

Actuarial Valuation at 31 March 2010

Tyne and Wear Pension Fund

30 March 2011

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Prepared for

The Council of the Borough of South Tyneside
The Administering Authority of the Tyne and Wear Pension Fund

Prepared by

Tim Lunn FIA and Becky Durran FIA

Aon Hewitt Limited
40 Queen Square
Bristol
BS1 4QP

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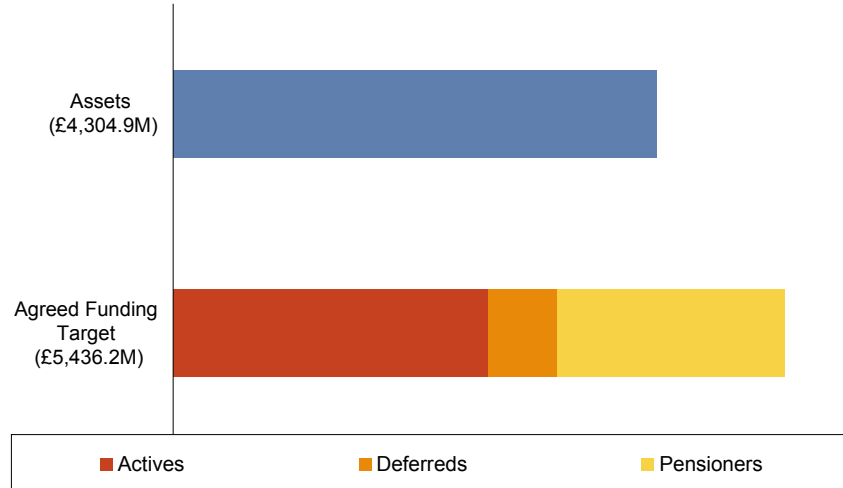
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Executive Summary

Valuation results

The financial position of the Fund was assessed against the **funding target** at 31 March 2010.

There is a **shortfall** of £1,131.3M relative to the **funding target** (i.e. the level of assets agreed by the Authority and the Actuary as being consistent with the **Funding Strategy Statement** appropriate to meet member benefits, assuming the Fund continues as a going concern).



Contribution rates

The aggregate Employer **future service contribution rate** is calculated to be 15.3% of Pensionable Pay.

The aggregate Employer contribution rate required to restore the **funding ratio** to 100%, using a recovery period of 22 years from 1 April 2011 is calculated to be 21.2% of Pensionable Pay, assuming the membership remains broadly stable and pay increases are in line with our assumptions. The comparable figure at the previous valuation was 21.1% of Pensionable Pay.

Rates of contributions payable by each Employer may differ, because they take into account their particular membership profiles and **funding ratios** and the assumptions and **recovery periods** are specific to their circumstances.

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1. Introduction

Formal valuation

We have carried out an actuarial valuation of the Tyne and Wear Pension Fund at 31 March 2010, as required by Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

The main purpose of the valuation exercise is to review the financial position of the Fund and to recommend the contribution rates payable to the Fund in the future (which is essentially a **planning exercise**).

The valuation process includes setting assumptions. Such matters were considered before this report was produced and are only discussed briefly in this report.

Defined contribution benefits

Throughout the body of this report we have excluded the assets for defined contribution ('DC') AVC accounts from both the assets and from the liability measures, because in our view this provides a clearer picture. If they were to be included it would make no difference to the absolute level of **shortfall**, but it would increase the percentage **funding ratios** from those shown in the main body of this report. Similarly we have excluded AVCs from the contribution rates given in this report.

A snapshot view

The report concentrates on the Fund's financial position at the Valuation Date. As time moves on, the Fund's finances will fluctuate. If you are reading this report some time after it was produced, the Fund's financial position could have changed significantly.

Words used

Our report includes some technical pension terms. The words shown in bold print are explained further in the glossary and in section 4.

For brevity, we have also used the following shorthand:

Shorthand	What it means
Authority	The Council of the Borough of South Tyneside, in its role as the Administering Authority
Pensionable Pay	As defined in the Benefit Regulations
Pensionable Service	Periods of membership, as defined in the Benefit Regulations
Benefit Regulations	The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as subsequently amended)
1997 Regulations	The Local Government Pension Scheme Regulations 1997 (as subsequently amended)
Administration Regulations	The Local Government Pension Scheme (Administration) Regulations 2008 (as subsequently amended)
Transitional Regulations	The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as subsequently amended)
Regulations	The 1997 Regulations, Benefit Regulations, Administration Regulations or Transitional Regulations as appropriate
Fund	Tyne and Wear Pension Fund
Employers	All bodies with employees participating in the Fund
Valuation Date	31 March 2010

**Legal and actuarial
framework**

The report was commissioned by and is prepared solely for the Authority. It meets professional guidance requirements. Please see Appendix A "Legal and Actuarial Framework" for further details.

2. What's Happened Since the Previous Valuation

Purpose of section

This section summarises what has happened since the previous valuation.

Headlines from previous valuation

The previous valuation at 31 March 2007 revealed that:

- There was a **shortfall** of £976.1M relative to the **funding target** for that valuation. This corresponded to a **funding ratio** of 79%.
- The aggregate Employer **future service contribution rate** was 15.1% of Pensionable Pay.

After allowing for additional contributions to restore the **funding ratio** to 100% over a period of 22 years from 1 April 2008, the aggregate Employer contribution rate was calculated to be 21.1% of Pensionable Pay. (Additional amounts were also payable by Employers where **strains** occurred on early retirement).

Following discussion of these results, the Authority agreed that Employers could phase in the new contribution rates by use of up to six annual steps.

The following contributions have been paid into the Fund since the previous valuation:

Year commencing

1 April 2007	14.2% of Pensionable Pay plus £58,103,000
1 April 2008	15.2% of Pensionable Pay plus £58,001,000
1 April 2009	15.2% of Pensionable Pay plus £62,350,000
1 April 2010	15.2% of Pensionable Pay plus £66,246,000

The formal report dated 27 March 2008 signed by Tim Lunn FIA and Becky Durran FIA of Hewitt Bacon & Woodrow Limited includes further information.

Key developments

The financial health of the Fund depends fundamentally on how much cash is paid in, how well the assets perform and are expected to perform, and on what benefits are paid out and are expected to be paid out. The key developments since the previous valuation therefore include:

- The amount of contributions paid to the Fund.
- The actual returns on the Fund's investments.
- Changes to expectations of future benefit payments or investment returns.

Contributions

Contributions were paid to the Fund as described above. These exceeded the cost of benefit accrual and so have acted to improve the position. Further details are provided in section 6.

Investment returns

Investment returns have been lower than anticipated which have not acted to improve the position since the last valuation.

Future expectations of benefit payments and investment returns

Investigations have generally shown faster than anticipated improvements in longevity, which have increased the future expected durations of benefit payments.

Some significant benefit changes were made with effect from 1 April 2008. These were taken into account in the previous valuation.

In the Emergency Budget in June 2010, the Chancellor announced a change to the inflation indexation of pensions and deferred pensions for all Public Sector pension schemes, including the Local Government Pension Scheme. In future, pensions will be linked to increases in the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) as previously. We have allowed for this change in this valuation.

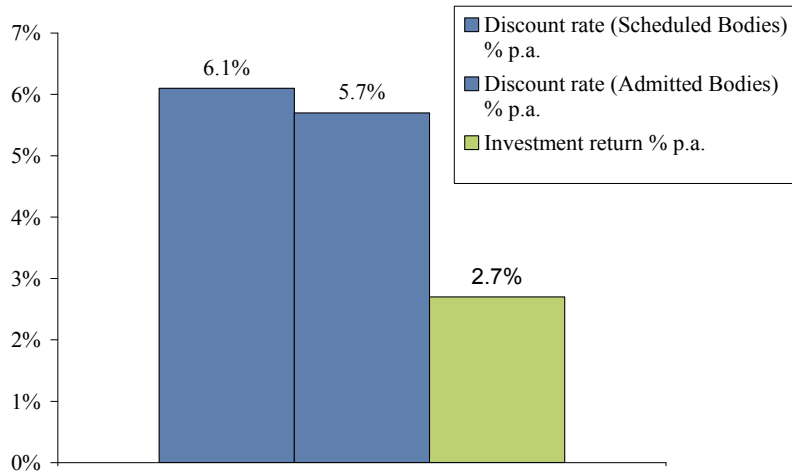
A key aspect over the last three years was the deterioration in the economic environment which has materially affected assumed future investment returns. The impact of this is shown below, and discussed later in this report.

Financial development

A variety of factors affect the financial position of the Fund, including investment returns, changes in the anticipated investment returns as indicated by yields on long dated gilts, pension increases and pay increases. To illustrate the Fund's financial development since the previous valuation, we have compared in the charts below:

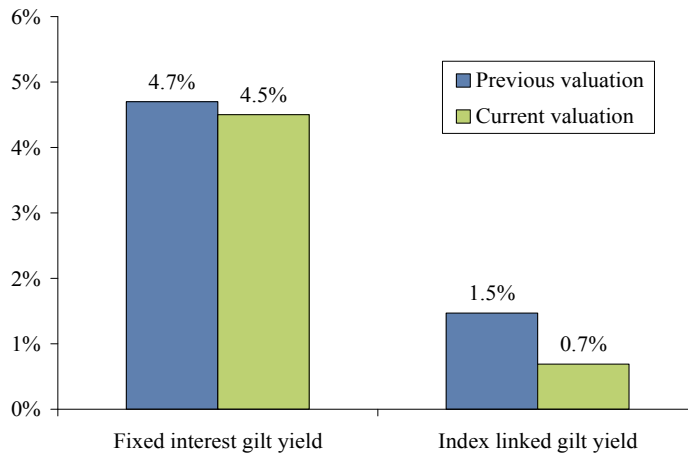
- The investment return achieved on the Fund's assets with the **discount rates** used at the previous valuation to calculate the **funding targets** for Scheduled Bodies (which make up the bulk of the Fund's liabilities) and for Admission Bodies.
 - The yield on long dated index linked government stocks (gilts) and fixed interest gilts at the previous valuation with the yields at this valuation.
 - The assumptions made at the previous valuation for pension and pay increases with what actually happened.
-

Key experience items – investment returns



The investment return has been significantly lower than the **discount rates** assumed due to the poor performance of the investment markets.

Key experience items – gilt yields

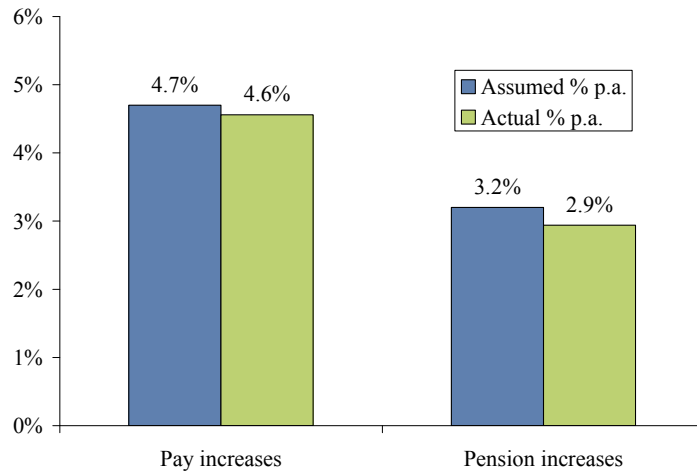


The yield on long dated fixed interest gilts at the Valuation Date is broadly the same as at the previous Valuation Date. However the yield on index linked gilts has fallen in absolute terms and relative to fixed interest gilt yields leading to an increase in implied retail price inflation.

The gilt yields used at the previous valuation were the index yields on the "FTSE Actuaries UK over 15 year fixed interest gilt index" and the "FTSE Actuaries UK over 5 year index linked gilts index". For the 2010 valuation, the gilt yields have been derived using a curve based on the Bank of England Government Bonds Yield Curve, and taking the single average gilt yield which would produce a consistent value of liabilities for schemes with the same duration as the Fund (around 18 years).

These differences in modes of derivation of the rates do not alter the conclusion that rates were broadly similar at both dates.

**Key experience items –
pay and pension
increases**



Increases to pay and pensions in payment were slightly lower than assumed. Note that the pay analysis above includes the impact of promotional pay increases.

Impact on results

Where material, the estimated financial impact of the developments described in this section is shown in section 6.

3. Information Used

Key information

To carry out the valuation, we have obtained information on:

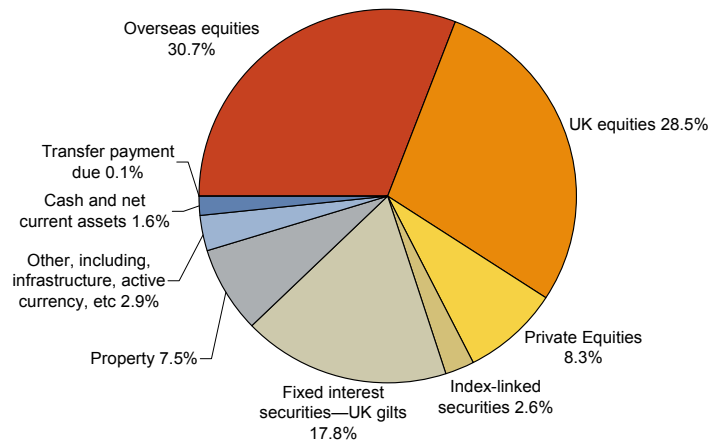
- The assets held by the Fund.
- How benefit entitlements are calculated.
- Member data.

This section sets out a high level summary of the information used. Further details are included in Appendices B, C, D, and E.

Assets

For the purposes of our valuation we have adjusted the assets by £2.6M in respect of an outstanding bulk transfer due to be received.

We have therefore taken the market value of assets at the Valuation Date for the purposes of our valuation to be £4,304.9M (excluding AVC accounts) at the Valuation Date, split as follows:



For further details, please see Appendix B.

Benefits valued

Members are entitled to benefits defined in the Regulations. A summary of the benefits taken into account in this valuation is set out in Appendix C.

Employers within the Fund have discretion over payment of certain benefits. It is not practical to make allowance for the policies of each Employer in this regard. However, because most of the benefits which are discretionary are financed as they occur, the financial impact on this valuation is minimal. We have therefore made no specific allowance for these discretions.

For the purposes of this valuation, we have assumed that members will remain in the contribution band to which they are currently allocated. Members' current contribution band was supplied to us in the membership data.

Membership data

The valuation calculations use membership data supplied by the Authority at 31 March 2010.

The following chart illustrates how the membership profile is evolving. Please see Appendices D and E for more comprehensive summaries.



Reliability of information

We have carried out some general checks to satisfy ourselves that:

- The information used for this valuation is consistent with the information used for the previous valuation and also with that shown in the Fund's Annual Report and Accounts.
- The results of this valuation can be reconciled with the results of the previous valuation.

However, the results in our report rely entirely on the accuracy of the information supplied.

4. Funding Target — The Principles

Terms used in this report Here is a summary of the main terms used in this report. Further details are set out in the Glossary:

Summary of Terms

Funding Principle	To hold sufficient and appropriate assets to meet the benefits as they fall due.
Funding Target	The target level of assets that the Actuary and Authority have agreed is appropriate to meet promised benefits.
Funding Objective	To hold sufficient and appropriate assets to meet the funding target .
Funding Strategy Statement	A written statement of the Authority's policy for meeting the funding principle . The Actuary must have regard to the Funding Strategy Statement in carrying out this valuation.
Recovery Plan	A plan of action for correcting a surplus or shortfall over an agreed period.
Rates and Adjustments Certificate	A certificate setting out what contributions are payable by each Employer over the three years from 1 April 2011.

Four principles The Actuary and the Authority have agreed the following four principles:

Principle 1—What funding target to use

To calculate the **funding target**:

- For each year into the future, the benefits paid out by the Fund are estimated.
- A target level of assets is agreed on, that is appropriate to meet the expected benefit payments. The conventional approach here is to 'discount back' the expected benefit payments to the Valuation Date, using an agreed rate of interest known as the **discount rate**.

These two steps require a method to be chosen and assumptions to be made (e.g. how long members live) in order to arrive at a value for the **funding target**. The method and assumptions used for the **funding target** are shown in section 5.

Principle 2—What contributions to pay for future benefits

There are several funding methods recognised by the actuarial profession. These result in different calculations of the **future service contribution rate**. The funding methods used are set out in section 5 and explained in the Glossary.

Principle 3—How to address any shortfall

As the third principle requiring agreement, a decision must be taken on how any **shortfall** is addressed. Details of the agreed approach are given in section 5.

Principle 4 – How to allow for unanticipated strains on the Fund

As the fourth principle requiring agreement, a decision must be taken on how any **strains** arising as a result of events such as early retirement will be dealt with. Details of the agreed approach are given in section 9 and in Appendix L.

5. Funding Target — Method and Assumptions

Purpose of section Building on the previous section which set out the principles to be agreed, this section fills in some of the key details of the method and assumptions used for the **funding target**, the **future service contribution rate** and the **recovery plan**. These have been agreed by the Authority. The assumptions are expanded further in Appendix F.

We also describe where the approach taken for this valuation differs from that used for the previous valuation. For the purpose of this report, Scheduled Bodies include Designating Bodies, whilst Admission Bodies include all other Employers participating in the Fund.

Key financial assumptions Here is a summary of the key financial assumptions. In our opinion these are compatible with taking the assets at market value.

Key Financial Assumptions

Assumption	This valuation (% p.a.)	Previous valuation (% p.a.)	Comments on assumptions for this valuation
Long dated gilt yields			
▪ Fixed interest gilts	4.5	4.7	For this valuation, derived from Bank of England yield curves at duration appropriate for the Fund's liabilities. For the previous valuation the yields were derived from the gross redemption yield on published indices.
▪ Index linked gilts	0.7	1.5	
Price inflation			
▪ Retail Prices Index (RPI)	3.8	3.2	This has been set using the level of inflation implied by the gilt markets at the Valuation Date (as measured by the above gilt yields).
▪ Consumer Prices Index (CPI)	3.3	n/a	This has been set as 0.5% p.a. lower than the RPI. This deduction has been set having regard to the estimated difference between RPI and CPI (over 20 years as at 31 March 2010) arising from the difference in the calculation approach between the two indices. Note that this estimate will vary from time to time.
Pension increases			
▪ Pensions in excess of GMPs	3.3	3.2	For this valuation this is equal to the CPI price inflation assumption above.
▪ GMPs accrued after 5 April 1988	2.7	2.7	This is based on the CPI price inflation assumption above, an assumption about how much price inflation varies each year, and the interaction of price inflation with the maximum annual increase of 3% p.a.
▪ GMPs accrued before 6 April 1988	0	0	

General pay increases	5.3	4.7	Assumed to average future assumed RPI prices inflation plus 1.5% p.a.
Discount rate – in service			
▪ Scheduled Bodies	6.8	6.6	For this valuation this is equal to the yield on long dated gilts, plus 2.3% p.a.
▪ Admission Bodies	6.25	6.2	For this valuation this is equal to the yield on long dated gilts, plus 1.75% p.a.
Discount rate – left service			
▪ Scheduled Bodies	6.8	6.6 pre retirement 5.6 post retirement	For this valuation this is equal to the yield on long dated gilts, plus 2.3% p.a.
▪ Admission Bodies	4.75	5.2	For this valuation this is equal to the yield on long dated gilts, plus 0.25% p.a.

Rationale for discount rate

The **discount rate** for Scheduled Bodies has been set having regard to the expected return on the Fund assets and the long term financial standing of these bodies. The Fund assets are considered to have around a 70% chance of delivering investment returns in excess of the Scheduled Body **discount rate**.

For Admission Bodies, the **discount rate** has regard to the possibility that participation might cease at any time and anticipates a move to a low risk investment portfolio made up of long dated gilts (of appropriate nature and term) at cessation.

Where a Scheduled Body has agreed to **subsume** the liabilities of the Admission Body at cessation, the Actuary and the Authority have agreed to use the Scheduled Body **discount rate** for that Admission Body. Details of Admission Bodies to which this applies are given in Appendix H.

Key demographic assumptions

The key demographic assumption is member mortality, to which the **funding target** can be particularly sensitive.

Since the previous valuation, research has generally shown that life expectancy is improving much faster than previous research envisaged.

The mortality assumptions have been revised in light of this taking into account the results of a review into the Fund's pensioner mortality experience. A 65 year old male pensioner in normal health is now assumed on average to live to 86.3 (rather than 84.0 at the previous valuation). And a 65 year old female pensioner in normal health is assumed on average to live to 88.5 (rather than 87.1).

In view of the importance of the mortality assumption, this assumption will need to be carefully monitored in future.

What's changed since previous valuation

The assumptions differ from those used for the previous valuation:

- The financial assumptions have been updated to reflect movements in gilt yields.
- An assumption for CPI price inflation has been made (this was not relevant for the previous valuation).
- The **discount rate** used for Scheduled Bodies has increased relative to gilt yields. This is to meet the principle set out in the **Funding Strategy Statement** of maintaining as nearly constant an overall contribution rate as possible.
- The in service **discount rate** used for Admission Bodies has increased slightly relative to gilt yields, whilst the left service **discount rate** has reduced slightly. This is to reflect better the anticipated returns resulting from the anticipated move to a low risk investment portfolio on cessation.
- The mortality assumption has been changed to allow for research that suggests people are living longer and reflects a review of the Fund's pensioner mortality experience over the period since the previous valuation.
- The allowance for future retirements in ill-health has been reduced following a review of the experience since the previous valuation. We have also increased the proportion of retirements assumed to fall under Tier 1, in the light of the level experienced since this was introduced in 2008.
- The allowance for future withdrawals from service with deferred pension entitlement has been reduced following a review of the experience.

Overall, these changes result in a lower overall **funding target**, i.e. they decrease the value placed on the Fund's liabilities compared with the previous valuation. However some Employer specific funding targets may be higher.

Where material, the overall financial impact of these changes is shown in section 6.

Funding method

As for the previous valuation, the **Projected Unit Method** with a one year control period has been used for most Employers to calculate the **funding target** and the **future service contribution rate**. The **Attained Age Method** has been used for some Employers who do not permit new employees to join the Fund.

In each case no explicit allowance for new entrants has been made.

The resulting **future service contribution rate** can be expected to be broadly stable if

- experience matches the assumptions underlying the **funding target**.
- the Fund remains closed for those Employers for whom the **Attained Age Method** has been used.
- the membership profile remains stable for those Employers for whom the **Projected Unit Method** has been used.

- everything else remains the same.

However the following additional influences on the **future service contribution rate** are anticipated:

- Assumed chronological improvements within the life expectancy assumptions incorporated in this valuation can be expected to result in a gradual drift upwards.
- The gradual removal of the right to retire early on unreduced pension (if over age 60 and age plus service is greater than or equal to 85 years) can be expected to gradually reduce the **future service contribution rate**, as the proportion of members with these enhanced retirement rights reduces.
- The impact of an ageing workforce for those Employers closed to new members is expected to gradually increase the **future service contribution rate** for these Employers.

Additionally if the **funding target** changes the contribution rates are likely to change.

Addressing the shortfall

The Actuary and the Authority have agreed that the **shortfall** relative to the **funding target** at this valuation will be removed through payment of additional contributions by Employers over a range of different recovery periods of up to 22 years. The recovery period used for each Employer is set out in Appendix H.

For some Employers, the Actuary and the Administering Authority have agreed to phase in any increases in contribution rates over a number of years (or 'steps'). Details of such 'stepping periods' are also shown in Appendix H.

The assumptions used to calculate the additional contributions are the same as those used for calculating the **funding target**.

Changes to funding objectives

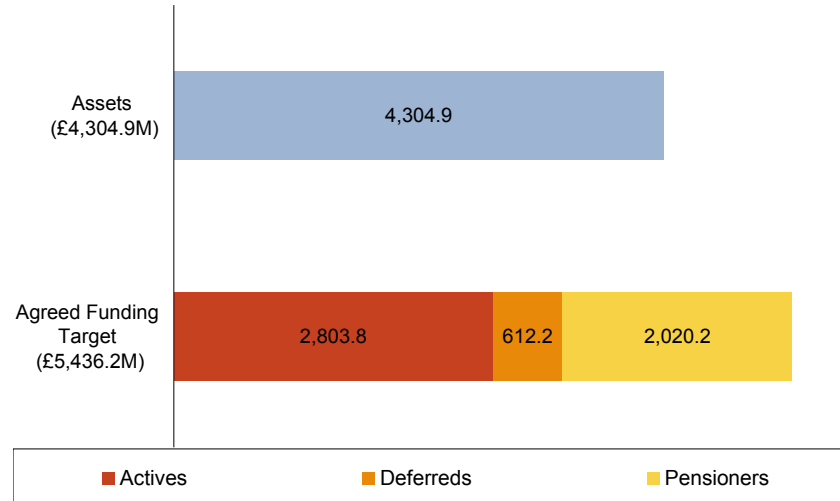
The **funding principle** for this valuation is to hold sufficient and appropriate assets to meet the benefits as they fall due. The **funding objective** is to hold sufficient and appropriate assets to meet the **funding target**. The Actuary and the Authority have agreed that the **funding target** is an appropriate level of assets to hold in order to meet this **funding principle**.

This is a similar approach **to the funding principle** and the **funding objective** in the previous valuation. However, we would draw your attention to changes to the assumptions used, as summarised earlier in this section.

6. Funding Target — Results

Funding target

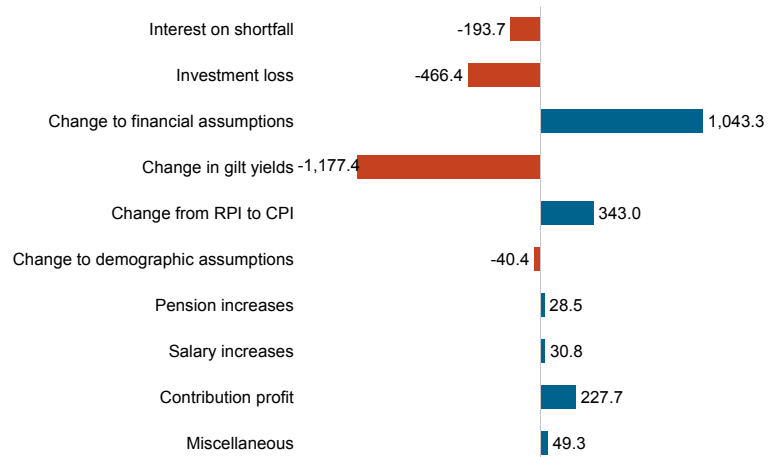
The chart below compares the market value of the assets to our calculation of the **funding target**, using the assumptions agreed with the Authority.



The **shortfall** of the assets relative to the **funding target** is £1,131.3M. This corresponds to a **funding ratio** of 79%.

Explanation of change

The funding position has worsened by £155.3M since the previous valuation, explained approximately as follows:



The figures in this chart are in £M. The analysis shows that the main factors affecting the funding position since the previous valuation are:

- The change in pension indexation from RPI to CPI and the change in the **discount rate** relative to gilt yields, and additional Employer contributions paid, which have acted to improve the position, but have been more than offset by:
- The actual returns on the Fund assets, the reduction in gilt yields, and changes to the mortality assumption, which have acted to worsen the position.

Future service contribution rate

We have also calculated the aggregate Employer **future service contribution rate**. This is the rate of Employer contribution that would normally be appropriate if the Fund had no **surplus** or **shortfall** and the assets were exactly equal to the **funding target**.

	% of Pensionable Pay
New final salary benefits	20.9
Death in service lump sum	0.4
Administration expenses	0.3
Less employee contributions	(6.3)
Net Employer cost	15.3

Explanation of change

The future service rate has increased by 0.2% of Pensionable Pay since the previous valuation.

The main factors affecting the **future service contribution rate** since the previous valuation are:

- The change in financial conditions, as reflected in the gilt yields, and changes to the mortality assumptions, which have increased the **future service contribution rate**. These have been offset by
- The change in pension indexation from RPI to CPI and the change in the **discount rate** relative to gilt yields, which have reduced the **future service contribution rate**.

7. Other Funding Measures

Low risk measure

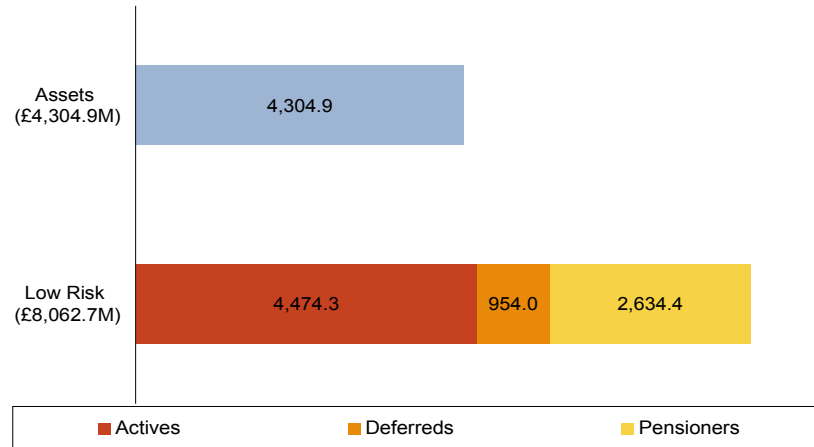
We have also reviewed the low risk position of the Fund, which considers the position if no allowance is made in the **discount rate** for returns on the Fund's assets to exceed gilt yields.

We show this measure for information purposes to give an indication of the level of risk inherent in the funding and investment strategy adopted by the Authority. This is therefore a **planning exercise**.

This measure is generally used for actuarial assessments required under Administration Regulation 38(2), when an Admission Body ceases to participate in the Fund where a move to a notional, or actual, low risk investment portfolio and funding strategy is appropriate (e.g. if **subsumption** does not apply).

Results

Here is our calculation of the low risk measure in respect of past service.



The **shortfall** of the assets relative to the low risk funding measure is £3,757.8M. This corresponds to a low risk funding ratio of 53%.

Previous low risk funding ratio

At the previous valuation, the corresponding low risk funding ratio was 54%. The low risk funding ratio has therefore worsened from the previous valuation.

This is largely due to the deterioration in financial conditions since the previous valuation (which resulted in poor returns from investment markets and the change in gilt yields) and the change in the mortality assumptions. The impact of these factors has been partially offset by the move to CPI pension indexation and the additional Employer contributions paid since the previous valuation.

Position on discontinuance

It is a requirement of Actuarial Guidance Note GN9 that formal valuation reports consider the funding position should the Fund have been discontinued as at the Valuation Date. However, there are no provisions covering discontinuance in the Regulations.

We believe that it is the view of all actuaries who have to report on Funds governed by the Regulations that this requirement does therefore not apply in the case of such valuations. We therefore do not cover this specific eventuality in this report.

Cover for transfer values

Actuarial Guidance Note GN9 requires us to consider whether there is likely to be sufficient assets, if the statutory funding objective were met, for the Fund to pay unreduced **transfer values**. However the statutory funding objective does not apply to the Fund. Furthermore there is no provision under the Regulations for **transfer values** or other benefits to be restricted by the amount of the Fund assets. We do not therefore believe this measure is relevant for the Fund.

8. Risks and Sensitivity Analysis

Purpose of section This section comments on some of the key risks faced by the Fund.

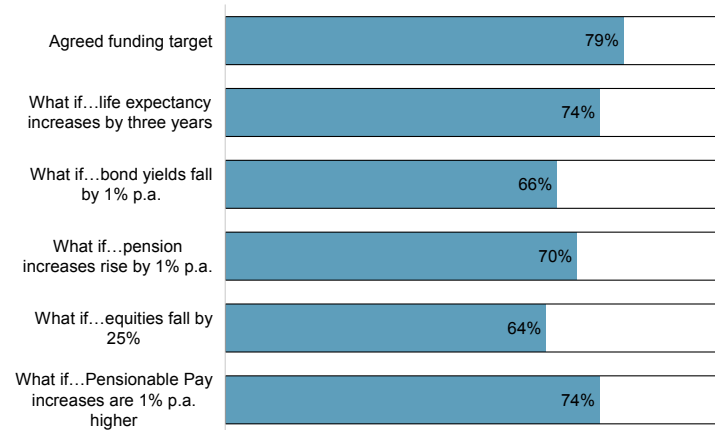
Key risks Here is a recap of some of the key factors that could lead to **shortfalls**:

- Investment performance — the return achieved on the Fund's assets may be lower than allowed for in the valuation.
- Investment volatility — the assets may move differently to the **funding target**. The Fund may invest in assets (e.g. equities) that are expected to achieve a greater return than the assets (i.e. gilts and investment grade derivatives) that most closely match the expected benefit payments, in the hope of reducing the contributions required. The more mismatched the investment strategy is, the greater the potential risks.
- Mortality — members could live longer than foreseen, for example, as a result of a medical breakthrough. This would mean that benefits are paid for longer, resulting in a higher cost to the Fund.
- Options for members (or others) — members may exercise options resulting in unanticipated extra costs. For example, members could swap less of their pension for cash at retirement than is assumed.
- Retrospective changes in the benefits payable by the Scheme.

Quantifying the risks To help the Authority understand the susceptibility of the financial position measured against the **funding target**, we have considered the approximate impact of the following one-off step changes.

- Life expectancy at age 65 is three years greater than anticipated.
- Yields on gilts decrease by 1% per annum (with no change in investment markets). In practice, if yields fell such that the **discount rate** were reduced, it is possible that there would be some compensating change in asset values, particularly the Fund's bond holdings. This effect is not shown in the chart below.
- Pension increases (including deferred pension increases) are 1% pa higher than assumed.
- The market values of equities and property fall by 25% (with no change in bond markets).
- Pensionable Pay increases are 1% per annum higher than assumed.

Please see the chart below for the results. The scenarios considered are not 'worst case' scenarios, and could occur in combination (rather than in isolation). The low risk funding measure is also highly sensitive to these factors. All the risks considered have a negative impact on the funding level. Opposite effects could also apply, increasing the funding level.



Implications

The above analysis highlights that the Fund is highly susceptible to:

- Equity markets falling, or bond yields falling with no change in investment markets. This risk arises because the Fund is not invested in the assets that most closely match the expected future cashflows (i.e. gilts and investment grade derivatives).
 - Members living longer than expected. This risk arises because pension benefits must be paid as long as the beneficiaries are alive.
-

9. Summary and Conclusions

Headline results

Here are the headlines at the Valuation Date:

- There is a **shortfall** of £1,131.3M relative to the Fund's **funding target**. This corresponds to a **funding ratio** of 79%.
- The aggregate cost to the Employers of new benefits for members (including lump sums payable on death in service and administration expenses) is 15.3% of Pensionable Pay.
- The low risk funding ratio is 53%

Developments since the Valuation Date

- As mentioned earlier in this report, in the Emergency Budget in June 2010, the Chancellor announced that Public Sector pensions will be linked to increases in the Consumer Prices Index (CPI). We have allowed for this change in this valuation.
- Since the Valuation Date, equity markets have risen slightly, but gilt and index-linked gilt yields are broadly unchanged. These developments will have had little impact overall on the financial position of the Fund under both the **funding target** and low risk funding measures (calculated with financial assumptions updated in line with market movements).
- In the 2010 Spending Review HM Treasury set out the Government's intention to increase employee contributions into public sector pension schemes. The stated aim was to phase in the increases from April 2012, with the objective of collecting an extra £1.8bn by 2014/15. This would, on average, lead to employee contributions increasing by 3% of pensionable pay. It is not yet clear how this will be implemented. Any changes will be reflected in future valuations once these have been incorporated in the Regulations.
- The Independent Public Service Pensions Commission, chaired by Lord Hutton, has been established to review all aspects of pension provision in the Public Sector. The Commission's final report was issued on 10 March 2011 and proposes a number of changes for all public service pensions, including an increase in normal retirement age and a move from final salary to a career average revalued earnings framework. However, no specific changes to the Local Government Pension Scheme have as yet been finalised or incorporated in the Regulations. We have not therefore made explicit allowance for any changes in this valuation. Any changes will be reflected in future valuations once these have been incorporated in the Regulations.

Addressing the shortfall

Based on the agreed approach set out in section 5, if the **shortfall** is recovered over 22 years from 1 April 2011, the aggregate additional **shortfall** contributions payable to the Fund from 1 April 2011 would be £59.7M per annum. These would increase each year (on 1 April) at 5.3% p.a., and would be payable for 22 years. This is approximately equivalent to 5.9% of Pensionable Pay assuming the membership remains broadly stable and pay increases are in line with our assumptions.

This would give an aggregate contribution rate of about 21.2% of Pensionable Pay.

These contributions are before any phasing in or 'stepping' of contribution increases.

Contributions paid by individual Employers will reflect their own circumstances and recovery periods, and in some cases will reflect agreed stepping of the increase in **shortfall** contributions.

Individual Employer rates set by the Actuary

The Employer contribution rates are set by the Actuary taking into account a number of factors including:

- Administration Regulation 36 – which requires the Actuary to have regard to
 - The existing and prospective liabilities
 - The desirability of maintaining as nearly constant a rate as possible and
 - The Authority's **Funding Strategy Statement**.
- The results of the valuation.
- Developments since the Valuation Date.
- Discussions between the Actuary, the Authority and Employers.

Contribution rates for Employers who contribute to the Fund are set out in the **Rates and Adjustments Certificate** in Appendix L.

Rates of contribution payable by individual Employers, or groups of Employers, differ because they take into account their particular membership profiles and funding ratios and, in some cases, the assumptions and recovery periods are specific to their circumstances.

The Actuary and the Authority have also agreed that increases or decreases in contribution rates for some Employers can be phased in over 'stepping periods' not exceeding 6 years. The Actuary has also agreed that increases in contribution amounts for some employers will be zero for a number of years, before reverting to increasing in line with assumed salary increases.

More details are given in section 5 and Appendix H.

Aggregate Employer contribution rate

The aggregate Employer contribution applicable from 1 April 2011, after allowing for stepping of shortfall contributions for certain employers, can be summarised as follows:

Aggregate Employer contribution from 1 April 2011

Year	Future service contribution rate (% Pensionable Pay)	Annual shortfall contribution (£Ms)
2011/12	15.3	72.0
2012/13	15.3	73.8
2013/14	15.3	76.2

Notes:

- The contributions payable by individual Employers are set out in Appendix L.
- The annual shortfall contributions above are the aggregate of the shortfall contributions for individual Employers in each year.
- Over each individual Employer's recovery period, generally 22 years, the aggregate annual shortfall contributions are anticipated to increase by approximately 5.3% p.a. For some Employers contributions over the first three years are scheduled to increase at a lower rate, with higher increases thereafter to bring total increases into line with increases of 5.3% pa.
- At the end of each Employer's recovery period, if cessation of participation does not occur, contributions are anticipated to be in line with the future service contribution rate. These contributions will be subject to review at future actuarial valuations.
- Member contributions are payable in addition to the Employer rates set out above and in Appendix L, at the rates set out in the Benefits Regulations. AVCs and strain payments as a result of early retirements are payable in addition.
- Contributions by active members and Employers should be paid to the Fund at such time and at such frequency as required by the Administration Regulations. Any monetary shortfall contributions have been calculated on the basis that they are paid uniformly over the relevant year.

Monitoring the Fund

In the light of the volatility inherent where investments do not match liabilities, we suggest the Authority monitors the financial position in an appropriate manner on a quarterly basis.

The next formal actuarial valuation under Administration Regulation 36 is due to take place as at 31 March 2013.

**Signed on behalf of
Aon Hewitt Limited**



Tim Lunn FIA



Becky Durran FIA

Appendix A — Legal and Actuarial Framework

Scope of advice

It is a legal requirement to carry out a full valuation at least once every three years, and this report is produced in compliance with

- Administration Regulation 36.
- The terms of the agreement between us and the Authority on the understanding that it is solely for the use and benefit of the Authority.

Unless prior written consent has been given by Aon Hewitt Limited, this report should not be disclosed to or discussed with anyone else unless they have a statutory right to see it. In particular we permit the Authority to release copies of this report to the following parties only:

- Any Employer which contributes to the Fund.
- Communities and Local Government.

We also permit Communities and Local Government to pass our report to the Government Actuary's Department in connection with their statutory duties. None of the above bodies have our permission to pass our report on to any other parties.

Notwithstanding such consent, neither we nor Aon Hewitt Limited accepts or assumes any responsibility to anyone other than the addressees of this report.

Professional Guidance Note GN9

We confirm that this report has been prepared in accordance with version 9.0 of Guidance Note 'GN9: Funding Defined Benefits - Presentation of Actuarial Advice' published by the Board for Actuarial Standards. However the following aspects of GN9 are not relevant to the LGPS and its funds in the current circumstances and we have not reported on them:

- Paragraph 3.4.16 of GN9 requires the actuary to include the certification of technical provision in relation to a valuation under Part 3 of the Pensions Act 2004. As Part 3 of the Pensions Act 2004 does not apply to the LGPS, this report does not comply with paragraph 3.4.16 of GN9; and
- Part 3.5 of GN9 requires the actuary to report on the value of the liabilities that would arise had the Fund wound up on the valuation date (based on the cost of buying out the accrued benefits with insurance policies). As the LGPS is a statutory scheme, there is no regulatory provision for scheme wind up and the scheme members have a statutory right to their accrued benefits. Therefore the concept of solvency on a buy-out basis does not apply to the Fund. Accordingly, this report does not comply with part 3.5 of GN9.

For the purposes of compliance with Section 4 of GN9 we have treated the Rates and Adjustments Certificate and shortfall contributions as analogous to the schedule of contributions and recovery plan referred to in section 4.

Appendix B — Assets

Assets

The audited Fund's accounts for the year ended 31 March 2010 show its assets as £4,302.3M (excluding AVC accounts).

For the purposes of our valuation we have adjusted the assets by £2.6M in respect of an outstanding bulk transfer due to be received.

We have therefore taken the market value of assets at the Valuation Date for the purposes of our valuation to be £4,304.9M (excluding AVC accounts) at the Valuation Date, split as follows:

Asset type	Market value (£M)	% of Total
Overseas equities	1,331.4	30.7
UK equities	1,226.2	28.5
Private Equities	355.7	8.3
Index-linked securities	111.6	2.6
Fixed interest securities—UK gilts	764.7	17.8
Property	321.2	7.5
Other, including, infrastructure, active currency, etc	123.1	2.9
Cash and net current assets	68.4	1.6
Bulk transfer payment due	2.6	0.1
Total	4,304.9	100.0

The above excludes assets for defined contribution AVC accounts.

Appendix C — Benefits

Introduction

The benefits of the Local Government Pension Scheme (LGPS) are set out in Regulations, the principal Regulations currently being the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 as subsequently amended. A broad summary of the benefits currently payable by the LGPS to contributory members as at the Valuation Date is given below.

Readers should refer to the Regulations for further details.

	Benefits provided as at Valuation Date
Normal retirement age	65
Member contributions	<p>Rate between 5.5% of pay and 7.5% of pay dependent on contribution band in which member is situated.</p> <p>Special provisions apply for certain categories of former manual workers.</p>
Final pay	Generally Pensionable Pay over the 12 months prior to retirement or earlier exit or, if higher, in one of the preceding two years, or the best three year average level of Pay over the ten years prior to retirement or earlier exit.
Normal retirement pension	<p>1/60 of Final Pay for each year of Pensionable Service on or after 1 April 2008.</p> <p>For each year of Pensionable Service before 1 April 2008:</p> <ul style="list-style-type: none"> ▪ a pension of 1/80 of Final Pay, plus ▪ a lump sum of 3/80 of Final Pay
Lump sum	<p>Pension can be surrendered for lump sum to a maximum lump sum of one quarter of the total value of benefits.</p> <p>Conversion rate is £12 for each £1 p.a. of pension given up.</p>
Early retirement pension	<p>Reduced pension payable on retirement after age 60, or after age 55 with Employer consent. Pension calculated as for normal retirement but based on Pensionable Service to early retirement date.</p> <p>Certain categories of member eligible for protection can retire on unreduced pension if their age plus Pensionable Service is greater than or equal to 85 years.</p>
Incapacity and ill-health pensions	<p>Tier 1</p> <ul style="list-style-type: none"> ▪ Payable to members with more than 3 months' Pensionable Service based on Final Pay at exit and potential Pensionable Service that would have been completed to age 65. ▪ To qualify for this benefit there must be no reasonable prospect of the member being capable of undertaking any gainful employment before Normal Retirement Age.

Incapacity and ill-health pensions

Tier 2

- Payable to members with more than 3 months' Pensionable Service based on Final Pay at exit and service completed to date of exit plus 25% of the period from date of exit to Normal Retirement Age.
- To qualify for this benefit the member must be expected to be capable of undertaking gainful employment at some point after three years, but before Normal Retirement Age.

Tier 3

- Payable to members with more than 3 months' Pensionable Service based on Final Pay at exit and Pensionable Service completed to date of exit.
- To qualify for this benefit the member must be expected to be capable of undertaking gainful employment at some point in the next 3 years.
- Payable for 3 years, or until gainful employment obtained, if earlier.

In each case members must be permanently incapable of efficiently discharging their current duties to qualify.

Leaving Pensionable Service	<p>Pension payable on retirement at age 65 based on Final Pay at exit and Pensionable Service to date of exit.</p> <p>Certain categories of member can retire early on unreduced pension if over age 60 and their age plus service is greater than or equal to 85 years. Service in this case includes the period between date of exit and Normal Retirement Age.</p>
Pension increases	<ul style="list-style-type: none"> ▪ Pensions in payment in excess of Guaranteed Minimum Pensions are increased each year in line with price inflation. With effect from the increase in April 2011 this will be measured by the annual increase in the Consumer Prices Index (previous increases had reflected the Retail Prices Index). ▪ Deferred pensions are similarly increased in deferment. ▪ Guaranteed Minimum Pensions (GMPs) increase in deferment in line with State revaluation factors. ▪ GMPs accrued after 6 April 1988 increase in payment each year at the lower of 3% and price inflation, as measured above.
Death in service benefits	<ul style="list-style-type: none"> ▪ A lump sum of 3 x Pay at exit. ▪ A cohabitee's pension of 1/160 of Final Pay at exit for each year of Pensionable Service, including a service enhancement that would have applied had retirement due to ill-health under Tier 1 occurred at the date of death.
State pension scheme	<p>The Scheme is contracted out of the State Second Pension Scheme.</p>

Appendix D — Membership Data

Active members at 31 March 2010 (31 March 2007)

		Number	Average age	Total Pensionable Pay (£M p.a.)	Average Pensionable Pay (£ p.a.)	Average service (years)
Men	2010	18,014	45.2	434.193	24,103	13.4
	2007	18,464	44.7	404.351	21,899	13.3
Women	2010	29,357	44.1	492.429	16,774	8.2
	2007	29,158	43.5	436.597	14,973	7.8
Total	2010	47,371	44.5	926.622	19,561	10.2
	2007	47,622	44.0	840.948	17,659	9.9

Note: Pay is that over the year to the Valuation Date. Annualised pay is included for entrants in the last year. Part time pay is included for part-timers.

Deferred pensioners at 31 March 2010 (31 March 2007)

		Number	Average age	Total pension (£M p.a.)	Average pension (£ p.a.)
Men	2010	10,628	43.9	21.1	1,985
	2007	8,926	43.7	16.9	1,893
Women	2010	18,160	44.2	20.8	1,145
	2007	13,585	44.1	14.8	1,089
Total	2010	28,788	44.1	41.9	1,455
	2007	22,511	43.9	31.7	1,408

Note: The deferred pensions have been increased to the Valuation Date and include increases granted in April 2010 (2007: April 2007).

In addition to the numbers above there were a number of members who had yet to decide whether to take a transfer payment. Suitable allowance has been made for these in our calculations.

Pensioners at 31 March 2010 (31 March 2007)

		Number	Average age	Total pensions (£M p.a.)	Average pension (£ p.a.)
Men	2010	14,392	68.0	88.3	6,135
	2007	13,400	67.3	73.6	5,493
Women	2010	14,667	68.1	44.6	3,041
	2007	12,500	67.5	35.0	2,800
Dependants	2010	5,162	74.0	11.9	2,305
	2007	4,654	70.4	10.1	2,170
Total	2010	34,221	69.0	144.8	4,231
	2007	30,554	67.9	118.7	3,885

Note: The pensions have been increased to the Valuation Date and include increases granted in April 2010 (2007: April 2007).

The 2010 figures include 359 children (2007: 342) who are in receipt of pensions. Suitable allowance has been made for these in our calculations.

Appendix E — Membership Data by Employer

Employer name	Number of active members	Total pensionable pay of active members (£000s)	Number of deferred pensioners	Number of pensioner and dependant members
Gateshead Council	6,883	126,387	4,468	5,291
Newcastle upon Tyne Council	8,285	159,268	5,194	7,595
North Tyneside Council	5,344	98,142	3,407	4,551
South Tyneside Council	4,699	82,260	3,212	3,766
City of Sunderland Council	8,160	141,729	5,519	6,096
Brunswick Young People's Project	0	0	3	0
Gentoo	1,499	37,813	384	261
Tyne & Wear Small Business Services	0	0	36	9
MLAANE	0	0	19	5
Birtley Town Council	0	0	4	4
Stagecoach Travel Services (Busways)	152	3,430	188	631
University of Northumbria at Newcastle	1,512	34,336	895	664
Northumbria Police Authority	2,357	49,476	958	1,028
Northumbria Probation and After-Care Service	593	15,437	222	354
University of Sunderland	806	19,730	615	383
Tyne & Wear Fire and Rescue Authority	352	7,501	133	194
Tyne & Wear Integrated Transport Authority	1		32	95
Nexus	581	14,812	470	1,399
Age Concern	34	570	30	37
Catholic Care North East / St Cuthbert's Care	0	0	19	26
Information North (NRLS)	0	0	0	3
Newcastle Community Law Centre	9	203	7	2
Newcastle International Airport	157	4,904	282	315
Disability North	6	138	22	8
Newcastle Family Service Unit	0	0	2	5
North East Innovation and Development Co Ltd	0	0	17	13
AQA	0	0	2	13
North East Regional Employer's Organisation	5	194	2	7
Northern Arts Association	0	0	31	13
Northern Council for Further Education	0	0	14	13
Northern Counties School for the Deaf	0	0	18	21

Employer name	Number of active members	Total pensionable pay of active members (£000s)	Number of deferred pensioners	Number of pensioner and dependant members
Association of North East Councils	31	1,203	30	8
Northumbria Tourist Board	0	0	23	13
Kenton Park Sports Centre	4	46	7	0
Port of Tyne Authority	0	0	0	4
Praxis Service	2		3	1
Search Project	2		1	2
Valley Citizens Advice Bureau	0	0	1	1
St Mary Magdalen and Holy Jesus Charity	7	173	7	3
Sunderland Empire Theatre Trust Ltd	0	0	5	3
Sunderland Outdoor Activities Association	0	0	3	0
Ozanam House Probation Hostel Committee	16	335	18	8
Theatre Royal Trust	56	871	31	16
Tyne & Wear Development Corporation	0	0	24	26
Tyne & Wear Enterprise Trust Ltd	7	273	17	16
Tyne & Wear Development Co Ltd	15	402	11	6
Tyneside TEC	0	0	40	36
Wallsend Citizens Advice Centre/ North Tyneside CAB	0	0	1	2
Wallsend Peoples Centre	1		1	2
Workshops for the Adult Blind	0	0	11	81
Sunderland City Training & Enterprise Council / Wearside TBC	0	0	42	26
South Tyneside Groundwork Trust	1		5	4
City of Sunderland College	443	8,738	245	106
Gateshead College	277	5,789	201	72
Newcastle College	893	16,674	744	183
North Tyneside College	2		62	23
Tynemouth College	1		29	7
South Tyneside College	252	4,073	161	149
Wearside College	0	0	4	10
Tyne Waste Limited	0	0	8	12
Newcastle West End Partnership	0	0	2	0
North Tyneside City Challenge	0	0	3	1
Newcastle Youth Congress	0	0	1	1
Gateshead Law Centre	0	0	13	3
Newcastle Tenants Federation	4	109	2	2
Hebburn Neighbourhood Advice	2		4	0

Employer name	Number of active members	Total pensionable pay of active members (£000s)	Number of deferred pensioners	Number of pensioner and dependant members
Childcare Enterprise	1		18	1
Learning World	0	0	7	0
Norcare	0	0	1	1
National Glass Centre	0	0	2	1
North Tyneside Disability Advice Centre	0	0	0	1
Northern Informatics	0	0	0	0
International Centre for Life Trust	9	446	5	9
Monkwearmouth College	0	0	1	5
Simonside Community Centre	1		0	0
Tyne & Wear Play Association	1		0	0
Ouseburn Trust	0	0	1	0
Newcastle EAZ	0	0	2	2
South Tyneside EAZ	0	0	2	0
South Tyneside Victim Support	0	0	2	0
Benton Grange School	0	0	0	8
One North East	0	0	0	9
HEFCE	0	0	1	9
Tyne & Wear County Council	0	0	67	269
Tyne & Wear Residuary Body	0	0	5	29
North East Regional Airport	0	0	0	21
Passenger Transport Company	0	0	0	96
Your Homes Newcastle	674	15,795	175	106
Hospital of St Mary the Virgin	0	0	0	1
Blue Square Trading Ltd	1		8	3
Gateshead Magistrates	0	0	9	16
Newcastle Magistrates	0	0	14	17
North Tyneside Magistrates	0	0	6	7
South Tyneside Magistrates	0	0	4	22
Sunderland Magistrates	0	0	4	21
Newcastle Healthy City Project	11	280	11	5
Norland Road Community Centre	0	0	1	0
Thomas Gaughan Community Centre	1		1	0
Raich Carter Sports Centre	34	288	29	0
Tyneside Deaf Youth Project	0	0	3	0
Sunderland EAZ	0	0	0	1
Baltic Flour Mills Visual Arts	3	107	5	1
Blakeview & North FenhamPar	0	0	0	0
Jarvis - Sandhill View	0	0	3	3
National Car Parks	0	0	3	3
Bovis Lend Lease	7	117	1	1
Scolarest (Newcastle)	21	181	4	3
Mitie Cleaning (North) Ltd (Newcastle)	0	0	1	0
Benwell Young People's Development Project	3	73	0	0

Employer name	Number of active members	Total pensionable pay of active members (£000s)	Number of deferred pensioners	Number of pensioner and dependant members
Managed Business Space	1		0	2
Sunderland Streetlighting	27	767	21	23
Mitie PFI Ltd (North Tyneside)	1		0	0
Scolarest (North Tyneside)	4	41	0	1
Gateshead Housing Company	360	8,100	100	36
No Limits Theatre Group	2		0	0
Morrison	47	1,100	4	16
Jarvis Accommodation Services	0	0	3	4
Walker Profiles (NE) Ltd	25	508	1	3
Southern Electric Contracting	20	604	5	9
Tyne Metropolitan College	162	3,031	110	26
CBS Outdoor Ltd	0	0	2	0
Community Action on Health	6	173	4	0
Northern Grid for Learning	9	338	2	0
Morrison (Birtley)	273	6,482	19	40
Percy Hedley Foundation	27	532	2	2
Balfour Beatty	19	488	3	1
South Tyneside Football Trust	1		0	0
South Tyneside Homes	608	14,795	105	85
Mitie PFI (Boldon Schools)	8	81	0	0
Scolarest PFI (Boldon)	3	11	0	0
Parsons Brinkerhoff	11	221	4	1
In Situ Cleaning	10	76	1	0
Excelsior Academy	64	1,170	6	0
TT2 Ltd	79	2,267	5	10
Academy 360	53	881	4	1
Morse	6	108	2	0
BT South Tyneside	383	9,005	19	7
Carillion Services	3	26	0	0
Robertson FM Ltd	11	184	0	0
NSL Limited	0		0	0
Kier (North Tyneside) Ltd	410	9,977	2	10
Taylor Shaw	9	34	1	0
Red House Academy	41	640	1	0
Castle View Academy	37	573	0	0
RM Education	6	138	0	0
Maxim Clearing	1		0	0
Castle View Leisure	7	60	1	0
Carillion (Jarrow School)	11	87	0	0
DB Regio	405	11,157	0	0

Note: Pay is that over the year to 31 March 2010. Part time pay is included for part-timers. Annualised pay is included for entrants in the last year.

For Employers with three or fewer members, pensionable pay is not shown for confidentiality reasons.

Appendix F — Assumptions for Funding Target

The assumptions used for assessing the **funding target** are summarised below. Different assumptions are used for the low risk funding measure, as explained in Appendix G.

Financial Assumptions

Yields on long dated gilts:	% p.a.
▪ Fixed interest	4.50
▪ Index linked	0.70
In service discount rate	
▪ Scheduled Bodies	6.80
▪ Admission Bodies	6.25
Left service discount rate	
▪ Scheduled Bodies	6.80
▪ Admission Bodies	4.75
Rate of pay increases (in addition to promotional increases)	5.30
Rate of price inflation	
▪ Retail Prices Index	3.80
▪ Consumer Prices Index	3.30
Rate of pension increases (on benefits in excess of GMPs)	3.30
Rate of pension increases on post-5 April 1988 GMPs	2.70
Rate of deferred pension increases	3.30
Rate of GMP increases in deferment	5.30

Demographic Assumptions

Post-retirement mortality

Normal health base rates

Year of Birth base rates

Standard SAPS Normal Health tables

Scaling factors

Rates adjusted by scaling factors derived having regard to the Fund's experience:

Men	110%
Women	110%

Ill-health base rates

Year of Birth base rates

Standard SAPS Ill-Health tables

Scaling factors

Rates adjusted by scaling factors derived having regard to the Fund's experience:

Men	100%
Women	100%

Improvements to base rates

An allowance for improvements in line with the CMI 2009 improvements (for men or women as appropriate), with a long term rate of improvement of 1.25% p.a.

What does this mean?

A 65 year old male pensioner in normal health is now assumed on average to live to 86.3 (rather than 84.0 at the previous valuation). And a 65 year old female pensioner in normal health is assumed on average to live to 88.5 (rather than 87.1).

Pre-retirement mortality

Base rates of standard SAPS Normal Health year of birth tables adjusted by a scaling factor of 75% (derived having regard to the Fund's experience).

Allowance has been made for improvements to the base rates in line with the CMI 2009 improvements (for men or women as appropriate), with a long term rate of improvement of 1.25% p.a.

Early retirements

All members are assumed to retire at the earliest age at which they can retire as of right, with no reduction to benefits accrued prior to 1 April 2008.

Members joining on or after 1 October 2006 are assumed to retire at age 65.

Withdrawals

Allowance made for withdrawals from service (see sample rates below).

On withdrawal, members are assumed to leave a deferred pension in the Fund, and are not assumed to exercise their option to take a **transfer value**.

Retirement due to ill-health

Allowance made for retirements due to ill-health (see below). Proportions assumed to fall into the different benefit tiers applicable after 1 April 2008 are:

Tier 1	80%
Tier 2	15%
Tier 3	5%

Family details

A man is assumed to be three years older than his wife / co-habitee.

90% of non-pensioners are assumed to be married or cohabiting (with a person eligible for death benefits) at retirement or earlier death.

90% of pensioners are assumed to be / have been married or cohabiting (with a person eligible for death benefits) at the date of the valuation, or

age 65 if earlier.

Commutation

Each member assumed to exchange 50% of the maximum amount permitted of their past service pension rights on retirement for additional lump sum.

Each member assumed to exchange 75% of the maximum amount permitted of their future service pension rights on retirement for additional lump sum.

Promotional salary increases

Allowance made for age-related promotional increases (see sample rates below).

Expenses

0.3% of Pensionable Pay added to the value of future benefit accrual.

Sample rates

The table below illustrates the allowances made for withdrawals from service and ill-health retirement at various ages. Also shown is the allowance included for promotional pay increases, which is shown as the percentage increase over the next year.

Current age	Percentage leaving the Fund in the next year as a result of ill-health	Percentage leaving the Fund in the next year as a result of withdrawal from service	Percentage promotional pay increase over year
	Men and women	Men and women	Men and women
20	0.00	10.0	4.7
25	0.04	8.5	3.2
30	0.07	7.0	1.8
35	0.12	5.5	1.2
40	0.17	4.0	0.6
45	0.30	2.7	0.0
50	0.43	1.4	0.0
55	0.95	0.0	0.0
60	2.10	0.0	0.0

Appendix G — Assumptions for Low Risk Funding Measure

Derivation of assumptions

We have set the **discount rate** for the low risk measure equal to the yield on fixed-interest gilts of appropriate term at the Valuation Date.

All other assumptions are as used for the **funding target** as set out in Appendix F.

Summary of assumptions

Here is a summary of the main assumptions underlying our low risk funding measure, where these are different to the **funding target** basis:

Assumption	What is used for low risk measure % p.a.
In service discount rate	
▪ Scheduled Bodies	4.5
▪ Admission Bodies	4.5
Left service discount rate	
▪ Scheduled Bodies	4.5
▪ Admission Bodies	4.5

Appendix H — Details of Employers' Funding Strategies

Recovery periods

We show below the recovery periods, from 1 April 2011, used for Employers in the Fund.

Employer	Recovery period
Scheduled and Designating Bodies	
Academy 360	22
Blue Square Trading Ltd	0.1
Castle View Academy	3
Castle View Leisure	22
City of Sunderland College	14
City of Sunderland Council	22
Excelsior Academy	16
Gateshead College	13
Gateshead Housing Company	22
Gateshead Council	22
Newcastle College	22
Newcastle upon Tyne Council	22
Nexus	3.5
North Tyneside Council	22
Northumbria Police Authority	22
Northumbria Probation and After-Care Service	6
Redhouse Academy	4.5
South Tyneside College	20
South Tyneside Council	22
South Tyneside Homes	6
Tyne Metropolitan College	15
Tyne and Wear Fire and Rescue Service	22
Tyne and Wear Integrated Transport Authority	16.8
University of Northumbria at Newcastle	22
University of Sunderland	22
Your Homes Newcastle	22
Community Admission Bodies	
Age Concern	22
Association of North East Councils	22
Baltic Flour Mills Visual Arts	15.1
Benwell Young Peoples Development Project	12.3
Childcare Enterprise Limited.	9.8
Community Action on Health	22
Disability North	22
Gentoo	22

Employer	Recovery period
Hebburn Neighbourhood Advice	3
International Centre For Life Trust	9.8
Kenton Park Sports Centre	12.3
Managed Business Space	9.8
Newcastle Community Law Centre	22
Newcastle Healthy City Project	22
Newcastle International Airport	8
Newcastle Tenants Federation	12.3
No Limits Theatre	12.7
North Eastern Regional Employers Organisation	22
Northern Grid for Learning	12.3
Ozanam House Probation Hostel Committee	12.3
Percy Hedley Foundation	22
Praxis Service	12.3
Raich Carter Sports Centre	22
St Mary Magdalene and Holy Jesus Charity	12.3
Search Project	22
Simonside Community Centre	12.3
South Tyneside Football Trust	9.8
South Tyneside Groundwork Trust	12
Stagecoach Travel Services (Busways)	11
Theatre Royal Trust	22
Tyne & Wear Development Company Limited	12.3
Tyne & Wear Enterprise Trust Limited (Entrust)	22
Tyne & Wear Play Association	12.3
Wallsend Peoples Centre	22
Transferee Admission Bodies	
Balfour Beatty	10
BT South Tyneside	7.4
Carillion Services	0.2
Carillion (Jarrow)	7.3
DB Regio	N/A
In Situ Cleaning	2
Kier (North Tyneside) Ltd	22
Maxim Cleaning	0.4
Mitie PFI Ltd (Boldon School)	11.4
Mitie PFI Ltd (North Tyneside Schools)	6.5
Morrison	1
Morrison (Birtley)	1
RM Education	5
Robertson FM Ltd	6.8
Scolarest (Boldon)	7.5
Scolarest (North Tyneside)	8.2

Employer	Recovery period
Scolarest (Newcastle)	0.1
Southern Electric Contracting	8.9
Sunderland Streetlighting	11
Taylor Shaw	1.4
TT2	16.8

Stepping

We show below the stepping periods used to phase in contribution increases for Employers in the Fund.

Employer	Stepping period (from 1 April 2011)
Kier (North Tyneside) Ltd	6
Disability North	6
North East Regional Employers Organisation	6
Theatre Royal Trust	6
South Tyneside Groundwork Trust	6
Age Concern	6
Newcastle Community Law Centre	6
Community Action on Health	6
International Centre for Life	6
Newcastle Healthy City Project	6
Search Project	6
Tyne and Wear Play Association	6

Subsumption

We show below details of which Admission Bodies will be subsumed by a Scheduled Body at cessation, and the relevant Scheduled Body. (see section 5 and the Glossary for more details).

Employer	Subsuming employer
BT South Tyneside	South Tyneside Council
DB Regio	Nexus
Kier North Tyneside	North Tyneside Council
Morrison	Gateshead Council
Morrison (Birtley)	Gateshead Council
RM Education	City of Sunderland Council
TT2	T&W Integrated Transport Authority
Newcastle International Airport	Gateshead Council, North Tyneside Council, South Tyneside Council and Sunderland Council
Hebburn Neighbourhood Advice	South Tyneside Council
Wallsend People's Centre	North Tyneside Council

Appendix I — Consolidated Revenue Account

		Total £000
Fund at 31 March 2007		3,726,505
Income		
Contributions	Employer normal	414,536
	Employer additional	227,145
	Employer special	1,396
	Employee	174,098
Transfers-in		39,559
Investment income		230,712
Underwriting commission		296
Total income		1,087,742
Outgo		
Pensions paid		422,569
Lump sums		131,468
Transfers-out		40,010
Death benefits paid		9,890
Refunds of contributions on leaving		119
State scheme premiums		(33)
Expenses of investment		20,720
Expenses of administration		8,058
Recharges out		(31,784)
Total outgo		601,017
Change in market value ¹		89,107
Fund at 31 March 2010		4,302,337

Notes:

1. This includes the change from mid-value to bid-value over the period

2. The figures above exclude members' AVCs.

Appendix J — Membership Experience

The table below compares the actual numbers of movements from the Fund over the period 2007 to 2010 with the numbers expected on the basis of the assumptions adopted for the current valuation.

	Males	Females
Death in service:		
Actual	62	63
Expected	79	81
Withdrawals excluding refunds:		
Actual	2,789	5,942
Expected	1,778	3,113
Normal and voluntary retirements:		
Actual	824	558
Expected	1,822	1,166
Ill-health retirements:		
Actual	261	251
Expected	323	417
Severance and redundancy retirements:		
Actual	594	617
Expected	0	0

Appendix K — Current Contribution Rates

We show below the contributions payable by each Employer in the year ending 31 March 2011.

Employer	% Pensionable Pay	Additional monetary amount
Scheduled and Designating Bodies		
Academy 360	17.9	33,560
Blue Square Trading Company	16.8	22,400
Castle View Academy	18.9	25,700
Castle View Leisure	12.2	1,500
City of Sunderland College	14.6	211,000
City of Sunderland Council	14.5	11,253,400
Excelsior Academy Newcastle	16.5	0
Gateshead College	14.2	112,000
Gateshead Housing Company	14.0	65,000
Gateshead Council	15.0	9,478,100
Newcastle College	13.2	270,000
Newcastle upon Tyne Council	15.2	12,666,200
Nexus	16.3	4,712,000
North Tyneside Council	15.1	6,545,845
Northumbria Police Authority	13.1	1,580,000
Northumbria Probation and After-Care Service	15.3	2,216,000
Redhouse Academy	19.3	32,700
South Tyneside College	14.7	166,000
South Tyneside Council	14.8	5,960,100
South Tyneside Homes	17.2	845,000
Tyne Metropolitan College	16.1	96,000
Tyne and Wear Fire and Rescue Service	13.6	522,000
Tyne and Wear Integrated Transport Authority	11.8	819,000
University of Northumbria at Newcastle	14.6	1,950,000
University of Sunderland	14.8	1,213,000
Your Homes Newcastle	17.3	41,000
Community Admission Bodies		
Age Concern	19.0	48,971
Association of North East Councils	16.7	87,527
Baltic Flour Mills Visual Arts	15.8	1,800
Benwell Young Peoples Development Project	16.7	749
Childcare Enterprise Limited	19.0	10,027
Community Action on Health	16.7	720
Disability North	19.0	30,798
Gentoo	17.3	890,000
Hebburn Neighbourhood Advice	16.7	2,035

Employer	% Pensionable Pay	Additional monetary amount
International Centre For Life Trust	16.7	28,242
Kenton Park Sports Centre	16.7	1,163
Managed Business Space	19.0	3,524
Newcastle Community Law Centre	16.7	3,854
Newcastle Healthy City Project	16.7	7,225
Newcastle International Airport	17.6	1,137,000
Newcastle Tenants Federation	16.7	6,741
No Limits Theatre	18.0	220
North Eastern Regional Employers Organisation	16.7	46,152
Northern Grid for Learning	16.7	913
Ozanam House Probation Hostel Committee	16.7	25,570
Percy Hedley Foundation	19.0	75,503
Praxis Service	16.7	27,649
Raich Carter Sports Centre	16.7	6,445
St Mary Magdalene and Holy Jesus Charity	16.7	22,734
Search Project	19.0	6,400
Simonside Community Centre	16.7	91
South Tyneside Football Trust	19.0	67
South Tyneside Groundwork Trust	19.0	26,956
Stagecoach Travel Services (Busways)	23.6	1,472,000
Theatre Royal Trust	16.7	27,385
Tyne and Wear Development Company Limited	16.7	35,589
Tyne & Wear Enterprise Trust Limited	19.0	56,998
Tyne & Wear Play Association	16.7	3,028
Wallsend Peoples Centre	19.0	5,144
Admission Bodies - Transferee		
Balfour Beatty	19.5	7,200
BT South Tyneside Ltd	18.7	0
Carillion Services	19.4	0
Carillion (Jarrow)	25.3	0
DB Regio	20.9	0
In Situ Cleaning	19.6	0
Kier (North Tyneside) Ltd	19.5	0
Maxim Cleaning	23.6	0
Mitie (Boldon School)	18.8	0
Mitie (North Tyne Schools)	19.5	0
Morrison	18.4	0
Morrison (Birtley)	19.1	20,800
RM Education	16.8	0

Employer	% Pensionable Pay	Additional monetary amount
Robertson FM Ltd	18.0	0
Scolarest (Boldon)	20.2	0
Scolarest (Newcastle)	20.1	0
Scolarest (North Tyneside)	20.2	740
Southern Electric Contracting	20.0	0
Sunderland Streetlighting	18.7	10,100
Taylor Shaw	22.0	0
TT2	16.7	0

Appendix L — Rates and Adjustments Certificate

In accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 (the 'Administration Regulations'), we certify that contributions should be paid by Employers at the following rates for the period 1 April 2011 to 31 March 2014.

- A common rate of 15.3% of Pensionable Pay.
- Individual adjustments which, when added to or subtracted from the common rate, produce the following Employer contribution rates

Employer	Contribution rate 1 April 2011 to 31 March 2014 % pay	Additional Monetary Amount (£) Year commencing 1 April		
		2011	2012	2013
Scheduled and Designating Bodies				
Academy 360	13.2	0	0	0
Blue Square Trading Ltd	27.2	56,600	0	0
Castle View Academy	13.8	28,500	30,000	31,600
Castle View Leisure	7.3	0	0	0
City of Sunderland College	14.5	220,000	232,000	244,000
City of Sunderland Council	14.4	11,465,000	11,468,000	12,072,000
Excelsior Academy	13.9	34,000	35,800	37,700
Gateshead College	13.2	173,000	182,000	192,000
Gateshead Housing Company	13.5	92,000	97,000	102,000
Gateshead Council	14.7	9,900,000	9,900,000	9,900,000
Newcastle College	14.1	288,000	303,000	319,000
Newcastle upon Tyne Council	14.6	13,400,000	13,400,000	13,400,000
Nexus	15.1	4,780,000	5,030,000	5,300,000
North Tyneside Council	14.3	7,702,000	8,110,000	8,540,000
Northumbria Police Authority	13.0	1,600,000	1,600,000	1,600,000
Northumbria Probation and After-Care Service	15.2	2,300,000	2,420,000	2,550,300
Redhouse Academy	14.1	32,300	34,000	35,800
South Tyneside College	14.9	158,000	166,000	175,000
South Tyneside Council	14.3	6,700,000	7,100,000	7,400,000
South Tyneside Homes	14.2	352,000	371,000	390,000
Tyne Metropolitan College	13.6	186,000	196,000	206,000

Employer	Contribution rate 1 April 2011 to 31 March 2014 % pay	Additional Monetary Amount (£) Year commencing 1 April		
		2011	2012	2013
Tyne and Wear Fire and Rescue Service	13.2	560,000	560,000	560,000
Tyne and Wear Integrated Transport Authority	18.1	882,000	929,000	978,000
University of Northumbria at Newcastle	14.1	2,100,000	2,100,000	2,100,000
University of Sunderland	14.4	1,400,000	1,480,000	1,550,000
Your Homes Newcastle	14.0	0	0	0
Community Admission Bodies				
Age Concern	23.9	51,400	70,200	89,000
Association of North East Councils	21.8	124,800	131,400	138,400
Baltic Flour Mills Visual Arts	21.1	15,000	15,800	16,600
Benwell Young People's Development Project	21.8	1,800	1,900	2,000
Childcare Enterprise Limited	23.9	54,000	57,000	60,000
Community Action on Health	21.8	800	2,800	4,800
Disability North	23.9	32,500	34,200	35,900
Gentoo	22.6	1,870,000	1,970,000	2,070,000
Hebburn Neighbourhood Advice	17.8	2,000	2,100	2,300
International Centre for Life Trust	23.9	29,700	59,400	89,100
Kenton Park Sports Centre	21.8	6,000	6,300	6,700
Managed Business Space	23.9	14,000	14,700	15,500
Newcastle Community Law Centre	21.8	4,000	6,500	9,000
Newcastle Healthy City Project	23.9	7,600	11,200	14,800
Newcastle International Airport	15.6	1,650,000	1,740,000	1,830,000
Newcastle Tenants Federation	21.8	11,800	12,400	13,100
No Limits Theatre	22.0	5,000	5,300	5,500
North East Regional Employers Organisation	21.8	48,000	61,000	74,000
Northern Grid for Learning	21.8	46,900	49,400	52,000
Ozanam House Probation Hostel Committee	21.8	58,000	61,100	64,300
Percy Hedley Foundation	23.9	73,200	73,200	73,200
Praxis Service	21.8	37,500	39,500	41,600

Employer	Contribution rate 1 April 2011 to 31 March 2014 % pay	Additional Monetary Amount (£) Year commencing 1 April		
		2011	2012	2013
Raich Carter Sports Centre	21.8	11,400	12,000	12,600
St Mary Magdalene and Holy Jesus Charity	21.8	36,900	38,900	40,900
Search Project	23.9	6,700	8,300	9,900
Simonside Community Centre	21.8	500	525	550
South Tyneside Football Trust	23.9	800	840	890
South Tyneside Groundwork Trust	23.7	28,300	32,200	36,100
Stagecoach Travel Services (Busways)	24.9	2,735,000	2,880,000	3,033,000
Theatre Royal Trust	21.8	28,800	46,500	63,500
Tyne & Wear Development Company Limited	21.8	69,600	73,300	77,200
Tyne & Wear Enterprise Trust Limited (Entrust)	23.9	56,360	56,360	56,360
Tyne & Wear Play Association	21.8	3,200	4,200	5,200
Wallsend Peoples Centre	23.9	8,800	9,300	9,800
Transferee Admission Bodies				
Balfour Beatty	24.1	101,000	106,000	112,000
BT South Tyneside	0.2	0	0	0
Carillion Services	0.0	0	0	0
Carillion (Jarrow)	16.2	0	0	0
DB Regio	15.9	0	0	0
In Situ Cleaning	30.9	15,000	15,800	0
Kier (North Tyneside) Ltd	17.2 (2011/12)	0	0	0
	14.9 (2012/13)			
	12.6 (2013/14)			
Maxim Cleaning	31.8	1,300	0	0
Mitie (Boldon School)	24.3	13,000	13,700	14,400
Mitie (North Tyne Schools)	26.3	1,600	1,680	1,770
Morrison	0.0	0	0	0
Morrison (Birtley)	0.0	0	0	0
RM Education	0.0	0	0	0
Robertson FM Ltd	25.2	0	0	0

Employer	Contribution rate 1 April 2011 to 31 March 2014 % pay	Additional Monetary Amount (£) Year commencing 1 April		
		2011	2012	2013
Scolarest (Boldon)	28.9	1,000	1,050	1,100
Scolarest (North Tyneside)	27.1	3,400	3,580	3,770
Scolarest (Newcastle)	26.6	0	0	0
Southern Electric Contracting	24.0	156,000	164,000	173,000
Sunderland Streetlighting	22.6	33,000	34,800	36,600
Taylor Shaw	10.4	0	0	0
TT2	14.4	0	0	0

In addition, any extra liabilities falling on the Fund in respect of retirements under Regulations 18, 19 or 30 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2008 (the 'Benefits Regulations') should be financed by additional Employer contributions, calculated in a manner advised by the Actuary, and payable over a period of up to three years.

These represent the minimum contributions to be paid by each Employer. Employers may choose to pay additional contributions from time to time subject to the Administering Authority's agreement.

In addition, any additional benefits granted under Benefits Regulations 12 or 13 should be financed by additional Employer contributions, under Administration Regulation 40, or as calculated in a manner advised by the Actuary.

Where payments due from an Employer listed in this Certificate are expressed as capital amounts, the amounts payable by that Employer should be adjusted to take account of any amounts payable, in respect of a surplus or shortfall to which those capital payments relate, by new employers created after the valuation date which have been credited with proportions of the assets and liabilities of the relevant Employer. Any adjustment should be as advised by the Fund Actuary.

Additional contributions may be payable by any Admission Bodies which have ceased to participate in the Fund since 31 March 2010 and will be certified separately.

Contribution rates for Employers commencing participation in the Fund after 31 March 2010 will be advised separately.

This certificate should be read in conjunction with the notes overleaf.

For Aon Hewitt Limited
40 Queen Square
Bristol
BS1 4QP



Tim Lunn FIA
30 March 2011



Becky Durran FIA
30 March 2011

Notes to Actuary's Certificate

The contribution rates certified overleaf have been assessed using the actuarial methods and assumptions detailed in our report dated 30 March 2011.

These assumptions imply the following levels of new retirement liabilities from active membership status:

Type of Retirement	Anticipated retirements over 4 year period from 1 April 2010 to 31 March 2014	
	Number	New Pension £'000
Normal and voluntary under Regulations 16 or 30 of the Benefit Regulations	4,371	36,832
Comments on Funding	<p>Such retirements are generally 'cost neutral'. Additional funding would not normally be required if actual retirements exceed the number anticipated, unless retirements occur before age 60 and no reduction for early payment applies.</p> <p>The Authority requires separate funding of liabilities arising from such retirements and, as such, the financial impact of these retirements is neutral</p>	
Ill-health under Regulation 20 of the Benefit Regulations	1,014	7,138
Comments on Funding	<p>Such retirements increase costs due to the early payment of enhanced benefits. If actual retirements exceed the number anticipated, and no action is taken before the next valuation, this would be identified as a source of loss at the next valuation.</p> <p>In accordance with Regulation 38(5)(b) of the Administration Regulations the Authority should monitor the number of ill-health retirements arising over each Fund year and refer the position to the Actuary if numbers exceed the levels implied above.</p>	
Severance and redundancy under Regulation 19 of the Benefit Regulations	Nil	Nil
Comments on Funding	<p>Such retirements increase costs due to the early payment of benefits. Any enhancement of benefits through the Fund would increase costs further. If actual retirements exceed the number anticipated, and no action is taken before the next valuation, this would be identified as a source of loss at the next valuation.</p> <p>The Authority requires separate funding of liabilities arising from such retirements and, as such, the financial impact of these retirements is neutral.</p>	

Flexible retirement under Regulation 18 of the Benefit Regulations	Nil	Nil
Comments on Funding	<p>Such retirements may increase costs due to the early payment of benefits. If actual retirements exceed the number anticipated, and no action is taken before the next valuation, this would be identified as a source of loss at the next valuation.</p> <p>The Authority requires separate funding of liabilities arising from such retirements and, as such, the financial impact of these retirements is neutral.</p>	

Glossary

Additional Voluntary Contributions (AVCs)	Voluntary contributions paid by members under Administration Regulation 25 to secure defined contribution (DC) benefits. AVCs and any associated Shared Cost AVCs paid by the employer are excluded from the valuation.
Attained Age Method	<p>One of the common methods used by actuaries to calculate a contribution rate to the scheme.</p> <p>This method calculates the present value of the benefits expected to accrue to members over their expected remaining membership of the scheme expressed as a percentage of their expected future pensionable pay. It allows for projected future increases to pay through to retirement or date of leaving service. The method is based on the current membership and takes no account of the possibility of further members joining the scheme. If there are no new members, this method would be expected to result in a stable contribution rate, once surpluses or shortfalls are taken into account, and if all the other assumptions are borne out. However, if more members join the scheme to replace older leavers, the contribution rate can be expected to fall.</p>
Best estimate	This is an estimate of a figure such that the eventual outcome is considered to be equally likely to be higher or lower than the best estimate .
Discount rate	This is used to place a present value on a future payment. A 'low risk' discount rate is usually derived from the investment return achievable by investing in government gilt-edged stock. A discount rate higher than the 'low risk' rate is often used to allow for some of the extra investment return that is expected by investing in assets other than gilts.
Funding objective	To hold sufficient and appropriate assets to meet the funding target .
Funding principle	To hold sufficient and appropriate assets to meet the benefits as they fall due.
Funding ratio	This is the ratio of the value of assets to the funding target .
Funding Strategy Statement	<p>A document produced by the Authority in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997, which sets out the funding strategy adopted for the Fund. The statement is produced and maintained in consultation with the Employers and the Actuary.</p> <p>The Actuary must have regard to this statement in preparing the valuation under Administration Regulation 36.</p>

Funding target	An assessment of the present value of the benefits that will be paid from the scheme in the future, normally based on pensionable service prior to the Valuation Date, and agreed by the Actuary and the Authority to be appropriate to meet the promised benefits.
Future service contribution rate	The contribution rate (expressed as a percentage of pensionable pay) required to meet the cost of benefits which will accrue to members in future.
GMPs	Most schemes that were contracted out of the State Earnings Related Pension Scheme (SERPS) before April 1997 have to provide a pension for service before that date at least equal to the Guaranteed Minimum Pension (GMP). This is approximately equal to the SERPS pension that the member would have earned had the scheme not been contracted out. GMPs ceased to build up on 6 April 1997 when the legislation changed.
Planning exercise	This is a technical item utilised in Technical Actuarial Standards. A planning exercise involves the estimate of an amount for budgeting or target-setting purposes.
Present value	Actuarial valuations involve projections of pay, pensions and other benefits into the future. To express the value of the projected benefits in terms of a cash amount at the Valuation Date, the projected amounts are discounted back to the Valuation Date by a discount rate . This value is known as the present value . For example, if the discount rate was 6% a year and if we had to pay a lump sum of £1,060 in one year's time the present value would be £1,000.
Projected Unit Method (PUM)	One of the common methods used by actuaries to calculate a contribution rate to the scheme. This method calculates the present value of the benefits expected to accrue to members over a control period (often one year) following the Valuation Date. The present value is usually expressed as a percentage of the members' pensionable pay. It allows for projected future increases to pay through to retirement or date of leaving service. Provided that the distribution of members remains stable with new members joining to take the place of older leavers, the contribution rate calculated can be expected to remain stable, if all the other assumptions are borne out. If there are no new members however, the average age will increase and the contribution rate can be expected to rise.
Prudent	Prudent assumptions are assumptions that, if the Fund continues on an ongoing basis, are more likely to overstate than understate the amount of money actually required to meet the cost of the benefits.

Rates and Adjustments Certificate	A certificate required by the Administration Regulations setting out what contributions are payable by each Employer over the three years from 1 April 2011.
Recovery period	The period over which any shortfall or surplus is to be eliminated.
Recovery plan	Where a valuation shows a funding shortfall or surplus against the funding target , the recovery plan sets out how the funding objective will be met.
Strains	This represents the value of additional benefits granted to members. This includes items such as provision of enhanced benefits on retirement or any discretionary benefits granted.
Subsumption	<p>When an Employer ceases participation in the Fund, such that it will no longer have any contributing members, it is possible that another Employer in the Fund will agree to provide a source of future funding in respect of any emerging deficiencies in respect of the liabilities of the ceding Employer. In this document this is referred to as 'subsumption'.</p> <p>In such circumstances the ceding Employer's liabilities are known as 'subsumed liabilities' (in that responsibility for them is subsumed by the accepting Employer).</p>
Surplus or shortfall	This is the value of assets less the funding target . If the value of assets is greater than the funding target , then the difference is called the surplus . If the funding target is greater than the value of assets, then the difference is called the shortfall .
Transfer value	Members generally have a legal right to transfer their benefits to another pension arrangement before they retire. In taking a transfer, members give up their benefits in the scheme, and a sum of money (called the transfer value) is paid into another approved pension scheme; this is used to provide pension benefits on the terms offered in that scheme.