

Cumbria County Council
**Cumbria LGPS
Pensions Forum
November 2013**



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Housekeeping



Toilets



Mobile Phones



Fire Alarms



Feedback



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Agenda (I)

	Welcome and Coffee	
10.00 - 10.15	<ol style="list-style-type: none"> 1. Terms of Reference 2. Election of Chair 3. Membership 4. Apologies for absence 5. Minutes of previous Forum (5 October 2012) 	Julie Crellin / New Chair
10.15 – 10.45	<ol style="list-style-type: none"> 6. Introduction Annual Report & Accounts 2012/13 including Funding Strategy Statement 2013 Future for the LGPS 	Fiona Miller / Alison Clark

Agenda (II)

10:45 – 11:15	<ol style="list-style-type: none"> 7. Pension Administration YPS 2012/13 Performance Results National changes to LGPS – 2014 Scheme 	Diane Lister
11.15 – 12.00	<ol style="list-style-type: none"> 8. 2013 Triennial Actuarial Valuation - Progress and results to date – Mercers 	John Livsey
	<ol style="list-style-type: none"> 9. Representation from employers 	
	<ol style="list-style-type: none"> 10. Date of Next Meeting 6th October 2014 	

Local Government Pension Scheme



Theme throughout today is one of Change



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**Cumbria County Council
Cumbria LGPS Annual
Report & Accounts &
Funding Strategy Statement
2012/13**



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Contents

- Cumbria LGPS specifics
- Achievements in 2012/13
- Performance 2012/13
- Annual Report & Accounts & Funding Strategy Statement 2013
- Looking ahead



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Cumbria LGPS – Scheme Specifics



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Cumbria LGPS – Scheme Specifics

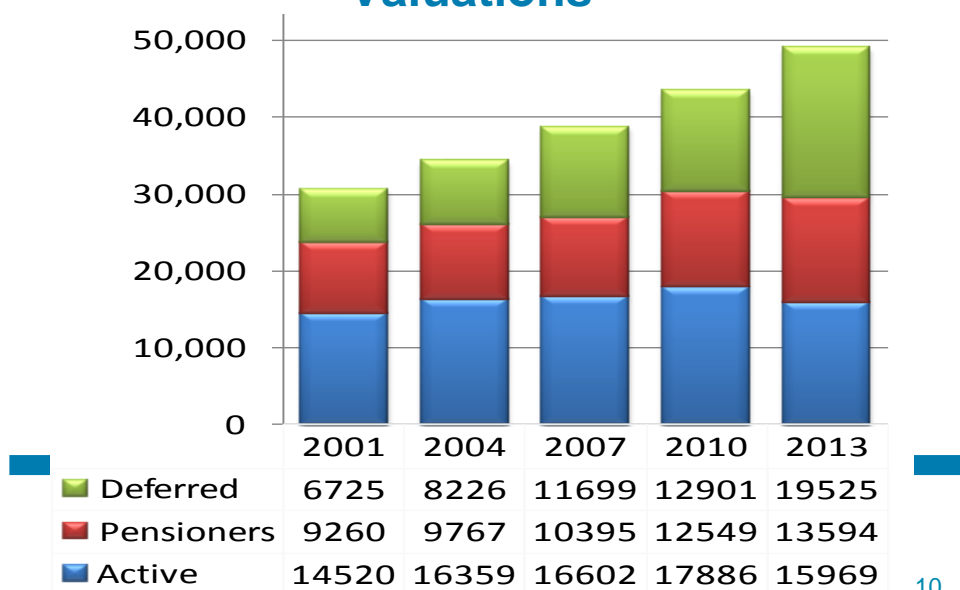
- 105 employers as at 31 March 2013 31/03/12:-105
 - CCC & 6 District Councils 7
 - 56 scheduled bodies (11 no actives) 52
 - 42 admitted bodies (9 no actives) 46
- Membership of 49,088 as at 31 March 2013 45,700
 - 15,969 Active members 16,500
 - 13,594 Pensioners 13,200
 - 19,525 Deferred 16,000



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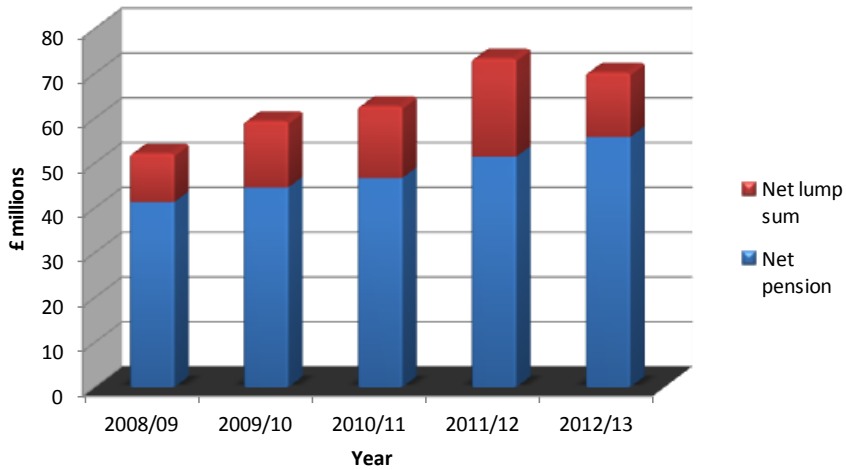
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Membership at Triennial Actuarial Valuations



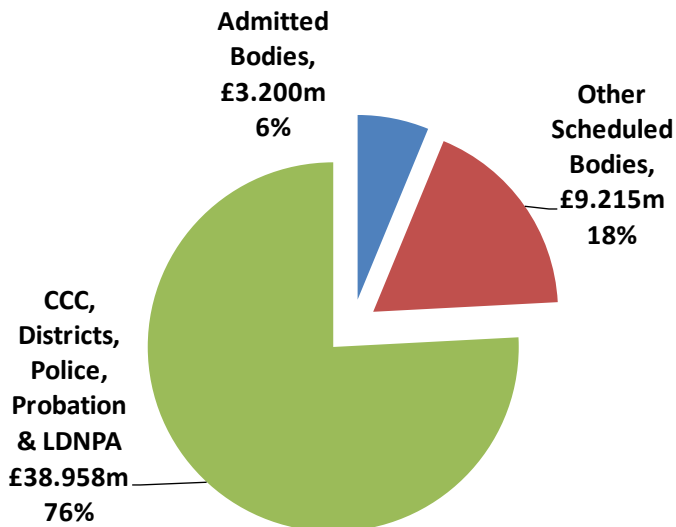
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Benefits paid to members over the last 5 yrs

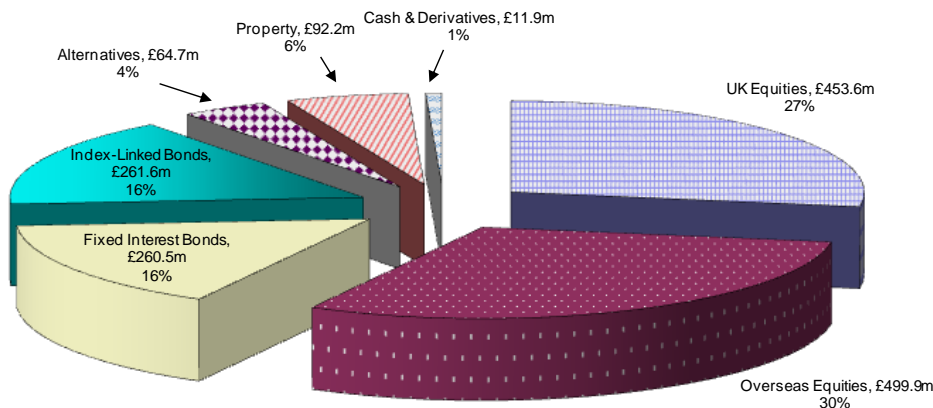


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Employer Contributions 2012/13



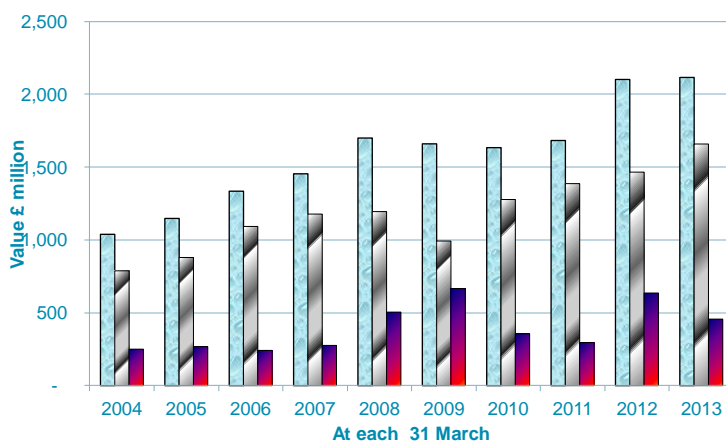
Investment Assets March 2013 £1,645m



UK Equities, £453.6m	Overseas Equities, £499.9m
Fixed Interest Bonds, £260.5m	Index-Linked Bonds, £261.6m
Alternatives, £64.7m	Property, £92.2m
Cash & Derivatives, £11.9m	

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Cumbria LGPS Funding Position



Triennial Valuation Funding Levels:

2004: 76%
2007: 81%
2010: 79%
2013: 78% est.

□ Liabilities ▨ Assets ■ Deficit



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Three Year Development Plan 2012/13 to 2014/15



Annual Business Plan

- 2012/13– All Targets Achieved
- 2013/14 – On target to Achieve All Requirements

Achievements Against 2012/13 Business Plan

- New corporate bond mandate £130m
- Admin – on line; self service, secure data transfer
- Data cleansing & other work in preparation 2013 valuation
- New joint strategy £320m global equities
- Final LGC Shared Service Awards
- Pensions Governance & Policy Review – Auditor cited CLGPS as example of good practice
- Auto Enrolment preparation, transition major employers
- Provided effective training to members, partners and colleagues
- Auditor praise on quality of Annual Report & Accounts

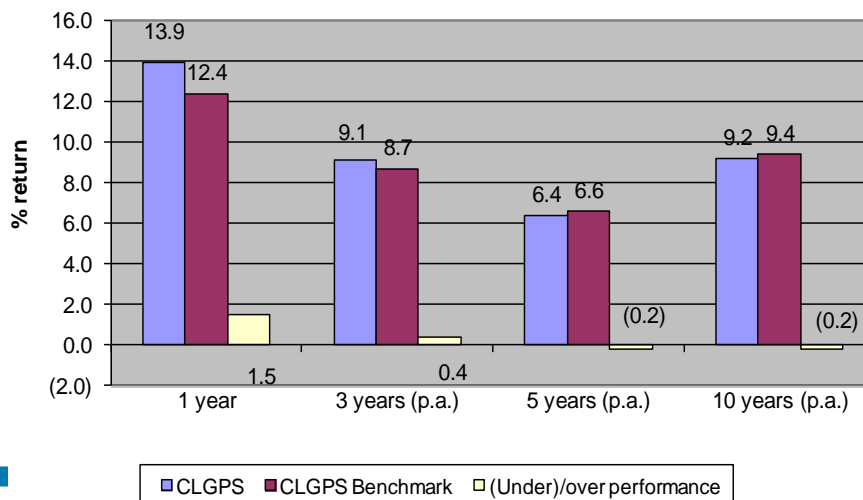
Investment performance in 2012/13



Investment Strategy

- In depth review undertaken 2011/12.
- Reaffirmed Cumbria's more defensive strategy than most other LGPS.
 - Protect downside losses rather than chase upside gains.
 - Some changes within growth element of portfolio.
- Implementing changes continues into 2013/14
 - Recent update: reviewing asset allocation to bonds

Performance in relation to CLGPS specific benchmark

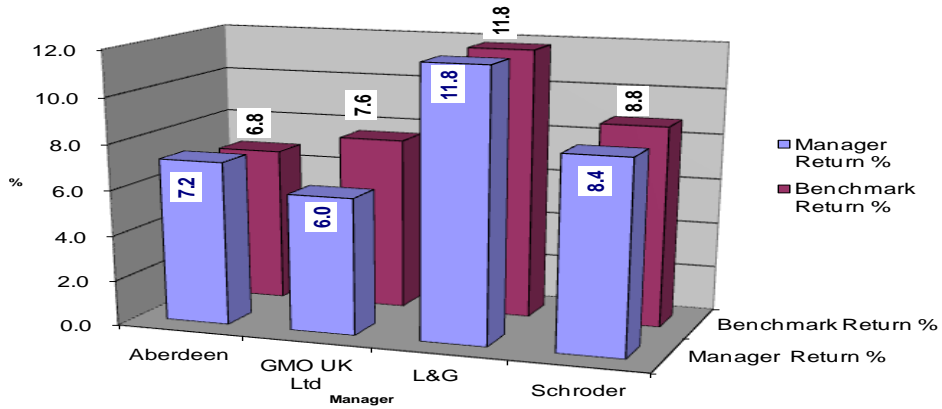


Investment Managers 2012/13

Manager	Asset Class
Aberdeen	UK Property
Schroders	Equities: UK
Black Rock (to June 2012 – funds being transitioned out)	Alternatives
GMO	Equities: Overseas (non UK)
Newton (to May 2012)	Equities: Global
Legal & General	Passive (Bonds & Equities)
Standard Life (from October 2012)	Corporate Bonds

Investment Manager Performance

3 year Manager performance against benchmark index



Fund Accounts 2012/13



Changes to reporting requirements

- No significant changes LGPS Accounts since 2011/12.
 - The debate on disclosure of Senior Officer remuneration continued!
- Annual Report (approved by the Pensions Committee) expanded following the publication of CIPFA guidance:
 - More detail provided, e.g. expanded Scheme risks.



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Fund Account 2012/13 (part 1 of 2)

Dealings with members, employers & other directly involved in the fund	£'m
Employer Contributions	51
Employee Contributions	16
Transfers in/other	4
Total Income	71
Pension and other benefits	(70)
Transfers out/other	(5)
Administration Expenses	(1)
Total Expenditure	(76)
Net deduction from dealings with members etc	(5)



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Fund Account 2012/13 (part 2 of 2)

Net return on Investments	£'m
Investment Income	23
Change in Market value	178
Investment Expenses	(3)
Total	198
Dealings with members etc <i>(from previous slide)</i>	(5)
<u>Net increase in assets available for benefits</u>	<u>193</u>

Audit headlines

- Unqualified and unmodified opinion.
- No material errors.
- Prepared well in advance of statutory deadline.
 - Working papers were of a high standard.
- Some minor amendments required to disclosure notes.
 - These have no impact on the figures shown in the primary statements

How to obtain a copy of the Accounts

- The Auditor's report and the Statement of Accounts are available on the Council's website: <http://www.cumbria.gov.uk/Finance/finance/accounts2012.asp>



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Funding Strategy Statement (FSS)



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Funding Strategy Statement (FSS)

- Required by regulations.
- Purpose:
 - » 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 liabilities.
- Revised as part of Triennial Valuation 2013.



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Changes to the FSS 2013

- The FSS has been revised to;
 - reflect the 2013 triennial valuation,
 - E.g. further detail about deficit recovery periods (Section 5.2.4);
 - note the 'New 2014 Scheme'. and
 - provide further detail (including revisions to the CIPFA guidance) - these changes do not materially impact on the underlying principles of the FSS.
 - E.g. Section 4 - responsibilities of the Key Parties updated to reflect the revised CIPFA Guidance.



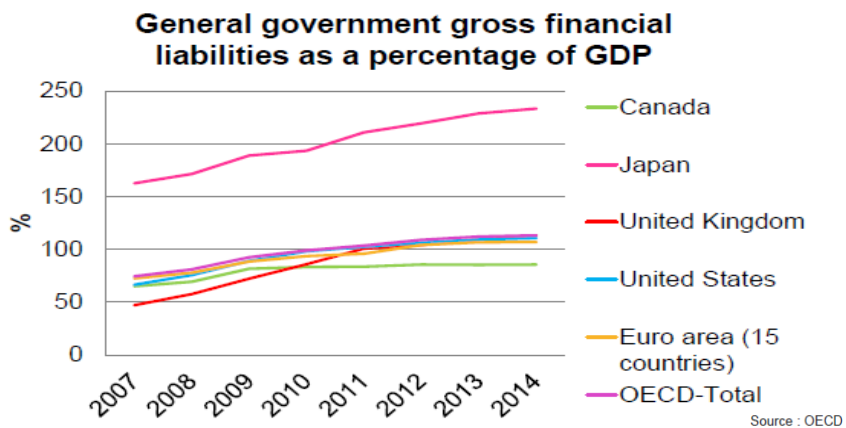
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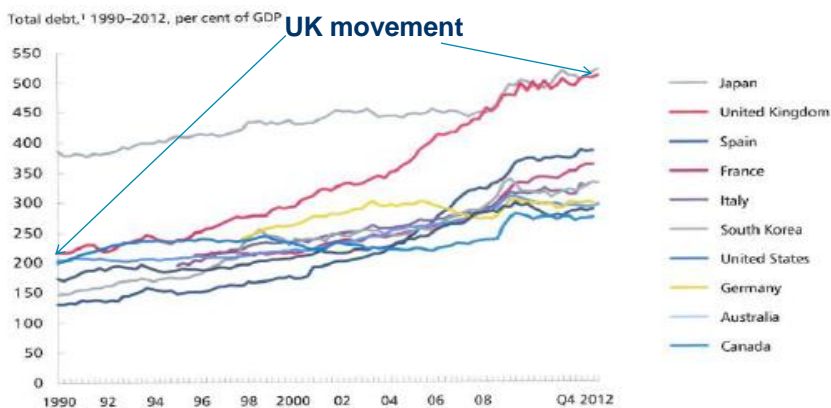
Looking Ahead for LGPS Within Current Macro Economic Context



UK Public Services

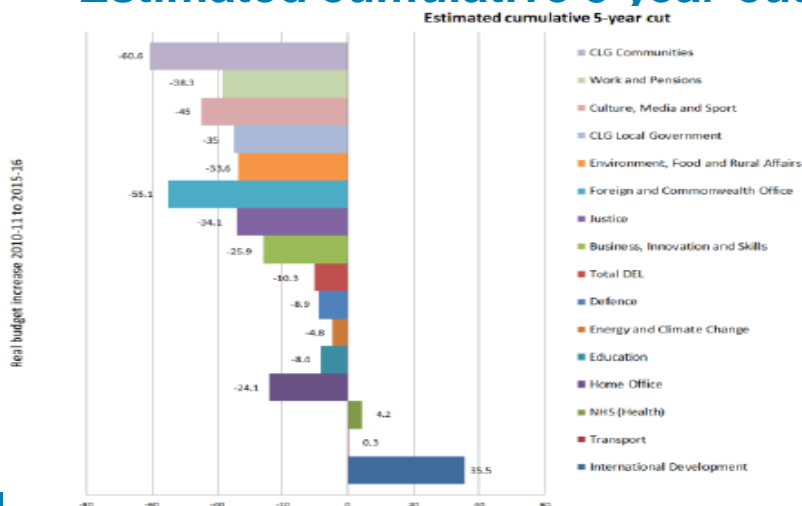


UK remains very highly leveraged



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Estimated cumulative 5 year cut



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Prof. Tony Travers
 Director, London
 School of Economics
 Local Government
 Conference

“We’ve seen nothing like the economic issues since 1945. On average, between 2011/12 and 2017/18 there will have been a fall of 25-30% in local government expenditure. Services have to change.”



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Reduction = £1 in every £4
 Moving from squeezing to cutting



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Public Sector Pensions Act 2013

Lord Hutton “Not a race to the bottom.

Aim of changes is to make Scheme sustainable, affordable & fairer while retaining its defined benefit status”.



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Nationally 4.392m Reasons to Change



**Cumbria 50k Reasons to Change
(12.5% Adult Population)**



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Looking ahead – some of the challenges!

- 2014 Scheme - it's going to be all about data!
 - the transitional and governance regulations have not yet been issued!
- LGPS Structural Reform ????????
- Investment Strategy Review Implementation
 - E.g. Global Equities; infrastructure; opportunistic & Fixed Income
- Continue to improve on the good performance achieved to date.

In Summary

- Another good investment year, fund value increased
 - 2012/13 investment return 13.9% (LGPS average 13.8%).
 - 10 year investment return 9.2%(LGPS average 9.4%).
- Continuation of admin improvements through shared service - YPS.
- Looking ahead – lots of changes and challenges but well positioned to meet these.



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The Team

Fiona Miller – *Senior Manager: Technical Finance*

Alison Clark – *Group Manager*

Investments :

Debbie Purvis

Gill Welbourn

Sue McGill

Member & Employer liaison:

Julie Dole

Allison McGuinness

Janet Bozic, Phil Whyte



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Further information

Email the Cumbria pensions team:

pensions@cumbria.gov.uk

Cumbria Fund information:

www.yourpensionservice.org.uk/local_government/index.asp?siteid=5921&pageid=36172&e=e

Employer / Member Information YPS:

www.yourpensionservice.org.uk/

General LGPS information: www.lgps.org.uk



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Thanks for Listening

Any Questions?



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Final Comments



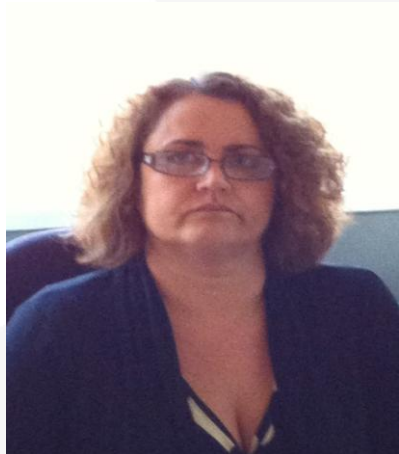
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Annual performance to 31 March

- Overall performance 97%
- All service levels met or exceeded targets
- Launched “My Pension online”
- Actuarial Valuation data submitted on time
- The next big thing – LGPS 2014

The Impact of Public Sector Pensions Reform



for you, for now, for the future
lgps
2014

BY STEVEN MOSELEY
18 NOVEMBER 2013

Contents



- The need for reform.
- Summary of current scheme.
- Summary of 2014 scheme.
- Existing members.
- Employer considerations.

The need for reform



LGPS in 1922 v 2013



<u>Then</u>	<u>Now</u>
final salary	Same
NRA of 65	Same
No survivor benefits	Survivor benefits
No protection for early leavers	Protections in place
5%	5.5% to 7.5% (ave 6.5%)

- Increased costs mainly met by employers.

Political consensus at 2010 election



"working with the trade unions, businesses and others to address the growing disparity between public sector pensions and private sector pensions, while protecting accrued rights"



"Tough decisions on public sector pensions to cap the taxpayers' liability"



"Reforming public sector pensions to ensure that they are sustainable and affordable for the long term, with an independent review to agree a settlement that is fair for all taxpayers as well as for public servants."

- **June 2010:** Independent commission (chaired by Lord Hutton) appointed to undertake “fundamental structural review”.
- **March 2011:** Report published.
- **Nov 2011:** Government accepts proposals. Long term and short term savings required.
- **Dec 2011:** Single Solution in LGPS agreed. New Scheme from 1 April 2014.
- **May 2012:** Further details released on LGPS 2014 which receives massive support from members and employers.
- **Dec 2012:** Statutory consultation launched.
- **Sept 2013:** Regulations laid.
- **1 April 2014:** Start of new scheme.



Summary of current scheme



Final salary



- Cake equals final pay.
- Slice of cake as a pension is dependent on amount of membership.

Other features



- Contributions rate dependent on earnings (5.5% to 7.5%).
- 3 month vesting period.
- Options to pay extra.
- Protection against redundancy and ill health.
- Flexible retirement provisions from 55.
- Early retirement from 55 (employer consent between 55 – 60).
- Option to exchange pension for lump sum (12:1).

Summary of 2014 scheme



CARE scheme



- A CARE pension for each year (1 April to 31 March).
- Pensionable pay received in a year/49 = CARE pension for that year.
- Inflation proofed by the Consumer Prices Index (CPI) while active (could be minus though).
- Inflation proofed by CPI after leaving as now (can't go down).

Revaluation of CARE pension

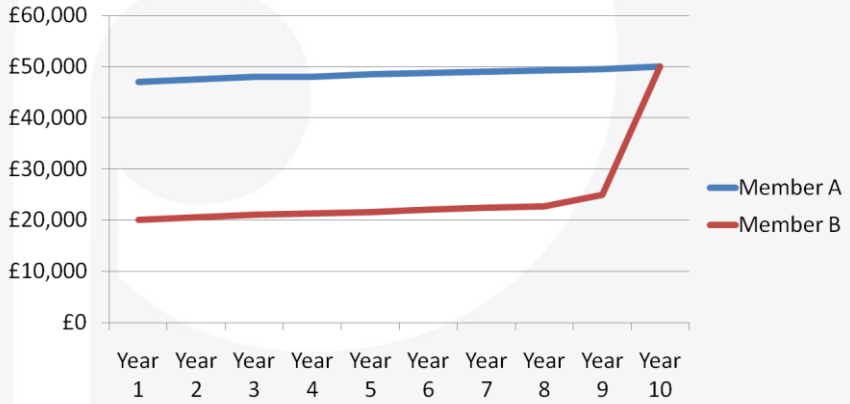


CARE Bank Statement

Statement period: 1 April 2014 to 1 April 2017
Opening balance: £0 Closing balance: £1196.01

Date	Description	Credit	Balance
31 Mar 15	Pension for 14/15	£306.12	£306.12
01 Apr 15	Inflation increase	£6.89	£313.01
31 Mar 16	Pension for 15/16	£408.16	£721.17
01 Apr 16	Inflation increase	£21.64	£742.81
31 Mar 17	Pension for 16/17	£418.37	£1161.18
01 Apr 17	Inflation increase	£34.83	£1196.01

Why?



Main changes



- Retirement age linked to the member's state pension age (underpin of 65).
- Amendment to the definition of "pensionable pay".
- No employer consent required for age 55 to 60 voluntary early retirements (no rule of 85 either).
- New 50/50 section – pay half get half (i.e. 98th rather than 49th). The employer will still pay the same.
- 2 year vesting period.

Contributions



	Pensionable pay range for an employment	Contribution rate for that Band
1	Up to £13,500	5.5%
2	£13,501 to £21,000	5.8%
3	£21,001 to £34,000	6.5%
4	£34,001 to £43,000	6.8%
5	£43,001 to £60,000	8.5%
6	£60,001 to £85,000	9.9%
7	£85,001 to £100,000	10.5%
8	£100,001 to 150,000	11.4%
9	£150,001 or more	12.5%

- Pay not increased to full time equivalent for band setting.
- Average rate remains 6.5%.

Reductions in pay



Leave	Protection
Ordinary maternity, adoption leave or paternity leave	Assumed Pensionable Pay.
Reduced pay or nil pay sick leave	Assumed Pensionable Pay.
Reserve forces leave	Assumed Pensionable Pay.
Paid additional maternity, adoption or paternity leave	Assumed Pensionable Pay.
Unpaid additional maternity, adoption or paternity leave	Shared cost additional pension
Unpaid authorised leave	Shared cost additional pension
Strike	Additional pension

What's staying the same...



- Benefits for children, spouses, civil partners and cohabiting partners.
- Options to pay extra.
- Redundancy and ill health protection.
- Flexible retirement provisions from 55.
- Option to exchange pension for lump sum (12:1).



Existing members



Existing members at 31/03/14



CARE Bank Statement

Statement period: 1 April 2014 to 1 April 2015
Opening balance: £0 Closing balance: £313.01

Date	Description	Credit	Balance	Pre 1 April 14 membership
31 Mar 15	Pension for 14/15	£306.12	£306.12	15 years
01 Apr 15	Inflation increase	£6.89	£313.01	15 years

Pre 14 membership



+



- At leaving 2014 Scheme, the pre 14 membership is converted into a pension (“final salary pension”) based on pay at leaving.
- The final salary pension is payable at same time as CARE pension.
- Final Salary pension retains the retirement age (i.e. 65) it had at 31 March 2014 (could be different to retirement age for the CARE pension).
- Anyone who left prior to 1 April 2014, will see no change.

The Underpin



“...anyone within 10 years of retirement will see no change to their pension arrangements”

02/11/2011



- Awaiting final regulations covering this point but we think the following will be the eligibility criteria.
- Active on 31 March 2012, 1 April 2012, 31 March 2014, 1 April 2014 and active on day before 65th birthday who was 55 plus on 1 April 2012.
- Top-up pension added to account on 65th birthday if member lost out by changes to the scheme.



Employer considerations



- Review processes.
- Review payroll systems.
- Review discretions.
- Will LGPS 2014 still be a good scheme?



**Thank you for
listening...any
questions?**





CUMBRIA LOCAL GOVERNMENT PENSION SCHEME

Employer forum 2013 actuarial valuation

18 November 2013



John Livesey FIA



2010 recap - Funding Strategy Statement (FSS)

- Funding Target Assumptions set with acceptable level of prudence.
- Recovery Period
 - Default (19 year)/Maximum (25 year) Deficit Recovery Periods.
 - Individual employers normally able to extend deficit recovery period from default to maximum in order to stabilise contribution rates.
 - Employers not allowed to reduce total £ contribution input in to the Fund unless recovery period is less than or equal to the default period.
 - Shorter periods may apply for bodies with a limited participation in the Fund/at the discretion of the Administering Authority.
 - General push for deficit contributions to be changed to a lump sum amount increasing each year at 4.75% p.a.

2013 valuation

Key issues

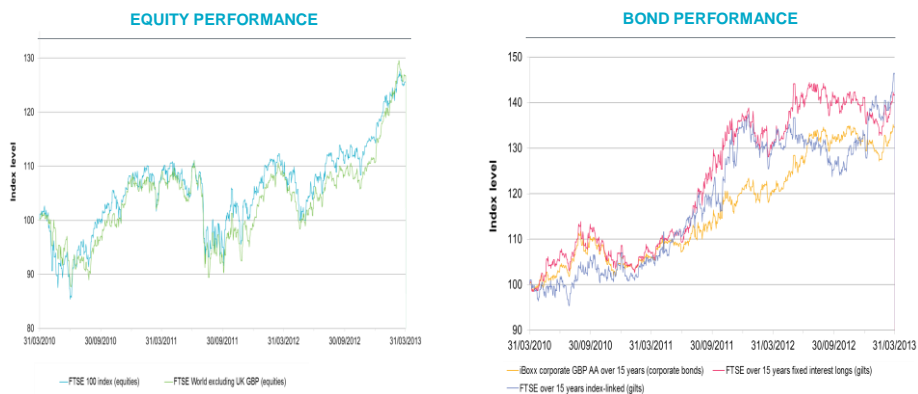
- Affordability and risk management
 - continued budget pressures
 - protecting the Fund / members' benefits
 - accelerating maturity
- Changes to the LGPS benefit structure
 - savings or costs?
- Funding assumptions
 - Low yield environment and expected investment returns
 - Pay growth / restraint
 - Demographic analyses

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2013 preliminary results

Equity and Bond Performance From March 2010



Over the three-year inter-valuation period, equity and bond returns have been positive, so assets will be higher. Bond-related liability values have increased significantly, driven by falling (nominal and real) bond yields as shown by the table below. Since 31 March 2013, gilt yields have risen and have served to reduce liability values.

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2013 assumptions

Key changes

Financial assumption key points:

RPI / CPI adjustment increased from 0.8% p.a. to **1.0%** p.a.

Long term real pay growth reduced from 1.75% p.a. to **1.5%** p.a.
(4.1% p.a. total)

Allowance for **short term pay restraint** (1% p.a. for 3 years)

Assumed **real investment return reduced** to recognise low yields

Demographic assumptions key points:

Allowance for **increased life expectancies**

Members assumed to **retire one year older** than previously

More members assumed to be married on death

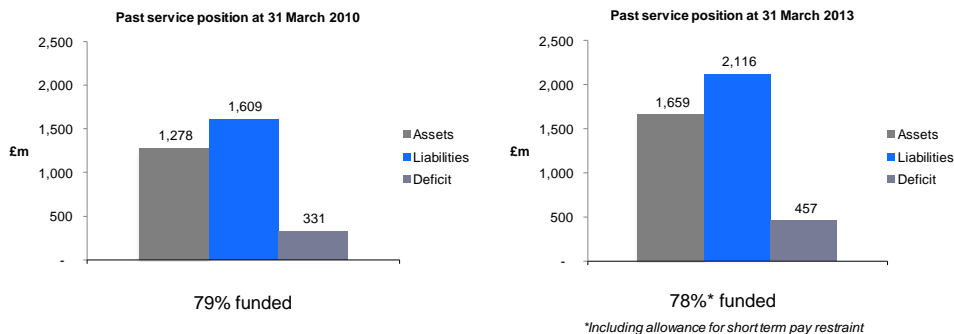
Increased incidence of ill-health retirement in line with LG wide experience

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2013 preliminary results

Initial proposed 2013 basis - whole fund liabilities

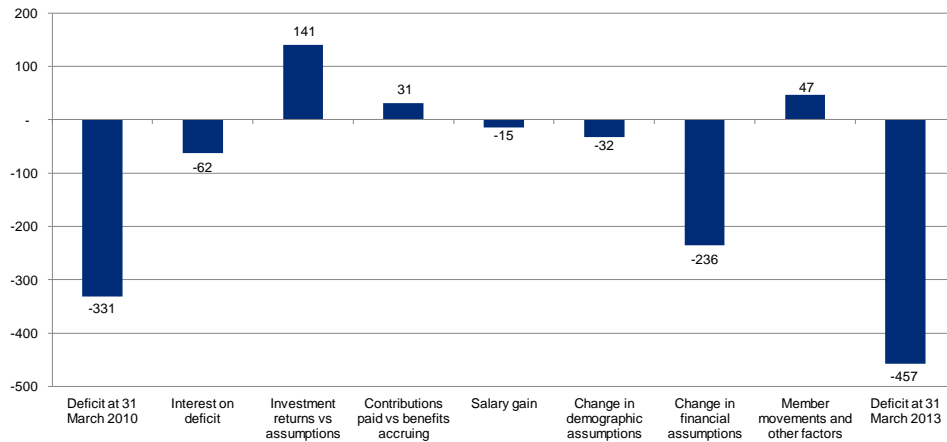


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2013 preliminary results

Analysis of change in 2010 past service position to 2013 proposed basis



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2013 preliminary results

Initial proposed 2013 basis - whole Fund deficit contributions

Deficit Recovery

Recovery period (Years)	Required Payment £m pa. (2010 results increasing at 4.75% pa., 2013 increasing at 4.1% pa.)	
	31 March 2010	31 March 2013**
19	19*	25
22	N/A	22
25	N/A	19

*Based on 22 year recovery period from 2010 (so 19 years remaining). Including increases in line with assumed pay growth to 2014/15 i.e. the start of the new contribution certificate

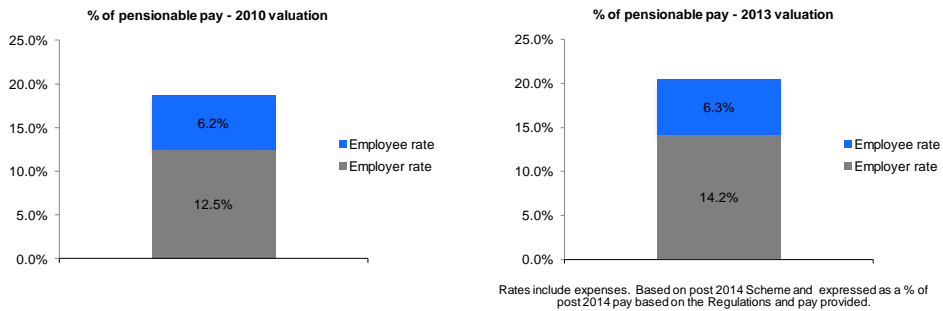
**2014/15 illustrative contribution amounts

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2013 preliminary results

Initial proposed 2013 basis - whole Fund future service contributions



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2013 preliminary results

Analysis of change in future service contribution rate from 2010 to 2013

Change in Future Service Rate Analysis	
Employer Rate as at 31 March 2010	12.5% of pay
Change in Membership Profile	+ 0.1% of pay
Change in Demographic Assumptions	+ 0.4% of pay
Change in Financial Assumptions	+ 3.3% of pay
Impact of 2014 LGPS	- 2.1% of pay
Employer Rate as at 31 March 2013	14.2% of pay

The impact of 2014 LGPS will differ for each individual employer

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Funding strategy

Possible approaches to stabilisation of contributions

STABILISATION OF CONTRIBUTIONS

- Results will be declared without adjustment but contributions certified may allow for stabilisation mechanisms
- Options (dependent on covenant of employer) include:
 - Recognising known post valuation date information?
 - Altering recovery periods?
 - Allowing for bond yield reversion in deficit recovery plans?
 - Phasing any increases in contributions?
 - Allow for 50:50 take up and proposed contributions re-banding?
- Employers would not be allowed to reduce £ input vs. 2010 funding plan in general
- Employers may wish to consider making one-off lump sum contributions.
- **Employers should still anticipate overall increase in contribution rate**

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Updated position at 31 August 2013

Illustrative Contribution outcomes

	31 March 2013	31 August 2013
	Baseline Position	Baseline Position
Funding Level	78%	83%
Illustrative Deficit (£m)	457	343
Average "Smoothed" Future Service Contribution Rate (% Pensionable Earnings)	14.2%	14.2%
Deficit Payment (£m p.a. indexed each year with assumed salary growth)		
Recovery Period (years)*		
19	25	20
22	22	17
25	19	15

*2014/15 illustrative contribution rates

Between 31 March and 31 August 2013, net yields rose by around 0.4% p.a. thus reducing liability values. Asset values were fairly flat over the same period. The overall impact was a c5% increase in funding levels.

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Individual Employer Effects

- Changes most acute for more mature employers.
- Falls in payroll combined with % of pay deficit recovery.
- Extent of flexibility used at 2010 valuation/"Headroom" remaining from approach used at 2010 valuation.
- Older workforces – much higher normal cost.
- Funding position will have been improved if (converse also applies):
 - Deficit partly paid off by higher contributions
 - Low pay growth
 - Lots of leavers before retirement
- Increases more manageable for those with higher payroll base?
- Beware the non-contractual overtime "Pensionable Earnings" effect post 2014.

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Academies

- Recent admissions – effects different due to timing.
- Less mature, so less volatile result.
- Large potential variation in normal cost.
- Beware the non-contractual overtime "Pensionable Earnings" effect post 2014.
- Current consultation on pooling.

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Summary

- Despite positive investment performance, low bond yields have increased the value of the liabilities significantly.
- Adjustments have been made to key financial assumptions within the Funding Target. Principally relates to RPI/CPI adjustment and assumption for long and short term salary growth.
- Low yield environment has meant that, all things remaining equal, future service contribution rates have increased.
- For individual employers, LGPS 2014 could, on its own, lead to a saving or a cost, depending on their active membership profile.
- Overall, the outcomes will vary for individual employers.
- Need to build robust framework within Funding Strategy Statement to allow flexibility whilst protecting the Fund.

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Discussions



OPEN FORUM

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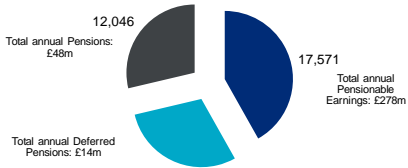


Data, assumptions and supporting information

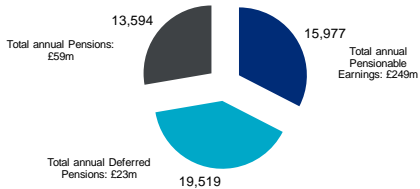
Cumbria LGPS 31 March 2013 Actuarial Valuation data summary

Membership development

31 March 2010 total membership:



31 March 2013 total membership:

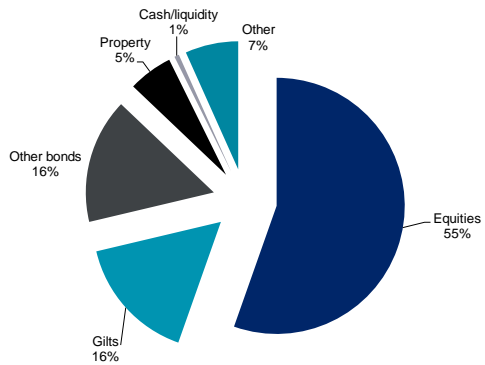


Membership data provided by the administering authority (excludes members with leaver options pending). Pension payrolls at 2013 include 2013 increase. Pay at 2013 does not include non-contractual overtime

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Holdings at 31 March 2013

Market value of assets £1,659m



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2013 valuation - assumptions

Financial assumptions

Market data	31 March 2010	31 March 2013
Fixed interest gilt yield	4.5% pa.	3.2% pa.
Index-linked gilt yield	0.7% pa.	-0.4% pa.
Market-implied price inflation (derived by differencing yields on fixed-interest and index-linked gilts)	3.8% pa.	3.6% pa.
Adjustment for Inflation Risk Premium (IRP) and RPI/CPI differential	-0.8% pa.	-1.0% pa.
Assumptions used for liabilities		
Discount rate:	5.9% pa.	4.6% pa.
Inflation: Consumer Prices Index (CPI)	3.0% pa.	2.6% pa.
Long term salary inflation	4.75% pa.	4.1% pa.*
Pension increases	3.0% pa.	2.6% pa.
Assumptions used for future service contributions		
Discount rate	6.75% pa.	5.6% pa.
Other financial assumptions	As for liabilities	

*In the short term salaries are assumed to increase at 1% per annum for three years

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Demographic Assumptions

Life Expectancy	<ul style="list-style-type: none"> Analysis has been carried out based on CLGPS membership and conclusions shown below.
Retirement Age	<ul style="list-style-type: none"> Analysis supports increase in retirement age of 1 year.
Ill health retirements	<ul style="list-style-type: none"> Analysis suggests change to 2010 assumptions required based on LG wide experience
Proportions married	<ul style="list-style-type: none"> Analysis supports a small increase in the % of members married at certain ages
Other	<ul style="list-style-type: none"> As per 2010 Valuation

Membership Category	Male Life Expectancy		Female Life Expectancy	
	Current Assumption	Proposed Assumption	Current Assumption	Proposed Assumption
Pensioners	21.9	22.9	24.6	25.4
Actives	23.3	25.0	26.1	27.7
Deferreds	23.3	25.0	26.1	27.7

Notes on life expectancy calculations:

- All life expectancies are normal health "cohort" expectancies from age 65 in 2013
- Non-pensioners' current age assumed to be 45

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LGPS 2014 – Employer future service contribution rate

The table below shows an approximate analysis from the existing future service rate to the new rate under LGPS 2014 based on broad costs assuming the same average member rate. The figures ignore the 50:50 option which would reduce costs to employers :

	CLGPS whole Fund profile	Younger profile	Older profile
Current future service rate	12.5%	10.0%	13.0%
Assumption changes	+3.7%	+4.0%	+3.4%
Membership changes	+0.1%	+0.1%	+0.1%
Future service rate current scheme	16.3%	14.1%	16.5%
60ths FS going to 49ths CARE	-0.8%	-3.6%	1.5%
NPA linked to SPA	-1.4%	-1.5%	-3.4%
Transitional protection	0.2%	0.0%	3.4%
Vesting increased to 2 years	-0.1%	-0.1%	-0.1%
Future service rate	14.2%	8.9%	17.9%
Post 2014 "saving"*	2.1%	5.2%	-1.4%

*A negative figure is a **cost** to the employer

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Actuarial advice

- This presentation contains actuarial advice to the Administering Authority concerning their potential decisions on calculating the liabilities and preparing the Funding Strategy Statement and Contribution Schedule.
- It is covered by and compliant with the following Technical Actuarial Standards (TAS) issued by the Board for Actuarial Standards: TAS R – Reporting Actuarial Information; TAS D – Data; TAS M – Modelling; and Pensions TAS.
- This presentation forms part of a suite of material that will be used by the Administering Authority in making their decision.
- It forms part of the audit trail for the scheme funding valuation and should be read in conjunction with other valuation material provided.
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