

# Actuarial valuation as at 31 March 2013

Durham County Council Pension Fund



**Prepared for** Durham County Council  
The Administering Authority of the Durham County Council  
Pension Fund

**Prepared by** Chris Archer FIA  
Bijal Shah FIA  
Aon Hewitt Ltd

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Aon Hewitt Limited | Registered in England & Wales No. 4396810 | Registered office: 8 Devonshire Square London EC2M 4PL  
aonhewitt.co.uk

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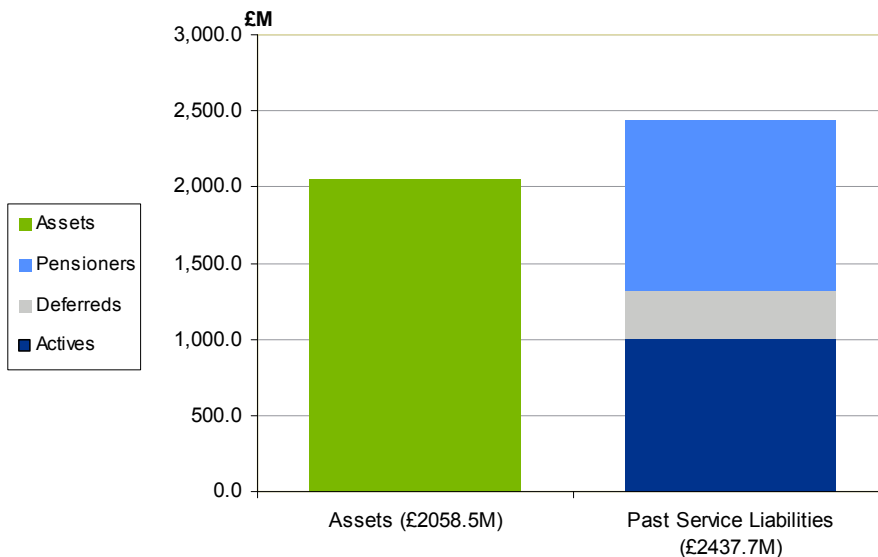
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No decisions should be taken on the basis of this report by any party other than our client, Durham County Council, and nothing in this report removes the need for readers to take proper advice in relation to their specific circumstances.

# Executive Summary

*The key results of the valuation as at 31 March 2013 are set out below.*

**There was a shortfall of £379.2M relative to the past service liabilities**



The aggregate Employer future service contribution rate in respect of the benefits provided by the 2014 Scheme is 13.7% of Pensionable Pay.

The aggregate Employer contribution rate required to restore the funding ratio to 100% using a recovery period of 18 years from 1 April 2014, is 20.9% of Pensionable Pay (if the membership remains broadly stable and pay increases are in line with our assumptions). The comparable figure at the previous valuation, using a recovery period of 19 years, was 19.3% of Pensionable Pay.

The contributions payable by each Employer or group of Employers may differ because they allow for each Employer's or group's particular membership profile and funding ratio, and assumptions and recovery periods appropriate to their circumstances.

# Actuarial valuation as at 31 March 2013

## Durham County Council Pension Fund

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# Introduction

*This report has been prepared for the Administering Authority. It sets out the results and conclusions of the valuation as at 31 March 2013.*

This is our actuarial valuation report. It draws together other pieces of work and advice from throughout the valuation process. Appendix 1 sets out the legal framework within which the valuation has been completed.

Throughout this report, assets and liabilities in respect of defined contribution additional voluntary contributions (or AVCs) have been excluded.

Some shorthand used in this report is explained opposite. Some technical pensions terms are explained in the Glossary in Appendix 12.

## Shorthand

### Fund

Durham County Council Pension Fund

### Administering Authority

Durham County Council, the Administering Authority of the Durham County Council Pension Fund

### Employers

Durham County Council and other Employers with employees participating in the Fund

### Regulations

The Local Government Pension Scheme Regulations (see Appendix 12)

### Pensionable Pay

As defined in the Regulations

### Pensionable Service

Periods of membership, as defined in the Regulations

## 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.

# Update since the previous valuation

## The key results from the previous valuation as at 31 March 2010 were:

The Fund's assets were £1,682.0M and the past service liabilities were £2,100.1M, which corresponded to a shortfall of £418.1M and a **funding ratio** of 80%.

The aggregate Employer future service contribution rate was 13.1% of Pensionable Pay.

The Administering Authority agreed Employer contributions from 1 April 2011 designed to restore the funding ratio to 100% over a period not exceeding 19 years.

The resulting aggregate Employer contributions were

- The Employer future service contribution rate of 13.1% of Pensionable Pay plus
- Anticipated additional monetary amounts as follows

Year	Aggregate shortfall contribution (£M)
2011/12	29.1
2012/13	28.4
2013/14	29.9

The shortfall contributions above are the aggregate for individual employers in each year and includes an estimate of the shortfall contributions that were anticipated to be paid by employers participating in the Town and Parish Councils group who paid deficit contributions as a percentage of pay.

The amount payable over 2013/14 was scheduled to increase on 1 April 2014 and each 1 April thereafter by approximately 5.3% a year.

In addition the Employers paid contributions in respect of any additional strains arising on early retirement or due to increases in benefits.

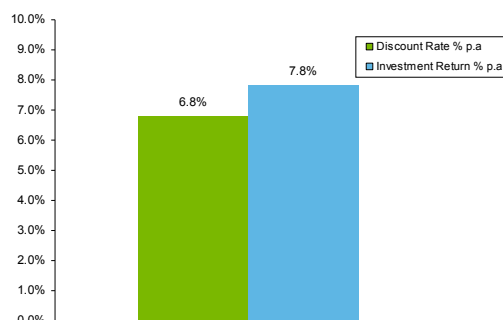
In addition, members paid contributions required under the Regulations.

## Financial development

To illustrate the Fund's financial development since the previous valuation, we compare below key financial assumptions made at the previous valuation with what actually happened.

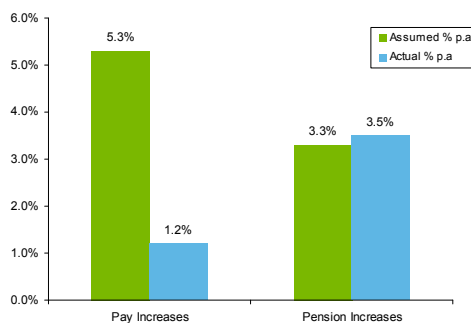
### Investment return (or discount rate)

The investment return has been higher than the discount rate assumed.



### Inflationary pay and pension increases

Increases to pay were lower than assumed. Increases to pensions in payment were slightly higher than assumed



Where material we show the financial impact of the above developments later in this report.

## Other key developments since the previous valuation

As well as the contributions paid to the Fund since the previous valuation and the returns achieved on the Fund's assets, there have been the following material developments since the previous valuation:

- **Change to pension increases**

The Government announced in 2010 that pension increases in deferment and payment (in excess of GMPs) for public sector pension schemes should be determined by reference to the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI) for all benefits in excess of Guaranteed Minimum Pensions (GMPs).

This change was reflected in our previous valuation.

- **Changes to State Pension Age**

State Pension Age is currently transitioning from age 65 (60 for women) to age 68. The Chancellor recently announced proposals for how further changes in State Pension Age will be linked to future changes in longevity. This will affect the age at which pensions will normally commence under the 2014 Scheme. This valuation does not allow for these latest proposals. We comment later in this report on the potential effect.

- **Bulk transfer**

There was a bulk transfer of staff from the Durham Probation Service to the Teesside Pension Fund on 1 April 2010. We have made an approximate allowance for a payment to be made from the Fund's assets to the Teesside Pension Fund (see the 'Asset data' section for further information). The corresponding past service liabilities have similarly been excluded.

- **2014 Scheme**

A new scheme applies for Pensionable Service from 1 April 2014. The key features are:

- Career average structure
- Accrual rate of 49ths
- Pensions revalued by CPI before retirement
- Normal Retirement Age linked to State Pension Age
- Changes to member contribution rates, and in particular member contribution rates increased for those earning above £43,000 pa
- Member contribution rates will be based on actual (previously full time equivalent) pay
- Introduction of a 50/50 option, with member contribution rate and pension accrual rate both half rate
- An underpin to pensions for members within 10 years of age 65 in April 2012.

Benefits for Pensionable Service before 1 April 2014 are protected, and calculated by reference to current retirement ages. The link to final pay remains for active members.

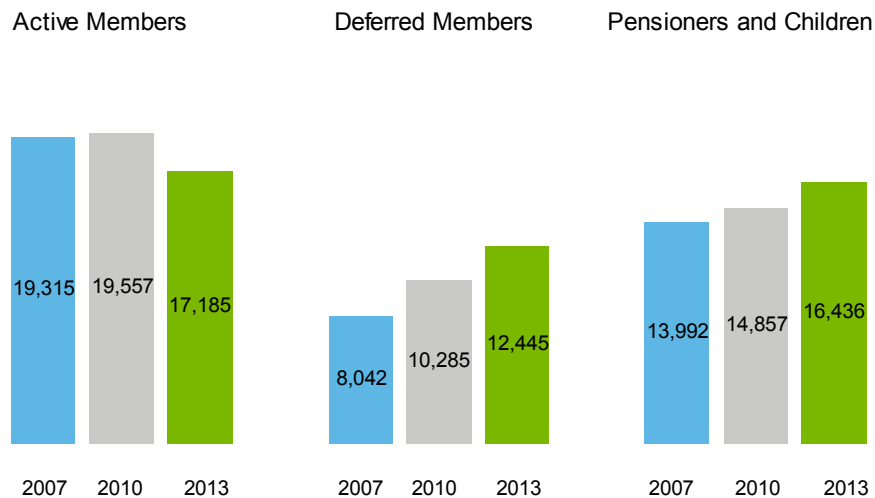
This valuation reflects our current understanding of the benefits to be provided by the new 2014 Scheme.

# Membership data

*This valuation is based on membership data as at 31 March 2013 supplied to us by the Administering Authority*

Summaries of the membership data are included in Appendices 2 and 3.

The chart below shows how the membership profile of the Fund has changed over the last three valuations. During this period, the Fund's total membership has grown by over 4,500 members. The Fund has also experienced a notable increase in maturity with the proportion of active members declining from 47% to 37% over the six year period.



The 2013 figures for deferred members exclude 989 members (983 in 2010) who have yet to decide whether to take a transfer payment. The 2013 figures for pensioners and dependents exclude 154 children (115 in 2010) in receipt of a pension.



## Membership data

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

- The information used for this valuation is reasonable compared 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 are consistent with the results of the previous valuation.

However, the results in this report rely entirely on the accuracy of the information supplied. If you believe the data we have used may be incomplete or inaccurate, please let us know.

### **Pensionable Pay in the 2014 Scheme**

We have been provided with Pensionable Pay for the year ended 31 March 2013, as defined in the Benefits Regulations. A different definition applies for benefits building up after 1 April 2014. In particular certain elements of pay which were previously not pensionable, will now be pensionable.

In this valuation, we have assumed that members have not received significant non pensionable pay, and hence that Pensionable Pay for membership before and after 1 April 2014 will be broadly similar.

If this is not the case, total Pensionable Pay after 1 April 2014 will be higher than allowed for. The impact on the results of our valuation would be:

- We do not expect this to affect the cost of benefit build up as a percentage of Pensionable Pay, although the payroll to which this percentage is applied will be higher, increasing the cost in monetary terms.
- We do not expect this to affect liabilities in respect of service prior to 31 March 2014 which will continue to be based on the current definition.
- Any shortfall contributions expressed as a percentage of pay will be applied to a higher payroll than anticipated. The shortfall might then be expected to reduce faster than assumed (if experience is otherwise as expected).

# Benefits valued

*Members are entitled to benefits defined in the Regulations. Different benefits apply to Pensionable Service before 1 April 2008, between 1 April 2008 and 31 March 2014, and after 1 April 2014. A summary of the benefits allowed for in our valuation is given in Appendix 4.*

## **Discretionary benefits**

Employers have discretion over payment of certain benefits and it is not practical to allow for the policies of each Employer. Most discretionary benefits are financed as they occur, so the financial impact on this valuation is minimal. No specific allowance has therefore been made for discretionary benefits which are granted at the discretion of the Employer.

## **GMP equalisation**

The Government issued a consultation in 2012 on equalising Guaranteed Minimum Pensions (GMPs) between men and women. However, there remains considerable uncertainty about exactly how this will be carried out in practice. Therefore, at this stage, we have made no allowance for the equalisation of GMPs in the valuation.

## **State Pension Age changes**

Normal Pension Age for Pensionable Service on or after 1 April 2014 will be State Pension Age. This is currently transitioning from age 65 (60 for women) to age 68 by 2046. Legislation to bring forward the increase to age 67 to 2028 is expected to be enacted in Spring 2014.

We have reflected these known increases in State Pension Age in this valuation. No allowance has been made for the Chancellor's recent announcement that State Pension Age might be linked to future increases in longevity. We comment further on this later in this report.

## **2013 Local Government Pension Scheme Regulations**

The Local Government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 come into force on 1 April 2014.

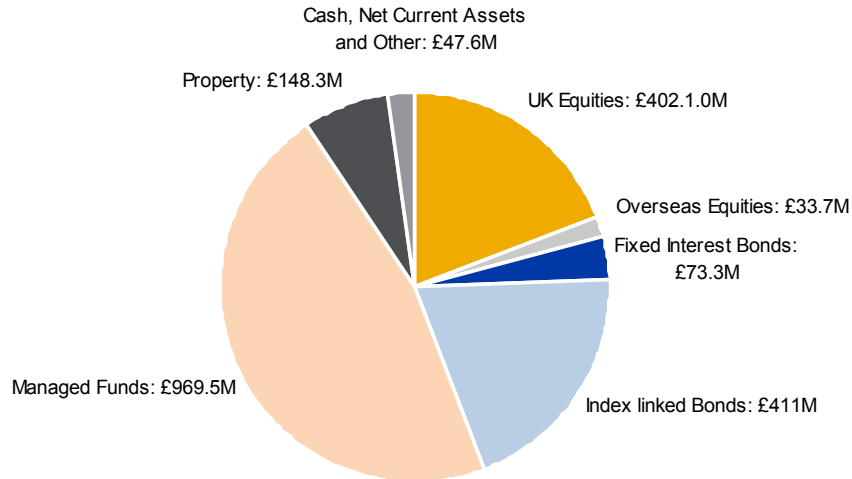
Our valuation reflects our understanding of the Regulations currently available. Any future changes may affect the conclusions in this report. However we do not anticipate any significant changes at this time.

We have made no allowance in this valuation for any future potential changes to member contributions or benefits resulting from the cost management mechanism under the Regulations.

# Asset data

*The audited accounts for the Fund for the year ended 31 March 2013 show the assets were £2,085.5M at the valuation date.*

The assets of £2,085.5M are invested as follows:



- This summary excludes assets for defined contribution AVC accounts.
- We have adjusted the assets shown above by subtracting £27.0M to reflect an anticipated payment out of the Fund in respect of a bulk transfer in respect of transfers which occurred before the valuation date. The corresponding past service liabilities have similarly been excluded.

The Statement of Investment Principles describes the Fund's investment strategy as follows:

*"The investment policy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Pension Fund while achieving a good return on investment. Dividing the management of the assets between seven investment managers further controls risk. Asset allocation benchmarks have been set and performance is monitored relative to the benchmarks. This is to ensure that the investment manager does not deviate from the Pension Fund Committee's investment strategy."*

# Funding objective

## Terminology

### Past service liabilities

The funding target for a Fund agreed as part of the actuarial valuation.

### Funding objective

To hold sufficient and appropriate assets to meet the past service liabilities.

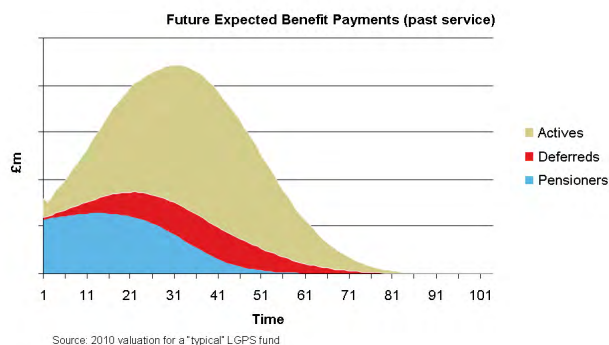
### Funding strategy statement

Sets out the Administering Authority's strategy for meeting the funding objective.

The Administering Authority's funding objective is to hold assets which are at least equal to the past service liabilities ie to meet the funding objective.

In order to calculate the past service liabilities and the cost to the Employers of future benefit accrual, the benefits paid out by the Fund are estimated for each year into the future. The estimated benefit payments are then 'discounted back' to the valuation date using an agreed rate of interest known as the discount rate.

The benefit payments from the Fund are expected to be made for a very long period – the chart below shows the cashflow pattern for the current membership of a typical Fund. Some cashflows will be fixed but the majority will be linked to future levels of salary growth and inflation.



## The discount rate

The funding strategy statement describes the risk based approach used to set the funding strategy and hence the discount rate. Under this risk based approach:

- The discount rate for long term scheduled bodies assumes indefinite future investment in assets similar to the Fund's holdings at the valuation date (allowing for any known planned changes to the long term investment strategy).

The Fund assets are considered to have a better than evens chance of delivering investment returns in excess of the scheduled body discount rate.

- For orphan 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.
- For subsumption bodies, where a long term scheduled body has agreed to subsume the liabilities of an admission body or other employer at cessation, we have agreed with the Administering Authority to use the scheduled body discount rate for that employer. Details of employers to which this applies are given in Appendix 6.

An explanation of scheduled bodies, orphan bodies and subsumption bodies is given in the Glossary in Appendix 12.

# Summary of method and assumptions

*The Administering Authority agreed the assumptions used to calculate the past service liabilities and the cost of future benefit accrual. The table below summarises the key assumptions, together with those used for the previous valuation, and the reasons for any change. Further details of all of the assumptions are set out in Appendix 7.*

Assumption	This valuation	Previous valuation	Rationale for change
Average in service discount rate	5.4% pa	6.8% pa	Updated to reflect the Administering Authority's attitude to risk and financial conditions at 31 March 2013.
Average left service discount rate	5.4% pa	6.8% pa	Updated to reflect the Administering Authority's attitude to risk and financial conditions at 31 March 2013.
Rate of revaluation of pension accounts	2.4% pa	N/A	Not required in the 2010 valuation.
Rate of pension increases on non GMPs on post 88GMPs	2.4% pa 2.0% pa	3.3% pa 2.7% pa	Updated to reflect outlook for CPI inflation at 31 March 2013.
Pensionable Pay Increases	3.9% pa	5.3% pa	Updated to reflect outlook at 31 March 2013.
Post-retirement mortality assumption (normal health) – base table	SAPS Normal tables with scaling factors of: Men 105% Women: 105%	SAPS Normal tables with scaling factors of: Men 105% Women: 105%	Updated to reflect recent research and the Fund's pensioner mortality experience since the last valuation
Post-retirement mortality assumption – future improvements	CMI 2012 core projections with long-term improvement rate of 1.5% pa	CMI 2009 core projections with long-term improvement rate of 1.25% pa	Updated to reflect recent research

We show below the assumed life expectancies at age 65 for current members resulting from these post retirement mortality assumptions and the assumptions used at the previous valuation.

Assumed Life expectancy at age 65	Member currently aged 65		Member currently aged 45	
	This valuation	Previous valuation	This valuation	Previous valuation
<b>Men</b>	22.4	22.1	24.5	23.9
<b>Women</b>	24.9	24.6	27.2	26.5

We believe these assumptions are appropriate for the purposes of the valuation, and setting Employer contributions to the Fund.

As for the previous valuation, the past service liabilities have been calculated using the projected unit method. This method, with a one year control period, has also been used to calculate the cost of future benefits building up for most Employers. The attained age method has been used for some Employers who do not permit new employees to join the Fund.

The costs of providing the cash sum on death in service in the period since the previous valuation have been pooled across all Employers in the Fund.

# Past service results

*A comparison of the Fund's past service liabilities with the assets is shown below. The past service liabilities have been calculated using the assumptions described in the previous section.*

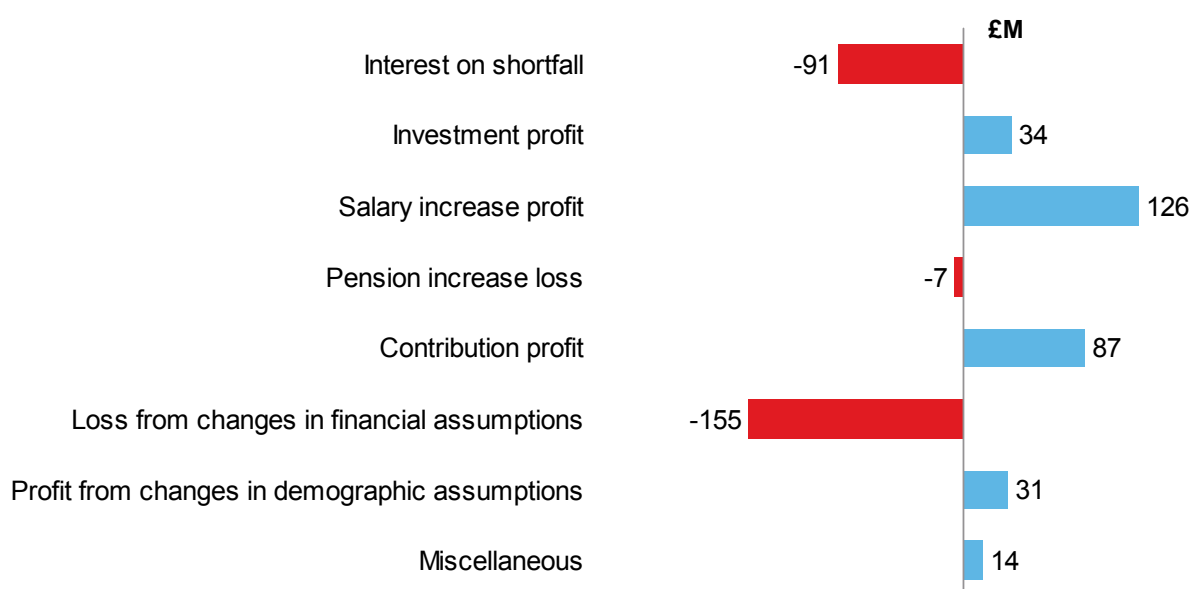
	£M
Value of past service benefits for	
Actives	1,004.5
Deferred members	310.9
Pensioners	1,122.3
<b>Total past service liabilities</b>	<b>2,437.7</b>
Value of assets	2,058.5
<b>Past service surplus (shortfall)</b>	<b>(379.2)</b>
<b>Funding ratio</b>	<b>84%</b>

Employers will need to pay additional contributions to remove this shortfall. This is considered later.

# Reasons for change in past service position

*At the previous valuation, the Fund had a shortfall of £418.1M. The funding position has therefore improved by £38.9M over the period.*

The chart below shows the key reasons for the change in funding position.



The analysis shows that the main factors affecting the funding position since the previous valuation have been:

- Investment returns on the Fund's assets above those previously assumed
- Pay increases below those previously assumed
- Payment of shortfall contributions
- Changes in pay and pension increase assumptions, relative to RPI
- Changes to demographic assumptions other than mortality

which have all improved the position; and

- Interest on the shortfall at the previous valuation
- A change in the real discount rate (discount rate relative to RPI)
- A change in the mortality assumption

which have worsened the position.

The miscellaneous item includes the effect of membership movements.



# Addressing the shortfall

*Employers will need to pay additional contributions to remove the shortfall.*

We have agreed with the Administering Authority a recovery plan such that the shortfall will be removed by payment of additional contributions by the Employers over a range of different recovery periods not exceeding 19 years.

The recovery period used for each Employer is set out in Appendix 6. For some Employers, contribution increases may be phased in over a number of years (or 'steps'). These are also shown in Appendix 6.

The assumptions used to calculate the recovery plans for each Employer are the same as those used to calculate the Employer's past service liabilities.

The aggregate additional contributions required to remove the shortfall by the end of 18 years from 1 April 2014 are £24.3M pa, increasing at 3.9% pa. This is equivalent to approximately 7.2% of Pensionable Pay assuming the membership remains broadly stable and payroll increases in line with our salary increase assumption. In calculating the shortfall contributions we have assumed that the Employers' payroll at 1 April 2014 will be the same as that provided for the valuation (i.e. over 2012/13).

## Terminology

### Recovery plan

A plan for making good any shortfall relative to the past service liabilities.

### Recovery period

The period for which any contributions to remove the shortfall are to be paid.

### Shortfall contributions

The additional contributions to remove the shortfall by the end of the recovery period.

# Cost to the Employers of future benefits

*The table below shows the calculated cost to Employers at the valuation date of benefits in the 2014 Scheme that members will earn in the Fund in future. This rate of Employer contribution would be appropriate if the Fund had no surplus or shortfall.*

The rates have been calculated using the same assumptions as used to calculate the past service liabilities.

	<b>% of Pensionable Pay</b>
Value of benefits building up	19.4
Death in service cash sum	0.2
Administration expenses	0.4
Less member contributions	(6.3)
<b>Net cost to the Employers</b>	<b>13.7</b>

Employers will also pay additional contributions to remove the shortfall for past service liabilities.

The cost of future benefits has increased since the previous valuation and the main reasons for this are:

- A reduction in the discount rate relative to RPI price inflation

Which has increased the cost; and

- The introduction of the 2014 Scheme
- Changes in the pay and pension increase assumptions relative to RPI price inflation

Which have reduced the cost.

# Low risk funding measure

*The low risk measure shown below considers the position if no allowance is made in the discount rate for returns on the Fund assets to exceed the yields available on long dated UK government bonds as at 31 March 2013.*

Comparing the low risk measure with the past service result provides an indication of the level of reliance of the valuation past service results on future assumed investment returns on the Fund's asset holdings which are uncertain, and may not be achieved. Details of the assumptions used to calculate this low risk measure are summarised in Appendix 8.

	£M
Value of past service benefits for	
Actives	1,724.6
Deferred members	523.2
Pensioners	1,447.3
<b>Low risk value of liabilities</b>	<b>3,695.1</b>
Value of assets	2,058.5
<b>Low risk surplus / (shortfall)</b>	<b>(1,636.6)</b>
<b>Low risk funding ratio</b>	<b>56%</b>

# Risks and uncertainties

*The Fund faces a number of key risks which could affect its funding position.*

These risks include:

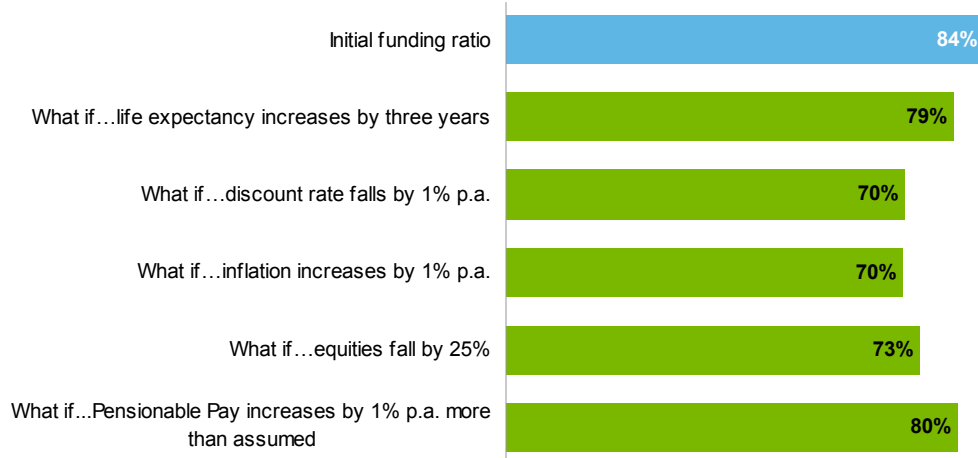
- Funding risk – the risk that the value placed on the past service liabilities is set too low and proves insufficient to meet the payments as they fall due.
- Employer risk – the risk that an Employer is no longer able to meet its liabilities in the Fund.
- Investment risks – the risk that investment returns are lower than allowed for in the valuation, and that investment returns and assets move out of line with the liabilities, so the funding position is not stable.
- Longevity risk – the risk that Fund members live for longer than assumed and that pensions would therefore need to be paid for longer resulting in a higher cost for the Fund.
- Inflation risk – the risk that inflation is higher than assumed, increasing the pensions that need to be paid.
- Options for members (or other parties) – the risk that members exercise options resulting in unanticipated extra costs. For example, members could swap less of their pension for cash than allowed for.

To quantify some of these risks, the chart on the following page shows the approximate impact of the following one-off step changes on the Fund's funding position on the past service liabilities (all other elements of the valuation being unchanged):

- Life expectancy at age 65 is three years longer than anticipated (with corresponding increases at other ages).
- A 1% fall in long term expected investment returns (the discount rate) with no change in asset values
- A 1% pa increase in expected price inflation (measured by CPI).
- A 25% fall in the market value of equities (with no change in bond markets).
- A 1% pa increase in expected Pensionable Pay increases.

## Risks and uncertainties

The chart below shows the approximate impact on the funding ratio of the Fund under a number of different scenarios with no change to other assumptions. The top figure represents the funding ratio shown in the section 'Past Service Results'



The analysis demonstrates that on the approach used the Fund is susceptible to:

- Falls in expected investment returns, or the market value of equities
- Rising inflation and pay increase expectations
- Members living longer than expected

The scenarios considered are not 'worst case' scenarios, and could occur in combination (rather than in isolation).

The low risk measure is also highly sensitive to these factors.

# Individual Employer contribution rates

*Employers, or groups of Employers, are set their own contribution rate which reflects their specific circumstances.*

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 common rate as possible and
  - The current version of the Administering Authority's funding strategy statement.
- The results of the valuation.
- Developments since the valuation date.
- Discussions between the actuary, the Administering Authority and Employers.

Contribution rates for Employers which contribute to the Fund are set out in the Rates and Adjustments Certificate in Appendix 11.

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

For Employers who are in surplus and where it is appropriate to an Employer's circumstances, it has been agreed with the Administering Authority that the Employer can use the surplus to support the payment of contributions to the Fund at a rate below the future service contribution rate.

Details are given in Appendix 6.

## Terminology

### Rates and Adjustments Certificate

Specifies the contributions payable by the Employers until March 2017.

The aggregate Employer contributions certified for the 3 years from 1 April 2014 can be summarised as follows:

Year from 1 April	Future service rate % of Pensionable Pay	Aggregate shortfall contribution (£M)
2014	13.7	24.8
2015	13.7	25.7
2016	13.7	26.8

- The annual shortfall contributions above are the aggregate of the shortfall contributions for individual Employers in each year. This includes estimates where the deficit is being paid as a percentage of pay and where employers have a surplus and are therefore paying a contribution rate lower than the future service rate.
- The contributions payable by individual Employers are set out in Appendix 11.
- Payments to meet additional costs arising from early retirements and other increases in benefits are payable in addition.
- At the end of the period shown above, the annual shortfall contributions for each Employer or group are anticipated to increase by approximately 3.9% pa until the end of the relevant recovery period. Thereafter, aggregate contributions are anticipated to be in line with the future service contribution rate of 13.7% of Pensionable Pay. These contributions will be subject to review at future actuarial valuations.
- Member contributions are payable in addition to the Employer contributions set out above and in Appendix 11. These are set out in the Regulations. AVCs 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 Regulations. Any monetary shortfall contributions have been calculated on the basis that they are payable uniformly over the relevant year.

# Final comments

## The key results from this valuation are:

The Fund's assets were £2,058.5M and the past service liabilities were £2,437.7M which correspond to

- a shortfall of £379.2M and
- a funding ratio of 84%.

The cost of future benefits building up is 13.7% of Pensionable Pay after 1 April 2014.

If the shortfall is removed over 18 years from 1 April 2014, the aggregate Employer contributions needed would be equivalent to 20.9%\* of Pensionable Pay until 31 March 2030, reverting to 13.7% of Pensionable Pay thereafter.

*\* if the membership remains broadly stable and pay increases in line with our assumptions.*

## Developments since the valuation date

### ▪ State Pension Age changes

The Chancellor has recently announced proposals for how State Pension Age will be linked to future changes in longevity, and indicated that these might result in State Pension Age increasing

- To age 68 by the mid 2030s
- To age 69 by the late 2040s.

Normal Pension Age in the Fund will be linked to State Pension Age so this will affect Normal Pension Age for benefits building up after 1 April 2014 for younger members in the Fund. As indicated earlier in this report no allowance has been made in this valuation for these possible further changes to State Pension Age.

We estimate that anticipating these further possible changes in this valuation might reduce the future service contribution rate by about 0.2% of Pensionable Pay, if no other changes were made. In practice, however, we would expect this to be offset by the cost of improvements in members' longevity so the overall impact might be expected to be negligible.

### ▪ Market movements since 31 March 2013

Since 31 March 2013, equity markets have generally risen, although this has been offset by a fall in bond markets and a reduction in the risk-based discount rate that would be used for employing authorities and other long term bodies. Therefore, overall, we believe that market movements since the valuation date have had little impact on the funding ratio.

## Abolition of contracting-out

The Government is due to enact legislation in Spring 2014 to abolish contracting out from the State Second Pension from 6 April 2016. As a result the rebate in employee and employer National Insurance contributions will cease from that date.

At this stage there are no proposals to amend the Local Government Pension Scheme to mitigate these additional costs for employers and employees.

## Monitoring the Fund

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

### Next actuarial valuation

The next formal actuarial valuation is due to take place as at 31 March 2016.

If actual experience before the next actuarial valuation is in line with the assumptions in this report, we expect the Fund's funding ratio to increase to about 87%. This would be mainly due to payment of shortfall contributions to 31 March 2014.

# Appendix 1: Legal framework

*It is a legal requirement to carry out a full valuation at least once every three years.*

This report was commissioned by and is produced solely for the use of the Administering Authority.

It is produced in compliance with:

- Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.
- The terms of the agreement between the Administering Authority and Aon Hewitt Limited, on the understanding that the report is solely for the benefit of the addressees.

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.

We permit the Administering Authority to release copies of this report to the following parties only:

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

We also permit the Department for 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, Aon Hewitt Limited does not assume responsibility to anyone other than the addressees of this report.**



# Appendix 2: Membership data

Membership data was provided by Durham County Council.

Active members		Number	Average age	Total pensionable pay (£000 pa)	Average pensionable pay (£ pa)	Average service (years)
Men	2013	5,400	45.9	127,955	23,695	14.4
	2010	6,598	45.3	154,460	23,410	13.6
Women	2013	11,785	44.8	203,701	17,285	9.4
	2010	12,959	43.7	222,529	17,172	8.7
Total	2013	17,185	45.1	331,656	19,299	11.0
	2010	19,557	44.2	376,989	19,276	10.4

Note: Pensionable Pay is over the year to the valuation date, and includes annualised pay for new entrants during the year. Actual part-time pay is included for part-timers.

Deferred members		Number	Average age	Total pension (£000 pa)	Average pension (£ pa)
Men	2013	3,915	44.1	9,117	2,329
	2010	3,380	43.8	7,072	2,092
Women	2013	8,530	44.6	12,408	1,455
	2010	6,905	43.6	8,267	1,197
Total	2013	12,445	44.4	21,525	1,730
	2010	10,285	43.7	15,339	1,491

Note: The deferred pension amounts shown above include increases up to and including April 2013 (2010: April 2010). There were also 989 members (2010:983) who had yet to decide whether to take a transfer payment and suitable allowance has been made for these in our calculations.

Pensioners		Number	Average age	Total pension (£000 pa)	Average pension (£ pa)
Men	2013	6,469	69.9	46,366	7,167
	2010	5,939	69.5	38,748	6,524
Women	2013	7,242	69.8	23,855	3,294
	2010	6,393	69.4	18,511	2,896
Dependants	2013	2,725	73.0	7,401	2,716
	2010	2,525	75.7	6,457	2,557
Total	2013	16,436	70.4	77,622	4,723
	2010	14,857	70.5	63,716	4,289

Note: The pension amounts shown above include the increase awarded in April 2013 (2010: April 2010). The 2013 figures include 154 children (2010: 115) who are in receipt of pension. Suitable allowance has been made for these in our calculations

# Appendix 3: Membership data by Employer

*The distribution of membership by Employer, as indicated by the data, is shown below.*

Employer	Number of active members	Total Pensionable Pay £000	Number of deferred members	Number of pensioners and dependants
Barnard Castle School	47	768	32	28
Bishop Auckland College	121	2,213	157	56
Bowes Museum	7	156	3	12
BRandH Academy	28	256	4	0
Carillion	9	75	2	2
Carmel Education Trust	78	1,118	6	1
Central Durham Joint Crematorium Committee	4	71	2	7
Cestria Community Housing	115	3,059	28	20
Churchill Contract Services Limited	7	30	0	0
Compass Group UK	4	26	4	3
County Durham & Darlington Fire & Rescue Brigade	95	2,658	72	32
Creative Management Services	2	-	1	0
Dale and Valley Homes	53	1,600	19	4
Darlington Borough Council	1,755	34,279	1,973	1,624
Darlington College	185	3,022	213	92
Derwentside College	78	1,894	110	71
Derwentside Homes	181	4,765	18	45
Durham County Council*	10,983	210,825	8,364	13,273
East Durham College	188	3,300	245	78
Easington Academy	31	533	0	0
East Durham Homes Limited	133	3,139	102	72

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<b>Employer</b>	<b>Number of active members</b>	<b>Total Pensionable Pay £000</b>	<b>Number of deferred members</b>	<b>Number of pensioners and dependants</b>
Education Village	117	1,964	8	1
Federation of Abbey Schools Trust	29	274	0	0
Federation of Mowden Schools	15	199	1	0
Firthmoor Primary School	13	224	0	0
Future Leisure in Coxhoe	6	109	0	0
Glendene Arts Academy	38	621	0	0
Heathfield Academy Trust	21	270	3	0
Hummersknott Academy Trust	89	1,314	6	1
Hurworth Academy	36	574	7	1
Hurworth Primary School	17	231	1	0
KGB Cleaning and Support Service	2	-	0	1
Kier Support Services Limited	30	694	7	4
King James Academy	56	775	17	3
Leisureworks	25	584	17	21
livin' Housing	143	3,806	22	23
Longfield Academy Trust	115	1,822	12	4
Mears	80	1,795	4	24
MITIE Cleaning	1	-	2	1
MITIE PFI Ltd	1	-	0	2
Morrison Facilities Services Limited	72	1,679	10	8
Murton Community Primary School	35	527	0	0
Murton Welfare Association	3	-	4	0
New College Durham Academies Trust	101	1,702	6	1
New College, Durham	258	4,464	229	121
New Seaham Academy	6	60	0	0
North East Council of Addiction (NECA)	2	-	0	0
Office of the Police and Crime Commissioner for Durham	858	19,667	438	310

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<b>Employer</b>	<b>Number of active members</b>	<b>Total Pensionable Pay £000</b>	<b>Number of deferred members</b>	<b>Number of pensioners and dependants</b>
Park View Community School	38	691	1	3
Parkside Academy	44	586	1	0
Queen Elizabeth Sixth Form College	54	924	35	10
Reid Street Primary School	20	319	1	0
Shotton Hall Academy Trust	35	687	2	0
St Aidan's CE Academy	45	976	11	1
St Bede's Catholic School and Sixth Form College (Lanchester)	37	647	0	0
St Bede's RC Primary School	20	212	0	0
St George's CE Academy	21	232	0	0
St John's CE Primary School	15	182	2	0
St John's School and Sixth Form College	47	754	3	0
Staindrop School	28	419	1	2
Taylor Shaw Longfield	5	45	0	1
Taylor Shaw Primary	37	306	3	5
Teesdale Housing Association	7	157	3	2
Teesdale School	30	443	5	0
The Excel Academy Partnership	36	637	3	0
The Forge	2	-	1	0
The Hermitage Academy	47	654	6	1
Three Rivers Housing	2	-	0	0
Town and Parish Councils	197	3,676	114	142
Tudhoe Learning Trust	74	767	1	0
West Park Academy	34	353	7	0
Woodham Academy	37	559	1	1
Former Employers (No Active Members)	0	-	95	322
<b>Total</b>	<b>17,185</b>	<b>331,656</b>	<b>12,445</b>	<b>16,436</b>

*\*Includes members of Investing in Children*

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*Note:*

*Pensionable Pay is over the year to the valuation date, and includes annualised pay for new entrants during the year. Actual part-time pay is included for part-timers.*

*For Employers with three or fewer members, Pensionable Pay is not shown for data privacy reasons, but has been included in the total.*

*There were also 989 members who had yet to decide to take a transfer payment.*

*The pensioners and dependants figure excludes 154 children who are in receipt of a pension.*

# Appendix 4: Benefits

The benefits of the Local Government Pension Scheme are set out in Regulations, the principal Regulations currently being

- the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as subsequently amended) for membership before April 2014
- the Local Government Pension Scheme Regulations 2013 for membership from 1 April 2014

A broad summary of the benefits payable to active members as at 31 March 2014 is given below. This reflects our understanding of the Regulations at the time of writing. This may however be subject to change and readers should refer to the Regulations for further details.

	2008 Scheme	2014 Scheme
<b>Type of scheme</b>	Final salary	Career average revalued earnings (CARE)
<b>Normal Retirement / Pension Age</b>	65	Linked to State Pension Age (or age 65 if higher)
<b>Member contributions</b>	Between 5.5% of pay and 7.5% of full time equivalent Pensionable Pay dependent on contribution band the member is in (average 6.5%)  Special provisions apply for certain categories of former manual workers.	Between 5.5% of pay and 12.5% of actual Pensionable Pay dependent on contribution band the member is in (average 6.5%)
<b>50:50 option</b>	Not applicable	Members can opt to pay 50% contributions for 50% of member's pension benefit (dependants' benefits not affected)

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	2008 Scheme	2014 Scheme
<b>Pensionable Pay</b>	Generally total pay (excluding non contractual overtime)	Generally total pay (including non contractual overtime)
<b>Final Pay</b>	Generally Pensionable Pay over the 12 months prior to retirement or earlier exit or, if higher, in one of the preceding two years.	Not applicable
<b>Pensionable service</b>	Membership of Fund (years and days), plus periods of credited service	Not applicable
<b>Normal retirement pension</b>	<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"> <li>▪ a pension of 1/80 of Final Pay, plus</li> <li>▪ a cash sum of 3/80 of Final Pay</li> </ul>	<p>1/49 of revalued Pensionable Pay received during membership from 1 April 2014.</p> <p>The resulting accumulated pension is called the 'pension account'.</p>
<b>Retirement cash sum</b>	<p>Pension can be surrendered for additional cash sum to a maximum cash sum of one quarter of the total capital value of benefits.</p> <p>Conversion rate is £12 for each £1 pa of pension given up.</p>	<p>Pension can be surrendered for cash sum to a maximum cash sum of one quarter of the total capital value of benefits.</p> <p>Conversion rate is £12 for each £1 pa of pension given up.</p>

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	2008 Scheme	2014 Scheme
<b>Early retirement pension</b>	<p>Reduced pension payable on retirement after age 60, or after age 55 with Employer consent.</p> <p>Pension calculated as for normal retirement but based on Pensionable Service to early retirement date, and reduced for early payment.</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, with Employer consent required if under age 60.</p>	<p>Reduced pension payable on retirement after age 55.</p> <p>Pension calculated as for normal retirement but based on revalued Pensionable Pay up to early retirement date, and reduced for early payment.</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>
<b>Incapacity and ill-health pensions</b>	<p>In each case members must be permanently incapable of efficiently discharging their current duties to qualify.</p> <p><b>Tier 1</b></p> <ul style="list-style-type: none"> <li>▪ 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 Normal Retirement Age.</li> <li>▪ To qualify for this benefit there must be no reasonable prospect of the member being capable of undertaking any gainful employment.</li> </ul>	<p>In each case members must</p> <ul style="list-style-type: none"> <li>▪ be permanently incapable of efficiently discharging the duties of the employment they were engaged in to qualify and</li> <li>▪ be incapable of immediately undertaking any gainful employment</li> </ul> <p><b>Tier 1</b></p> <ul style="list-style-type: none"> <li>▪ Payable to members with more than 2 years' Pensionable Service.</li> <li>▪ Immediate payment of accrued pension, plus an enhancement equal to the amount of earned pension the member would have accrued between the date of leaving and Normal Pension Age, based on the current Pensionable Pay.</li> <li>▪ To qualify for this benefit the member must be unlikely to be capable of undertaking any gainful employment before Normal Pension Age.</li> </ul>

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	2008 Scheme	2014 Scheme
Incapacity and ill-health pensions (continued)	<p><b>Tier 2</b></p> <ul style="list-style-type: none"> <li>Payable to members with more than 3 months' service based on Final Pay at exit and Pensionable Service completed to date of exit plus 25% of the period from date of exit to Normal Retirement Age.</li> <li>To qualify for this benefit the member must be expected to be capable of undertaking gainful employment at some point after 3 years, but before Normal Retirement Age.</li> </ul>	<p><b>Tier 2</b></p> <ul style="list-style-type: none"> <li>Payable to members with more than 2 years' Pensionable Service.</li> <li>Immediate payment of accrued pension, plus an enhancement equal to 25% of the Tier 1 enhancement.</li> <li>To qualify for this benefit the member must be expected to be capable of undertaking gainful employment at some point after 3 years, but before Normal Pension Age.</li> </ul>
	<p><b>Tier 3</b></p> <ul style="list-style-type: none"> <li>Payable to members with more than 3 months' Pensionable Service based on Final Pay at exit and Pensionable Service completed to date of exit.</li> <li>To qualify for this benefit the member must be expected to be capable of undertaking gainful employment at some point within 3 years of date of exit.</li> <li>Payable for 3 years or until gainful employment obtained, if earlier.</li> </ul>	<p><b>Tier 3</b></p> <p>As 2008 Scheme, but subject to members having qualifying service of 2 years or more.</p>

	2008 Scheme	2014 Scheme
<b>Leaving Pensionable Service</b>	<p>Pension payable on retirement at Normal Retirement Age 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 aged 60 or over 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 date pension commences.</p>	Pension payable on retirement at Normal Pension Age calculated as for normal retirement based on revalued Pensionable Pay during period of membership.
<b>CARE revaluation in service</b>	Not applicable	In line with increases in the Consumer Prices Index (CPI)
<b>Deferred pension revaluation after leaving</b>	<ul style="list-style-type: none"> <li>▪ Guaranteed Minimum Pensions (GMPs) increase in deferment in line with State revaluation factors.</li> <li>▪ Deferred pensions in excess of GMPs increase in line with CPI</li> </ul>	In line with CPI
<b>Pension increases in payment</b>	<ul style="list-style-type: none"> <li>▪ GMPs accrued after 6 April 1988 increase at the lower of 3% pa and CPI</li> <li>▪ Pensions in payment in excess of GMPs increase in line with CPI</li> </ul>	In line with CPI

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	2008 Scheme	2014 Scheme
<b>Death benefits</b>	<ul style="list-style-type: none"> <li>▪ A cash sum of 3 x Final Pay at exit.</li> <li>▪ A partner'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.</li> </ul> <p>Partners are spouses, civil partners and co-habitees.</p> <ul style="list-style-type: none"> <li>▪ Children's pensions may be payable.</li> </ul>	<ul style="list-style-type: none"> <li>▪ A cash sum of 3 x Pensionable Pay at exit.</li> <li>▪ A partner's pension of 1/160 of revalued Pensionable Pay received during membership to date of death plus an enhancement to pension of 1/160 of Pensionable Pay at death for each year between death and Normal Pension Age.</li> </ul> <p>Partners are spouses, civil partners and co-habitees.</p> <ul style="list-style-type: none"> <li>▪ Children's pensions may be payable.</li> </ul>
<b>State pension scheme</b>	The Scheme is contracted out of the State Second Pension Scheme.	The Scheme is contracted out of the State Second Pension Scheme.  Note that the Government proposes abolishing contracting out from April 2016.
<b>Protections /underpins</b>	Pre 2008 benefits protected.  Rule of 85 retained for members aged over 60 on 31 March 2016. Partial protection of Rule of 85 for members aged over 60 on 31 March 2020.	Pre 2014 benefits protected (including link to eventual Final Pay).  Underpin of benefits on 2008 Scheme structure for members aged over 55 in April 2012.  Rule of 85 protections where applicable will continue to apply in the 2014 Scheme.
<b>Vesting period</b>	A refund of member contributions is paid for members leaving membership with qualifying service of less than 3 months.	A refund of member contributions is paid for members leaving membership with qualifying service of less than 2 years.

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# Appendix 5: Consolidated revenue account

We show a summary of the revenue and outgo of the Fund since the previous valuation below.

	Total £000s
<b>Fund as at 31 March 2010</b>	1,681,969
<b>Income</b>	
Contributions	
Employer normal	163,951
Employer additional	56,034
Employer special	4,218
Employee	67,762
Transfers-in	23,725
Investment income	110,569
Other income	15,005
<b>Total income</b>	441,264
<b>Outgo</b>	
Pensions paid	228,475
Retirement cash sums	64,555
Transfers-out	24,817
Death benefits paid	4,445
Refunds of contributions on leaving	15
State scheme premiums	3
Expenses	
Investment	21,001
Administration	3,753
Other outgo	1,545
<b>Total outgo</b>	348,609
<b>Change in market value</b>	310,836
<b>Fund as at 31 March 2013</b>	2,085,460

We have adjusted the assets shown above by subtracting £27.0M to reflect an anticipated payment out of the Fund in respect of a bulk transfer in respect of transfers which occurred before the valuation date.

# Appendix 6: Employer funding strategies

*An Employer's funding strategy depends on its own circumstances. Key details for each Employer are set out below. See the sections on Funding Objective and the Glossary in Appendix 12 for more details.*

Employer	Recovery period Years	Subsuming or Underwriting Employer (if any)
Barnard Castle School	7	
Bishop Auckland College	16	
Bowes Museum	Future working lifetime	Durham County Council
BRandH Academy	18	
Carillion	18	
Carmel Education Trust	18	
Cestria Community Housing	18*	Durham County Council (original transferring members only)
Central Durham Joint Crematorium Committee	9.8	
Churchill Contract Services Limited	N/A	
Compass Group UK	N/A	
County Durham & Darlington Fire & Rescue Brigade	16	
Dale and Valley Homes	18	Durham County Council
Darlington Borough Council	18	
Darlington College	16	
Derwentside College	16	
Derwentside Homes	18*	Durham County Council (original transferring members only)
Durham County Council	18	
Easington Academy	18	
East Durham College	16	
East Durham Homes Limited	18	Durham County Council

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<b>Employer</b>	<b>Recovery period Years</b>	<b>Subsuming or Underwriting Employer (if any)</b>
Education Village	18	
Federation of Abbey Schools Trust	18	
Federation of Mowden Schools	18	
Future Leisure in Coxhoe	Future working lifetime	Durham County Council
Firthmoor Primary School	18	
Glendene Arts Academy	18	
Heathfield Academy Trust	18	
Hummersknott Academy Trust	18	
Hurworth Academy	18	
Hurworth Primary School	18	
Investing in Children	18	Durham County Council
KGB Cleaning and Support Services	1.4	
King James Academy	18	
Leisureworks	12.3	Durham County Council (original transferring members only)
livin' Housing	N/A	Durham County Council
Longfield Academy Trust	18	
Mears	Future working lifetime	Durham County Council
MITIE Cleaning	Future working lifetime	
MITIE PFI Ltd	N/A	
Morrison Facilities Services Limited	Future working lifetime	Durham County Council
Murton Community Primary School	18	
Murton Welfare Association	N/A	
New College Durham Academies Trust	18	
New College, Durham	18	
New Seaham Academy	18	
North East Council of Addiction (NECA)	1	
Office of the Police and Crime Commissioner for Durham	16	

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<b>Employer</b>	<b>Recovery period Years</b>	<b>Subsuming or Underwriting Employer (if any)</b>
Park View Community School	18	
Parkside Academy	18	
Queen Elizabeth Sixth Form College	N/A	
Reid Street Primary School	18	
Shotton Hall Academy Trust	18	
St Aidan's CE Academy	18	
St Bede's Catholic School and Sixth Form College (Lanchester)	18	
St Bede's RC Primary School	18	
St George's CE Academy	18	
St John's CE Primary School	18	
St John's School and Sixth Form College	18	
Staindrop School	18	
Taylor Shaw Longfield	Future working lifetime	
Taylor Shaw Primary	8.3	Durham County Council
Teesdale Housing Association	12	
Teesdale School	18	
The Excel Academy Partnership	18	
The Forge	18	
The Hermitage Academy	18	
Three Rivers Housing	18*	
Town and Parish Councils	9.8	
Tudhoe Learning Trust	18	
West Park Academy	18	
Woodham Academy	18	

\* The theoretical rate was approximately increased to reflect the fact that new entrants will be valued on an orphan funding target.

# Appendix 7: Assumptions used to value the liabilities

The assumptions used for calculating the past service liabilities and the cost of future benefit accrual are summarised below. Different assumptions are used for the low risk measure, as set out in Appendix 8.

## Financial assumptions

<b>In service discount rate</b> <i>Scheduled bodies</i> <i>Orphan bodies</i>	<b>5.4% pa</b> <b>5.2% pa</b>
<b>Left service discount rate</b> <i>Scheduled bodies</i> <i>Orphan bodies</i>	<b>5.4% pa</b> <b>3.9% pa</b>
<b>Rate of Pensionable Pay increases</b> (in addition to promotional increases)	<b>3.9% pa</b>
<b>Rate of RPI price inflation</b>	<b>3.3% pa</b>
<b>Rate of CPI price inflation</b>	<b>2.4% pa</b>
<b>Rate of revaluation of pension accounts</b>	<b>2.4% pa</b>
<b>Rate of pension increases</b> on non GMPs on post 88 GMPs	<b>2.4% pa</b> <b>2.0% pa</b>
<b>Rate of deferred pension increases</b>	<b>2.4% pa</b>
<b>Administration expenses</b>	<b>0.4% of Pensionable Pay</b>



## Demographic assumptions

<b>Pre-retirement base mortality</b>	Males: 50% of Standard SAPS Normal Health tables Females: 50% of Standard SAPS Normal Health tables	
<b>Post-retirement base mortality</b>	Males: 105% of Standard SAPS Normal Health tables Females: 105% of Standard SAPS Normal Health tables	
<b>Ill-health retirement base mortality</b>	Males: 110% of Standard SAPS Ill Health tables Females: 110% of Standard SAPS Ill Health tables	
<b>Improvements to base mortality</b>	An allowance for improvements between 2002 and 2013 and an allowance for future improvements have been made in line with the CMI 2012 Core Projections assuming a long-term annual rate of improvement in mortality rates of 1.5% pa for men and women.	
<b>Promotional salary increases</b>	Allowance has been made for age-related promotional increases (see sample rates below).	
<b>Withdrawals</b>	Allowance has been made for withdrawals from service (see sample rates below). On withdrawal, members are assumed to leave a deferred pension in the Fund.	
<b>Retirement age</b>	Members were assumed to retire at the following ages:	
	<b>Member group</b>	<b>Assumed age at retirement</b>
	Active members with protected Rule of 85 age (joined LGPS before 1 October 2006 and attained age 60 before 1 April 2020)	Rule of 85 age (or age 60 if higher). Any part of their pension payable from a later age will be reduced.
	All other active members	Age 65. Post 2014 pensions will be reduced if the member's State Pension Age is projected to be over age 65 at that point.
	Deferred members who left the Fund before 1 April 2013 with protected Rule of 85 age	Rule of 85 age (or age 60 if higher). Any part of their pension payable from a later age will be reduced.
	Deferred members who left the Fund before 1 April 2013 with no protected Rule of 85 age	Age 65.
<b>Retirement cash sum</b>	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 80% of the permitted maximum.	
<b>Family details</b>	<p>Men were assumed to be three years older than their wife/partner.</p> <p>90% of non-pensioners were assumed to be married or have a spouse, civil partner or co-habitee ('partner') at retirement or earlier death.</p> <p>90% of pensioners were assumed to be married or have a partner at age 65 or younger.</p> <p>Partners were assumed to exhibit the same mortality as pensioners of the same sex who retired in normal health.</p>	

	No allowance for children's pensions.
<b>Retirement due to ill health</b>	<p>Allowance has been made for retirements due to ill health (see below). Proportions assumed to fall into the different benefit tiers are:</p> <p style="text-align: center;">Tier 1                      70%</p> <p style="text-align: center;">Tier 2                      15%</p> <p style="text-align: center;">Tier 3                      15%</p>
<b>Take up of 50:50 Scheme</b>	An allowance consistent with that used by the Government Actuary's Department in the costing of the 2014 Local Government Pension Scheme based on an assumption of 10% of members earning less than £21,000 electing to join the 50:50 scheme.

### Sample rates

Current age	Percentage leaving the Fund each year as a result of withdrawal from service Men and Women	Percentage promotional pay increase over year		Percentage leaving the Fund each year as a result of ill health retirement	
		Men	Women	Men	Women
20	11.5	7.0	3.0	0.00	0.00
25	9.5	4.5	2.7	0.02	0.01
30	7.6	2.1	1.4	0.03	0.02
35	6.1	1.0	0.0	0.06	0.04
40	4.6	0.0	0.0	0.10	0.05
45	3.0	0.0	0.0	0.16	0.10
50	1.5	0.0	0.0	0.22	0.14
55	0.0	0.0	0.0	0.47	0.32
60	0.0	0.0	0.0	0.73	0.50

# Appendix 8: Assumptions for low risk measure

*The low risk measure considers the position if no allowance is made in the discount rate for returns on the Fund assets to exceed the yields available on long dated UK government bonds as at 31 March 2013, as shown below.*

*All other assumptions are the same as shown in Appendix 7.*

## Financial Assumptions

<b>In service discount rate</b>	<b>3.2% pa</b>
<b>Left service discount rate</b>	<b>3.2% pa</b>

# Appendix 9: Membership experience

*We have compared the actual numbers of deaths, retirements and other exits since the previous valuation with the numbers expected on the assumptions used for the current valuation:*

Type of exit	Men	Women
<b>Death in service</b>		
Actual	16	20
Expected	18	29
<b>Withdrawals (excluding refunds)</b>		
Actual	1,088	2,612
Expected	607	1,362
<b>Normal and voluntary retirements</b>		
Actual	243	341
Expected	716	654
<b>Ill-health retirements</b>		
Actual	42	38
Expected	46	51
<b>Severance and redundancy retirements</b>		
Actual	488	514
Expected	0	0

# Appendix 10: Current contribution rates

*Details of contributions payable by Employers in the year ended 31 March 2014 are set out below.*

<b>Employer</b>	<b>Pensionable Pay</b>	<b>Additional monetary amount</b>
	<b>%</b>	<b>£</b>
<b>Scheduled Bodies</b>		
Bishop Auckland College	12.9%	54,000
BRandH Academy	14.3%	7,700
Carmel Education Trust	17.0%	52,200
Central Durham Joint Crematorium Committee	18.7%	-
County Durham & Darlington Fire Brigade	12.7%	146,000
Darlington Borough Council	13.1%	2,550,000
Darlington College	12.8%	94,000
Derwentside College	13.7%	80,000
Durham County Council	13.1%	23,600,000
Easington Academy	17.6%	31,600
East Durham College	12.4%	54,000
Education Village	16.6%	112,000
Federation of Abbey Schools Trust	15.9%	13,600
Federation of Mowden Schools	15.3%	10,700
Firthmoor Primary School	17.6%	15,600
Glendene Arts Academy	14.5%	45,900
Heathfield Academy Trust	18.9%	27,500
Hummersknott Academy Trust	15.4%	60,600
Hurworth Academy	12.0%	10,400
Hurworth Primary School	17.4%	11,300
King James Academy	14.4%	46,000
Longfield Academy Trust	15.9%	114,900

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<b>Employer</b>	<b>Pensionable Pay %</b>	<b>Additional monetary amount £</b>
Murton Community Primary School	16.2%	43,000
New College Durham Academies Trust	19.0%	110,600
New College, Durham	13.0%	181,000
New Seaham Academy	20.8%	4,900
Office of the Police and Crime Commissioner for Durham	11.4%	840,000
Park View Community School	15.2%	41,400
Parkside Academy	18.3%	50,800
Queen Elizabeth Sixth Form College	14.3%	10,400
Reid Street Primary School	15.4%	13,600
Shotton Hall Academy Trust	11.9%	17,900
St Aidan's CE Academy	13.1%	44,000
St Bede's Catholic School and Sixth Form College (Lanchester)	17.1%	62,700
St Bede's RC Primary School	17.9%	15,000
St George's CE Academy	19.4%	8,100
St John's CE Primary School	18.0%	5,600
St John's School and Sixth Form College	15.0%	51,000
Staindrop School	16.6%	31,300
Teesdale School	15.1%	30,900
The Excel Academy Partnership	15.1%	44,700
The Hermitage Academy	13.6%	29,900
Town Councils & Parish Councils	18.7%	-
Tudhoe Learning Trust	15.0%	71,500
West Park Academy	13.9%	7,300
Woodham Academy	17.3%	43,400
<b>Admission Bodies</b>		
Barnard Castle School	22.2%	170,000
Bowes Museum	47.0%	-
Carillion	21.5%	-
Cestria Community Housing	12.7%	-

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<b>Employer</b>	<b>Pensionable Pay %</b>	<b>Additional monetary amount £</b>
Churchill Contract Services Limited	28.0%	-
Compass Group UK	23.5%	2,900
Dale & Valley Homes	12.2%	16,000
Derwentside Homes	14.4%	-
East Durham Homes Limited	12.9%	574,000
Future Leisure in Coxhoe	14.7%	-
Investing in Children	13.1%	-
Leisureworks	13.5%	41,000
livin' Housing	12.5%	-
KGB Cleaning and Support Services	27.4%	-
Mears	5.9%	-
MITIE Cleaning	24.9%	550
MITIE PFI Ltd	25.2%	3,800
Morrison Facility Services Limited	0.0%	-
Murton Welfare Association	20.5%	2,700
North East Council of Addiction (NECA)	29.3%	-
Taylor Shaw Longfield	22.2%	1,800
Taylor Shaw Primary	0.0%	-
Teesdale Housing Association	22.1%	34,000
The Forge	21.1%	-
Three Rivers Housing	20.3%	2,700

# Appendix 11: Rates and Adjustments Certificate

*Actuarial certificate given for the purposes of Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008*

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 2014 to 31 March 2017.

- A common rate of 13.7% of Pensionable Pay.
- Individual adjustments which, when added to or subtracted from the common rate, produce the following minimum Employer contribution rates

Employer	Contribution rate 1 April 2014 to 31 March 2017  % Pensionable Pay	Additional monetary amount Year commencing 1 April		
		2014 £	2015 £	2016 £
<b>Scheduled bodies</b>				
Bishop Auckland College	13.2%	17,000	17,700	18,400
BRandH Academy	12.9%	1,700	1,800	1,800
Carmel Education Trust	13.9%	24,900	25,900	26,900
Central Durham Joint Crematorium Committee	18.7%	-	-	-
County Durham & Darlington Fire & Rescue Brigade	13.1%	86,900	90,300	93,800
Darlington Borough Council	13.6%	1,880,000	1,950,000	2,030,000
Darlington College	13.6%	61,100	63,500	66,000
Derwentside College	13.6%	90,000	93,500	97,100
Durham County Council	13.8%	21,300,000	22,100,000	23,000,000
Easington Academy	13.7%	20,700	21,500	22,300
East Durham College	11.9%	24,100	25,000	26,000
Education Village	12.8%	40,300	41,800	43,500
Federation of Abbey Schools Trust	13.2%	6,500	6,700	7,000
Federation of Mowden Schools	10.8%	3,500	3,700	3,800
Firthmoor Primary School	14.9%	8,500	8,800	9,100

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Employer	Contribution rate 1 April 2014 to 31 March 2017  % Pensionable Pay	Additional monetary amount Year commencing 1 April		
		2014 £	2015 £	2016 £
Glendene Arts Academy	10.5%	34,100	35,500	36,800
Heathfield Academy Trust	15.8%	18,100	18,800	19,500
Hummersknott Academy Trust	13.7%	42,900	44,500	46,300
Hurworth Academy	12.4%	9,100	9,400	9,800
Hurworth Primary School	13.5%	5,000	5,200	5,400
King James Academy	14.0%	32,100	33,300	34,600
Longfield Academy Trust	13.1%	47,800	49,600	51,600
Murton Community Primary School	13.1%	32,200	33,500	34,800
New College Durham Academies Trust	13.4%	62,300	64,800	67,300
New College, Durham	13.1%	187,000	194,000	202,000
New Seaham Academy	18.6%	4,300	4,500	4,700
Office of the Police and Crime Commissioner for Durham	11.8%	716,000	744,000	773,000
Park View Community School	11.4%	30,400	31,600	32,800
Parkside Academy	15.2%	34,100	35,400	36,800
Queen Elizabeth Sixth Form College	15.6%	-	-	-
Reid Street Primary School	16.4%	9,800	10,200	10,600
Shotton Hall Academy Trust*	11.4%	33,000	34,200	35,600
St Aidan's CE Academy	13.6%	53,500	55,600	57,700
St Bede's Catholic College and Sixth Form College (Lanchester)	13.4%	47,200	49,000	51,000
St Bede's RC Primary School	13.2%	3,300	3,400	3,600
St George's CE Academy	16.7%	4,000	4,200	4,300
St John's CE Primary School	12.6%	1,300	1,400	1,500
St John's School and Sixth Form	13.5%	31,700	32,900	34,200
Staindrop School	15.0%	25,500	26,500	27,500
Teesdale School	14.3%	17,200	17,900	18,600
The Excel Academy Partnership	12.4%	20,200	21,000	21,900
The Hermitage Academy	13.3%	28,100	29,200	30,300
Town and Parish Councils	18.7%	-	-	-

Employer	Contribution rate 1 April 2014 to 31 March 2017  % Pensionable Pay	Additional monetary amount Year commencing 1 April		
		2014 £	2015 £	2016 £
Tudhoe Learning Trust	12.5%	43,000	44,700	46,500
West Park Academy	12.7%	6,400	6,600	6,900
Woodham Academy	14.3%	34,400	35,700	37,100
<b>Community or Admission Bodies (subsumption funding target)</b>				
Cestria Community Housing	12.7%	-	-	-
Dale and Valley Homes	11.6%	41,800	43,500	45,200
Derwentside Homes	14.4%	-	-	-
East Durham Homes Limited	15.2%	412,000	428,000	445,000
Leisureworks	12.8%	4,200	4,400	4,600
livin' Housing	8.5%	-	-	-
Mears	0.0%	-	-	-
Morrison Facilities Services Limited	0.0%	-	-	-
Taylor Shaw Primary	14.7%	-	-	-
<b>Admission Bodies</b>				
Barnard Castle School	23.1%	68,500	71,100	73,900
Bowes Museum	0.0%	-	-	-
Carillion	16.8%	-	-	-
Churchill Contract Services Limited	18.7%	-	-	-
Compass Group UK	20.1%	-	-	-
Future Leisure in Coxhoe	7.0%	-	-	-
Investing in Children	13.8%	-	-	-
KGB Cleaning and Support Services	0.0%	-	-	-
MITIE Cleaning	29.7%	-	-	-
MITIE PFI Ltd	29.9%	-	-	-
Murton Welfare Association	20.4%	-	-	-
North East Council of Addiction (NECA)	0.0%	-	-	-
Taylor Shaw Longfield	20.2%	-	-	-
Teesdale Housing Association	23.0%	3,000	3,100	3,300
The Forge	12.2%	-	-	-

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Employer	Contribution rate 1 April 2014 to 31 March 2017  % Pensionable Pay	Additional monetary amount Year commencing 1 April		
		2014 £	2015 £	2016 £
Three Rivers Housing	22.9%	-	-	-

\* Includes an allowance for Browney School joining the Trust after the valuation date.

The contributions shown above 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.

Where payments due from an Employer are expressed as monetary 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 monetary 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.

Where grouping or pooling arrangements are introduced or changed following the signing of this certificate, relevant Employer contributions may be adjusted to reflect the new arrangements. Any adjustment should be as advised by the Fund Actuary.

Additional contributions may be required in respect of any additional liabilities that arise under the provisions of Regulations 30, 31, 35 and 38 of the 2013 Regulations and Employers will be notified of such contributions separately by the Administering Authority.

Additional contributions may be payable by any Employers which have ceased to participate in the Fund since 31 March 2013 and these will be certified separately.

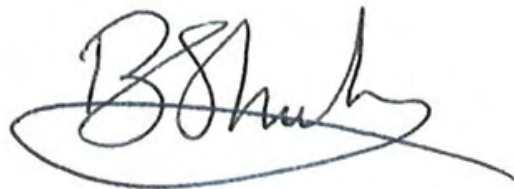
Contribution rates for Employers commencing participation in the Fund after 31 March 2013 will be advised separately.

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

### Signed on behalf of Aon Hewitt Limited



Chris Archer FIA  
Fellow of the Institute and Faculty of Actuaries



Bijal Shah FIA  
Fellow of the Institute and Faculty of Actuaries

31 March 2014

Aon Hewitt Limited  
25 Marsh Street  
Bristol  
BS1 4AQ

## Notes to Actuary's certificate

The contribution rates certified have been assessed using the actuarial methods and assumptions detailed in our report dated 31 March 2014.

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 2013 to 31 March 2017	
	Number	New Pension £000
Normal, late and voluntary under Regulations 30(1), 30(3) and 30(5) of the 2013 Regulations or Regulation 16 or 30 of the Benefits Regulations	1,724	13,398
Comments on Funding	Such retirements are generally 'cost neutral'. Additional funding would not normally be required if actual retirements exceed the number anticipated, unless retirements occur before Normal Pension Age and no reduction for early payment applies.  The Administering Authority requires separate funding of any additional liabilities arising from such retirements and, as such, the financial impact of these retirements is neutral.	
Ill-health under Regulation 35 of the 2013 Regulations or Regulation 20 of the Benefits Regulations	130	1,009
Comments on Funding	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.  In accordance with Regulation 64(6)(b) of the 2013 Regulations the Administering 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.	

Type of Retirement	Anticipated retirements over 4 year period from 1 April 2013 to 31 March 2017	
	Number	New Pension £000
Severance and redundancy under Regulation 30(7) of the 2013 Regulations or Regulation 19 of the Benefits Regulations	Nil	Nil
Comments on Funding	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.  The Administering Authority requires separate funding of liabilities arising from such retirements and, as such, the financial impact of these retirements is neutral.	
Flexible retirement under Regulation 30(6) of the 2013 Regulations or Regulation 18 of the Benefits Regulations	Nil	Nil
Comments on Funding	Such retirements are generally 'cost neutral'. Additional funding would not normally be required if actual retirements exceed the number anticipated, unless retirements occur before Normal Pension Age and no reduction for early payment applies.  The Administering Authority requires separate funding of any additional liabilities arising from such retirements and, as such, the financial impact of these retirements is neutral	

In this certificate references to

- the 2013 Regulations mean the Local Government Pension Scheme Regulations 2013
- the Benefits Regulations mean the Local Government Pension Scheme (Benefits, Membership, and Contributions) Regulations 2007
- the Administration Regulations mean the Local Government Pension Scheme (Administration) Regulations 2008

# Appendix 12: Glossary

## Active member

A person who is employed by an employer participating in the Fund, and is paying (or is treated as paying) contributions to the Fund (includes certain members temporarily absent, eg due to family leave or sickness).

## Admission body

An Employer admitted to the Fund under an admission agreement.

## Attained age method

This is one of the methods used by actuaries to calculate a contribution rate to the Fund. This method calculates the present value of the benefits expected to build up over members' expected remaining membership of the Fund expressed as a percentage of their expected future pensionable pay. It allows for projected future increases to pension accounts 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 Fund. If there are no new members, this method would be expected to result in a stable contribution rate as a percentage of pay, once surpluses or shortfalls are taken into account, and if all the other assumptions are borne out. However, if more members join the Fund to replace older leavers, the contribution rate can be expected to fall.

## Best estimate

Best estimate assumptions are such that the eventual outcome is considered equally likely to be higher or lower than the best estimate.

## Consumer Prices Index (CPI)

This is the price inflation index that increases to pensions and deferred pensions paid by the Fund are based on. It is published every month by the Office of National Statistics.

## Deferred member

A former employee who has left active membership, but has not yet received any benefits from the Fund and is prospectively entitled to receive a deferred pension from his/her Normal Pension Age.

## 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 UK government bonds. 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 UK government bonds.

## Funding objective

To hold sufficient and appropriate assets to cover the funding target.

## Funding ratio

This is the ratio of the value of assets to the funding target.

## Funding strategy statement

A document prepared by the Administering Authority in accordance with the Administration Regulations which sets out the funding strategy adopted for the Fund. The Actuary must have regard to this statement in preparing this actuarial valuation.

## **Funding target**

An assessment of the present value of the benefits that will be paid from the Fund in the future, normally based on pensionable service prior to the valuation date. Under the current Funding Strategy Statement the funding target is equal to the past service liabilities calculated on a prudent set of assumptions.

## **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.

## **Future working lifetime**

The period remaining until members are assumed to die, retire or otherwise leave active service.

## **Guaranteed Minimum Pensions (GMPs)**

Most Funds 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 Fund not been contracted out. GMPs ceased to accrue on 6 April 1997 when the legislation changed.

## **Orphan body**

This is an admission body or other employer whose participation in the Fund may cease at some future point in time, after which it is expected that the Administering Authority will have no access to future contributions in respect of the employer's liabilities in the Fund once any liability on cessation has been paid.

## **Past service liabilities**

This is the present value of the benefits to which members are entitled based on pensionable service to the valuation date, assessed using the assumptions agreed between a Fund's Administering Authority and the Actuary. It generally allows for projected future increases to pay through to retirement or date of leaving service.

## **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 cash sum of £1,060 in one year's time the present value would be £1,000.

## **Projected unit method**

One of the common methods used by actuaries to calculate a contribution rate to a Fund.

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 benefits 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**

An estimate or assumption such that the actual outcome is considered to be more likely to be favourable, than unfavourable.





## **Strains**

These represent the cost of additional benefits granted to members under a discretion of the employer or the Administering Authority. They include the cost of providing enhanced benefits on retirement or redundancy.

## **Subsumption and subsumption body**

When an admission body or other employer ceases participation in the Fund, so that it has no employees contributing to the Fund, and once any contribution on cessation as required by the regulations has been paid, the Fund will normally be unable to obtain further contributions from that employer (eg if future investment returns are less than assumed). It is however possible for another long term employer in the Fund (generally a scheduled body) to agree to be a source of future funding should any funding shortfalls emerge on the original employer's liabilities. The long term employer effectively subsumes the assets and liabilities of the ceasing employer into its own assets and liabilities.

In this document this is known as subsumption. In this document the admission body or other employer being subsumed is referred to as a subsumption body and its liabilities are known as subsumed liabilities.

## **Surplus**

Where the funding target is less than the value of the assets, then this is the value of assets less the funding target.

## **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 a fund, and a sum of money (called the transfer value) is paid into another approved pension fund. This is used to provide pension benefits on the terms offered in that fund.