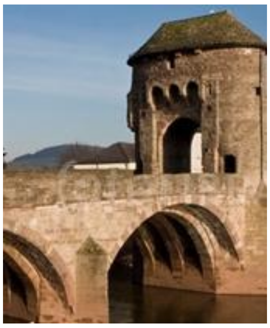
Greater Gwent (Torfaen) Pension Fund
The Local Government Pension Scheme

Funding Strategy Statement

2014/2017

Nigel Aurelius, CPFA
Assistant Chief Executive Resources


lgps look forward with confidence

TORFAEN COUNTY BOROUGH
BWRDEISTREF SIROL TORFAEN

Funding Strategy Statement 2014/2017

This Funding Strategy Statement (FSS) has been prepared by Torfaen County Borough Council (the Administering Authority) to set out the funding strategy for the Greater Gwent (Torfaen) Pension Fund ("the Fund"), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance papers issued in March 2004 and November 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. Introduction

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement. 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 their funding strategy;

In preparing the FSS, the administering authority must have regard to:-

- the guidance issued by CIPFA for this purpose; and
- the Statement of Investment Principles (SIP) for the Fund 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 Statement of Investment Principles.

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 Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also the introduction of a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the Fund are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations") and the Administration Regulations referred to above. New legislation contained in the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") governs the Fund from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

Employer contributions are determined in accordance with the Administration Regulations 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.

2. Purpose of the Funding Strategy Statement 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.

3. Aims and Purpose of the Pension Fund

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable 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 scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Administration Regulations 2008 (as amended, the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. Responsibilities of the Key Parties

The Administering Authority should:

- collect employer and employee contributions
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due

- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties,
- monitor all aspects of the Fund's performance and funding and amend the FSS/SIP as and when appropriate, and
- manage the appointment and relationships with third parties (e.g. investment managers, actuary, advisors) in a manner consistent to support the above.

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 scheme 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.

5. 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 past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Rate.

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 **Appendix 1**.

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 changes in market conditions that have occurred since the valuation date;
- some further allowance for interest rates and bond yields to revert to higher levels over the medium to long term.

In considering this the Administering Authority, based on the advice of the actuary, 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, following a principle of no cross-subsidy between the distinct 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 (except where an employer adopts a bespoke investment strategy – see below).

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- A default recovery period of 20 years will apply.
- In addition, at the discretion of the Administering Authority, a maximum deficit recovery period of 25 years will apply.
- 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 be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).
- The minimum employer contributions will normally be expressed and certified by the actuary, as two separate elements:
    - a percentage of pensionable payroll in respect of the future accrual of benefit
    - a schedule of lump sum amounts over 2014/17 in respect of the past service deficit subject to the review from April 2017 based on the results of the 2016 actuarial valuation
- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment as required by the Regulations. 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.

However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer warrant a variation from these objectives.

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

- the responses made to the consultation with employers on Funding Strategy 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

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, consideration will be given to the funding position emerging after allowing for changes in market conditions that have occurred since the valuation. To the extent that a shortfall remains, 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 annual monetary lump sums, subject to review based on the results of each actuarial valuation.

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 and the quantum of the increase in monetary contribution amounts when compared with existing contribution levels;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer, and the 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.

Where an employer is only marginally in surplus at the valuation date (under 120% funded or less than £100,000 surplus) it will normally be expected to pay the full normal future service contribution rate.

The **assumptions** to be used in these Recovery Plan calculations are set out in **Appendix 2**.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to negotiate an **evidence based** affordable level of contributions for the organisation for the three years 2014/17. Any application of this option is at the ultimate discretion of the Administering Authority and will only be considered after the provision of the appropriate evidence.

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.

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 are also set out in **Appendix 1**.

6. Links to Investment Policy Set Out in the Statement of Investment Principles

The results of the 2013 valuation show the liabilities at 31 March 2013 to be 71% covered by the current assets, with the funding deficit of 29% being covered by future deficit contributions. Allowing for changes in market conditions that have occurred since the valuation date, the estimated funding level is 76% as at 30 September 2013.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for asset out-performance as described in **Appendix 1**, 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.

Departure from a least risk investment strategy, in particular to include equity type 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.

The current benchmark investment strategy and asset allocation of the Greater Gwent (Torfaen) Pension Fund as at 31 March 2014 and as set out in the SIP, is shown overleaf:

STRATEGIC ASSET ALLOCATION OF GREATER GWENT (TORFAEN) PENSION FUND – 31 March 2014

Asset Class by Fund Manager	Investment Type	% of Total GGTPF	Bandwidths of Total GGTPF	Performance Reference for Managers' portion of the Total GGTPF	Performance Target for Managers' portion of the Total GGTPF (measured over rolling 3 year periods)
ABERDEEN ASSET MANAGERS		**9.0%**			
- Global Equities	Unitised Insurance Policy	9.0%	(+/- 1.0%)	MSCI World	Outperform index by 3% p.a.
ABERDEEN Total		**9.0%**			
BLACKROCK EQUITIES		**34.8%**			
- UK Equities	Segregated	13.8%	(+/-1.0%)	FTSE All-Share Index	Match
- US Equities	Unitised Insurance Policy	7.0%	(+/-1.0%)	FTSE All-World USA Index	Match
- European Equities	Unitised Insurance Policy	14.0%	(+/- 1.0%)	FTSE All-World Developed Europe ex-UK Index	Outperform index by 1.5% p.a.
BLACKROCK FIXED INTEREST		**14.0%**			
- UK gilts	Unit Trust	7.0%	(+/- 1.0%)	FTSE A All Stocks UK Gilt Index	Outperform index by 1.5% p.a. on the aggregate holding of both asset classes
- UK Non-Gilt bonds	Unit Trust	7.0%	(+/- 1.0%)	iBoxx Sterling non-gilts Index	
BLACKROCK Total		**48.8%**			
FIDELITY WORLDWIDE INVESTMENTS		**2.0%**			
- Emerging Market Equities	Managed Fund	2.0%	(+/- 1.0%)	MSCI Global Emerging Mkts Index	Outperform index by 2% p.a.
FIDELITY Total		**2.0%**			
INVESCO PERPETUAL		**4.0%**			
- Asia (ex Japan) Equities	Managed Fund	4.0%	(+/- 1.0%)	MSCI AC Asia Pacific (ex Jap) Index	Outperform index by 2% p.a.
INVESCO Total		**4.0%**			
LAZARD ASSET MANAGEMENT		**19.6%**			
- UK Equities	Segregated	19.6%	(+/- 1.0%)	FTSE All-Share Index	Outperform index by 2% p.a.
LAZARD Total		**19.6%**			
NOMURA ASSET MANAGEMENT		**3.0%**			
- Japan Equities	Managed Fund	3.0%	(+/- 1.0%)	TOPIX	Outperform Index by 3% p.a.
NOMURA AM Total		**3.0%**			
STANDARD LIFE INVESTMENTS		**7.6%**			
- UK Equities	Unitised Insurance Policy	4.6%	(+/- 1.0%)	FTSE All-Share Index	Outperform index by 3% p.a.
- Diversified Alternatives	Unitised Insurance Policy	3.0%	(+/- 1.0%)	6 mth LIBOR	Outperform index by 5% p.a.
STANDARD LIFE Total		**7.6%**			
OTHER (TCBC)		**6.0%**			
- Cash	Cash	3.0%	(+/- 1.0%)	LIBID 7 Day	Match
- Property Unit Trusts	Unit Trust	2.0%	(+/- 1.0%)	CAPS Property	Outperform index by 1% p.a.
- Alternative Investments	Limited Partnership	1.0%	(+/- 1.0%)	6 mth LIBOR	Outperform index by 4-6% pa
OTHER Total		**6.0%**			
GGTPF TOTAL		**100.0%**			

The funding strategy adopted for the 2013 valuation is based on an assumed asset out-performance above fixed gilts of 1.6% per annum

7. The Identification of Risks and Countermeasures

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 Appendices and 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 (or return seeking)-based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out-performance assumed in the long term.

What are the Risks?

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 (included those granted on the grounds of ill health)
- The level of take-up of the 50-50 option at a higher or lower level than built into the actuarial valuation assumptions

Regulatory

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants.

- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of those items identified above.
- In addition to the above, the Administering Authority recognises the following as important facets of minimising risk:
    - The effective operation of the Fund's formal Pensions Committee established within the Administering Authority's constitutional arrangements.
    - The establishment by the Pensions Committee of a wider representative Pension Fund Management Group that has an appropriate overview and scrutiny role.
    - Quarterly Investment Panel meetings with Investment Manager(s).
    - Additional supplementary Pensions Committee and/or Investment Panel meetings, excluding the Investment Managers, to consider operational, administrative and strategic issues in support of the investment regime.
    - Member and officer attendance at training seminars and conferences to aid education and keep abreast of current thinking and developments.
    - Pensions Committee decisions subject to appropriate overview and scrutiny within the context of the Administering Authority's constitutional arrangements.
    - Particular consideration of the implications (especially knowledge and skills considerations) when there are changes to the membership of the Pensions Committee.

8. Monitoring and Review

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

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 (e.g. closure to new entrants)
- if there have been any significant special contributions paid into the Fund.

Appendix 1

ACTUARIAL VALUATION AS AT 31 MARCH 2013

Method and assumptions used in calculating the funding target

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, 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 1.6% per annum.

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.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI 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 but subject to the following two adjustments:

- an allowance for supply/demand distortions in the bond market is incorporated and

- due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index. The overall reduction to RPI inflation implied by the market at the valuation date is 1.0% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) in the long term will be determined by an allowance of 1.5% p.a. over the inflation assumptions as described above. This includes allowance for promotional increases. However, allowance has been made for expected short term pay restraint for all employers in the fund. This results in an assumed total salary increase of 1% per annum for 3 years following the valuation, reverting to long term levels after this time

Pension increases/Indexation of CARE benefits

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 RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality

The mortality in retirement assumptions will be based on up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation CMI, making allowance for future improvements in longevity and the experience of the scheme. The mortality assumptions used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the actuary. Current members who retire on the grounds of ill heath are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 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 1.5% per annum.

The mortality before retirement has also been adjusted based on LGPS wide experience.

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 £1p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation. Other assumptions are as per the last valuation.

Expenses

Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the 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 3.00% per annum, with a long term average assumption for price inflation of 2.60% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a. (i.e. 3.0% plus 2.6%).

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 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) 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 2013 actuarial valuation:

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	(-0.4%) p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.8% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a. *
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.60% p.a.
Pension increases/indexation of CARE benefits	2.60% p.a.

1% per annum has been assumed for three years, in line with public sector pay restraint.

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	98% / 97%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	165% / 113%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	111% / 102%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	98% / 97%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	98% / 97%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	111% / 102%	CMI_2012	1.5%

Other demographic assumptions are noted below

Withdrawal	As for 2010
Other demographics	Based on LG scheme specific experience
50:50 Option	Limited allowance for specific employers

Appendix 2

Post valuation improvements in market conditions

The deficit contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the exception that allowance has been made for post valuation date changes in the funding position where appropriate. In terms of assumptions the major change is that the discount rate has increased by 0.5% per annum to 5.3% per annum.

Additionally, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to the 2014/15 levels that would have been payable under the previous valuation funding plan), a further allowance may be made as part of the recovery plan for yields to revert to higher levels over a period of 5 years. In isolation, the effect of this allowance is to reduce the funding deficit by primarily lowering the value of the Fund’s projected liabilities over time, thus reducing the level of deficit contributions required by the employer during the recovery period, roughly equivalent to allowing for an increase in discount rate of 0.5% per annum to 5.8% per annum as at 30 September 2013. However, employers which make use of this allowance would be required to continue to pay at least what they would have paid under the existing 2010 valuation contributions plan.