MERCER

SHROPSHIRE COUNTY PENSION FUND – APPENDIX A

Summary of Results of Actuarial Valuation as at 31 March 2016

1. Introduction

1.1 We have carried out our preliminary calculations on the actuarial valuation of the Fund as at 31 March 2016 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 2013 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 expected rate of CPI inflation, including any adjustments due to current market circumstances.
- The extent to which we expect the return on the Fund's investments to exceed these assumed levels of CPI inflation (the "real discount rate / rate of return").
- The expected rate of Pensionable Pay increases in excess of inflation ("real Pensionable Pay growth").

2.3 We have assumed:

- A 2.35% per annum (pre and post-retirement) real discount rate for past service. This is consistent with the corresponding assumption at the 2013 valuation. This is based on the Fund's long term investment strategy and long term expectations of the performance of different asset classes, and includes an appropriate degree of prudence.

- For future service the assumption is a real discount rate of 2.75% per annum above CPI. The comparable assumption at the 2013 valuation was 3.0% per annum above CPI.
- Pay growth of 1% per annum for the first four 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 2013 valuation. (In the 2013 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, the same as at 2013.

2.4 The main financial assumptions adopted are therefore as follows:

		Past Service % pa	Future Service % pa
-	Investment return (pre-retirement)	4.55	4.95
-	Investment return (post-retirement)	4.55	4.95
-	Salary inflation	3.7*	3.7
-	Pension increases	2.2	2.2

**For past service it is assumed that pay will increase at 1% p.a. for first four years, before reverting to the long term assumption of 3.7% pa.*

2.5 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. We have incorporated the results of those investigations into our actuarial valuation calculations.

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

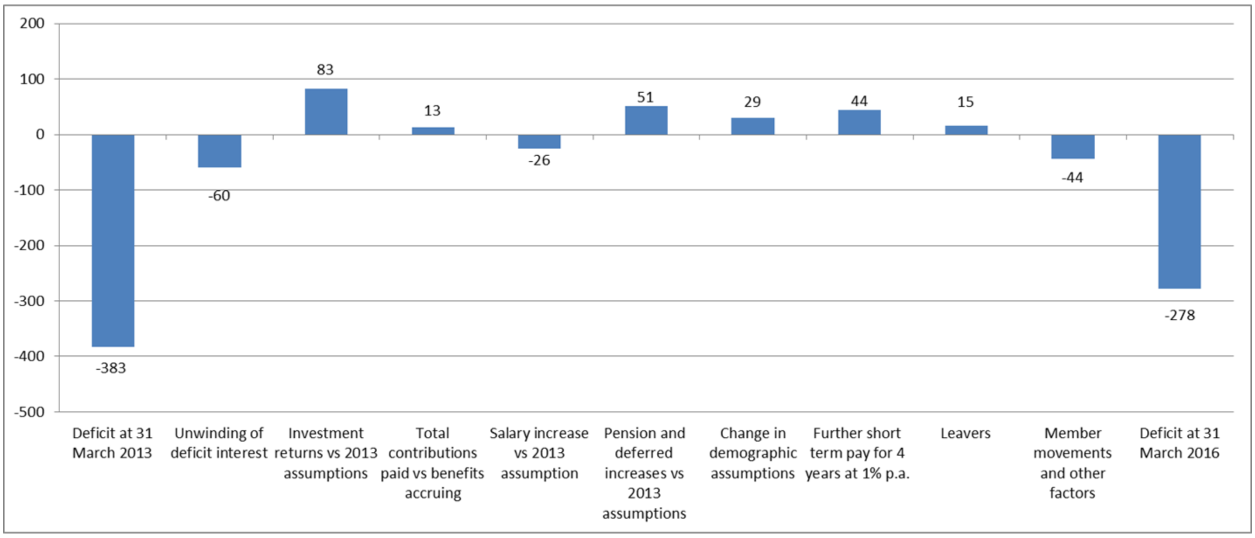
3. Valuation Results

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

			£ million
Market value of assets			1,494
Value of benefits in respect of			
-	current active members	538	
-	preserved (deferred) pensioners	385	
-	pensioners, widow(er)s and dependants	849	
Total accrued liabilities			1,772
Past service deficit			278
Funding level			84%

The previous valuation of the Fund as at 31 March 2013 disclosed a past service deficit of £383m. The current valuation at 31 March 2016 discloses a past service deficit of £278. A reconciliation of the deficit at 2013 to the 2016 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 14.7% of pensionable salaries (14.0% of pensionable salaries at the 2013 valuation). The increase in Common Contribution Rate is largely due to the changes in financial assumptions and membership profile, offset slightly by the changes to the demographic assumptions.

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 16 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 £18.6m in 2017/18, increasing each year by 3.7% (the equivalent £ figure at the 2013 actuarial valuation was £19.2m in 2017/18, increasing at 4.1% p.a.).

3.4 The contribution rates for individual employers reflect their own circumstances. The default deficit recovery period for individual employers is 16 years. However, in most cases an employers recovery period will be the period adopted for the 2013 valuation reduced by three years, leading to recovery periods ranging from 16 years to 22 years for most employers (although employers that did not accept new Fund entrants typically had a shorter recovery period).

3.5 Where an employer in deficit would otherwise see a reduction in total contributions, their deficit recovery period will instead be reduced such that their total contributions (for the year 2017/18) are in line with those expected under the 2013 plan.

3.7 It is the intention that in general the 2016 valuation target rates are payable in full from 1 April 2017. Phasing of any increases may be considered in special circumstances but is subject to consent from the Administering Authority.

3.8 The position of the Fund should be kept under regular review during the period to the next formal actuarial valuation as at 31 March 2019.

Mercer Limited
November 2016

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