial covenant of an

employer.

As well as the above we would also apply the following criteria to the valuation when determining employer contribution rate:

- i. there being no reduction from that implied by the 2010 funding strategy. For the avoidance of doubt this means that the monetary value of each employer's deficit contributions payable including future indexation of the annual monetary amounts
- ii. an assessment of the strength of the employer's financial covenant by the Administering Authority or any alternative contingent security (after taking appropriate advice) could support employer specific adjustments to the parameters being applied
- iii. recognition of the need to use any improvements in the funding position and/or affordability of contributions for an individual employer at the 2013 valuation to reduce the deficit recovery period initially towards a more manageable period.

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 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 2013 valuation show the liabilities to be [76]% (compared to 78% at 31 March 2010) covered by the current assets, with the funding deficit of [24]% 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 2013 valuation would have been significantly higher and the declared funding level would be correspondingly lower at [tbc]%.

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

Asset	Benchmark	Benchmark Index
Corporate Bonds		4 ML 3 NON GILTS
Property	10	IPD ALL PROPERTIES INDEX
Alternatives	14	
Private Equity		4 GBP 7 DAY LIBID
Hedge Funds		5 GBP 7 DAY LIBID
Thematic Fund of Funds		3 GBP 7 DAY LIBID
Infrastructure		2 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 2013 valuation was based on an assumed overall asset out-performance 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 2013 actuarial valuation results as a starting point, and allows for the expected contributions into the Fund assuming a [22] 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.

[CHART TO BE INSERTED]

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)

Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

- Changes to Regulations, e.g. changes to the benefits package, potential new entrants to Fund, and retirement age
- 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 2013

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 overall Asset Out-performance Assumption ("AOA") of [1.4%].

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 Fund, and the fact that the Fund is invested predominantly in higher return assets as detailed in Section 7. If the return actually achieved is higher than this the Fund deficit will be reduced; if the return is lower then the Fund deficit will increase (provided that all the other assumptions remain valid).

Inflation

The market implied RPI 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. Pensions in payment and deferment are linked to CPI inflation and the CPI assumption will be calculated by making a 1% p.a. downward adjustment to the market implied RPI assumption at the valuation date. This adjustment is to take account of general market trends, the risk premia and the fact that the CPI is systematically lower than RPI in the long term due to methodology.

Salary increases

The assumption for real salary increases (salary increases in excess of CPI price inflation) will be determined by an allowance of [1.5%] p.a. over the CPI inflation assumption as described above. This includes allowance for promotional increases.

Allowance for short term pay can be included for the if justifiable and in line with the advice of the Fund Actuary.

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 loadings 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 current retirees, and 4 years older for future cases (reflecting the updated ill health criteria). 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 1.5% 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, death before retirement, retirement in normal health and proportions married assumptions have been modified from the 2010 valuation. Other assumptions are as per the 2010 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.
- Allowance for market real yields to revert to higher levels over the longer term.

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 [3.0]% per annum using an assumption for price inflation of [2.6]% per annum. These two assumptions give rise to an overall discount rate of [5.6]% p.a.

Adopting this approach the future service rate will not be 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 2013 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 but over the long term you would expect the variation to average out.

For certain employers the normal cost will be calculated using the assumptions adopted for the funding target.

Summary of key whole Fund assumptions used for calculating funding target and long term cost of future accrual (the “normal cost”) for the 2013 actuarial valuation

Long-term gilt yields (derived for the full yield curve)	31 March 2013
Fixed Interest	3.2% p.a.
Index-Linked	-0.4% p.a.
Funding Target financial assumptions	
Investment return	[4.6]% p.a.
CPI price inflation	[2.6]% p.a.
Salary increases	[4.1]% p.a.
Pension increases	[2.6]% p.a.
Long Term Future service accrual financial assumptions	
Investment return	[5.6]% p.a.
CPI price inflation	[2.6]% p.a.
Salary increases	[4.1]% p.a.
Pension increases	[2.6]% p.a.

Demographic assumptions

The mortality tables adopted for this valuation are as follows (male/female):

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	106% / 100%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	173% / 120%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	115% / 108%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	104% / 94%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	130% / 110%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	111% / 106%	CMI_2012	1.5%

Other demographic assumptions are noted below:

Commutation	One half of members take maximum lump sum, others take 3/80ths
Other demographics	Based on and LG wide analysis experience adjusted for Fund specific factors.

(Version updated 11/10/2013)