SHROPSHIRE COUNTY PENSION FUND – APPENDIX A

Summary of Results of Actuarial Valuation as at 31 March 2013

1. Introduction

1.1 We have carried out our preliminary calculations on the actuarial valuation of the Fund as at 31 March 2013 and reported the results to the Administering Authority. The results are summarised in this note.

1.2 Subject to the Committee's approval and any discussions with individual employers, we will produce our formal report on the valuation in due course.

2. Valuation Approach and Assumptions

2.1 As for the 2010 actuarial valuation of the Fund, we have adopted a market-based approach. Therefore, we have taken the Fund's assets at their market value on the valuation date. The liabilities have been calculated in a consistent manner by discounting the benefits at market-related rates of interest.

2.2 There are three Fund-specific financial elements of the market value basis, namely:

- The extent to which we expect the return on the Fund's investments to exceed the return on a portfolio of gilts (the "asset out-performance assumption").
- The expected rate of Pensionable Pay increases in excess of inflation ("real Pensionable Pay growth").
- The expected rate of inflation, including any adjustments due to current market circumstances.

2.3 We have assumed:

- 1.75% per annum (pre and post-retirement) asset out-performance assumption for past service. This is overall equivalent to the 2010 valuation asset out-performance assumptions where we assumed outperformance of 3.0% per annum (pre-retirement) and 1.0% per annum (post-retirement), and therefore the 2013 assumption is consistent with the presentation used for individual employers in 2010.

- Pay growth of 1% per annum for the first three years, reverting to a long-term real pensionable pay growth of 1.5% per annum above CPI thereafter. The long-term pay growth assumption is consistent with that used in the 2010 valuation. (In the 2010 valuation we also made an allowance for the known short-term pay freeze for public sector employers.)

- CPI inflation of 1.0% below market-implied RPI inflation. At the 2010 actuarial valuation we assumed CPI inflation of 0.8% below market-implied RPI inflation.

2.5 Following the same approach as adopted at the 2010 valuation, the base assumptions for calculating the past service liabilities derived from UK gilt-edged stocks yield curves on 31 March 2013 are a market rate of discount (based on gilt yields of an appropriate duration to the Fund's liabilities) of 3.2% per annum and an implied rate of RPI inflation (based on gilt and index-linked gilt yields) of 3.6% per annum. We then apply an adjustment to the RPI figure to allow for an Inflation Risk Premium (IRP) and CPI/RPI differential, resulting in an implied rate of CPI inflation of 2.6% per annum.

2.6 For future service, a more "long-term" view is taken, not directly linked to current market yields at a particular date. The real return assumption for future service in the 2013 valuation is 3.0% per annum over and above the rate of assumed price inflation. The comparable assumption at the 2010 valuation was 3.75% per annum above the rate of assumed price inflation.

2.7 The main financial assumptions adopted to value the liabilities are, therefore, as follows:

		Past Service % pa	**Future Service % pa**
-	Investment return (pre-retirement)	4.95	5.6
-	Investment return (post-retirement)	4.95	5.6
-	Salary inflation	4.1*	4.1
-	Pension increases	2.6	2.6

**For past service it is assumed that pay will increase at 1% p.a. for first three years, before reverting to the long term assumption of 4.1% pa.*

2.8 Some changes have been made to the non-financial assumptions adopted in the previous valuation. We have carried out investigations into the mortality, incapacity/ill health retirements and proportions married experience of Mercer's local authority client funds, and the Shropshire Fund in particular. As a result we have made allowances for increased life expectancies of members, for a greater proportion of member deaths to result in a dependant's pension becoming payable, and an increase in the average assumed retirement age of members by one year.

2.9 As in the previous valuation, no advance allowance for early retirements (other than in ill-health) has been included in my calculations. Such retirements will be funded by additional payments (on top of the recommended employer's contribution rate) as and when they occur.

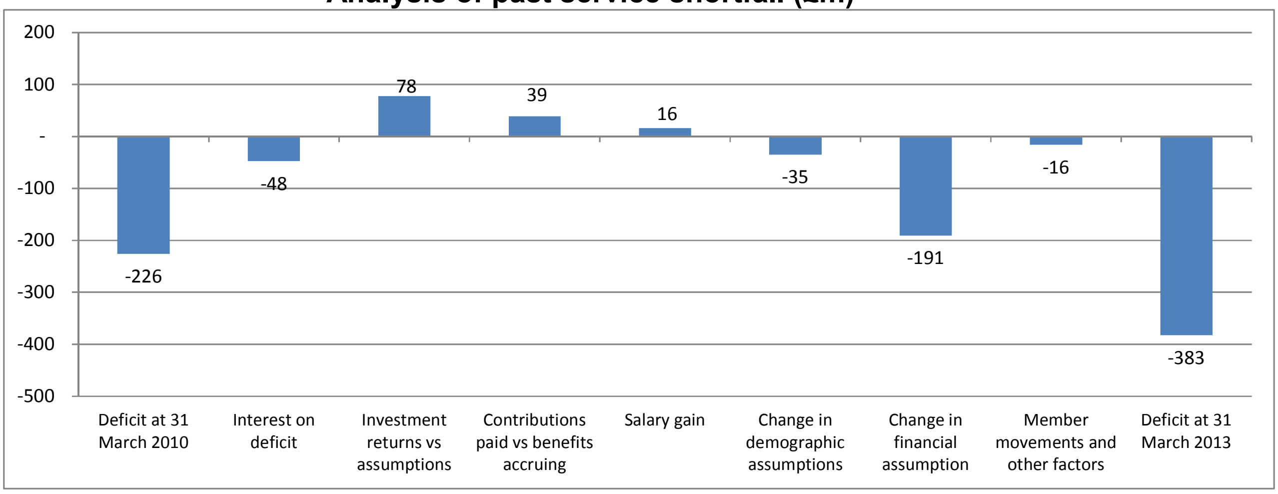
3. Valuation Results

3.1 The position relating to past service liabilities of the Fund as a whole is summarised as follows:

		£ million
Market value of assets		1,235
Value of benefits in respect of		
- current active members	551	
- preserved (deferred) pensioners	321	
- pensioners, widow(er)s and dependants	746	
Total accrued liabilities		1,617
Past service deficit		383
Funding level		76%

The previous valuation of the Fund as at 31 March 2010 disclosed a past service deficit of £226m. The current valuation at 31 March 2013 discloses a past service deficit of £383m. A reconciliation of the deficit at 2010 to the 2013 position, taking account of the various factors that can impact on the funding level, is set out below.

Analysis of past service shortfall (£m)



3.2 The Common Contribution Rate for future service (ignoring the past service deficit) is 14.0% of pensionable remuneration (11.6% of pensionable remuneration at the 2010 valuation). The increase in Common Contribution Rate is largely due to the changes in demographic and financial assumptions, offset somewhat by the average impact of the 2014 LGPS (a reduction of 1.6% of pay).

3.3 The deficit disclosed needs to be recovered by increasing employer contributions above the Common Contribution Rate. The deficit recovery period for the whole Fund position is 19 years (see 3.4 for further comments on deficit recovery periods for individual employers). The additional amount needed to recover the deficit over this period is £23m in 2014/15, increasing each year by 4.1% (the equivalent £

figure at the 2010 actuarial valuation was £13m in 2011/12, increasing at 4.5% p.a.).

3.4 The contribution rates for individual employers reflect their own circumstances. The default deficit recovery period for individual employers is 19 years. However, an employer may preserve their current rate by increasing the deficit recovery period to that which applied as at March 2010 (where recovery periods ranged from 19 years to 25 years for most employers, although employers that did not accept new Fund entrants typically had a shorter recovery period). The target contribution rates for the major Councils arising from the current and previous valuations are set out below:

Employer	**Target Rate at 2010 valuation (for 2011/12)**	**Target Rate at 2013 valuation (for 2014/15)**
Shropshire Council	11.7% plus £6.7m*	13.5% plus £6.0m*
Telford and Wrekin Council	16.3%	12.6% plus £3.5m* **

**The 2010 £ amounts were increased at 4.5% pa. The 2013 £ amounts are to increase at 4.1% pa. The 2013 rates are subject to final agreement by the Fund.*

***It has been agreed that Telford and Wrekin will be allowed to phase in the contribution increases arising as part of the valuation. Therefore the amount to be paid in 2014/15 will be £2.6m*

3.5 We are proposing that deficit recovery contributions are certified as a lump sum £s amount rather than as a percentage of payroll, which was the methodology adopted for most of the employers at the last valuation.

3.6 It is the intention that in general the 2013 valuation target rates are payable in full from 1 April 2014. Phasing may be considered in special circumstances but is subject to consent from the Administering Authority.

3.7 The position of the Fund should be kept under regular review during the period to the next formal actuarial valuation as at 31 March 2016.

Mercer Limited
November 2013