Notice of Meeting

Surrey Pension Fund Board

SURREY
COUNTY COUNCIL

Date & time	Place	Contact	Chief Executive
Friday, 14 February 2014 at 9.30 am	AXA Investment Management UK Ltd, 7 Newgate Street, London, EC1A 7NX	Cheryl Hardman Room 122, County Hall Tel 020 8541 9075 cherylh@surreycc.gov.uk	David McNulty

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Cheryl Hardman on 020 8541 9075.

Elected Members

Ms Denise Le Gal (Chairman), Mr Nick Skellett CBE (Vice-Chairman), Mr W D Barker OBE, Mr Mike Goodman, Mr John Orrick and Mr Stuart Selleck

Co-opted Members:

Mr Tony Elias (District Representative), Judith Glover (Borough/District Councils), Ian Perkin (Office of the Surrey Police and Crime Commissioner) and Philip Walker (Employees)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 15 NOVEMBER 2013

(Pages 1 - 18)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

To receive any declarations of disclosable pecuniary interests from Members in respect of any item to be considered at the meeting.

Notes:

- In line with the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, declarations may relate to the interest of the member, or the member's spouse or civil partner, or a person with whom the member is living as husband or wife, or a person with whom the member is living as if they were civil partners and the member is aware they have the interest.
- Members need only disclose interests not currently listed on the Register of Disclosable Pecuniary Interests.
- Members must notify the Monitoring Officer of any interests disclosed at the meeting so they may be added to the Register.
- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting (*10 February 2014)*.
2. The deadline for public questions is seven days before the meeting (*7 February 2014)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 ACTION TRACKER

(Pages 19 - 22)

An action tracker is attached, detailing actions from previous meetings. The Board is asked to review progress on the item listed.

6 MANAGER ISSUES AND INVESTMENT PERFORMANCE

(Pages 23 - 52)

This report is a summary of all manager issues that need to be brought to the attention of the Pension Fund Board, as well as manager investment performance.

7 ACTUARIAL VALUATION 2013: OUTCOME

(Pages 53 - 134)

Report setting out the outcome of the triennial actuarial valuation in respect of the Surrey County Council Pension Fund.

8 **PENSION FUND RISK REGISTER** (Pages 135 - 140)

Surrey County Council, as administering authority for the Surrey Pension Fund, is responsible for the delivery of benefit promises made to members of the Surrey Pension Fund. It achieves this by setting objectives and goals with varying timeframes. Risks lie in failing to meet the intended goals.

Risks that are established as an issue must be identified and evaluated via a risk register. The risks must be prioritised with existing controls or new controls
implemented to mitigate the risks. This should be recorded in a risk register, which is monitored on a quarterly basis by the Pension Fund Board.

9 **PENSION FUND BUSINESS PLAN 2014/15** (Pages 141 - 152)

The 2001 Myners Report recommended that local authority pension funds should approve an annual business plan in respect of the objectives required for the ensuing year. Business planning is regarded as an important tool, assisting in the identification of how service delivery can be maximised within resource constraints.

10 **REVISED STATEMENT OF INVESTMENT PRINCIPLES** (Pages 153 - 168)

With adjustments to governance practices within the Pension Fund, it is necessary to approve a revised Statement of Investment Principles (SIP).

11 **KEY PERFORMANCE INDICATORS** (Pages 169 - 174)

In line with best practice, Pension Fund Board members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices.

12 **REVIEW OF PENSION ABATEMENT POLICY** (Pages 175 - 180)

The introduction of the new Local Government Pension Scheme (LGPS) from 1 April 2014 requires the pension fund administering authority (AA) to review its discretionary pension policy on the abatement of retirement pensions when a scheme member in receipt of a LGPS pension is re-employed in local government employment.

The regulations also require the AA to make policy decisions in relation to other pension matters that do not require a formal written policy statement. One such policy decision that requires review is whether or not to require medical clearance of scheme members before they are permitted to purchase an additional pension.

13 **PENSION FUND ADMINISTRATION STRATEGY** (Pages 181 - 188)

A Pension Fund Administration Strategy is set out in Annex 1 for the Board to approve.

14 INVESTMENT STRATEGY REVIEW (Pages 189 - 192)

Following the actuarial valuation, Mercer has been requested to conduct an investment strategy review of the Surrey Pension Fund.

Please contact the Committee Manager for a copy of the annex.

15 DATE OF NEXT MEETING

The next meeting of the Surrey Pension Fund Board will be on 23 May 2014.

David McNulty
Chief Executive
Published: 6 February 2014

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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Thank you for your co-operation

MINUTES of the meeting of the **SURREY PENSION FUND BOARD** held at 9.30 am on 15 November 2013 at Committee Room A, County Hall.

These minutes are subject to confirmation by the Committee at its meeting on Friday, 14 February 2014.

Elected Members:

* Ms Denise Le Gal (Chairman)
* Mr Nick Skellett CBE (Vice-Chairman)
* Mr W D Barker OBE
* Mr Mike Goodman
* Mr John Orrick
* Mr Stuart Selleck

Ex officio Members:

Mr David Munro, Chairman of the County Council
Mrs Sally Ann B Marks, Vice Chairman of the County Council
Mr David Hodge, Leader of the Council
Mr Peter Martin, Deputy Leader

Co-opted Members:

* Mr Tony Elias, District Representative
* Judith Glover, Borough/District Councils
* Ian Perkin, Office of the Surrey Police and Crime Commissioner

Philip Walker, Employees

In attendance

Paul Baker, Pensions Manager
Cheryl Hardman, Regulatory Committee Manager
John Harrison, Surrey Pension Fund Advisor
Sheila Little, Chief Finance Officer (Section 151 Officer)
Alex Moylan, Senior Accountant
Phil Triggs, Strategic Manager – Pension Fund & Treasury
Steve Turner, Partner, Mercer

37/13 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Philip Walker.

38/13 MINUTES OF THE PREVIOUS MEETING: 20 SEPTEMBER 2013 [Item 2]

The minutes were agreed as an accurate record of the meeting.

39/13 DECLARATIONS OF INTEREST [Item 3]

There were none.

40/13 QUESTIONS AND PETITIONS [Item 4]

There were none.

41/13 ACTION TRACKING [Item 5]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. In relation to A6 (equity derivatives), the Strategic Manager – Pension Fund & Treasury suggested that a discussion on equity derivatives could be scheduled for the February 2014 meeting of the Board. This discussion would focus on equity futures.

Actions/Further Information to be Provided:
The recommendation tracker to be updated to reflect the discussion, as noted above.

Resolved:
That the actions tracker was noted and the committee agreed to remove page 172 of the tracker as the actions were completed.

Next Steps:
None.

42/13 PENSION FUND ADMINISTRATION STRATEGY [Item 6]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Pensions Manager introduced the report, highlighting that although an administrations strategy was not compulsory, it was good practice. The proposed strategy was not contentious and mainly formalised the existing position.

2. In response to a query, the Pensions Manager responded that the Strategy would not materially increase the administrative workload as it was not intended to report on all activities. There was need to balance the benefits of monitoring practice with workload pressures. It was proposed to use the key performance indicators (KPIs) which already exist to monitor performance against the administration strategy. If there are problems with any employers this was likely to be fairly transparent.
3. The Pensions Manager confirmed that a Benefit Statement has to be provided annually. However, it was possible that in future, statements could be put online to enable Member self-service. Some members will probably still want hard copy Benefit Statements.
4. Members asked whether the administering authority was striving to receive all data from scheme employers electronically. The Pensions Manager agreed that the authority was seeking to increase the proportion of data provided electronically but highlighted the variations between employers and the different levels of resource they have to make such adjustments.

Sheila Little joined the meeting.

5. A Member asked, given the responsibility of employers to ensure that all information provided is correct, whether employers are shown a copy of the data inputted. The Pensions Manager responded that the employee would have the opportunity to check details such as change of hours in their Annual Statement.
6. There was a discussion about ex gratia payments made by the employer, for example, as part of a redundancy package. The Pensions Manager confirmed that this would not go through the Pension Fund and that it was not the Surrey Pension Fund's role to monitor redundancy payments made by employers. If pension benefits were augmented through additional years, the employer would be charged. The scheme employer would invariably bear the cost as a lump sum although they do have the option of spreading the cost over three years.
7. The Chairman congratulated officers for a concisely written strategy.

Actions/Further Information to be Provided:
None.

Resolved:
That the Pension Fund Administration Strategy be APPROVED for consultation with scheme employers.

Next Steps:
A further report will be submitted on the outcome of the consultation with scheme employers.

43/13 KEY PERFORMANCE INDICATORS [Item 7]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund & Treasury introduced the item, tabling an updated copy of the key performance indicators (KPIs) (attached as Annex 1). He stressed that the red indicators only highlighted slight variances and were not significant.
2. There was a suggestion that while the achievement against targets was good, some of the targets may be too low. As an example, the 'Transfers In' target was 85% and actual performance was 99%. The Pensions Manager explained that the targets were set for the full twelve months and that, while on a quarterly basis performance may look particularly good, the averaged out performance may be closer to 85%. However, this would be looked at again (**Action Review ref: A7/13**).
3. A Member asked what the administration cost per scheme member was. The Pensions Manager informed the Board that the cost per member was around £16 per annum, while the UK average cost per pension fund member was around £20 but he would confirm the actual figures at the next meeting (**Action Review ref: A8/13**).
4. It was suggested that the word "all" be removed from "all relevant Communications Material will be posted onto website within one week of being signed off", if the target was only 85%.
5. The Strategic Manager – Pension Fund & Treasury clarified that the funding level refers to the Surrey-wide fund. Each employer would have its own funding level. Some District and Borough Councils have a funding level into the mid to late 70% while some employers would have a much lower funding level. Employers also have different member profiles.

Actions/Further Information to be Provided:

i. 'Transfer in' targets to be reviewed.
ii. The administration cost per scheme member to be confirmed.

Resolved:
That the KPI statement format be APPROVED.

Next Steps:
None.

44/13 PENSION FUND RISK REGISTER [Item 8]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund & Treasury introduced the item, highlighting the addition of a new column which shows the net risk score after mitigating actions have been taken into account.

2. The Strategic Manager – Pension Fund & Treasury informed the Board that the "pensioners living longer" risk had been reassessed and now was rated the number one risk to the Pension Fund. The net risk score also highlighted the negligible impact that mitigating actions could have on this risk. Officers agreed with the Board that the impact on employers of pensioners living longer should have been 4 rather than 5 as the rating scheme was 1-4. However, this remained the number one risk.
3. There was some debate about the ranking of pensioners living longer at the top of the risk register as it was felt by some that there was a clear trend for demographics while markets remain unstable. While the implications of demographic change could be a strain, mitigating factors such as a later retirement age and increased contribution rates could impact on this. The Surrey Pension Fund Advisor also mentioned that 2012 was the first year since the Second World War when there was no improvement to longevity. It may be that the trend of lengthening life spans may have reached its peak. The Chairman suggested that the issue be brought up with the Actuary and considered at the next meeting.
4. Officers highlighted the introduction of the new risk "rise in ill health retirements impact employer organisations". As no decision on mitigating actions had yet been taken on this, the net risk score was no different to the total risk score.

Ian Perkin joined the meeting.

5. Some concern was expressed about the potential for complacency where risks have been downgraded to amber following mitigating actions. However, it was stressed that the Board would continue to look at what further mitigating actions could be taken to address risks.
6. There was some discussion about the necessity for risk 11 "investments markets to fail to perform in line with expectations" to be included in the register given the presence of other more specific investment risks. The Mercer representative suggested that risk 11 related to the triennial full actuarial valuation.
7. It was suggested by a Member that the financial risk range would be valuable information. The Mercer representative agreed that this could be easily calculated for certain risks and would be done as part of the actuarial process. The Chairman asked that the financial risk range be represented for the residual red risks. The Vice-Chairman suggested that risks could be quantified in monetary terms during discussions. The Chief Finance Officer suggested that the benefit of presenting such information would be to enable Members to consider the cost of mitigating actions against the financial risk to the Council.
8. It was suggested that the risk of increases to employer contributions following the actuarial valuation be included in the register. The Strategic Manager – Pension Fund & Treasury informed the Board that the full actuarial valuation would come to the Board in February 2014. The risk of increases to employer contributions could be included within the risk register.

2

9. There was a discussion about Risk 3 “failure to take difficult decisions inhibits effective Fund management”. It was felt that the Board was not likely to shy away from making difficult decisions, particularly at this point in the election cycle. However, it was accepted that the risk may increase as the next Council elections approach. The Chairman agreed that the Board does have significant checks and balances, with excellent officer support, consultancy advice and varied Member experience. However, it was also stated that humans are able to make errors and that the Board should be wary of optimism bias.

Actions/Further Information to be Provided:

i. To further discuss the risk of pensioners living longer at the next meeting of the Surrey Pension Fund Board (**Action Review ref: A9/13**).
ii. The financial risk range to be represented for the residual red risks (**Action Review ref: A10/13**).
iii. The risk of increases to employer contributions following the actuarial valuation to be included in the risk register (**Action Review ref: A11/13**).

Resolved:
That the Risk Register be NOTED, and the suggested amendments/additions be considered by officers.

Next Steps:
The Risk Register will be reported to the Board on a quarterly basis.

45/13 REVISED STATEMENT OF INVESTMENT PRINCIPLES [Item 9]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund & Treasury introduced the item, highlighting the revisions to the Statement of Investment Principles which concerned the addition of a number of private equity funds on page 199.

Actions/Further Information to be Provided:
None.

Resolved:
That the revised Statement of Investment Principles be APPROVED.

Next Steps:
None.

46/13 LGPS: CALL FOR EVIDENCE ON THE FUTURE STRUCTURE OF THE LOCAL GOVERNMENT PENSION SCHEME [Item 10]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Chairman informed the Board that she was sitting on the Shadow Local Government Pension Scheme (LGPS) Advisory Board as the Conservative and County Council representative. The Advisory Board was chaired by the Chief Executive of the National Association of Pension Funds and included representatives from the Trade Unions and four local authorities. The Advisory Board was considering all submissions in response to the call for evidence on the future structure of the LGPS. So far, there had been 129 responses, including 70 from local authorities. The submissions were highly resistant to the concept of 'super funds'. Funds were supportive of mergers only if they were to be the ones in charge and there were clear benefits to doing so.
2. The Chairman informed the Board that the Surrey Pension Fund had been approached by a few councils with regard to the possibility of collaborating on some functions. These were well-funded Pension Funds.
3. Members informed the Board that at another conference participants were positive about restructuring, dependent on it being a voluntary process. A further train of thought was that while whole Funds may not be merged, assets may be merged.
4. There was particular concern about the difficulties involved with deficit sharing.

Actions/Further Information to be Provided:
None.

Resolved:
That the response submitted by the Chief Finance Officer to the Department for Communities and Local Government be **NOTED**.

Next Steps:
None.

47/13 ILL HEALTH RETIREMENT INSURANCE [Item 11]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Pensions Manager introduced the item, explaining that now appeared to be an appropriate time to consider insuring against ill health retirement costs because individual cost of ill health retirements would increase with the new LGPS coming into effect in April 2014, while Legal & General had recently significantly reduced their premium rates from 0.85% to 0.63%. He also explained that purchasing a policy on a whole fund basis would result in lower premiums and easier administration. It was proposed that before contractually

2

committing the Council, procurement advice would be sought from the Head of Procurement.

2. Members asked whether the costs of ill health retirements once the pension accrual rate had been increased to 1/49th could be calculated. The Pensions Manager stated that it would be costly to undertake that calculation at this time but that the cost to the Fund would increase.
3. Members asked for clarification that all employers would not need to agree before this insurance was taken out. Officers confirmed that this was the case.
4. In response to a query, the Chairman agreed that the risk of ill health retirements was greater for smaller employees than for the County Council but stressed the paternalistic purpose of the Pension Fund Board.
5. Members queried the impact on the employee of having to wait a period of time for the insurance company to settle a claim. Officers assured the Board that this insurance would not impact on the employee's right to receive an ill-health pension as the employee has a statutory right to their pension. The Fund would pay this and then negotiate with the insurance company for reimbursement. If there is any prevarication with claims, this would be reported back to the Board and the decision could be taken to stop using the company.
6. Members asked if the insurance covers all eventualities. Officers confirmed that the insurance would cover all Tier 1 and Tier 2 retirements.
7. It was suggested that this insurance was not a good deal for the Fund as staff were not in risky employment such as mining. However, it was also acknowledged that there was an increasing trend for ill health retirements. The Pensions Manager also highlighted the potential risk to the Pension Fund if small employers went out of business because of the cost of ill health retirements.
8. There was a query about whether insurance would lead to changes in behaviour; for example, whether employers would be more likely to agree to ill health retirements. The Pensions Manager informed the Board that an independent medical practitioner had to sign off on an ill health retirement and that it was very difficult to put pressure on them to approve an unnecessary retirement.
9. The possibility of running an internal pooling arrangement to self-insure against ill health retirements was discussed. This would avoid the Fund being exposed to the profit element of the insurance business. The Pensions Manager informed the Board that the actuary had been asked about the feasibility of self-insurance but that his view was that this was not feasible. There was some support for looking at the option of self-insurance further.

Actions/Further Information to be Provided:
None.

Resolved:
That a further report on ill health insurance be brought back to the next meeting, including information on the self-insurance option (**Action Review ref: A12/13**).

Next Steps:
None.

The Surrey Pension Fund Board adjourned its meeting at 11am and reconvened at 12.30pm.

48/13 MANAGER ISSUES AND INVESTMENT PERFORMANCE [Item 12]

Declarations of Interest:
None.

Key Points Raised During the Discussion:

1. The Strategic Manager – Pension Fund & Treasury introduced the report. He informed the Committee that Capital Dynamics had drawn down on 70-80% of the fund. The full requirement of £20m had been forwarded to Darwin.
2. The Board was informed that about 60-65 acceptances to the Surrey Pension Fund AGM had been received.
3. The Strategic Manager – Pension Fund & Treasury reported that stock lending had started on 4 November 2013.
4. The Board heard that the stock voting policy was now up and running. Where there are voting issues which attract publicity and/or are contentious, the Chairman of the Board would be involved and perhaps the whole Board.
5. The Surrey Pension Fund Advisor reported to the Board on the meetings with external fund managers. Notes of the meetings with external fund managers were tabled and are attached as Annex 2.
6. The Strategic Manager – Pension Fund & Treasury introduced the Financial and Performance Report, highlighting the increased fees paid to UBS and Majedie. This was due to their having invoiced for performance related fees following strong performance.
7. There was a discussion about whether there was a need to rebalance the Fund. It was agreed to keep the current asset allocation as it is but to reconsider the new Standard Life fund at the next meeting.
8. The Strategic Manager – Pension Fund & Treasury informed the Board that the Surrey Pension Fund was on the long list for Large Fund of the Year and Corporate Governance at the LGC Awards 2013 to be announced on 11 December 2013.

Actions/Further Information to be Provided:
To reconsider the new Standard Life fund at the next meeting.

Resolved:

i. To APPROVE the report and the decisions as laid out;
ii. To APPROVE the Surrey Pension Fund making a USD 25m commitment to the Global Clean Energy and Infrastructure Fund;
iii. To APPROVE the Surrey Pension Fund making a £20 commitment to the Darwin Property Fund.

Next Steps:
None.

2

49/13 DATE OF NEXT MEETING [Item 13]

This was noted.

Meeting ended at: 12.55pm

Chairman

2

KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS: To 30 September 2013 Annex 1

No	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/Deterioration
1	**FUNDING**							
	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 72%	**100%**	PT	**72.3%**	31/03/13	**72.0%**	31/12/10	0.30%
2	**PPENSION ADMINISTRATION**							
	DEATH BENEFITS Notify potential beneficiary of lump sum death grant within 5 days	**95%**	PB	**100.00%**	3 months to 30 Sep 13	**100.00%**	3 months to 30 Jun 13	0.00%
	Write to dependant and provide relevant claim form within 5 days of notification of death	**90%**		**98.15%**	3 months to 30 Sep 13	**96.08%**	3 months to 30 Jun 13	2.07%
	Pay death grant within 5 days of receipt of relevant documentation	**90%**		**100.00%**	3 months to 30 Sep 13	**100.00%**	3 months to 30 Jun 13	0.00%
	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	**90%**		**100.00%**	3 months to 30 Sep 13	**100.00%**	3 months to 30 Jun 13	0.00%
	RETIREMENTS Retirement options to members within 10 days	**90%**	PB	**92.66%**	3 months to 30 Sep 13	**94.19%**	3 months to 30 Jun 13	-1.53%
	New retirement benefits processed for payment following receipt of election within 10 days	**95%**		**97.89%**	3 months to 30 Sep 13	**99.63%**	3 months to 30 Jun 13	-1.74%
	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	**95%**	PB	**100.00%**	3 months to 30 Sep 13	**Pending**	3 months to 30 Jun 13	
	DBS issued to 85% of eligible deferred members by 30th June	**95%**		**100% issued by 26/09/13**	3 months to 30 Sep 13	**Pending**	3 months to 30 Jun 13	
	NEW JOINERS New starters processed within 20 days	**85%**	PB	**96.39%**	3 months to 30 Sep 13	**98.85%**	3 months to 30 Jun 13	-2.46%
	TRANSFERS IN Non LGPS transfers-in quotations processed within 20 days	**85%**	PB	**99.07%**	3 months to 30 Sep 13	**100.00%**	3 months to 30 Jun 13	-0.93%
	Non LGPS transfers-in payments processed within 20 days	**85%**		**99.07%**	3 months to 30 Sep 13	**100.00%**	3 months to 30 Jun 13	-0.93%
	TRANSFERS OUT Non LGPS transfers-out quotations processed within 20 days	**85%**	PB	**100.00%**	3 months to 30 Sep 13	**94.29%**	3 months to 30 Jun 13	5.71%
	Non LGPS transfers out payments processed within 20 days	**85%**		**100.00%**	3 months to 30 Sep 13	**94.29%**	3 months to 30 Jun 13	5.71%
	MATERIAL POSTED ON WEBSITE All relevant Communications Material will be posted onto website within one week of being signed off	**95%**	PB	**Achieved**	3 months to 30 Sep 13	**Achieved**	3 months to 30 Jun 13	
3	**CUSTOMER SERVICE**							
	EMPLOYER SATISFACTION/SURVEY Overall satisfaction score for employers to be 80%	**80%**	PT/PB	**Data pending**	12 months to 31 Mar 14	**Data pending**	12 months to 31 Mar 13	
	MEMBER SATISFACTION/SURVEY Overall satisfaction score for members to be 80%	**80%**	PB	**97%**	12 months to 31 Mar 14	**Data pending**	12 months to 31 Mar 13	
4	**INVESTMENT PERFORMANCE**							
	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to at least match the benchmark	**Benchmark**	PT	**BENCHMARK 12.5%**	12 months to 30 Sep 13	**BENCHMARK 12.7%**	12 months to 30 Jun 13	-0.90%
				ACTUAL 15.7%	12 months to 30 Sep 13	**ACTUAL 16.8%**	12 months to 30 Jun 13	
5	**DATA**							
	DATA QUALITY Data quality within the Fund should be at least 90% accurate.	**90%**	PB	**99%**	12 months to 31 Mar 13	**Not available**	12 months to 31 Mar 12	
6	**CONTRIBUTIONS**							
	CONTRIBUTIONS RECEIVED **Pension Fund** 98% (total value) of contributions to be received by 21st day of the ensuing period.	**98%**	PT	**98%**	Oct-13	**99%**	Jul-13	-1.00%
7	**AUDIT**							
	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the external auditors	**Clean Report**	PT/PB	**Achieved**	12 months to 31 Mar 13	**Achieved**	12 months to 31 Mar 12	
	Annual audit returns no significant findings	**No significant findings**		**Achieved**		**Achieved**		
8	**COST**							
	COST PER MEMBER Administration cost per member to remain in lowest CIPFA benchmarking quartile	**< lowest quartile**	PT/PB	**Achieved**	12 months to 31 Mar 13	**Achieved**	12 months to 31 Mar 12	

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Notes from Meetings with Fund Managers: 7 November 2013

Hosted by Baillie Gifford.

Manager	Attending
Majedie	Simon Hazlitt
UBS	Digby Armstrong Steve Magill Richard West
Western	Marian George Paul Shuttleworth
Baillie Gifford	Anthony Dickson David McIntyre

Majedie

1. Met with Simon Hazlitt (SH) from Majedie.

2. Majedie presented another quarter of strong results with gross return of 9.0% versus the benchmark of 5.6%.

3. Majedie acknowledged that, whilst they had been able judge past economic environments well, they were less successful in their timing of the changes to the portfolio. There was a desire to move ahead of market changes and potentially miss some upside than have to move in a downward market.

4. The relatively small size of the fund does allow for rapid portfolio transitions without significant market distortion.

5. Majedie reported a slight shift into a more defensive stock allocation, although SH pointed that the move was not into what are often classed as defensive stocks, e.g., utilities and consumer staples.

6. In response to questioning as to whether the adjustment was down to valuations or due to an opinion regarding market sentiment, SH reported that the main driver of the change was due to valuations but as managers they could not rely solely on valuations and that sentiment was important but not an overriding factor. Resilience to a normalisation of QE was a primary feature of stock and sector choices rather than traditional ‘defensive’ characteristics.

2

7. Majedie were overweight telecommunications in UK and in Europe. The lack of infrastructure investment in the sector throughout Europe has resulted in a significant gap between US and European capacity and high speed coverage. In order to redress that gap the EU regulator is showing signs of softening the approach to price controls and may allow price increases to encourage investment. The level of consumer demand for electronics should be secure in the face of price increases.

8. Majedie holds a large overweight position in BAE Systems which, along with other defence suppliers such as Lockheed Martin, have held up well with decent results given poor fiscal positions in the UK and US and is well placed for future returns.

9. Majedie also reported a recent increase in the holdings of Shell following positive communication with management about the potential for cutting back on ambitious and expensive capital expenditure. In response to questions about the potential decline in the oil price impacting upon both Shell and BP, SH responded by saying that the oil majors were not overly correlated to the price of oil.

10. Majedie presented a view that the potential for declining commodity prices would lead into a better environment for consumer spending. This would be beneficial for a key portfolio holding, Marks and Spencer. Majedie were also positive for the potential upside for M&S. Interestingly, because the existing management systems were very limited, M&S are unable to ascertain the profitability for each item sold.

UBS

1. Digby Armstrong, Steve Magill and Richard West presented.

2. In response to questions about the performance fee, UBS mentioned that 70% of their value clients were also on performance fees.

3. UBS reported strong results for the quarter with positive returns from a large holding in Lloyds Banking Group.

4. The main drag on performance was from a large overweight position in BP, which remained flat against a rising market. UBS is still overweight BP which has recently reported decent results following the end of the quarter.

5. Strong performance for a number of equities had pushed them above perceived fair value and UBS had begun selling down stakes in ITV, the house builder Taylor Wimpey and Daily Mail General Trust.

6. UBS reported recent positions within a number of large cap stocks that have underperformed the market. UBS had bought an increased stake in Shell, arising from a belief in the new management's commitment to more frugal capital expenditure.

7. UBS had also bought back into Rio Tinto and Standard Chartered.

8. UBS was underweight consumer staples: as defensive stocks with high yields, they have similar qualities to bonds and could suffer from interest rate rises. In contrast UBS was overweight consumer discretionary stocks, poised to benefit from a recovering economy and were attractively valued.

9. UBS were evaluating the potential for investing in support services companies, such as G4S and Serco. Both have recently changed management and UBS were positive about the appointments but the valuations were still considered reasonably high.

2

Western

1. Marian George and Paul Shuttleworth from Western presented.

2. Western reported the portfolio was well positioned in the face of significant volatility. The first six months of the new year was characterised by central bank activity, especially the decision by the Federal Reserve not to taper the asset purchasing programme in September.

3. The Federal Reserve surprised the markets leading to a dramatic sell off in more secure assets as investors sought yield again. This volatility led to aggravated price movements in more illiquid emerging market positions. Western believed that there was significant opportunity for good value in illiquid emerging markets areas, especially in sovereign debt, following future tapering decisions. Brazilian government debt was yielding around 12% but substantial currency fluctuations were a cause for concern.

4. Western had taken a position in Russian sovereign debt denominated in Euros.

5. The portfolio is positioned underweight to UK and supranational government debt as well as financials with overweight positions in UK asset back securities, high yield and investment grade bonds.

6. A drag on performance during the quarter was an underweight position in utilities which performed strongly.

7. The quarter was marked by huge corporate issuance in the US, with Apple bringing £17bn and Verizon £10bn to the market, in contrast to low UK and European bond issuances. The margin between the corporate bond spread for UK and US has grown significantly throughout the year.

8. Western was positive on the long term strength of Verizon and participated in the issuance with market spreads reducing from over 200bps at the time of issuance in late August to 160 in mid October.

9. Western were cautious about the lack of growth in corporate revenues, with significant pressure from shareholders to continue dividend growth or share buybacks, resulting in declining dividend cover. Siemens had recently announced a significant share buyback programme from cash reserves.

Baillie Gifford

1. Met with Anthony Dickson and David McIntyre.

2. Baillie Gifford (BG) reported that recent scenario analysis was focused entirely on the potential market conditions arising from different QE outcomes.

3. As a result of this analysis, BG have become more selective on which emerging market bonds are included within the portfolio, avoiding countries that, in the short term, are more dependent upon external capital flows. BG are negative on Brazilian sovereign debt due to a sizable current account deficit. In contrast, BG are overweight on Peru with a much stronger current account position.

4. BG outlined recent changes to the portfolio asset allocation, including a reduction in the weighting for insurance linked bonds by 2%. This asset class returned 11% during the previous 12 months, partly as a result of the absence of significant natural catastrophes and partly from an increased capital inflow into the asset class. Whilst this provided a capital value boost, it has reduced the yield from new issuance.

5. There will still be opportunities within the asset class for certain perils due to instances of supplier demand imbalance.

6. BG increased the portfolio exposure to bonds with an increase in high yield and investment grade as well as a doubling of the size of the exposure to government bonds to 6%. BG believed that the recent increases in gilts implied a more rapid increase in interest rates than the UK economy would sustain. Government bonds would also act as a safe haven in the event of market uncertainty. The allocation to cash was reduced in order to fund the bond increase.

7. BG reported a recent investment in German residential property in the form of listed equities. The rationale was that with a significant contrast between economic growth in Germany with that of other EU countries, low interest rates and higher national inflation would push German savers to invest in property. Mortgage affordability and other metrics point to an increasing demand for German housing, whilst rent price controls significantly limit demand for construction.

8. BG have added an exposure to platinum and palladium, a belief that a number of mines and factories are processing the metals at a loss and as a result of worker unrest in South Africa, wage inflation is estimated to rise, with the likely outcome of significant drops in output.

9. BG argued that in general most asset classes were fair value whilst some were overvalued, but that an economic recovery was priced in. BG were concerned that if economic conditions become less favourable there could be a sharp contraction in asset values.

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SURREY
COUNTY COUNCIL

Surrey Pension Fund Board
14 February 2014

ACTION TRACKER

PURPOSE OF REPORT:

For Members to consider and comment on the Board's action tracker.

INTRODUCTION:

An action tracker recording actions and recommendations from previous meetings is attached as **Annex A**, and the Board is asked to review progress on the items listed.

RECOMMENDATION:

The Committee is asked to monitor progress on the implementation of recommendations from previous meetings (Annex A).

REPORT CONTACT: Cheryl Hardman, Regulatory Committee Manager
020 8541 9075
cherylh@surreycc.gov.uk

Sources/background papers: None

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Surrey Pension Fund Board – ACTION TRACKING

ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A1/13	31 May 13	Pension Fund Business Plan 2013/14	Outturn report of the 2013/14 financial year to be presented at the first meeting of the Pension Fund Board in 2014/15.	Strategic Manager, Pension Fund & Treasury	Scheduled for 23 May 2014.
A2/13	20 Sept 13	Manager Issues and Investment Performance	The Pensions Administration Strategy and the Pensions Administration Service Level Agreement to be presented to the Board on 15 November 2013.	Pensions Manager	The Pension Fund Administration Strategy was on the agenda for the meeting on 15 November 2013. A revised Pension Fund Administration Strategy is on the agenda for 14 February 2014. The Pensions Administrations Service Level Agreement will be on the agenda for the meeting on 23 May 2014.

Surrey Pension Fund Board – ACTION TRACKING

COMPLETED ACTIONS

Number	Meeting Date	Item	Recommendation / Action	Action by whom	Action update
A6/13	20 Sept 13	Liability Management, Infrastructure Debt	To schedule a discussion on equity derivatives.	Strategic Manager, Pension Fund & Treasury	This is to be part of the Mercer presentation on 14 February 2014.
A7/13	15 Nov 13	Key Performance Indicators	'Transfer in' targets to be reviewed.	Strategic Manager, Pension Fund & Treasury	This will be addressed on 14 February 2014.
A8/13	15 Nov 13	Key Performance Indicators	The administration cost per scheme member to be confirmed.	Pensions Manager	This will be addressed on 14 February 2014.
A9/13	15 Nov 13	Pension Fund Risk Register	To further discuss the risk of pensioners living longer at the next meeting of the Surrey Pension Fund Board.	Board	This will be addressed on 14 February 2014.
A10/13	15 Nov 13	Pension Fund Risk Register	The financial risk range to be represented for the residual red risks.	Strategic Manager, Pension Fund & Treasury	This will be addressed on 14 February 2014.
A11/13	15 Nov 13	Pension Fund Risk Register	The risk of increases to employer contributions following the actuarial valuation to be included in the risk register.	Strategic Manager, Pension Fund & Treasury	This will be addressed on 14 February 2014.
A12/13	15 Nov 13	Ill Health Retirement Insurance	That a further report on ill health insurance be brought back to the next meeting, including information on the self-insurance option.	Pensions Manager	To be addressed in the Pension Fund Manager's Report on 14 February 2014.

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE:	14 FEBRUARY 2014
LEAD OFFICER:	SHEILA LITTLE, CHIEF FINANCE OFFICER
SUBJECT:	MANAGER ISSUES AND INVESTMENT PERFORMANCE

SUMMARY OF ISSUE:

This report is a summary of all manager issues that need to be brought to the attention of the Pension Fund Board, as well as manager investment performance.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

1. approve the report and the decisions as laid out.
2. approve the purchase of an annual insurance policy with Legal & General to insure the fund against the cost of ill health retirements, subject to the County Council's Head of Procurement confirming that it is not necessary to formally tender for an insurance provider.

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk.

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DETAILS:

1) Manager Issues during the Quarter

Manager	Issue	Status/Action Required
LGIM	Possible Rebalancing	Members are invited to discuss the question of rebalancing with the asset allocation being outside of the policy control limits. The asset allocation at 31 December 2013 and 31 January 2014 are shown in Annex 1.
Standard Life	P750 Fund	Members are invited to give consideration to the Standard Life P750 Fund.
Mirabaud	Client meeting	Update included in minutes of external fund manager meetings held on 4 February 2014.
Standard Life	Client meeting	Update included in minutes of external fund manager meetings held on 4 February 2014.
CBRE	Client meeting	Update included in minutes of external fund manager meetings held on 4 February 2014.
Newton	Client meeting	Update included in minutes of external fund manager meetings held on 4 February 2014.
Marathon	Presentation	Managers will be presenting at the Board meeting on 14 February 2014.

2) Freedom of Information Requests

The table below summarises the Freedom of Information request responses provided by the Fund during the last quarter.

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Date	Requestor	Organisation	Request	Response
October	Company	Pitchbook	Information on private equity holdings	Provided summary as at 31 Mar 2013
November	Company	BBC	Details of all gifts and hospitality, expenses, foreign travel undertaken by fund director from April 2008 onwards.	A full response comprising all travel expenses and any hospitality offered or accepted during the period requested.

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3) Future Pension Fund Board Meetings/Pension Fund AGM

The schedule of meetings for 2014 is as follows:

- 14 Feb 2014: Board meeting hosted at Axa Investment Management, London.
- 23 May 2014: Board meeting hosted at County Hall.
- 19 Sep 2014: Board meeting hosted at County Hall.
- 14 Nov 2014: Board meeting hosted at County Hall.
- 21 Nov 2014: Pension Fund Annual Meeting hosted at County Hall.

4) Stock Lending

The Fund began lending securities during November 2013 and in the period to 31 December 2013 earned a net income for the Fund of £24,382, with the average percentage of available securities on loan at 4.8% providing a gross yield of 0.019%.

5) Share Voting

The Strategic Manager will present a report at the Board meeting.

6) Ill Health Insurance

Members considered the Ill Health Insurance report dated 15 November 2013 at the last meeting. The report observed that now appeared to be an appropriate time to consider insuring against ill health retirement costs (Tier 1 and Tier 2) because individual cost of ill health retirements would increase with the new LGPS (improved 1/49 accrual rate) coming into effect in April 2014, while Legal & General had recently significantly reduced their premium rates from 0.85% to 0.63%. The report also observed that purchasing a policy on a whole fund basis would result in a lower premium for the entire membership and easier administration. Subject to approval from the Board, procurement advice would be sought from the Head of Procurement.

The report observed that the risk of ill health retirements was greater for smaller employers than for larger employers and the introduction of such an initiative would emphasise the paternalistic remit of the Pension Fund as a whole as well as the Pension Fund Board. The potential risk to the Pension Fund if small employers went out of business because of the cost of ill health retirements was emphasised.

The question of running an internal pooling arrangement to self-insure against ill health retirements was discussed. This would avoid the Fund being exposed to the profit element of the insurance business but possibly also expose the Fund to significant liability by taking on ill health risk. The pros and cons of self insurance are summarised:

Pros

- Benefit to the fund of a possible low claim environment
- Stability of employer contribution rate

Cons

- No transfer or reduction of risk exposed to the Fund
- Premiums set insufficient to meet total ill-health strain
- Risk remains with Fund that cost of ill-health retirements is higher than expected with the possibility of setting a higher premium than L&G to counter this
- Additional complex administration to notionally separate and invest the assets ring fenced to cover the pension strain costs

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A detailed briefing note from Hymans Robertson is attached as Annex 2, providing more information on the ill health insurance issues.

Members are invited to discuss the proposal. The following options are available with the recommendation being to approve the purchase of an annual insurance policy with Legal & General to insure the fund against the cost of ill health retirements, subject to the County Council's Head of Procurement confirming that it is not necessary to formally tender for an insurance provider.

a) Not to provide ill-health insurance.
b) To provide ill-health insurance by means of the purchase of an ill-health insurance policy from Legal and General.
c) To provide ill-health insurance by means of self-insurance.
d) To permit fund employers to individually purchase an ill-health insurance policy from Legal and General.

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Report of the Pension Fund & Treasury Manager

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Internally Managed Cash

The internally managed cash balance of the Pension Fund was £3.8m as at 31 December. The Pension Fund repaid £2m of the £20m temporary loan from Surrey County Council on 31 December with the £18m balance repaid 22 January 2014. The fund has agreed two smaller short term loans at more attractive rates from other local authorities than would be available from the County: £5m from Coventry Council at 0.45% and £6m from Leicester Council at 0.40%. These will be repaid by mid March.

Private Equity Opportunities

There are no opportunities to report this quarter.

Actuarial Update

The triennial actuarial valuation as at 31 March 2013 is now complete. Officers have received an initial actuarial report that assessed the funding level at 31 March 2013 at 72.3%, up from 72.0% at 31 March 2010. The actuary's report is included in a separate report included on the Board meeting agenda.

The actuary made a presentation of his initial findings at the Board meeting on 15 November 2013 and also presented at the Pension Fund Annual Meeting on 22 November 2013.

The Pension Fund and Treasury Manager has been in regular contact with the Surrey Treasurers Association to keep them appraised of progress. A meeting for the Surrey District and Borough Councils was hosted at County Hall on 8 November 2013 with the actuary in attendance.

The Pension Fund and Treasury Manager has also liaised extensively with a significant number of the other employer organisations of the Surrey Pension Fund.

Governance Strategies and Policies

All outstanding papers have now been drafted and presented to the Board, apart from the Pensions Administration Service Level Agreement. The final draft of the Pensions Administration Strategy is part of this meeting's agenda.

Fund Manager Meetings on 4 February 2014

Notes of the fund manager meetings of 4 February 2014 are included as Annex 3.

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Report of the Pension Fund & Treasury Manager

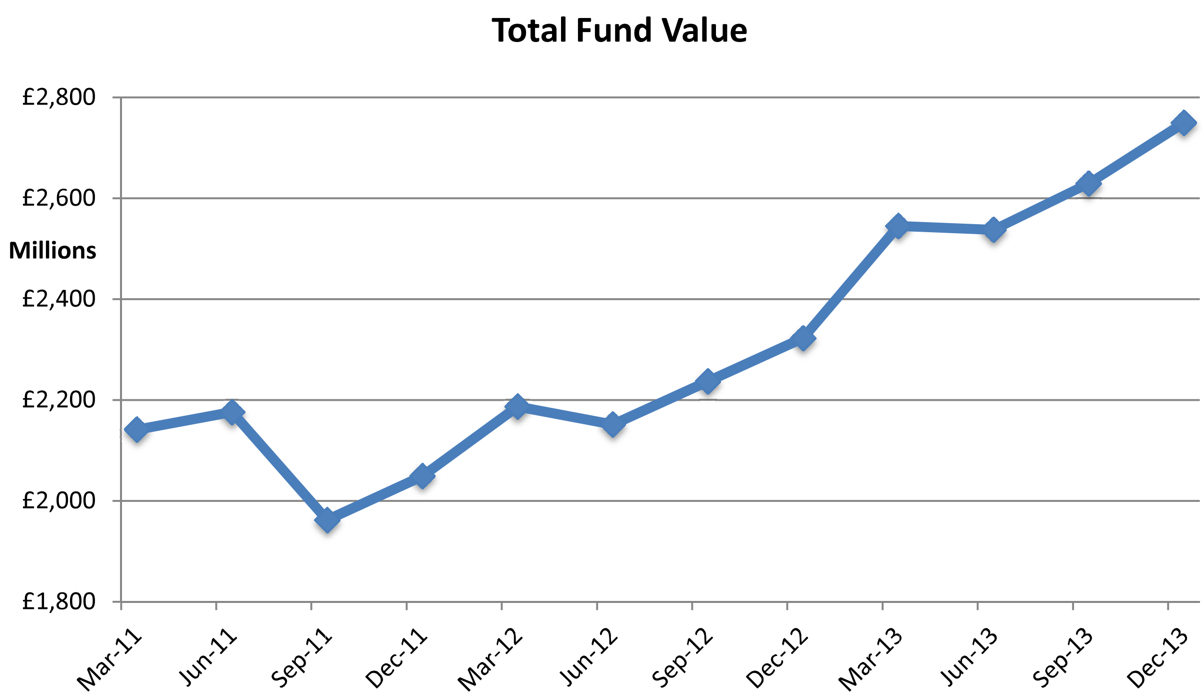
Financial and Performance Report

1. Market Value

The value of the Fund was £2,749.5m at 31 December 2013 compared with £2,629.1m at 30 September 2013. Investment performance for the period was +4.4%.

The increase is attributed as follows:

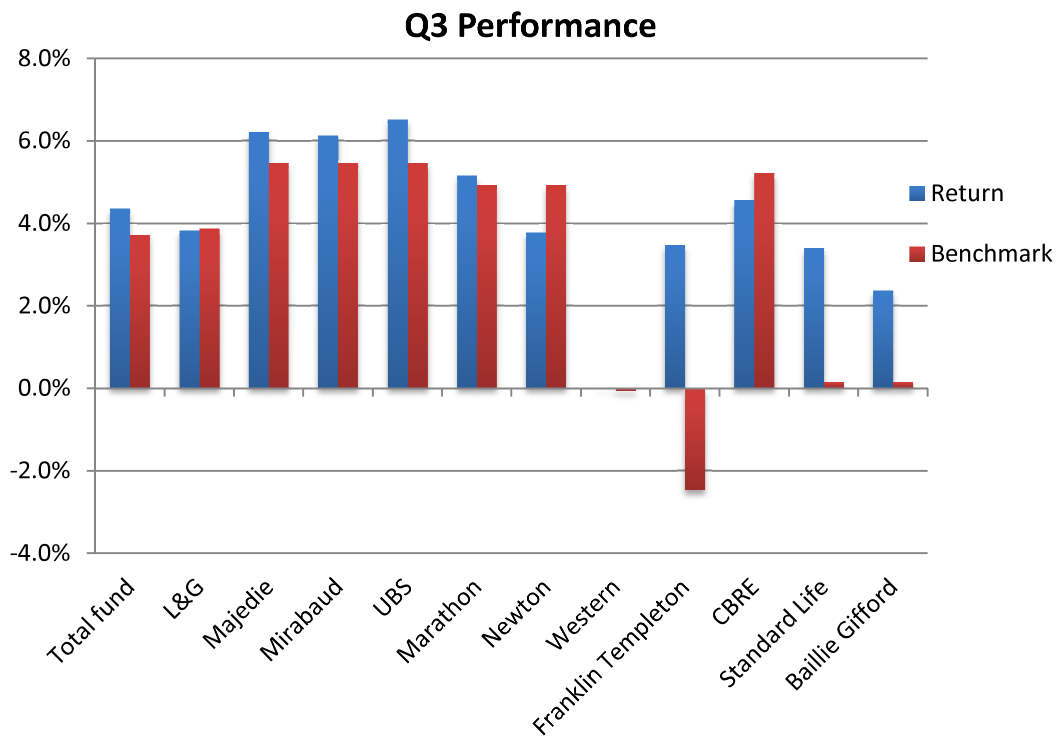
	£m
MARKET VALUE AT 30/09/2013	**2,629.1**
Contributions less benefits and net transfer values	4.5
Investment income received	10.8
Investment expenses paid	-2.9
Market Movements	108.0
Market Value at 31/12/2013	**2,749.5**
Estimated Market Value at 31/01/2014	**2,727.1**

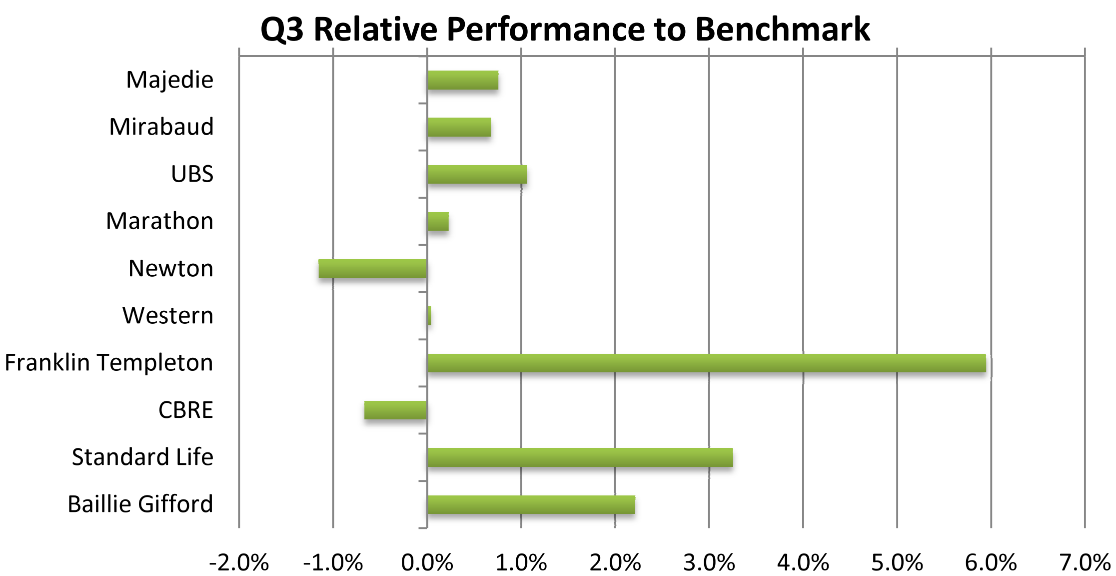


2. Fund Performance

Summary of Quarterly Results

Overall, the total fund returned +4.4% in Q3 2013/14 above the SCC customised benchmark of 3.71%





Both Baillie Gifford and Standard Life are absolute return funds with a benchmark based upon short term cash holdings.

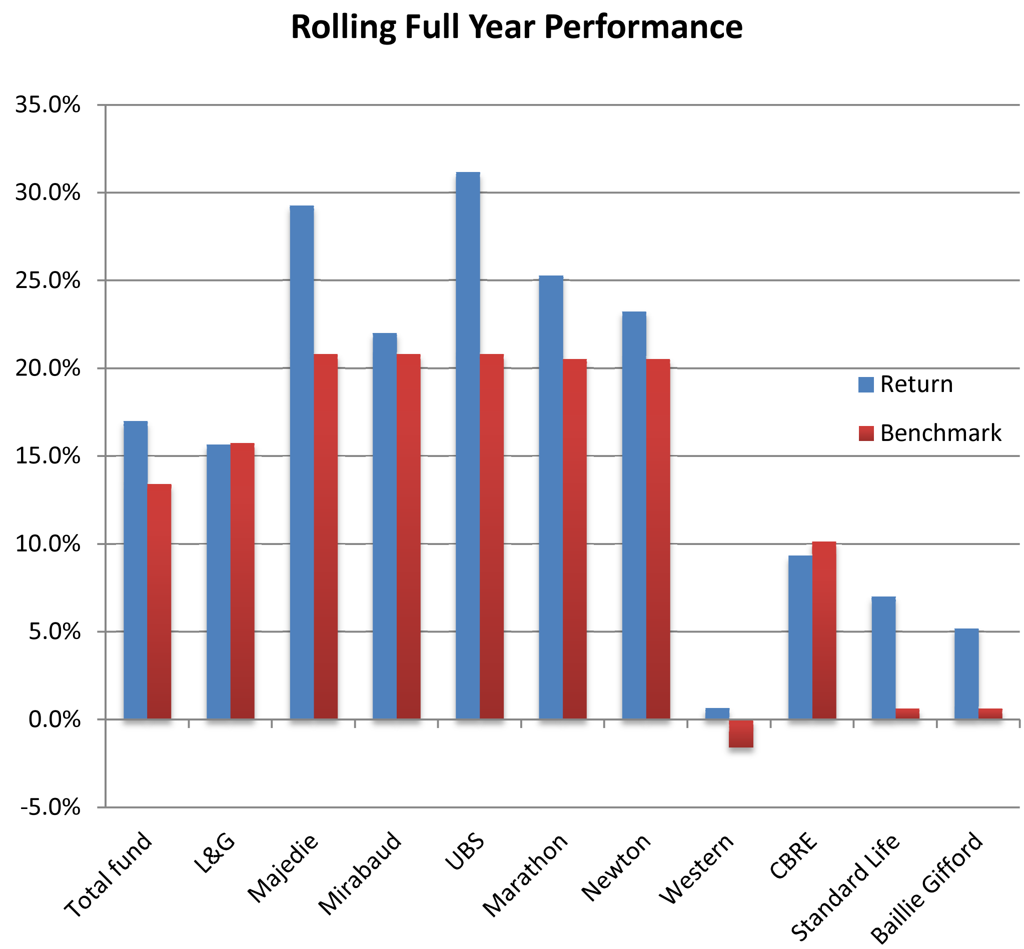
The below table shows manager performance for Q3 against manager specific benchmarks using custodian data.

Manager	Performance %	Benchmark %
Total Fund	4.4	3.7
L&G	3.8	3.9
Majedie	6.2	5.5
Mirabaud	6.1	5.5
UBS	6.5	5.5
Marathon	5.2	4.9
Newton	3.8	4.9
Western	0.0	-0.1
Franklin Templeton	3.5	-2.5
CBRE	4.6	5.2
Standard Life	3.4	0.2
Baillie Gifford	2.4	0.2

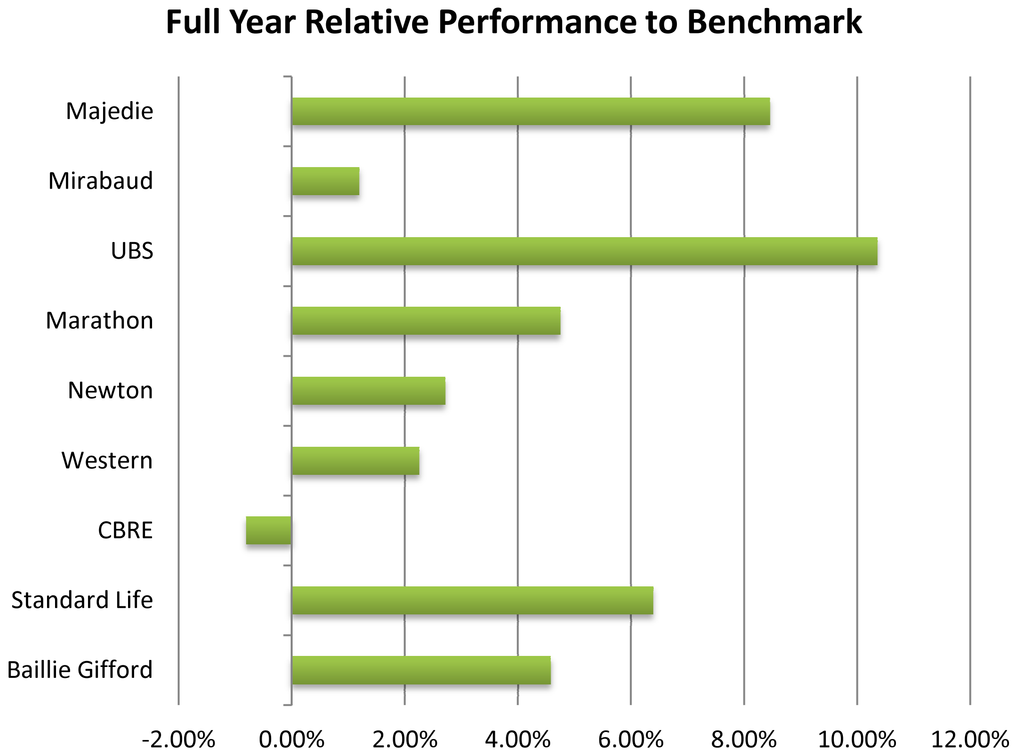
Franklin Templeton is measured against a US Dollar denominated benchmark which is then converted back to Sterling. This is the cause of the significant disparity between performance and benchmark. The benchmark is +2.2% in US Dollar terms leaving a still impressive outperformance of +1.3%.

Summary of Full Year Results

Over the past 12 months to 31 September 2013, the Fund returned 17.0% overall, surpassing the benchmark return of 13.4%.



Equities again provided substantial investment returns over the period with significant above benchmark returns from active UK equity managers UBS and Majedie. Overseas equity through both passive and active management produced strong returns during the previous year.

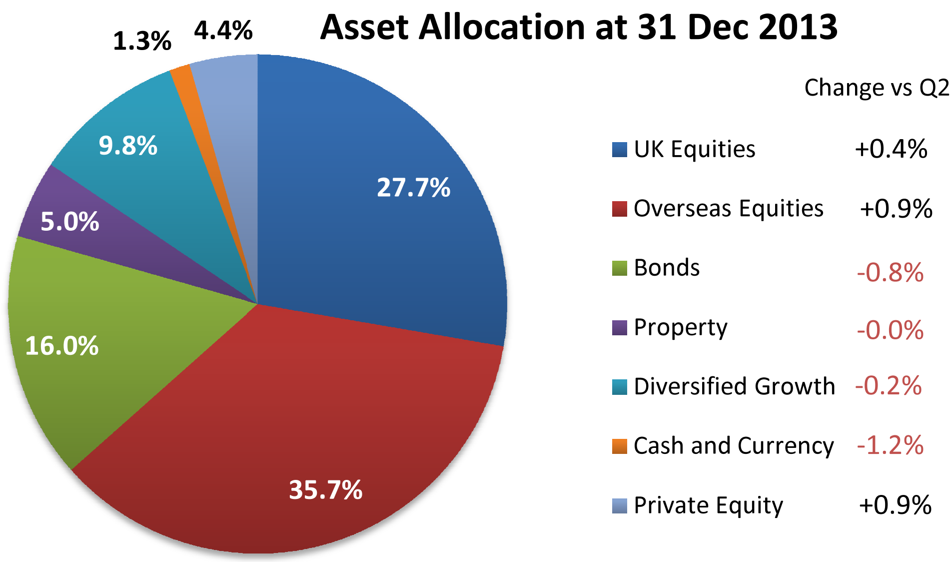


The below table shows manger performance for the year to 31 December 2013 against manager specific benchmarks using custodian data.

Manager	Performance %	Benchmark %
Total Fund	17.0	13.4
L&G	15.7	15.7
Majedie	29.3	20.8
Mirabaud	22.0	20.8
UBS	31.2	20.8
Marathon	25.3	20.5
Newton	23.2	20.5
Western	0.6	-1.6
CBRE	9.3	10.1
Standard Life	7.0	0.6
Baillie Gifford	5.2	0.6

3. Asset Allocation

The graph and table below summarise the asset allocation of the managed elements of the fund, excluding private equity holdings and internally held cash balances.



The table below compares the actual asset allocation as at 31 December 2013 against target asset weightings.

	TOTAL FUND £m	Actual %	Target %	Last Quarter £m	Last Quarter %
Fixed Interest					
UK Government	121.0	4.4	5.0	119.1	4.4
UK Non-Government	159.5	5.8	7.6	159.5	6.1
Overseas	0.0	0.0	0.0	0.0	0.0
Total Return	68.8	2.5	2.7	66.4	2.5
Index Linked	89.9	3.3	3.8	96.4	3.7
Equities					
UK	761.8	27.7	27.5	719.2	27.4
Overseas	982.2	35.7	32.3	915.1	34.8
Property Unit Trusts	138.5	5.0	6.6	132.8	5.1
Diversified growth	269.7	9.8	9.5	262.0	10.0
Cash	24.0	0.9	0.0	49.3	1.9
Currency hedge	12.7	0.5	0.0	18.2	0.6
Private Equity	121.4	4.4	5.0	91.1	3.5
TOTAL	**2,749.5**	**100.0**	**100.0**	**2,629.1**	**100.0**

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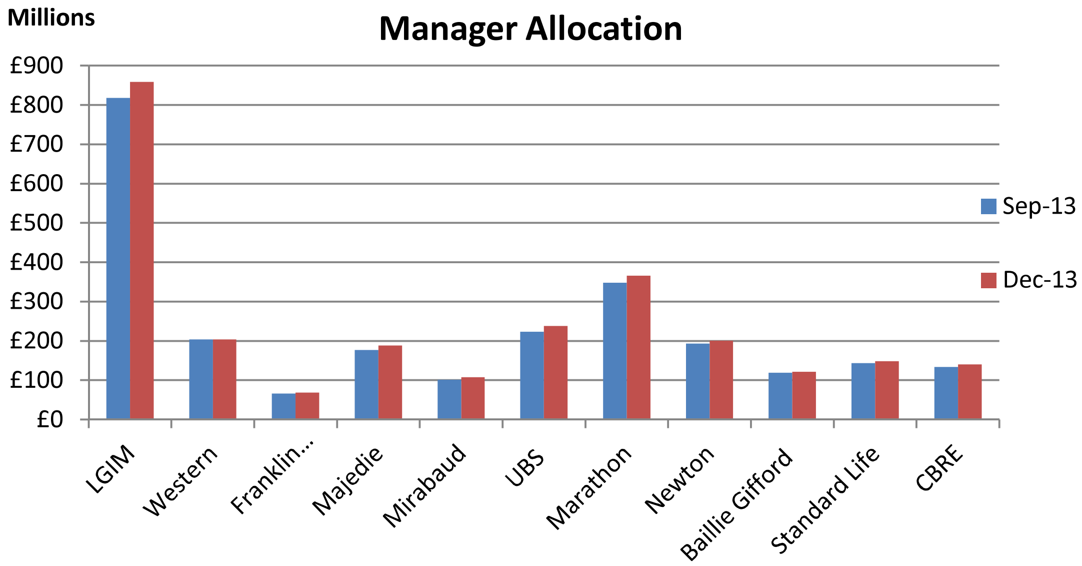
4. Manager Allocation

The graph below shows the current manager allocation.



The table below includes the actual and target manager allocation weightings for those investments managed through the custodian Northern Trust as at 31 December 2013. This excludes the internal cash and private equity portfolio.

Investment Manager	Asset Class	Market Value £m	Actual Allocation %	Target Allocation %
LGIM	Multi-Asset	858.9	32.5	33.0
Western	Bonds	204.2	7.7	8.25
Franklin Templeton	Bonds	68.8	2.6	2.75
Majedie	UK Equity	188.4	7.1	7.0
Mirabaud	UK Equity	107.9	4.1	4.0
UBS	UK Equity	238.0	9.0	8.0
Marathon	Global Equity	366.3	13.9	12.0
Newton	Global Equity	200.8	7.6	8.0
Baillie Gifford	Diversified Growth	121.6	4.6	4.0
Standard Life	Diversified Growth	148.1	5.6	6.0
CBRE	Property	140.3	5.3	7.0
	Residual Cash	0.9	0.0	0.0
TOTAL		**2,644.2**	**100.0**	**100.0**

CONSULTATION:

6 The Chairman of the Pension Fund Board has been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

7 Risk related issues have been discussed and are contained within the report. 6

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

8 Financial and value for money implications are discussed within the report.

CHIEF FINANCE OFFICER COMMENTARY

9 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

10 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

11 The approval of the various options will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

12 There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

13 The following next steps are planned:

- Implementation of the various recommendation approvals.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
1. Asset Allocation Policy and Actual as at 31 December 2013 and 31 January 2014
2. Hymans Robertson briefing on ill health insurance
3. Notes from fund manager meetings 4 February 2014

Sources/background papers:
None

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Annex 1

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Asset Allocation Update

The table shows the actual managed asset allocation as at 31 December 2013 against the target allocation. The allocation for 31 January 2014 is shown overleaf.

	Category	Allocation Policy %	Allocation at 30/12/2013	Variance %
Equities		**63.0**	**67.6**	**+4.6**
UK				
Legal and General	*Passive*	*10.0*	*8.6*	*-1.4*
Majedie	*Concentrated Active*	*7.0*	*7.1*	*+0.1*
Mirabaud	*Concentrated Active*	*4.0*	*4.1*	*+0.1*
UBS	*Core Active*	*8.0*	*9.0*	*+1.0*
Overseas				
Legal and General	*Passive*	*14.0*	*17.3*	*+3.3*
Marathon	*Concentrated Active*	*12.0*	*13.9*	*+1.9*
Newton	*Core Active*	*8.0*	*7.6*	*-0.4*
Property		**7.0**	**5.3**	**-1.7**
CBRE	*Core Active*	*7.0*	*5.3*	*-1.7*
Alternatives		**10.0**	**10.2**	**+0.2**
Standard Life	*Diversified growth*	*6.0*	*5.6*	*-0.4*
Baillie Gifford	*Diversified growth*	*4.0*	*4.6*	*+0.6*
Bonds		**20.0**	**16.9**	**-3.1**
Fixed interest gilts				
Legal and General	*Passive*	*2.5*	*1.5*	*-1.0*
Western	*Core Active*	*2.75*	*3.2*	*+0.5*
Index linked gilts				
Legal and General	*Passive*	*4.0*	*3.4*	*-0.6*
Western	*Core Active*	*0.0*	*0.0*	*0.0*
Corporate bonds				
Legal and General	*Passive*	*2.5*	*1.7*	*-0.8*
Western	*Core Active*	*5.5*	*4.5*	*-1.0*
Total Return				
Franklin Templeton	*Unconstrained*	*2.75*	*2.6*	*-0.2*
Total		**100.00**	**100.00**	

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Asset Allocation Update

The table shows the actual managed asset allocation as at 31 January 2014 against the target allocation.

	Category	Allocation Policy %	Allocation at 31/10/2013*	Variance %
Equities		**63.0**	**67.1**	**+3.9**
UK				
Legal and General	*Passive*	*10.0*	*8.3*	*-1.4*
Majedie	*Concentrated Active*	*7.0*	*7.2*	*+0.1*
Mirabaud	*Concentrated Active*	*4.0*	*4.1*	*0.0*
UBS	*Core Active*	*8.0*	*8.9*	*+1.0*
Overseas				
Legal and General	*Passive*	*14.0*	*16.9*	*+3.1*
Marathon	*Concentrated Active*	*12.0*	*13.9*	*+1.6*
Newton	*Core Active*	*8.0*	*7.8*	*-0.5*
Property		**7.0**	**5.2**	**-1.6**
CBRE	*Core Active*	*7.0*	*5.2*	*-1.6*
Alternatives		**10.0**	**10.1**	**+0.3**
Standard Life	*Diversified growth*	*6.0*	*5.5*	*-0.3*
Baillie Gifford	*Diversified growth*	*4.0*	*4.6*	*+0.6*
Bonds		**20.0**	**17.6**	**-2.6**
Fixed interest gilts				
Legal and General	*Passive*	*2.5*	*1.6*	*-0.9*
Western	*Core Active*	*2.75*	*3.3*	*+0.5*
Index linked gilts				
Legal and General	*Passive*	*4.0*	*3.6*	*-0.5*
Western	*Core Active*	*0.0*	*0.2*	*+0.1*
Corporate bonds				
Legal and General	*Passive*	*2.5*	*1.8*	*-0.8*
Western	*Core Active*	*5.5*	*4.5*	*-0.8*
Total Return				
Franklin Templeton	*Unconstrained*	*2.75*	*2.6*	*-0.2*
Total		**100.00**	**100.00**	

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Ill-health early retirement risks: mitigation options

6

Introduction

Following a change in benefits from 1 April 2008, ill-health early retirements are a greater financial risk to employers participating in the Local Government Pension Scheme. In times of economic uncertainty and increasing upward pressure on contribution rates, risk-management is increasing in importance. The cost resulting from ill-health early retirement is one such risk. We understand that the Surrey Pension Fund ("the Fund") is considering taking steps to manage this risk.

Scope

This document has been commissioned by Surrey County Council in its capacity as Administering Authority to the Surrey Pension Fund ("the Fund"). It has been prepared by Hymans Robertson LLP in our capacity as actuaries to the Fund, in order to provide the Administering Authority with options to consider for protecting the Fund and its employers against the adverse effects of poor ill-health early retirement experience.

This purpose of this document is to set out the options available to the Fund to manage the ill-health early retirement risk and the advantages and disadvantages of each option. The document is not intended to provide advice of which option is most appropriate for the Fund and therefore does not offer any recommendations. It is for the Administering Authority to decide which option is most advantageous for the Fund, having taken appropriate advice if necessary.

We consider three options for managing ill-health early retirement risk:

- Purchase of an ill-health insurance policy
- Self-insurance
- Pooling of ill-health insurance risk

We have set out the options available along with the advantages, disadvantages and questions to consider for each option. **We are unable to express an opinion about the best option for the Fund.**

Background

Ill-health insurance was developed by Legal and General to help manage and mitigate a recognised risk to LGPS funds. Principally, it was aimed at small to medium sized employers to minimise the risk of a costly ill-health retirement materially impacting on the assets of the employer.

However, even at whole level, the Fund's ill-health experience is volatile. Between 2009 and 2012 the total strain payment required has increased from 0.3% of payroll to approximately 0.8% of payroll. The volatility of total ill-health retirement strains results from changes in the actual strain cost based on the type of ill-health retirement awarded, and the age and salary of the member and not the number of ill-health retirements awarded. In fact, these have remained relatively constant over the period. As evidence of how costly ill-health retirements can be, the largest strain cost for an ill-health retiree in 2011/12 was £373,000, based on the information supplied to us.

Monitoring of ill-health early retirements

The Fund does not currently monitor the level of ill-health early retirements against the budget allowed for these in the contribution rates calculated at the most recent formal valuation. Options 1 and 2 below both require ill-health retirements to be monitored and a strain cost calculated in respect of each case. As you are aware, as part of the public sector pensions reform, Lord Hutton recommended that the bar should be raised on governance for public sector pension schemes. To meet increasing governance standards, we would suggest that this is carried out in the future, irrespective of any decisions in respect of an insurance option.

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Option 1: Purchase of an ill-health insurance policy

The Fund has the option to purchase a policy from Legal and General at a cost of 0.87% of the Fund's payroll (or 0.85% with no profit share agreement). The policy would provide a payment to the Fund, equal to the strain amount which would be invoiced to the employer under the ill-health monitoring arrangements described above. Legal and General have offered a profit-share agreement allowing the Fund to benefit when claims experience is less than expected by Legal and General.

Benefits of purchasing an ill-health insurance policy

- Insurance allows proper risk management. The other approaches do not.
- Risk of higher than expected ill-health early retirements is completely removed
- All employers are protected and benefit from a lower premium cost when a policy is purchased at whole fund level
- Helps stability of contribution rate for employers
- Ancillary benefits from the policy, e.g. access to an employee assistance service from Legal and General
- Access to profit-share agreement for whole of fund policy
- Paternal approach by the Fund to protect its employers

Risks of purchasing an ill-health insurance policy

- Legal and General may not meet all ill-health claims (although this would be a reputational risk for Legal and General)
- The Fund has less ill-health early retirements than expected. Under the profit-share agreement some of this positive experience will be returned to the Fund.
- Money paid to buy the premium is not invested in the Fund until it is returned through claim payments (the total premium is approximately equivalent to receiving an extra 0.2% in investment returns on the Fund's assets, with no allowance for any claim payments or profit share refunds being received by the Fund). Assuming claims experience is close to that assumed there would be very little or no impact.

Option 2: Self insurance

The Fund could opt to charge all employers in the Fund a "premium" which would be notionally identified within the Fund's assets. On award of an ill-health early retirement, the Fund would credit the strain payment (which would otherwise have been invoiced) to an individual employer from the notional subfund.

Benefits of self-insurance

- No potential dispute over claim payment
- Fund benefits directly from positive experience
- Reduces volatility and helps stability of contribution rate

Risks of self-insurance

- No transfer of risk therefore no reduction in the risk the Fund is exposed to.
- Fund requirement to calculate premium annually (allowing for newly available experience information). Risk that this is insufficient to meet total ill-health strains. What happens if the ill-health sub fund is insufficient? How would the premium be calculated?
- Risk remains with the Fund and its employers that expected ill-health retirements are higher than expected (this is the primary risk you are trying to avoid). May need to hold a higher "notional premium" than the L&G rate to reduce the possibility of this.

- Potentially complex administration to notionally separate assets and credit strain costs to the appropriate employer.
- Potential for moral hazard by employers since Fund will meet ill-health strain costs.

Option 3: Pooling of ill-health risks

The Fund has the option of spreading the cost of all ill-health early retirements across all employers in the Fund. This would in effect work as a pooling of ill-health costs.

Benefits of pooling

- Reduced volatility possible for employers with poor experience and so more stable contribution rates
- No administration required by the Administering Authority

Risks of pooling

- No requirement to calculate a strain cost resulting in less visibility of the impact of employer experience and no attribution of strain costs to employers.
- Would this approach meet the required standards of governance? All employers would need to agree to sharing of ill-health costs as there would be an (potentially large) element of cross-subsidy
- How would the ill-health costs be shared across employers? Possible options include as a proportion of active liability or a proportion of payroll.
- If the Fund consider unitisation of assets at a later date this option would not be feasible.

Comparison of Option 2 and Option 3

There is little difference at a Fund level between Options 2 and Option 3 since there is no transfer of risk under a self-insurance option.

Option 2 would be administratively complex but allows for transparency of cost and limits cross-subsidy. An employer would be credited with assets equal to the ill-health strain cost calculated based on Axise factors although there is a risk that the amount held in the subfund to meet ill-health costs is insufficient.

Pooling of ill-health risks would result in a simple process for the Fund, but lacks transparency. Due to the method of calculating assets at a formal valuation, each employer would be allocated assets equal to the increased liability resulting from an ill-health early retirement with no specific profit or loss allocated to them depending on their own experience. This would buck the trend of trying to move away from pools and cross subsidy within the Fund.

Summary

The above sets out options for the management of ill-health early retirement risk. I understand that the Fund have considered unitisation of Fund assets which should be borne in mind when considering any decisions. Whilst we cannot advise on the best option for the Fund, we suggest that any decisions meet the governance requirements of the Fund, consider how the chosen option would fit in with any future developments and objectives the Fund has and consider the interests of all of the Fund's employers.

We would be happy to discuss the contents of this paper further.

Julie Morrison FFA

For and on behalf of Hymans Robertson LLP

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Annex 3

Notes from Meetings with Fund Managers: 4 February 2014

Hosted by Mirabaud

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Manager	Attending
CBRE (conference call)	Max Johnson Deejay Dhananjai Alex Bignall
Newton	David Moylett Paul Markham
Standard Life	Dale MacLennan Neil Richardson
Mirabaud	Andrew Blair Jeremy Hewlett Zak Smerzak

CBRE

1. Spoke via conference call with Max Johnson Deejay Dhananjai and Alex Bignall from CBRE

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2. CBRE reported that the market for property was becoming more competitive with more market participants active for each transaction than in previous quarters. This increased activity has extended beyond prime and super prime into secondary and tertiary property.

3. There was a slight narrowing of the yield spread between prime and secondary property although CBRE do not expect this spread to tighten significantly in the near future given fears over weaker market areas.

4. The office and industrial sectors have performed well over the last 6 months with an upturn in rental growth and increases in capital values from steady capital inflows to the asset class.

5. Retail has lagged office and industrial with widespread vacancies and tenancy voids in all but prime shopping centres. CBRE was underweight retail overall, given trends in shopper and retailer behaviour but was overweight on prime shopping centres. These have held up well with very low vacancy and void rates whilst existing retailers within these centres have looked to increase unit size.

6. CBRE was overweight within the London office market which has performed strongly over the quarter.

7. CBRE expected the growth in capital values to continue during the first 6 months of 2014 from increasing capital flows with the level of actual rental growth the key driver of whether this capital inflow will continue.

8. In response to questioning as to why CBRE had underperformed the benchmark in a rising market despite having an aggregate leverage level greater than the benchmark, CBRE reported that majority of leverage is held within poorly performing European property funds and that the UK element of the fund is leveraged to a lesser degree than the benchmark.

Newton

1. David Moylett and Paul Markham presented.

2. Newton discussed the recent market volatility and issues within the emerging markets, Newton believed the markets response has been too broad-brush with all economies classed as emerging suffering significant writedowns, despite significant disparity between respective current account positions, fiscal strength and susceptibility to reduced liquidity. 6

3. The Philippines and Mexico were highlighted as resilient emerging markets, with Mexico's close ties with the US alleviating any liquidity concerns.

4. Newton reiterated their cautious portfolio allocation, whilst the emerging market decline has made some companies more attractive in terms of valuation, no switch had taken place.

5. Responding to underperformance in Q3 to benchmark Newton highlighted the exposure to Yen through a large weighting in Japanese market and exposure to emerging markets through developed stock holdings.

6. Newton had added a position with Apple during the previous quarter, pervious concerns about declining margins and product development pipeline were appeased by recent resilience in profit margins, held steady at 37%, colossal cash balances and better valuation.

7. Newton had a strong exposure to technology stocks with key positions in Microsoft and Google, the latter an important driver of recent performance with increased monetising of mobile ad traffic.

8. Newton had reduced an overweight exposure to Associated British Foods on regulatory and valuation concerns.

9. Newton sector allocation was significantly underweight financials and overweight healthcare stocks. Newton remained concerned by Europe and European financials with upcoming bank stress testing expected to show significant concentration of government debt held by within a small number of organisations.

6

Standard Life

1. Met with Dale MacLennan and Neil Richardson to discuss the Global Focused Strategies Fund (GFS).

2. The fund has run as a paper portfolio with the target fund size of £5bn since July 2012 with a cumulative return of 18.7% and a volatility of 4.3%. The fund launched on 11 December 2013 with seed capital of 110m EUR.

3. The size of the fund will allow for greater liquidity than GARS and will allow for more targeted investment strategies, with little overlap between the investment strategies of GARS and GFS.

4. To attempt to ensure the resilience of returns the fund develops a variety of strategies to mitigate adverse asset movements but will not explicitly purchase downside protection. Diversity is achieved only through separate strategies.

Mirabaud

1. Met with Andrew Blair, Jeremy Hewlett and Zak Smerzak

2. In response to questioning regarding the investment process, Mirabaud explained the justifications for a number of different stock choices.

3. Mirabaud held a large overweight position in the house builder Barclay Group, which was down to a belief that the market has misunderstood key elements of a recent strategy. Barclay Group had made significant purchases of very cheap land in highly valued areas which would result in much higher average sale price per unit than the market had estimated.

4. An investment in St James Place was predicated upon analysis and appreciation of certain accounting aspects within the financial statements, St James Place record a sizable proportion of client investment as sales a number years after the original investment. Calculating the value of the income due from this income provided a significant valuation boost alongside expectations of future dividend increases.

5. Mirabaud was overweight consumer goods industrials, and the oil and gas sector, with a significant underweight position within telecommunication and financials.

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **14 FEBRUARY 2014**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **ACTUARIAL VALUATION 2013: OUTCOME**

SUMMARY OF ISSUE:

Report setting out the outcome of the triennial actuarial valuation in respect of the Surrey County Council Pension Fund

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board note the report and adopt the 2013 actuarial valuation.

REASON FOR RECOMMENDATIONS:

An actuarial valuation is a statutory requirement for the pension fund.

DETAILS:

Background

1 The Surrey County Council Pension Fund has a funding objective:

"To achieve and then maintain a funding target that requires assets equal to 100% of the present value of benefits based on completed service including provision for the effects of future salary growth and inflation up to retirement."

2 In order to achieve this objective, it is necessary to assess the fund's financial position on a periodic basis and implement future contribution rates with a view to achieving the desired status of 100% funding. LGPS pension funds are actuarially valued on a triennial basis and the fund's actuary, Hymans, has just completed the fund's valuation as at 31 March 2013.

3 This report sets out the initial summary outcome of the valuation.

4 Negotiations with employer bodies are still ongoing and, if required, a final edition of the actuary's report will be included in the Pension Fund Board meeting agenda for 23 May 2014.

Valuation Results: Deficit and Funding Level

5 At 31 March 2013, the fund has a funding level of 72.3%, i.e., the Fund's assets of the fund are adequate to meet 72.3% of the future liabilities.

Individual Employer Contribution Rates

6 While the fund is managed as a whole, it is effectively a number of sub-funds for each individual employer. This means that each employer contributes according to a contribution rate that specifically reflects the individual employer's membership profile. Under guidance from the actuary, we have continued to set deficit recovery as monetary amounts. Employee contributions are payable in addition to the employer contributions.

7

7 Where there are prospects of early retirement, thus giving rise to additional short-term costs in the form of immediate access to pension benefits, this will result in an element of actuarial strain (but specifically not including any redundancy cost). Additional contributions will be paid on top of the rates indicated in respect of early retirements where appropriate.

8 The actuary's final report is set out in Annex 1.

Future Funding Plan

9 The Pensions Fund's funding plan is set out in the Funding Strategy Statement (FSS) in Annex 2. Individual employer funding plans and each employer's contribution rates have been determined in accordance with the FSS.

10 Depending on each employer's individual circumstances, different approaches to the funding of benefits will be adopted, as part of the FSS consultation process. For the vast majority of employers, the two main features of the funding plan are that contribution rates should be assessed on the basis of recovery of the deficit over a period of 20 years. The increase in contributions is being phased where appropriate. In practice, the contribution rates will continue to be reviewed triennially.

CONSULTATION:

11 The Chairman elect of the Pension Fund Board has been consulted on the proposed change and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

12 Risk related issues are contained within the actuary's report in Annex 1.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

13 The costs of the actuarial valuation will be funded from the administrative expenses of the pension fund.

CHIEF FINANCE OFFICER COMMENTARY

14 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed within the report and its appendices, and that the actuarial report will provide the Pension Fund a solid framework in which to achieve a full funding status over the long term.

LEGAL IMPLICATIONS – MONITORING OFFICER

15 The actuarial report is a statutorily required document.

EQUALITIES AND DIVERSITY

16 The report will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

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17 There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT:

18 The following next steps are planned:

- Commencement of the 2014/15 year's work programme in line with the actuarial assumptions.
- Funding Strategy Statement to be circulated for consultation to all employer organisations.
- Progress monitoring will take place and, if necessary, matters will be discussed at future Board meetings.
- Next actuarial valuation to take place as at 31 March 2016.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Actuarial Report
Funding Strategy Statement

Sources/background papers:
None

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Hymans Robertson LLP has carried out an actuarial valuation of the Surrey Pension Fund ("the Fund") as at 31 March 2013, details of which are set out in the report dated 3 February 2014 ("the Report"), addressed to Surrey County Council ("the Client"). The Report was prepared for the sole use and benefit of our Client and not for any other party; and Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness of the Report.

The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the past service funding position of the Fund at 31 March 2013 and employer contribution rates from April 2014, and should not be considered a substitute for specific advice in relation to other individual circumstances.

7

As this Report has not been prepared for a third party, no reliance by any party will be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the named Client. Hymans Robertson LLP therefore disclaims all liability and responsibility arising from any reliance on or use of the Report by any person having access to the Report or by anyone who may be informed of the contents of the Report.

7

Surrey Pension Fund
2013 Actuarial Valuation
Valuation Report

HYMANS ROBERTSON
The Spirit of Independence

February 2014

7

Contents

PAGE

1	Executive summary	1
2	Introduction	2
3	Assumptions	3
4	Results	6
5	Risk Assessment	10
6	Related issues	14
7	Reliances and limitations	16
Appendix A: About the pension fund		17
Appendix B: Summary of the Fund's benefits		18
Appendix C: About the valuation		24
Appendix D: Data		26
Appendix E: Assumptions		32
Appendix F: Events since valuation date		37
Appendix G: Rates and adjustments certificate		38
Statement to the rates and adjustments certificate		39

1 Executive summary

We have carried out an actuarial valuation of the Surrey Pension Fund ('the Fund') as at 31 March 2013. The results are presented in this report and are briefly summarised below.

7

Funding position

The table below summarises the financial position of the Fund at 31 March 2013 in respect of benefits earned by members up to this date.

Past Service Position	31 March 2010 (£m)	31 March 2013 (£m)
Past Service Liabilities	2,699	3,538
Market Value of Assets	1,944	2,559
Surplus / (Deficit)	(755)	(980)
Funding Level	**72.0%**	**72.3%**

Both the assets and the liabilities have increased by around 30% over the inter-valuation period, which means the deficit has also grown by around 30%.

The increase in deficit reflects the adverse conditions which the Fund has had to contend with since the previous valuation. In particular, the decrease in the real gilt yield has increased the value placed on the Fund's liabilities.

Contribution rates

The table below summarises the average employer contribution rate that would be required, based on this triennial valuation.

Contribution Rates	31 March 2010 (% of pay)	31 March 2013 (% of pay)
Employer future service rate (incl. expenses)	16.3%	19.9%
Past Service Adjustment (20 year spread)	8.9%	10.8%
Total employer contribution rate (incl. expenses)	25.2%	30.7%
Employee contribution rate	6.7%	6.4%
Expenses	0.4%	0.4%

Again, the increase in the total employer contribution rate is primarily due to the decrease in the real gilt yields which has increased both the employer future service rate and the past service adjustment.

The common contribution rate is a theoretical figure – an average across the whole Fund. In practice, each employer that participates in the Fund has its own underlying funding position and circumstances, giving rise to its own contribution rate requirement. The minimum contributions to be paid by each employer from 1 April 2014 to 31 March 2017 are shown in the Rates and Adjustment Certificate in **Appendix G**.

2 Introduction

Purpose

The main purposes of this valuation are:

- to assess the extent to which the Administering Authority's funding objectives were met at 31 March 2013;
- to identify the future contributions payable by the employers that participate in the Fund in order to meet the Administering Authority's funding objectives;
- to enable completion of all relevant certificates and statements in connection with all relevant regulations;
- to comment on the main risks to the Fund that may result in future volatility in the funding position or to employers' contributions.

Component reports

This document is an "aggregate" report, i.e. it is the culmination of various "component" reports and discussions, in particular:

- The data report;
- The Discussion Document (dated 01 October 2013 which outlined the preliminary assumption proposals and whole fund results;
- The formal agreement by the Administering Authority of the actuarial assumptions used in this document, at a meeting dated 04 October 2013;
- The stabilisation modelling carried out for certain employers, as detailed in our report and presentation to the Administering Authority of 12 August 2013;
- The Funding Strategy Statement, confirming the different contribution rate setting approaches for different types of employer or in different circumstances.

Note that not all of these documents may be in the public domain.

3 Assumptions

Actuarial assumptions

Assumptions must be made about the factors affecting the Fund's finances in the future. Broadly speaking, our assumptions fall into two categories – financial and demographic.

Demographic assumptions typically try to forecast **when** benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether a dependant's pension will be paid.

Financial assumptions typically try to anticipate the **size** of these benefits. For example, how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help us to estimate how much all these benefits will cost the Fund in today's money.

Financial assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

	31 March 2010		31 March 2013	
Financial assumptions	**Nominal**	**Real**	**Nominal**	**Real**
Discount Rate	6.1%	2.8%	4.6%	2.1%
Salary Increases*	5.3%**	2.0%	3.8%	1.3%
Price Inflation / Pension Increases	3.3%	-	2.5%	-

** Plus an allowance for promotional pay increases.*

***1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.*

Discount rate

The funding valuation is effectively a planning exercise, to assess the funds needed to meet the benefits as they fall due. In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required in order to "discount" future benefit payments back to the valuation date at a suitable rate.

For a funding valuation such as this, the discount rate is set by taking into account the Fund's current and expected future investment strategy and, in particular, how this strategy is expected to outperform the returns from Government bonds over the long term. The additional margin for returns in excess of that available on Government bonds is called the Asset Outperformance Assumption (AOA).

The selection of an appropriate AOA is a matter of judgement and the degree of risk inherent in the Fund's investment strategy should always be considered as fully as possible.

Although there has been a downward shift in the expected returns on risky assets since the 2010 valuation, we believe the expected returns in excess of the returns on government bonds to be broadly unchanged since 2010. Therefore, we are satisfied that an AOA of 1.6% p.a. is a prudent assumption for the purposes of this valuation. This results in a discount rate of 4.6% p.a.

Price inflation / pension increases

Due to further analysis of the CPI index since 2010, we expect the average long term difference between RPI and CPI to be 0.8% p.a. compared with 0.5% p.a. at the 2010 valuation.

At the previous valuation, the assumption for RPI was derived from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we have adopted a similar approach.

Salary increases

The long term assumption for salary increases is RPI plus 0.5% p.a. This translates to CPI plus 1.3% p.a. This is a change in approach from 2010 where we assumed 1% p.a. for 2 years and RPI plus 1.5% p.a. thereafter.

We have set a lower long term rate of salary growth to reflect both short term pay constraints and the belief that general economic growth and hence pay growth may be at a lower level than historically experienced for a prolonged period of time.

Note that this assumption is made in respect of the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). We also make a separate allowance for expected pay rises granted in the future as a result of promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member's age and class. Please see **Appendix E** for further details.

Longevity

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. For this valuation, we have adopted assumptions which give the following sample average future life expectancies for members:

	Actives & Deferreds		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2010 valuation - baseline	20.3	22.2	20.2	21.8
2010 valuation - improvements	23.9	25.9	21.9	23.6
2013 valuation - baseline	20.2	22.9	20.3	22.6
2013 valuation - improvements	24.5	26.9	22.5	24.6

Further details of the mortality assumptions adopted for this valuation can be found in **Appendix E**. Note that the figures for actives and deferreds assume that they are aged 45 at the valuation date.

Assets

We have taken the assets of the Fund into account at their market value as indicated in the audited accounts for the period ended 31 March 2013. We have also included an allowance for the expected future payments to be received in relation to the Magistrates bulk transfer as these have been included in the market value of assets as provided from the audited accounts.

In our opinion, the basis for placing a value on members' benefits is consistent with that for valuing the assets - both are related to market conditions at the valuation date.

Demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. We have analysed the trends and patterns that are present in the membership of local authority funds and tailor our demographic assumptions to reflect LGPS experience.

Details of these assumptions are set out in Appendix E. Further commentary on these was included in the Discussion Document.

Further comments on the assumptions

As required for Local Government Pension Scheme valuations, our proposed approach to this valuation must include a degree of prudence. This has been achieved by explicitly allowing for a margin of prudence in the AOA.

For the avoidance of doubt, we believe that all other proposed assumptions represent the “best estimate” of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent than the best estimate. The assessed liability value on a “neutral” best estimate (not prudent) basis would perhaps be 20%, lower than the figures shown here.

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4 Results

The Administering Authority has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund. In broad terms, the main 'past service' objective is to hold sufficient assets in the Fund to meet the assessed cost of members' past service benefits and the main 'future service' objective is to maintain a relatively stable employer contribution rate. These objectives are potentially conflicting.

Past service

In assessing the extent to which the past service funding objective was met at the valuation date, we have used the actuarial assumptions described in the previous section of this report and funding method described in **Appendix C**. The table below compares the value of the assets and liabilities at 31 March 2013. The 31 March 2010 results are also shown for reference.

The results are presented in the form of a "funding level", this is the ratio of the market value of assets to the assessed cost of members' past service benefits ("liabilities").

A funding level of 100% would correspond to the funding objective being met at the valuation date.

Valuation Date	31 March 2010	31 March 2013
Past Service Position	***(£m)***	**(£m)**
Past Service Liabilities		
Employees	1,111	1,347
Deferred Pensioners	503	684
Pensioners	1,084	1,508
Total Liabilities	2,699	3,538
Market Value of Assets	1,944	2,559
Surplus / (Deficit)	**(755)**	**(980)**
Funding Level	**72.0%**	**72.3%**

The main funding objective was not met: there was a shortfall of assets to the assessed cost of members' benefits of £980m.

Summary of changes to the funding position

The chart below illustrates the factors that caused the funding position to improve between 31 March 2010 and 31 March 2013:

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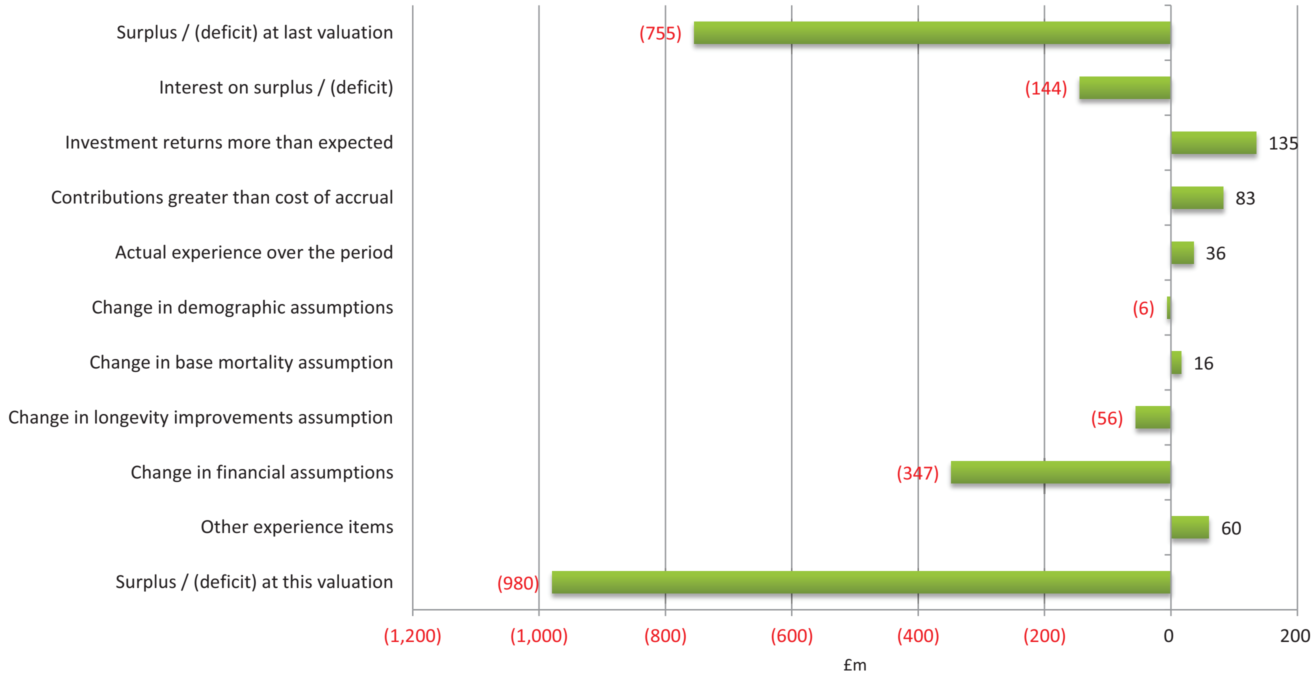

Further comments on some of the items in this chart:

- There is an interest cost of £144.3m. This is broadly three years of compound interest at 6.1% p.a. applied to the previous valuation deficit of £755m. This has been partially offset by additional contributions of £83m.
- Investment returns being more than expected since 2010 lead to a gain of £135m. This is roughly the difference between the actual three-year return (roughly 26%) and expected three-year return (roughly 19%) applied to the whole fund assets from the previous valuation of £1,944m, with a further allowance made for cashflows during the period.
- The impact of the change in demographic assumptions has been a loss of around £6m.
- The change in mortality assumptions (baseline and improvements) has given rise to a loss of £40m. This is mainly due to the change in assumed longevity improvements, which allows for people living longer in the future.
- The change in financial conditions between the previous valuation has led to a loss of £347m. This is due to a decrease in the real discount rate between 2010 and 2013. This has been partially offset by the 0.8% p.a. increase in our assumption of the gap between RPI and CPI.
- Other experience items, such as changes in the membership data and actual experience, have served to decrease the deficit at this valuation by around £96m.
- Note that the benefit changes that come into effect as at 1 April 2014 do not change the funding position as all past service benefits to 31 March 2014 are protected.

Future service

We have calculated the average long-term contribution rate that the Fund employers would need to pay to meet the estimated cost of members' benefits that will be earned after 31 March 2013 (the 'future service contribution rate'). Again, we have used the assumptions set out in the previous section of this report and the method set

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out in **Appendix C**. The resulting contribution rate is that which should (if the actuarial assumptions about the future are borne out in practice) ensure that the Administering Authority's main future service funding objective is met. The table below details this future service contribution rate for 31 March 2013 and shows the 31 March 2010 for comparison.

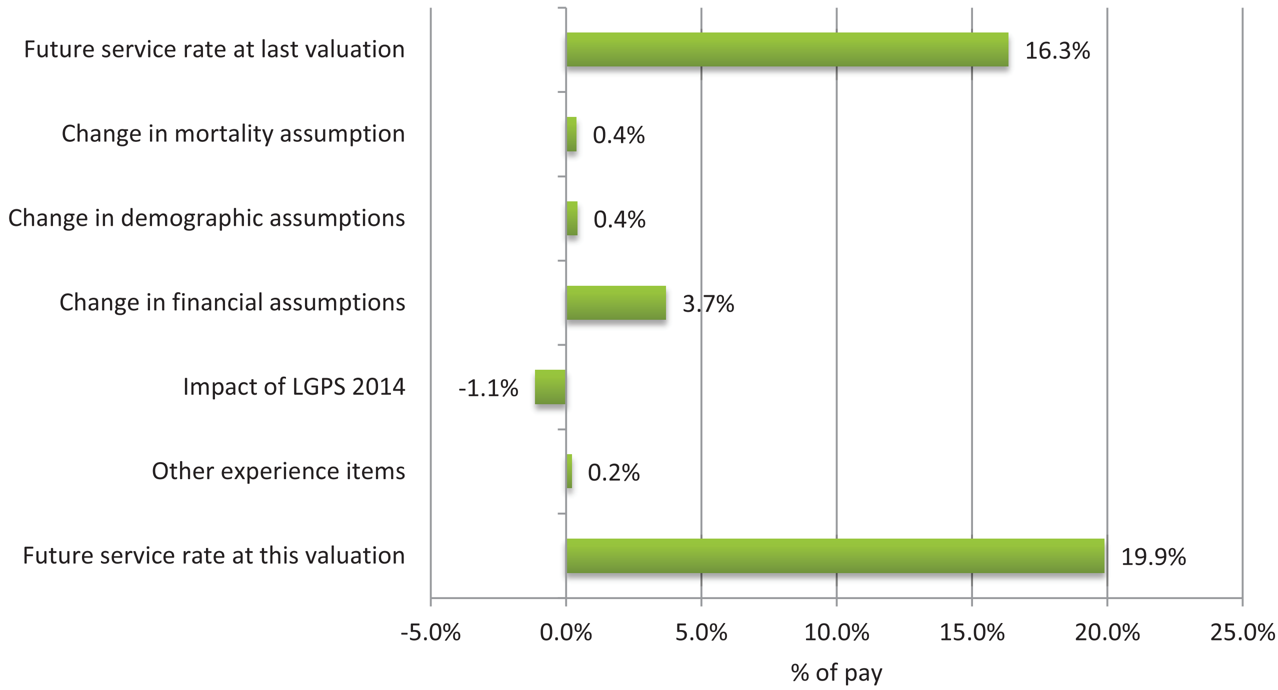
Valuation Date	31 March 2010	31 March 2013
Future service rate	**% of pay**	**% of pay**
Employer future service rate (excl. expenses)	16.0%	19.5%
Expenses	0.4%	0.4%
Total employer future service rate (incl. expenses)	**16.3%**	**19.9%**
Employee contribution rate	6.7%	6.4%

Note that the employee contribution rate includes any additional contributions being paid by employees as at 31 March 2013 into the Fund. This future service contribution rate makes no allowance for the past service deficit in the Fund described above.

The average future service rate for Fund employers is 19.9% of pay. This rate is calculated as at 31 March 2013 and therefore forms part of the total contribution rate payable by employers from 1 April 2014. Note this rate makes an allowance for changes to the benefit structure that take effect from 1 April 2014. In practice, a future service rate for each employer has been calculated which is based on their particular circumstances and membership profile. The rate above is an average future service rate for the Fund as a whole.

Summary of changes to the future service rate

The chart below illustrates the factors that caused the future service rate to increase between 31 March 2010 and 31 March 2013:



As can be seen from this chart, the factors that have had the biggest impact on the future service rate between 2010 and 2013 are broadly similar to those discussed for the past service position.

In addition to this, the impact of the LGPS 2014 scheme has resulted in a reduction in contribution rate of 1.1% of payroll.

Total common contribution rate payable

The total (or "common") contribution rate payable is the average future service rate for Fund employers plus an additional amount to recover the deficit and bring the funding level back to 100% over a period of 20 years, as set out in the Funding Strategy Statement. This additional amount is referred to as the past service adjustment.

7 The common contribution rate based on the funding position as at 31 March 2013 is detailed below along with the results for 31 March 2010:

Valuation Date	31 March 2010	31 March 2013
Total contribution rate	**% of pay**	**% of pay**
Future service rate (incl. expenses)	16.3%	19.9%
Past service adjustment (20 year spread)	8.9%	10.8%
Total employer contribution rate	**25.2%**	**30.7%**

This does not represent the rate which any one employer is actually required to pay, nor is it the average of the actual employer rates. The actual employer contributions payable from 1 April 2014 are given in **Appendix G**, and these have been devised in line with the Funding Strategy Statement: see **section 6.**

5 Risk Assessment

The valuation results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made at this valuation were exactly borne out in practice then the results presented in this document would represent the true cost of the Fund as it currently stands at 31 March 2013.

However, no one can predict the future with certainty and it is unlikely that future experience will exactly match all of our assumptions. The future therefore presents a variety of risks to the Fund and these should be considered as part of the valuation process. In particular:

- The main risks to the financial health of the Fund should be **identified**.
- Where possible, the financial significance of these risks should be **quantified**.
- Consideration should be given as to how these risks can then be **controlled** or **mitigated**.
- These risks should then be **monitored** to assess whether any mitigation is actually working.

This section investigates the potential implications of the actuarial assumptions not being borne out in practice.

Set out below is a brief assessment of the main risks and their effect on the valuation results, beginning with a look at the effect of changing the main assumptions and then focusing on the two most significant risks – namely investment risk and longevity risk.

Sensitivity of valuation results to changes in assumptions

The table below gives an indication of the sensitivity of the valuation results to small changes in some of the main assumptions used.

		Impact	
Assumption	**Change**	**Deficit (£m)**	**Future service rate (% of pay)**
Discount rate	Increases by 0.5%	Falls by £309m	Falls by 3%
Salary increases	Increases by 0.5%	Rises by £95m	Rises by 2%
Price inflation / pension increases	Increases by 0.5%	Rises by £242m	Rises by 2%
Life expectancy	Increases by 1 year	Rises by £106m	Rises by 1%

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the assumed level of withdrawals and ill health retirements will also have an effect on the valuation results. However, the table contains those assumptions that typically are of most interest and have the biggest impact.

Note that the table shows the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from more than one of our assumptions simultaneously and so the precise effect on the funding position is therefore more complex.

Investment risk

Sensitivity of valuation results to market conditions and investment performance

As the assets of the Fund are taken at their market value, volatility in investment performance can have an immediate and tangible effect on the funding level and deficit. This is particularly relevant because the Fund is invested predominantly in riskier assets such as equities and equity-type investments (e.g. property). A rise or fall in the level of equity markets has a direct impact on the financial position of the Fund, which may seem obvious.

Less obvious is the effect of anticipated investment performance on the Fund's liabilities (and future service cost). Here it is the returns available on government bonds that are of crucial importance, as the discount rate that we use to place a value on the Fund's liabilities is based on gilt yields at the valuation date plus a margin of 1.6% p.a.

The table below shows how the funding level (top), deficit (middle, in £m) and total contribution rate (bottom, as % of pay) would vary if investment conditions at 31 March 2013 had been different. The level of the FTSE 100 Price index is taken as a suitable proxy for asset performance whilst the index-linked gilt yield is taken as a yardstick for the valuation of liabilities.

Index Linked Gilt Yield				
	-0.10%	70% (1,010) 29.9%	75% (852) 28.2%	80% (694) 26.4%
	-0.30%	68% (1,137) 32.4%	72% (980) 30.7%	77% (822) 28.9%
	-0.50%	65% (1,270) 35.0%	70% (1,112) 33.3%	74% (954) 31.6%
		5912	6412	6912
		FTSE 100 Price Index		

The shaded box contains the results for this valuation. Note that this does not take account of the performance of all asset classes held by the Fund (e.g. overseas equities, property, bonds, cash etc.) but it does serve to highlight, in broad terms, the sensitivity of the valuation results to investment conditions at the valuation date.

Note that the scenarios illustrated above are by no means exhaustive. They should not be taken as the limit of how extreme future investment experience could be. The discount rate assumption adopted at this valuation is expected to be appropriate over the long term. Short term volatility of equity markets does not invalidate this assumption.

Longevity risk

The valuation results are also very sensitive to unexpected changes in future longevity. All else being equal, if longevity improves in the future at a faster pace than allowed for in the valuation assumptions, the funding level will decline and the required employer contribution rates will increase.

Recent medical advances, changes in lifestyle and a greater awareness of health-related matters have resulted in life expectancy amongst pension fund members improving in recent years at a faster pace than was originally foreseen. It is unknown whether and to what extent such improvements will continue in the future.

For the purposes of this valuation, we have selected assumptions that we believe make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund since the previous valuation.

The table below shows how the valuation results at 31 March 2013 are affected by adopting different longevity assumptions.

	Impact	
Longevity assumption	**Deficit (£m)**	**Future service rate**
2013 valuation (with improvements)	(980)	19.9%
2013 valuation (further improvements)	(1,127)	20.9%
1 year extra	(1,238)	21.7%

The shaded box contains the results for this valuation.

Full details of the longevity improvements adopted at this valuation are set out in **Appendix E**.

The “further improvements” are a more cautious set of improvements that, in the short term, assume the ‘cohort effect’ of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid 1930s will continue to strengthen for a few more years before tailing off. This is known as “non-peaked”.

The “1 year extra” figures relative to a further year of life expectancies beyond those assumed in “further improvements”.

Again, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme future longevity experience could be.

Other risks to consider

The table below summarises the effect that changes in some of the other valuation assumptions and risk factors would have on the funding position. Note that these are probably unlikely to have a large financial impact on the Fund and therefore the analysis is qualitative rather than quantitative.

	Impact	
Factor	**Funding level**	**Future service rate**
Greater level of ill health retirement	Decreases	Marginal
Reduced level of withdrawals	Decreases	Marginal
Rise in average age of employee members	Marginal effect	Increases
Lower take up of 50:50 option	No impact	Increases

One further risk to consider is the possibility of future changes to Regulations that could materially affect the benefits that members become entitled to. It is difficult to predict the nature of any such changes but it is not inconceivable that they could affect not just the cost of benefits earned after the change but could also have a retrospective effect on the past service position (as the move from RPI to CPI-based pension increases already has).

Managing the risks

Whilst there are certain things, such as the performance of investment markets or the life expectancy of members, that are not directly within the control of the pension fund, that does not mean that nothing can be done to understand them further and to mitigate their effect. Although these risks are difficult (or impossible) to eliminate, steps can be taken to manage them.

Ways in which some of these risks can be managed could be:

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- Set aside a specific reserve to act as a cushion against adverse future experience (possibly by selecting a set of actuarial assumptions that are deliberately more prudent).
- Take steps internally to monitor the decisions taken by members and employers (e.g. relating to early / ill health retirements or salary increases) in a bid to curtail any adverse impact on the Fund.
- Pooling certain employers together at the valuation and then setting a single (pooled) contribution rate that they will all pay. This can help to stabilise contribution rates (at the expense of cross-subsidy between the employers in the pool during the period between valuations).
- Carrying out a review of the future security of the Fund's employers (i.e. assessing the strength of employer covenants).
- Carry out a bespoke analysis of the longevity of Fund members and monitor how this changes over time, so that the longevity assumptions at the valuation provide as close a fit as possible to the particular experience of the Fund.
- Undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund.
- Purchasing ill health liability insurance to mitigate the risk of an ill health retirement impacting on solvency and funding level of an individual employer where appropriate.
- Monitoring different employer characteristics in order to build up a picture of the risks posed. Examples include membership movements, cash flow positions and employer events such as cessations.

We would be delighted to set out in more detail the risks that affect the Fund and discuss with you possible strategies for managing them.

6 Related issues

The Fund's valuation operates within a broader framework, and this document should therefore be considered alongside the following:

- the Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated;
- the Statement of Investment Principles (e.g. the discount rate must be consistent with the Fund's asset strategy);
- the general governance of the Fund, such as meetings of the Pensions Committee, decisions delegated to officers, the Fund's business plan, etc;
- the Fund's risk register;
- the register of Fund employers.

Further recommendations

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2016. In light of the uncertainty of future financial conditions, we recommend that the financial position of the Fund (and for individual employers in some cases) is monitored by means of interim funding reviews in the period up to this next formal valuation. This will give early warning of changes to funding positions and possible contribution rate changes.

Investment strategy and risk management

We recommend that the Administering Authority continues to regularly review its investment strategy and ongoing risk management programme.

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund actuary for individual calculation as to the required level of contribution.

Additional payments

Employers may make voluntary additional contributions to recover any shortfall over a shorter period, subject to agreement with the Administering Authority and after receiving the relevant actuarial advice.

Further sums should be paid to the Fund by employers to meet the capital costs of any unreduced early retirements, reduced early retirements before age 60 and/or augmentation (i.e. additional membership or additional pension) using the methods and factors issued by me from time to time or as otherwise agreed.

In addition, payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.

Cessations and bulk transfers

Any Admission Body who ceases to participate in the Fund should be referred to us in accordance with Regulation 38 of the Administration Regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund, or
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement should be referred to us to consider the impact on the Fund.

7 Reliances and limitations

Scope

This document has been requested by and is provided to Surrey County Council in its capacity as Administering Authority to the Surrey Pension Fund. It has been prepared by Hymans Robertson LLP to fulfil the statutory obligations in accordance with regulation 36 of the Administration Regulations. None of the figures should be used for accounting purposes (e.g. under FRS17 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 38(1)).

This document should not be released or otherwise disclosed to any third party without our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have previously issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on the quality of the data provided. The data used in our calculations is as per our report of 3 February 2014.

Actuarial Standards

The following Technical Actuarial Standards[1] are applicable in relation to this report and have been complied with where material:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS.

Barry McKay

Barry McKay

Fellow of the Institute and Faculty of Actuaries

4 February 2014

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

Appendix A: About the pension fund

For more details please refer to the Fund's Funding Strategy Statement.

The purpose of the Fund is to provide retirement and death benefits to its members. It is part of the Local Government Pension Scheme (LGPS) and is a multi-employer defined benefit pension scheme.

Defined benefit pension scheme

7 In a defined benefit scheme such as this, the nature of retirement benefits that members are entitled to is known in advance. For example, it is known that members will receive a pension on retirement that is linked to their salary and pensionable service according to a pre-determined formula.

However, the precise cost to the Fund of providing these benefits is **not** known in advance. The estimated cost of these benefits represents a liability to the Fund and assets must be set aside to meet this. The relationship between the value of the liabilities and the value of the assets must be regularly assessed and monitored to ensure that the Fund can fulfil its core objective of providing its members with the retirement benefits that they have been promised.

Liabilities

The Fund's liabilities are the benefits that will be paid in the future to its members (and their dependants).

The precise timing and amount of these benefit payments will depend on future experience, such as when members will retire, how long they will live for in retirement and what economic conditions will be like both before and after retirement. Because these factors are not known in advance, assumptions must be made about future experience. The valuation of these liabilities must be regularly updated to reflect the degree to which actual experience has been in line with these assumptions.

Assets

The Fund's assets arise from the contributions paid by its members and their employers and the investment returns that they generate. The way these assets are invested is of fundamental importance to the Fund. The selection, monitoring and evolution of the Fund's investment strategy are key responsibilities of the Administering Authority.

As the estimated cost of the Fund's liabilities is regularly re-assessed, this effectively means that the amount of assets required to meet them is a moving target. As a result, at any given time the Fund may be technically in surplus or in deficit.

A contribution strategy must be put in place which ensures that each of the Fund's employers pays money into the Fund at a rate which will target the cost of its share of the liabilities in respect of benefits already earned by members and those that will be earned in the future.

The long-term nature of the Fund

The pension fund is a long-term commitment. Even if it were to stop admitting new members today, it would still be paying out benefits to existing members and dependants for many decades to come. It is therefore essential that the various funding and investment decisions that are taken now recognise this and come together to form a coherent long-term strategy.

In order to assist with these decisions, the Regulations require the Administering Authority to obtain a formal valuation of the Fund every three years. Along with the Funding Strategy Statement, this valuation will help determine the funding objectives that will apply from 1 April 2014.

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Appendix B: Summary of the Fund's benefits

Provided below is a brief summary of the non-discretionary benefits that we have taken into account for active members at this valuation. This shouldn't be taken as a comprehensive statement of the exact benefits to be paid. For further details please see the Regulations.

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Normal retirement age (NRA)	Age 65.	Age 65.	Equal to the individual member's State Pension Age (minimum 65).
Earliest retirement age (ERA) on which immediate unreduced benefits can be paid on voluntary retirement	As per NRA (age 65). Protections apply to active members in the scheme immediately prior to 1 October 2006 who would have been entitled to immediate payment of unreduced benefits prior to 65, due to: The benefits relating to various segments of scheme membership are protected as set out in Schedule 2 to the Local Government Pension Scheme (Transitional Provisions) Regulations 2008 and associated GAD guidance.		As per NRA (minimum age 65). Protections apply to active members in the scheme for pensions earned up to 1 April 2014, due to: a) Accrued benefits relating to pre April 2014 service at age 65. b) Continued 'Rule of 85' protection for qualifying members. c) Members within 10 yrs of existing NRA at 1/4/12 – no change to when they can retire and no decrease in pension they receive at existing NRA.
Member contributions	Officers - 6% of pensionable pay Manual Workers – 5% of pensionable pay if has protected lower rates rights or 6% for post 31 March 1998 entrants or former entrants with no protected rights.	Banded rates (5.5%-7.5%) depending upon level of full-time equivalent pay. A mechanism for sharing any increased scheme costs between employers and scheme members is included in the LGPS regulations.	Banded rates (5.5%-12.5%) depending upon level of actual pay. A mechanism for sharing any increased scheme costs between employers and scheme members will be included in the LGPS regulations in due course.
Pensionable pay	All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts. Some scheme members may be covered by special agreements.		Pay including non-contractual overtime and additional hours.
Final pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay. Will be required for the statutory underpin and in respect of the final salary link that may apply in respect of certain members of the CARE scheme who have pre April 2014 accrual.		n/a

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Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Period of scheme membership	Total years and days of service during which a member contributes to the Fund. (e.g. transfers from other pension arrangements, augmentation, or from April 2008 the award of additional pension). For part time members, the membership is proportionate with regard to their contractual hours and a full time equivalent). Additional periods may be granted dependent on member circumstances.		n/a
Normal retirement benefits at NRA	Annual Retirement Pension - 1/80th of final pay for each year of scheme membership. Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership. Additional lump sum can be provided by commutation of pension (within overriding limits) on a basis of £12 additional lump sum for each £1 of pension surrendered.	Annual Retirement Pension - 1/60th of final pay for each year of scheme membership. Lump Sum Retirement Grant – none except by commutation of pension.	Scheme membership from 1 April 2014: Annual Retirement Pension - 1/49th of pensionable pay (or assumed pensionable pay) for each year of scheme membership. Lump Sum Retirement Grant - None except by commutation of pension
Option to increase retirement lump sum benefit	In addition to the standard retirement grant any lump sum is to be provided by commutation of pension. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension. The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.
Voluntary early retirement benefits (non ill-health)	On retirement after age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).		On retirement after age 55, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).

<table>
<tr><th>Provision</th><th>Benefit Structure To 31 March 2008</th><th>Benefit Structure From 1 April 2008</th><th>Benefit Structure From 1 April 2014</th></tr>
<tr><td>Employer's consent early retirement benefits (non ill-health)</td><td colspan="2">On retirement after age 55 with employer's consent.

Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction.

Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.</td><td>Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction.

Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.</td></tr>
<tr><td>Ill-health benefits</td><td>As a result of permanent ill-health or incapacity.

Immediate payment of unreduced benefits.

Enhancement to scheme membership, dependent on actual membership. Enhancement seldom more than 6 years 243 days.</td><td>As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before age 65.

Immediate payment of unreduced benefits.

Enhancement to scheme membership, dependent on severity of ill health.

100% of prospective membership to age 65 where no likelihood of undertaking any gainful employment prior to age 65;

25% of prospective membership to age 65 where likelihood of obtaining gainful employment after 3 years of leaving, but before age 65; or

0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment</td><td>As a result of permanent ill-health or incapacity and a reduced likelihood of obtaining gainful employment (local government or otherwise) before NRA.

Immediate payment of unreduced benefits.

Enhanced to scheme membership, dependent on severity of ill health.

100% of prospective membership to age 65 where no likelihood of undertaking any gainful employment prior to age 65;

25% of prospective membership to age 65 where likelihood of obtaining gainful employment after 3 years of leaving, but before age 65; or

0% of prospective membership where there is a likelihood of undertaking gainful employment within 3 years of leaving employment</td></tr>
</table>

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Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Flexible retirement	After 5th April 2006, a member who has attained the age of 50, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may elect in writing to the appropriate administering authority that such benefits may, with his employer's consent, be paid to him notwithstanding that he has not retired from that employment. Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	A member who has attained the age of 55 and who, with his employer's consent, reduces the hours he works, or the grade in which he is employed, may make a request in writing to the appropriate administering authority to receive **all or part** of his benefits, Benefits are paid immediately and subject to actuarial reduction unless the reduction is waived by the employer.	
Pension increases	All pensions in payment, deferred pensions and dependant's pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increases) Act and partially in accordance with statutory requirements (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).		
Death after retirement	A spouse's or civil partner's pension of one half of the member's pension (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners) is payable; plus If the member dies within five years of retiring and before age 75 the balance of five years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	A spouse's, civil partner's or nominated cohabiting partner's pension payable at a rate of 1/160th of the member's total membership multiplied by final pay (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners) is payable; plus If the member dies within ten years of retiring and before age 75 the balance of ten years' pension payments will be paid in the form of a lump sum; plus Children's pensions may also be payable.	

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Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Death in service	A lump sum of two times final pay; plus A spouse's or civil partner's pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners); plus Children's pensions may also be payable.	A lump sum of three times final pay; plus A spouse's, civil partner's or cohabiting partner's pension payable at a rate of 1/160th of the member's total (augmented to age 65) membership (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners), multiplied by final pay; plus Children's pensions may also be payable.	
Leaving service options	If the member has completed three months' or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions ; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than three months' scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.		If the member has completed two years or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions ; or A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or If the member has completed less than two years scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.
State pension scheme	The Fund is contracted-out of the State Second Pension and the benefits payable to each member are guaranteed to be not less than those required to enable the Fund to be contracted-out.		
Assumed pensionable pay	n/a		This applies in cases of reduced contractual pay (CPP) resulting from sickness, child related and reserve forces absence, whereby the amount added to the CPP is the assumed pensionable pay rather than the reduced rate of pay actually received.
50/50 option	n/a		Optional arrangement allowing 50% of main benefits to be accrued on a 50% contribution rate.

Note: Certain categories of members of the Fund are entitled to benefits that differ from those summarised above.

Discretionary benefits

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The LGPS Regulations give employers a number of discretionary powers. The effect on benefits or contributions as a result of the use of these provisions as currently contained within the Local Government Pension Scheme Regulations has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers that will be contained within the scheme from 1 April 2014.

Appendix C: About the valuation

For more details please refer the Fund's Funding Strategy Statement.

It is important to realise that the actual cost of the pension fund (i.e. how much money it will ultimately have to pay out to its members in the form of benefits) is currently unknown. This cost will not be known with certainty until the last benefit is paid to the last pensioner. The core purpose of this valuation is to estimate what this cost will be, so that the Fund can then develop a strategy to meet it.

Such a valuation can only ever be an estimate – as the future cannot be predicted with certainty. However, as actuaries, we can use our understanding of the Fund and the factors that affect it to determine an anticipated cost which is as sensible and realistic as possible. A decision can then be made as to how much is set aside now to meet this anticipated cost. The pace of this funding can vary according to the level of prudence that is built into the valuation method and assumptions.

For this valuation, as for the previous valuation, our calculations identify separately the expected cost of members' benefits in respect of scheme membership completed before the valuation date ("past service") and that which is expected to be completed after the valuation date ("future service").

Past service

The principal measurement here is the comparison at the valuation date of the assets (taken at market value) and the value placed on the Fund's liabilities (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. Our calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases.

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date.

The funding target is to eliminate any deficit (or surplus) over a specified period and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund, either via lump sums or by increasing the employer's contribution rate. These additional contributions are known as the past service adjustment.

Future service

In addition to benefits that have already been earned by members prior to the valuation date, employee members will continue to earn new benefits in the future. The cost of these new benefits must be met by both employers and employees. The employers' share of this cost is known as the future service contribution rate.

For the valuation results for the Fund as a whole, we have calculated the future service rate as the cost of benefits being earned by members over the year following the valuation, taking account of expected future salary increases until retirement. If new entrants are admitted to the Fund to the extent that the overall membership profile remains broadly unchanged (and if the actuarial assumptions are unchanged) then the future service rate should be reasonably stable.

This funding method we have used is known as the Projected Unit Method. As well as the whole fund, it is appropriate for individual employers that continue to admit new entrants to the Fund.

However, some participating employers may have a policy of not admitting new entrants. In this case, the membership profile will inevitably begin to age. Under these circumstances, the Projected Unit Method is arguably no longer appropriate and will not promote sufficient stability in the future service rate. For these employers, we will adopt a funding method known as the Attained Age Method, which effectively looks at the cost of benefits that members will earn over the entirety of their remaining working lifetime (rather than just the year following the valuation).

Combining this future service rate with any past service adjustment required to repay a deficit (or reduce a surplus) gives us the total contribution rate. The total rate for the Fund as a whole is known as the common contribution rate. This is really just a notional figure. In practice, each individual employer will have a contribution rate which reflects their own particular circumstances.

The sensitivity of valuation results

The aim of this valuation is not only to determine these important figures but also to demonstrate their sensitivity to a number of key influences. This will promote an understanding of how the expected cost of the Fund may change in response to uncertain future events (e.g. changes in life expectancy or investment returns). Please refer to **section 5** for details of the sensitivity analysis.

Appendix D: Data

This section contains a summary of the membership, investment and accounting data provided by the Administering Authority for the purposes of this valuation (the corresponding membership and investment data from the previous valuation is also shown for reference). For further details of the data, and the checks and amendments performed in the course of this valuation, please refer to our separate report.

Membership data – whole fund

Employee members

	31 March 2010		31 March 2013	
	Number	Pensionable Pay* (£000)	Number	Pensionable Pay* (£000)
Total employee membership	28,651	494,833	29,722	489,043

*actual pay (not full-time equivalent)

Deferred pensioners

	31 March 2010		31 March 2013	
	Number	Deferred pension (£000)	Number	Deferred pension (£000)
Total deferred membership	25,659	30,392	30,189	36,797

The deferred pension shown includes revaluation up to and including the 2013 Pension Increase Order. The figures above also include any “status 2” and “status 9” members at the valuation date.

Current pensioners, spouses and children

	31 March 2010		31 March 2013	
	Number	Pension (£000)	Number	Pension (£000)
Members	15,332	71,237	17,644	88,035
Dependants	2,503	6,754	2,728	7,719
Children	164	246	184	327
Total pensioner members	**17,999**	**78,237**	**20,556**	**96,081**

Note that the membership numbers in the table above refer to the number of records provided to us and so will include an element of double-counting in respect of any members who are in receipt (or potentially in receipt of) more than one benefit.

Membership Profile	Average Age (years)		FWL (years)	
	2010	2013	2010	2013
Employees	51.6	51.5	7.5	8.9
Deferred Pensioners	50.3	50.4	-	-
Pensioners	67.3	67.8	-	-

The average ages are weighted by liability.

The expected future working lifetime (FWL) indicates the anticipated length of time that the average employee member will remain as a contributor to the Fund. Note that it allows for the possibility of members leaving, retiring early or dying before retirement.

Membership data – individual employers

Employer code	Employer Name	Employees		Deferreds		Pensioners	
		Number	Actual Pay (£000)	Number	Pension (£000)	Number	Pension (£000)
00003	Claygate Parish Council	1	15	0	0	0	0
00004	Bisley Parish Council	1	21	0	0	0	0
00005	Frensham Parish Council	1	12	0	0	0	0
00006	Worplesdon Parish Council	1	32	0	0	0	0
00007	Tongham Parish Council	1	10	0	0	0	0
00008	Windlesham Parish Council	4	96	1	1	3	17
00010	West End Parish Council	1	21	2	3	0	0
00011	Haslemere Town Council	2	47	1	1	3	8
00012	Nonsuch Park J.M.C	4	87	0	0	7	51
00013	Mid Southern Water	0	0	4	5	54	407
00014	Merton & Sutton Joint C B	6	103	3	2	20	29
00016	Cranleigh Parish Council	4	61	3	1	9	29
00017	Warlingham Parish Council	1	12	0	0	0	0
00018	Horley Town Council	4	93	3	5	7	17
00019	Surrey Probation Committee	0	0	0	0	0	0
00020	Surrey Probation Board	0	0	0	0	0	0
00021	West Surrey Water Board	0	0	0	0	2	6
00023	Surrey Magistrates Courts	0	0	130	324	159	791
00025	Godstone Parish Council	2	19	0	0	0	0
00026	East Horsley Parish Council	1	20	1	2	0	0
00027	Compton Parish Council	0	0	0	0	1	0
00028	PEPER HAROW SCHOOL	0	0	4	9	10	55
00029	Godalming Joint Burial Committee	0	0	1	2	4	6
00030	Effingham Parish council	0	0	1	1	0	0
00032	Lingfield Parish Council	1	14	0	0	0	0
00033	Southlands College	0	0	5	12	11	28
00034	Surrey Valuation Tribunal	1	32	1	5	4	28
00037	North Surrey Water Company	0	0	0	0	3	82
00038	East Surrey Water Company	0	0	0	0	0	0
00044	Hanover Housing Association	91	2,435	255	774	221	859
00045	Surrey County Council	19,402	258,409	19,558	17,434	10,905	44,729
00046	Meath Homes	0	0	0	0	1	5
00070	Ash Parish Council	7	113	11	21	9	26
00073	University Of Surrey	567	11,081	1,007	1,067	758	2,540
00074	Surrey Police Committee m	0	0	79	107	197	511
00075	HASLEMERE SC/SHOTTERMILL	0	0	1	1	0	0
00076	South East Regional Arts	0	0	3	4	7	20
00089	SE Employers Assn	0	0	1	11	6	58
00091	Epsom & Walton Downs Cons	5	118	3	3	5	36
00092	J.S.Jeffries Swimming Pool	0	0	8	30	2	15
00093	Reigate Grammar School	65	1,397	20	61	22	98
00094	Moor House School	28	513	66	95	38	162
00095	The Royal Grammar School	22	645	19	35	27	101
00096	Sir William Perkins's School	11	316	4	10	15	48
00327	Oxted Parish Council	1	11	0	0	0	0
00328	Chiddingfold Parish Council	1	32	0	0	0	0
00329	Chaldon Village Council	1	9	0	0	0	0
00330	Whiteleaf Village Council	1	7	0	0	0	0
00347	The Royal School, Hindhead	0	0	0	0	1	4
00359	Elmbridge Borough Council	350	8,942	401	960	691	3,996
00360	Elmbridge Housing Trust	12	428	25	139	26	251
00361	Epsom & Ewell Borough Council	245	6,090	287	558	449	2,470
00379	Guildford Borough Council	701	17,840	1,005	1,782	756	4,456
00390	S.A.D.A.S	10	258	27	46	2	23
00436	Mole Valley District Council	226	5,903	332	745	429	2,536
00470	N SY JNT SEWRGE BRD (CLO	0	0	0	0	1	1
00481	Reigate & Banstead Borough Council	362	9,803	477	1,256	735	4,547
00494	Runnymede Borough Council	356	8,738	344	675	450	2,611
00501	Cleves Junior	48	462	11	3	0	0
00502	Thomas Knyvett Academy	27	373	13	14	0	0

7

Employer code	Employer Name	Employees Number	Employees Actual Pay (£000)	Deferreds Number	Deferreds Pension (£000)	Pensioners Number	Pensioners Pension (£000)
00504	Sunbury Manor	44	801	11	13	2	2
00506	Weydon School	50	640	13	10	0	0
00507	Collingwood	106	1,342	23	21	5	10
00508	George Abbot	92	1,453	12	12	7	24
00509	South Farnham	45	357	26	7	0	0
00510	Magna Carta	53	821	7	3	1	2
00511	Rodborough Technology College	46	605	6	10	6	28
00512	Rydens	56	918	6	7	1	7
00513	Thamesmead	45	698	6	3	1	1
00514	The Raleigh	49	264	9	5	1	7
00515	Woolmer Hill Technology College	24	365	7	6	0	0
00516	Epsom and Ewell High School Academy	27	479	5	2	1	7
00517	The Beacon School	42	809	0	0	1	2
00518	Peper Harow Foundation	0	0	14	34	8	150
00519	Fullbrook School Academy	45	706	10	14	5	24
00520	Rosebery School Academy	58	784	6	3	2	5
00521	Blenheim High School Academy	58	912	7	4	2	11
00522	Hinchley Wood School	54	897	3	3	0	0
00523	Goldsworth School	41	300	0	0	0	0
00524	The Bishop Wand	41	536	1	0	2	5
00525	Cobham Free School	5	56	0	0	0	0
00526	Danetree Junior School	27	260	2	1	0	0
00527	Matthew Arnold School	68	962	5	1	0	0
00528	Wishmore Cross	42	493	3	3	0	0
00529	Warlingham School	80	1,153	4	5	1	5
00530	Weyfield Primary Academy	41	340	2	6	0	0
00531	Guildford County Academy	48	610	0	0	0	0
00532	Gordons School Academy Trust	21	268	1	2	0	0
00536	Spelthorne Borough Council	279	6,975	335	726	519	3,089
00547	Surrey Heath Borough Council	205	5,643	285	866	395	2,619
00553	Tandridge District Council	259	7,270	222	418	372	2,605
00584	Waverley Borough Council	372	9,121	400	1,089	606	4,028
00603	Woking Borough Council	329	8,257	466	905	596	3,797
00604	Woking Meals Service	0	0	1	0	3	1
00679	Godalming Town Council	5	119	1	0	4	19
00740	Achieve Lifestyle	31	415	2	2	0	0
00741	Riverside Housing Group	2	51	1	3	0	0
00742	Look Ahead Housing and Care Ltd	2	53	0	0	0	0
00743	Guildford Freedom Leisure	66	1,279	5	6	1	3
00744	Woking Freedom Leisure	103	801	2	1	0	0
00745	IESE - Improvement and Efficiency South East	17	894	1	5	0	0
00761	SIAD	0	0	5	5	10	30
00802	National Care Standards Commn	0	0	4	27	2	15
00803	Raven Housing Trust	49	1,308	30	131	44	262
00804	S W T Countryside Services Ltd	10	268	5	29	10	96
00805	Surrey Community Dev Trust	0	0	0	0	1	5
00806	Hoppa	6	144	6	4	9	13
00807	Carillion Highway Maintance Ltd	0	0	1	0	6	29
00808	Ringway Highway Services	0	0	0	0	2	4
00809	SERCO LTD	22	416	15	10	6	18
00810	CSCI	0	0	8	55	5	49
00811	VT Four S	101	3,164	109	330	70	728
00812	G Burlegh and Sons	4	93	2	8	2	5
00813	Childhood First	4	195	0	0	1	23
00814	East Surrey Rural Transport Partnership	0	0	0	0	1	5
00815	Mole Valley Housing Association	26	665	22	62	21	82
00816	Ability	5	134	0	0	0	0
00818	Fusion Lifestyle	21	295	8	6	4	27
00819	Commision for Social Care Inspection	2	95	1	21	2	31
00820	Skanska Construction UK Ltd (Streetlighting)	12	396	0	0	2	20

Employer code	Employer Name	Employees Number	Employees Actual Pay (£000)	Deferreds Number	Deferreds Pension (£000)	Pensioners Number	Pensioners Pension (£000)
00822	May Gurney	8	200	2	13	2	17
00823	Mansell Construction Services Ltd	2	72	0	0	0	0
00824	Morrison Facilities Services Ltd	10	255	0	0	1	2
00825	Pinnacle Housing Limited	9	235	0	0	0	0
00826	Caring Daycare Limited	9	132	3	3	0	0
00891	Accent Peerless Ltd	9	233	32	159	40	311
00895	Witley Parish Council	3	57	2	4	2	3
00896	Surrey Assoc. for Visual Impairment	15	364	19	37	14	53
00897	Bramley Parish Council	1	8	1	1	1	1
00900	Glyn A D T Tech. School	0	0	1	0	0	0
00901	Guildford County School	0	0	0	0	3	11
00902	Collingwood College	0	0	4	1	9	12
00903	St John The Baptist School	0	0	1	0	0	0
00906	Sir William Perkins School	0	0	6	5	8	14
00907	Epsom & Ewell High School	0	0	5	3	2	1
00908	Heathside School	0	0	5	2	3	1
00909	Hawkedale School	9	61	14	6	4	4
00911	Stoneleigh First School	0	0	2	0	3	6
00912	The Beacon School	0	0	22	21	10	30
00913	Rosebery School	0	0	6	6	3	3
00914	De Stafford School	1	9	26	20	13	25
00917	N.E.S.C.O.T	192	2,798	364	378	167	541
00918	Brooklands College	126	2,440	162	235	117	368
00919	St. Paul's Catholic College	36	635	42	32	16	21
00920	Esher College	44	881	45	36	19	82
00921	Farnham College	0	0	27	17	5	7
00922	Godalming College	60	1,017	95	59	37	81
00923	Merrist Wood College	0	0	73	62	25	75
00924	Reigate College	72	1,103	65	48	15	58
00925	Spelthorne College	0	0	16	10	16	19
00926	Strodes College	56	904	36	36	24	49
00927	East Surrey College	126	2,385	222	233	124	316
00928	Woking College	25	348	20	13	22	46
00929	Guildford College of F E	271	5,828	359	455	161	635
00930	Pewley Down School	0	0	1	0	0	0
00931	Holy Trinity School	0	0	0	0	1	0
00932	Parkmead Infant School	0	0	1	0	2	2
00933	Yattenden School	0	0	2	0	0	0
00935	Send Parish Council	1	20	0	0	1	2
00936	South East Arts Board	0	0	35	78	10	46
00937	Farnham Town Council	13	303	6	15	4	26
00938	Shere Parish Council	0	0	0	0	1	16
00939	Shalford Parish Council	0	0	0	0	1	1
00940	Salesian School	0	0	3	4	6	11
00941	Sayes Court Junior School	0	0	1	0	0	0
00942	Northmead School	24	293	10	3	6	7
00943	St Thomas Of Canterbury	0	0	0	0	3	6
00945	Burstow Primary School	0	0	2	1	2	3
00946	Binscombe Middle School	0	0	2	0	1	2
00947	Burpham Primary School	0	0	5	2	1	0
00948	The Winston Churchill Sc	0	0	3	0	1	5
00949	Fullbrook School	0	0	35	44	12	34
00950	Wallace Fields Junior School	0	0	3	0	5	7
00951	Tadworth Primary School	0	0	3	1	0	0
00952	Whyteleafe School	0	0	3	0	0	0
00954	Hinchley Wood School	0	0	31	20	9	19
00955	Godstone Village School	0	0	1	0	0	0
00956	Bushy Hill Junior School	0	0	0	0	1	1
00958	Cleves Junior School	0	0	0	0	1	0
00959	Blenheim High School	0	0	31	11	8	5

Employer code	Employer Name	Employees		Deferreds		Pensioners	
		Number	Actual Pay (£000)	Number	Pension (£000)	Number	Pension (£000)
00961	St Mary's C of E Junior School	35	232	17	5	3	5
00966	Surrey Police Authority	2,028	52,183	1,601	2,871	603	2,473
00974	UCCA	0	0	106	171	58	210
00975	UCCA	0	0	107	131	37	132
00976	University College of Creative Arts	541	11,837	168	267	58	314
00980	The Princess Alice Hospice	2	34	1	7	3	11
00985	Woking Community Transport	0	0	6	5	17	48
00986	Rosebery Housing Association	2	56	6	46	19	118
00994	Spelthorne Housing Assn	0	0	2	16	6	17
00995	APEX/A2 Housing Group Ltd	4	233	7	54	21	208

Assets at 31 March 2013

A summary of the Fund's assets (excluding members' money-purchase Additional Voluntary Contributions) as at 31 March 2013 and 31 March 2010 is as follows:

Asset class	Market Value at 31 March 2010 (£000)	Allocation %	Market Value at 31 March 2013 (£000)	Allocation %
UK equities	707,888	36%	662,158	26%
UK fixed interest gilts	52,781	3%	102,904	4%
UK corporate bonds	146,207	8%	122,755	5%
UK index-linked gilts	24,541	1%	99,100	4%
Overseas equities	724,248	37%	1,241,851	49%
Overseas bonds	112,209	6%	122,204	5%
Property	109,721	6%	120,748	5%
Cash and net current assets	65,273	3%	86,995	3%
Total	**1,942,868**	100%	**2,558,715**	100%

Note that, for the purposes of determining the funding position at 31 March 2013, the asset value we have used also includes the present value of expected future early retirement strain payments (amounting to £0m).

Accounting data – revenue account for the three years to 31 March 2013

Consolidated accounts (£000)	Year to 31 March 2011	Year to 31 March 2012	Year to 31 March 2013	Total
Income				
Employer - normal contributions	101,013	103,056	106,544	310,613
Employer - additional contributions	32	21	71	124
Employer - early retirement and augmentation strain contributions	5,926	3,594	2,899	12,419
Employee - normal contributions	32,149	31,158	31,253	94,560
Employee - additional contributions	813	753	627	2,193
Transfers In Received (including group and individual)	17,770	13,968	31,983	63,721
Other Income	0	0	0	0
Total Income	**157,703**	**152,550**	**173,376**	**483,629**
Expenditure				
Gross Retirement Pensions	79,664	86,143	94,191	259,998
Lump Sum Retirement Benefits	19,737	20,667	16,818	57,222
Death in Service Lump sum	2,641	2,946	2,840	8,427
Death in Deferment Lump Sum	0	0	0	0
Death in Retirement Lump Sum	0	0	0	0
Gross Refund of Contributions	18	15	29	62
Transfers out (including bulk and individual)	13,516	35,820	7,916	57,252
Fees and Expenses	1,863	1,761	1,911	5,535
Total Expenditure	**117,439**	**147,352**	**123,705**	**388,496**
Net Cashflow	**40,264**	**5,198**	**49,671**	**95,133**
Assets at start of year	**1,942,868**	**2,152,894**	**2,196,270**	**1,942,868**
Net cashflow	40,264	5,198	49,671	95,133
Change in value	169,762	38,178	312,774	520,714
Assets at end of year	**2,152,894**	**2,196,270**	**2,558,715**	**2,558,715**
Approximate rate of return on assets	**8.6%**	**1.8%**	**14.1%**	**26.2%**

Note that the figures above are based on the Fund accounts provided to us for the purposes of this valuation, which were fully audited at the time of our valuation calculations.

Appendix E: Assumptions

Financial assumptions

Financial assumptions	31 March 2010 (% p.a.)	31 March 2013 (% p.a.)
Discount rate	6.1%	4.6%
Price inflation	3.8%	3.3%
Pay increases*	5.3%	3.8%
Pension increases:	3.3%	2.5%
pension in excess of GMP	3.3%	2.5%
post-88 GMP	2.8%	2.5%
pre-88 GMP	0.0%	0.0%
Revaluation of deferred pension	3.3%	2.5%
Expenses	0.4%	0.4%

*An allowance is also made for promotional pay increases (see table below). Note that the assumption at 31 March 2013 is actually 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

Mortality assumptions

Longevity assumptions	31 March 2013
Longevity - baseline	Vita curves
Longevity - improvements	
CMI Model version used	CMI_2010
Starting rates	CMI calibration based on data from Club Vita using the latest available data as at December 2011.
Long term rate of improvement	Period effects: 1.25% p.a. for men and women. Cohort effects: 0% p.a. for men and for women.
Period of convergence	Period effects: CMI model core values i.e. 10 years for ages 50 and below and 5 years for those aged 95 and above, with linear transition to 20 years for those aged between 60 and 80. Cohort effects: CMI core i.e. 40 years for those born in 1947 or later declining linearly to 5 years for those born in 1912 or earlier.
Proportion of convergence remaining at mid point	50%

We have suggested a longevity improvement assumption based on the latest industry standard and combined information from our longevity experts in Club Vita. The start point for the improvements has been based on observed death rates in the Club Vita data bank over the period.

In the short term we have assumed that the 'cohort effect' of strong improvements in life expectancy currently being observed amongst a generation born around the early and mid 1930s will start to tail off, resulting in life expectancy increasing less rapidly than has been seen over the last decade or two. This is known as 'peaked'.

In the long term (post age 70) we have assumed that increases in life expectancy will stabilise at a rate of increase of 1 year per decade for men and women. This is equivalent to assuming that longer term mortality rates will fall at a rate of 1.25% p.a. for men and women.

Various scaling factors have been applied to the mortality tables to reflect the predicted longevity for each class of member and their dependants. Full details of these are available on request.

As a member of Club Vita, the longevity assumptions that have been adopted at this valuation are a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. These curves are based on the data you have provided us with for the purposes of this valuation. Full details of these are available on request.

Other demographic valuation assumptions

Retirements in ill health	Allowance has been made for ill-health retirements before Normal Pension Age (see table below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008).
50:50 option	10% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

The tables below show details of the assumptions actually used for specimen ages. The promotional pay scale is an annual average for all employees at each age. It is in addition to the allowance for general pay inflation described above. For membership movements, the percentages represent the probability that an individual at each age leaves service within the following twelve months.

Death in Service tables:

Rural

Age	Incidence per 1000 active members per annum			
	Male officers and Post 98	Male Manuals	Female officers and Post 98	Female Manuals
	Death	Death	Death	Death
20	0.21	0.27	0.12	0.15
25	0.21	0.27	0.12	0.15
30	0.26	0.32	0.18	0.22
35	0.30	0.37	0.30	0.37
40	0.51	0.64	0.48	0.60
45	0.85	1.07	0.77	0.97
50	1.36	1.71	1.13	1.42
55	2.13	2.68	1.49	1.87
60	3.83	4.82	1.90	2.39
65	6.38	8.03	2.44	3.07

7

Ill Health Early Retirements tables

Tier 1

Rural

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.60	0.60	0.15	0.11	0.79	0.79
30	0.00	0.00	1.11	1.11	0.20	0.15	1.15	1.15
35	0.15	0.11	1.66	1.66	0.40	0.30	1.58	1.58
40	0.25	0.19	2.42	2.42	0.60	0.45	2.30	2.30
45	0.55	0.42	3.33	3.33	0.81	0.60	3.02	3.02
50	1.41	1.06	4.94	4.94	1.51	1.13	4.03	4.03
55	5.53	4.15	11.69	11.69	5.61	4.20	10.83	10.83
60	9.73	7.30	18.74	18.74	11.89	8.92	19.05	19.05
65	18.48	13.86	36.12	36.12	21.37	16.03	36.12	36.12

Tier 2

Rural

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.64	0.64	0.16	0.12	0.84	0.84
30	0.00	0.00	1.18	1.18	0.21	0.16	1.22	1.22
35	0.16	0.12	1.77	1.77	0.43	0.32	1.68	1.68
40	0.27	0.20	2.57	2.57	0.64	0.48	2.45	2.45
45	0.59	0.44	3.53	3.53	0.86	0.64	3.21	3.21
50	1.90	1.42	6.65	6.65	2.03	1.53	5.43	5.43
55	4.27	3.20	9.03	9.03	4.33	3.25	8.37	8.37
60	3.66	2.75	7.05	7.05	4.48	3.36	7.17	7.17
65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Tier 3

Rural

Age	Incidence for 1000 active members per annum							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	Ill Health		Ill Health		Ill Health		Ill Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.48	0.38	0.09	0.07	0.55	0.44
30	0.09	0.07	0.77	0.62	0.15	0.12	0.77	0.61
35	0.12	0.10	1.16	0.93	0.30	0.24	1.11	0.88
40	0.21	0.17	1.61	1.29	0.39	0.31	1.53	1.22
45	0.48	0.38	2.32	1.86	0.62	0.50	1.96	1.56
50	0.26	0.21	0.68	0.54	0.24	0.20	0.58	0.46
55	0.37	0.30	0.77	0.61	0.45	0.36	0.76	0.61
60	0.21	0.17	0.42	0.33	0.25	0.20	0.42	0.33
65	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Withdrawal

Less than 2 years' service

Age	Incidence for 1000 active members per annum											
	Male Officers Withdrawals		Male Manuals Withdrawals		Female Officers Withdrawals		Female Manuals Withdrawals		Post 98 Males Withdrawals		Post 98 Females Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	304.04	506.74	304.04	506.74	288.39	400.55	288.39	400.55	557.41	1000.00	384.52	640.87
25	200.83	334.72	201.20	335.01	194.07	269.50	194.43	269.79	368.19	736.38	258.74	431.17
30	142.53	237.46	143.05	237.91	162.69	225.89	163.17	226.27	261.24	522.40	216.89	361.38
35	111.38	185.51	112.17	186.19	140.45	194.94	141.07	195.43	204.11	408.11	187.19	311.79
40	89.71	149.31	90.77	150.23	116.92	162.22	117.80	162.92	164.33	328.47	155.80	259.40
45	73.64	122.28	75.03	123.55	96.49	133.73	97.50	134.54	134.71	268.98	128.49	213.73
50	56.96	94.68	57.28	95.02	73.34	101.75	73.60	101.96	104.26	208.28	97.73	162.71
55	49.47	82.09	49.77	82.44	56.73	78.59	56.97	78.78	90.46	180.57	75.53	125.58
60	29.97	49.75	30.13	49.94	26.40	36.55	26.52	36.65	54.81	109.43	35.13	58.39

More than 2 years' service

Age	Incidence for 1000 active members per annum											
	Male Officers Withdrawals		Male Manuals Withdrawals		Female Officers Withdrawals		Female Manuals Withdrawals		Post 98 Males Withdrawals		Post 98 Females Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	119.85	199.76	119.85	199.76	113.69	157.90	113.69	157.90	219.73	439.46	151.58	252.63
25	79.17	131.95	79.31	132.06	76.50	106.24	76.64	106.35	145.14	290.28	101.99	169.97
30	56.18	93.60	56.39	93.78	64.13	89.05	64.32	89.20	102.98	205.93	85.50	142.46
35	43.90	73.12	44.22	73.40	55.37	76.84	55.61	77.04	80.46	160.88	73.79	122.91
40	35.36	58.85	35.79	59.22	46.09	63.95	46.44	64.22	64.78	129.48	61.42	102.26
45	29.03	48.18	29.59	48.71	38.04	52.72	38.44	53.04	53.10	106.03	50.65	84.25
50	22.45	37.31	22.58	37.46	28.91	40.11	29.01	40.19	41.10	82.10	38.52	64.14
55	19.50	32.35	19.62	32.50	22.36	30.98	22.46	31.06	35.66	71.18	29.77	49.50
60	11.82	19.60	11.88	19.69	10.41	14.41	10.46	14.45	21.61	43.14	13.85	23.02

Promotional salary scale

Age	Promotional Salary Scales							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	FT	PT	FT	PT	FT	PT	FT	PT
20	100	100	100	100	100	100	100	100
25	135	116	100	100	118	105	100	100
30	169	134	100	100	137	111	100	100
35	192	146	100	100	151	116	100	100
40	208	153	100	100	163	121	100	100
45	222	154	100	100	166	122	100	100
50	236	154	100	100	166	122	100	100
55	239	154	100	100	166	122	100	100
60	239	154	100	100	166	122	100	100
65	239	154	100	100	166	122	100	100

Appendix F: Events since valuation date

Post-valuation events

These valuation results are effectively a snapshot of the Fund as at 31 March 2013. Since that date, various events have had an effect on the financial position of the Fund. Whilst we have not explicitly altered the valuation results to allow for these events a short discussion of these "post-valuation events" can still be beneficial in understanding likelihood of meeting the various funding objectives.

Investment conditions since 31 March 2013

In the period since the valuation date, investment markets moved in the following manner:

- equity markets have risen
- bond yields have risen
- price inflation has risen

The table below compares the initial valuation results presented in this report with those that would have applied if our assumptions had been based on current market conditions (i.e. assumptions as at 31 December 2013).

Assumptions as at:	***31 March 2013***	***31 December 2013***
Past Service Position	*(£m)*	(£m)
Total Liabilities	*3538*	*3407*
Market Value of Assets	*2559*	*2749*
Surplus / (Deficit)	***(980)***	***(658)***
Funding Level	*72.3%*	*80.7%*
Contribution rates	***% of pay***	***% of pay***
Future service rate	*19.9%*	*17.6%*
Past Service Adjustment (20 year spread)	*10.8%*	*7.3%*
Total contribution rate	*30.7%*	*24.9%*

Other events

Other than investment conditions changes above, I am not aware of any material changes or events occurring since the valuation date.

Appendix G: Rates and adjustments certificate

In accordance with regulation 36(1) of the Administration Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2014 to 31 March 2017 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated TBC and our report on the actuarial valuation dated 31 January 2014.

7

The required minimum contribution rates are set out in the table below.

Signature:	Barry McKay	Julie Morrison
Date:	04 February 2014	04 February 2014
Name:	Barry McKay	Julie Morrison
Qualification:	Fellow of the Institute and Faculty of Actuaries	Fellow of the Institute and Faculty of Actuaries
Firm	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB	Hymans Robertson LLP 20 Waterloo Street Glasgow G2 6DB

Statement to the rates and adjustments certificate

The Common Rate of Contribution payable by each employing authority under regulation 36(4)(a) of the Administration Regulations for the period 1 April 2011 to 31 March 2017 is 30.7% of pensionable pay (as defined in Appendix B).

Individual Adjustments are required under regulation 36(4)(b) of the Administration Regulations for the period 1 April 2014 to 31 March 2017 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below.

The contributions shown include expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by Fund employers in addition.

Employer code	Employer name	Contributions currently being paid in 2013/14	Minimum Contributions for the Year Ending		
			31 March 2015	31 March 2016	31 March 2017
Scheduled Bodies					
359	Elmbridge Borough Council	14.5% plus £756,000	14.5% plus £988,000	14.5% plus £1,219,000	14.5% plus £1,451,000
361	Epsom & Ewell Borough Council[1]	15.5% plus £418,000	15.5% plus £644,000	15.5% plus £777,000	15.5% plus £911,000
379	Guildford Borough Council	14.6% plus £1,483,000	14.6% plus £2,286,000	14.6% plus £2,112,000	14.6% plus £2,424,000
436	Mole Valley District Council	15.5% plus £578,000	15.5% plus £686,000	15.5% plus £794,000	15.5% plus £902,000
481	Reigate & Banstead Borough Council	15.2% plus £1,167,000	15.2% plus £1,345,000	15.2% plus £1,522,000	15.2% plus £1,700,000
494	Runnymede Borough Council	16.3% plus £362,000	16.3% plus £513,000	16.3% plus £664,000	16.3% plus £815,000
536	Spelthorne Borough Council	15.8% plus £478,000	15.8% plus £657,000	15.8% plus £837,000	15.8% plus £1,016,000
45	Surrey County Council	14.8% plus £16,797,000	14.8% plus £19,453,000	14.8% plus £22,110,000	14.8% plus £24,766,000
547	Surrey Heath Borough Council	15.7% plus £381,000	15.7% plus £550,000	15.7% plus £718,000	15.7% plus £887,000
966	Surrey Police Authority	12.0% plus £1,026,000	17.7% plus £1,026,000	17.7% plus £1,026,000	17.7% plus £1,026,000
553	Tandridge District Council	16.5% plus £931,000	16.5% plus £1,051,000	16.5% plus £1,172,000	16.5% plus £1,292,000
584	Waverley Borough Council	16.5% plus £1,009,000	16.5% plus £1,430,000	16.5% plus £1,430,000	16.5% plus £1,430,000
603	Woking Borough Council	15.0% plus £1,360,000	15.0% plus £1,457,000	15.0% plus £1,553,000	15.0% plus £1,650,000
Other Scheduled Bodies					
70	Ash Parish Council	19.2% plus £25,530	21.6% plus £10,000	23.9% plus £10,000	26.3% plus £10,000
4	Bisley Parish Council	18.6%	21.7%	21.7%	21.7%
897	Bramley Parish Council	19.2% plus £1,543	17.3% plus £2,000	17.3% plus £2,000	17.3% plus £2,000
329	Chaldon Village Council	22.6%	28.6%	28.6%	28.6%
328	Chiddingfold Parish Council	22.6%	27.3%	27.3%	27.3%
3	Claygate Parish Council	18.7% plus £57	28.8% plus £3,000	28.8%	28.8%
16	Cranleigh Parish Council	19.2% plus £11,552	20.2% plus £9,000	21.2% plus £9,000	22.2% plus £9,000
26	East Horsley Parish Council	18.7% plus £89	27.0% plus £2,000	27.0% plus £2,000	27.0% plus £2,000
30	Effingham Parish council	18.7% plus £61	-	-	-
937	Farnham Town Council	19.2% plus £53,212	21.7% plus £8,000	21.7% plus £8,000	21.7% plus £8,000
5	Frensham Parish Council	18.7% plus £42	31.5% plus £1,000	31.5% plus £1,000	31.5% plus £1,000
679	Godalming Town Council	19.2% plus £21,320	19.0%	19.0%	19.0%
25	Godstone Parish Council	18.7% plus £73	28.9%	28.9%	28.9%
11	Haslemere Town Council	18.7% plus £210	13.9%	13.9%	13.9%
18	Horley Town Council	19.2% plus £16,186	21.2% plus £11,000	23.2% plus £11,000	25.2% plus £11,000
32	Lingfield Parish Council	18.7% plus £49	24.1% plus £1,000	24.1% plus £1,000	24.1%
14	Merton & Sutton Joint C B	19.2% plus £22,859	20.1% plus £20,000	21.0% plus £20,000	21.9% plus £20,000
327	Oxted Parish Council	14.7%	19.6%	19.6%	19.6%
935	Send Parish Council	19.2% plus £3,214	19.2%	19.2%	19.2%
938	Shere Parish Council	19.2% plus £7,433	£5,000	£5,000	£5,000
7	Tongham Parish Council	19.2% plus £1,863	22.6% plus £1,000	25.9% plus £1,000	29.3% plus £1,000
17	Warlingham Parish Council	18.7% plus £32	26.6%	26.6%	26.6%
10	West End Parish Council	18.7% plus £79	20.0% plus £1,000	20.0% plus £1,000	20.0% plus £1,000
8	Windlesham Parish Council	19.2% plus £18,206	19.3% plus £3,000	19.3% plus £3,000	19.3% plus £3,000
895	Witley Parish Council	19.2% plus £10,041	21.1% plus £8,000	23.1% plus £8,000	25.0% plus £8,000
330	Whiteleaf Village Council	15.7%	19.7%	19.7%	19.7%
6	Worplesdon Parish Council	18.7% plus £116	19.3% plus £1,000	19.3% plus £1,000	19.3% plus £1,000
Further Education Establishments					
918	Brooklands College	17.1% plus £165,000	20.6% plus £274,000	20.6% plus £274,000	20.6% plus £274,000
927	East Surrey College	16.1% plus £144,000	19.2% plus £253,000	19.2% plus £253,000	19.2% plus £253,000
920	Esher College	16.7% plus £24,000	21.0% plus £35,000	21.0% plus £35,000	21.0% plus £35,000
922	Godalming College	16.7% plus £27,000	18.6% plus £35,000	20.5% plus £35,000	22.5% plus £35,000
929	Guildford College of F E	15.6% plus £488,000	18.8% plus £739,000	18.8% plus £739,000	18.8% plus £739,000
917	N.E.S.C.O.T	16.6% plus £326,000	21.4% plus £460,000	21.4% plus £460,000	21.4% plus £460,000
924	Reigate College	16.7% plus £28,000	22.5% plus £52,000	22.5% plus £52,000	22.5% plus £52,000
926	Strodes College	16.7% plus £20,000	19.8% plus £29,000	19.8% plus £29,000	19.8% plus £29,000
975	University of Creative Arts	16.0% plus £574,000	19.6% plus £808,000	19.6% plus £925,000	19.6% plus £925,000
928	Woking College	16.7% plus £11,000	21.2% plus £39,000	21.2% plus £39,000	21.2% plus £39,000

Employer code	Employer name	Contributions currently being paid in 2013/14	Minimum Contributions for the Year Ending 31 March 2015	31 March 2016	31 March 2017
Admission Bodies					
816	Ability	21.5%	21.5%	21.5%	21.5%
891	Accent Peerless Ltd	18.8% plus £375,000	25.8% plus £505,000	25.8% plus £505,000	25.8% plus £505,000
740	Achieve Lifestyle	16.3%	20.1% plus £8,000	20.1% plus £8,000	20.1% plus £8,000
995	Apex Housing	23.1% plus £197,000	26.4% plus £203,000	26.4% plus £203,000	26.4% plus £203,000
826	Caring Daycare Ltd	20.7%	21.3%	21.3%	21.3%
810	CSCI	21.0% plus £88,000	27.9% plus £104,000	27.9% plus £104,000	27.9% plus £104,000
813	Childhood First	24.3% plus £77,000	22.1% plus £149,000	22.1% plus £149,000	22.1% plus £149,000
814	East Surrey Rural Transport Partnership	-	£12,000	£12,000	£12,000
360	Elmbridge Housing Trust	20.0% plus £83,000	23.6% plus £60,000	23.6% plus £60,000	23.6% plus £60,000
743	Freedom Leisure (Guildford)	19.4%	19.9%	19.9%	19.9%
744	Freedom Leisure (Woking)	17.4%	19.6%	19.6%	19.6%
818	Fusion Lifestyle	17.7%	17.7%	17.7%	17.7%
812	G Burlegh and Sons	18.2%	-	-	-
44	Hanover Housing Association	18.1% plus £1,331,000	22.5% plus £1,373,000	22.5% plus £1,373,000	22.5% plus £1,373,000
806	Hoppa	19.4% plus £8,000	25.9%	25.9%	25.9%
745	IESE - Improvement and Efficiency South East	21.5%	17.1%	17.1%	17.1%
742	Look Ahead Care & Support	19.8%	25.9%	25.9%	25.9%
823	Mansell Construction (Woking Housing Transfer)	25.4%	23.6%	23.6%	23.6%
815	Mole Valley Housing Association	20.7% plus £55,000	26.1% plus £55,000	26.1% plus £55,000	26.1% plus £55,000
94	Moor House School	16.8% plus £188,000	18.5% plus £188,000	20.2% plus £188,000	21.8% plus £188,000
824	Morrison FS Ltd (Woking Housing Transfer)	24.4%	23.9%	23.9%	23.9%
917	N.E.S.C.O.T	16.6% plus £326,000	21.4% plus £460,000	21.4% plus £460,000	21.4% plus £460,000
825	Pinnacle Housing (Woking Housing Transfer)	25.2%	23.4%	23.4%	23.4%
803	Raven Housing Trust	19.9% plus £111,000	24.3% plus £171,000	24.3% plus £171,000	24.3% plus £171,000
93	Reigate Grammar School	19.2% plus £104,000	22.4% plus £97,000	22.4% plus £97,000	22.4% plus £97,000
741	Riverside Group	20.1%	22.3%	22.3%	22.3%
986	Rosebery Housing Association	19.2% plus £12,000	21.9% plus £239,000	21.9% plus £239,000	21.9% plus £239,000
804	Surrey Wildlife Trust	22.1% plus £22,000	26.2% plus £50,000	26.2% plus £50,000	26.2% plus £50,000
809	SERCO LTD	18.3%	23.7% plus £7,000	23.7% plus £7,000	23.7% plus £7,000
96	Sir William Perkins's School	19.2% plus £29,000	26.7% plus £65,000	26.7% plus £65,000	26.7% plus £65,000
390	S.A.D.A.S	15.5% plus £19,000	20.4% plus £24,000	20.4% plus £24,000	20.4% plus £24,000
820	Skanska Construction UK Ltd (Streetlighting)	20.4%	24.3% plus £13,000	24.3% plus £13,000	24.3% plus £13,000
896	Surrey Assoc. for Visual Impairment	19.2% plus £108,000	19.2% plus £108,000	19.2% plus £108,000	19.2% plus £108,000
821	Surrey Sports Park	10.9%	18.4% plus £19,000	18.4% plus £19,000	18.4% plus £19,000
34	Surrey Valuation Tribunal	15.6% plus £11,000	17.0% plus £14,000	17.0% plus £14,000	17.0% plus £14,000
980	The Princess Alice Hospice	19.2% plus £10,000	29.2% plus £144,000	29.2%	29.2%
95	The Royal Grammar School	19.2% plus £60,000	25.1% plus £135,000	25.1% plus £135,000	25.1% plus £135,000
73	University Of Surrey	16.4% plus £1,153,000	19.9% plus £1,732,000	19.9% plus £1,732,000	19.9% plus £1,732,000
811	VT Four S	20.2% plus £465,000	24.2% plus £3,704,000	-	-
Academies					
501	Cleves School	24.6%	26.5%	28.4%	30.3%
502	Thomas Knyvett College	19.9%	21.6%	23.4%	25.1%
503	Howard of Effingham School	22.3%	23.9%	25.5%	27.0%
504	Sunbury Manor School	22.4%	24.0%	25.6%	27.2%
505	Glyn School	22.3%	24.4%	26.4%	28.5%
506	Weydon School	20.2%	21.8%	23.5%	25.1%
507	Collingwood College	21.6%	23.1%	24.6%	26.1%
508	George Abbot School	23.3%	24.8%	26.4%	27.9%
509	South Farnham School	21.5%	23.0%	24.4%	25.9%
510	Magna Carta School	24.2%	25.3%	26.3%	27.4%
511	Rodborough Technology College	27.4%	28.7%	30.0%	31.3%
512	Rydens Enterprise School	21.7%	23.1%	24.5%	25.8%
513	Thamesmead School	25.1%	26.5%	27.8%	29.2%
514	The Raleigh School	25.4%	26.5%	27.6%	28.6%
515	Woolmer Hill School	27.7%	29.4%	31.1%	32.8%
516	Epsom & Ewell High School	28.8%	28.1%	28.1%	28.1%
517	The Beacon School	32.7%	30.3%	30.3%	30.3%
519	Fullbrook School	28.5%	29.9%	31.4%	32.9%
520	Rosebery School	28.5%	26.9%	26.9%	26.9%
521	Blenheim High School	32.4%	33.2%	33.2%	33.2%
522	Hinchley Wood School	31.8%	30.9%	30.9%	30.9%
523	Goldsworth Primary School	27.0%	24.1%	24.1%	24.1%
524	The Bishop Wand School	28.7%	27.2%	27.2%	27.2%
525	Cobham Free School	16.4%	16.2%	16.2%	16.2%
526	Danetree Junior School	23.0%	21.6%	21.6%	21.6%
527	Matthew Arnold School	28.1%	26.4%	26.4%	26.4%
528	Wishmore Cross Academy	25.1%	25.5%	25.5%	25.5%
529	Warlingham School	28.5%	29.5%	29.5%	29.5%
530	Weyfield Primary Academy	27.9%	25.8%	25.8%	25.8%
531	Guildford County School	27.6%	26.7%	26.7%	26.7%
532	Gordons School Academy Trust	31.7%	31.3%	31.3%	31.3%

[1] This includes payments of £92,000 each year towards the deficit of Nonsuch Park JMC and Epsom and Walter Downs Conservators.

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7

1 Funding Strategy Statement

1.1 This is the Funding Strategy Statement (FSS) of the Surrey Pension Fund (“the Fund”), which is administered by Surrey County Council, (“the Administering Authority”).

1.2 It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2014.

2 Surrey Pension Fund?

2.1 The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the UK. The Administering Authority runs the LGPS Fund for the Surrey area, to ensure it:

- receives the correct contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (when they retire, for the rest of their lives), and to their dependants (when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

2.2 The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

3 Need for a Funding Strategy Statement

3.1 Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations, at a level which covers only part of the cost of the benefits. Therefore, employers pay the balance of the cost of delivering the benefits to members and their dependants.

3.2 The FSS is a framework within which the Fund’s actuary carries out triennial valuations. It focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers’ contributions, and
- prudence in the funding basis.

3.3 There are also regulatory requirements for an FSS, as given in Appendix A.

3.4 The FSS is a summary of the Fund’s approach to funding its liabilities, and this includes reference to the Fund’s other policies. The FSS forms part of a framework of which includes:

- the LGPS Regulations;

- the Rates and Adjustments Certificate, confirming employer contribution rates for the next three years (see the appendix to the formal valuation report);
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service;

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- the Fund's Statement of Investment Principles; and
- the Fund's governance statement and governance compliance statement.

4 Stakeholders

4.1 Members of the Fund (current/former employees, or dependants): the Fund needs to be sure it is collecting and holding enough money so that benefits are always paid in full;

4.2 Employers of the Fund (or those considering joining the Fund): an employer will want to know how contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances they might need to pay more. Note that the FSS applies to all employers participating in the Fund;

4.3 Elected members whose council participates in the Fund: a member will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;

4.4 Council tax payers: the council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

5 Objectives of the FSS

5.1 The FSS sets out the objectives of the Fund's funding strategy:

- To achieve and then maintain a funding target that requires assets equal to 100% of the present value of benefits based on completed service including provision for the effects of future salary growth and inflation up to retirement;
- To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due;
- To ensure that employer contribution rates are stable where appropriate;
- To minimise the long-term cash contributions which employers need to pay, by recognising the link between assets and liabilities, and adopting an investment strategy which balances risk and return, thus minimising the costs borne by council tax payers;
- To reflect the different characteristics of employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its liabilities over future years; and
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

6 Calculating a contribution rate?

6.1 Employer contributions are normally made up of two elements:

- the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus
- an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit, the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

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6.2 An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

6.3 If this is less than 100%, then the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value. A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower.

6.4 The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining the *future service rate and the past service adjustment outlined* above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

6.5 The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each employer. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

6.6 In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

6.7 Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal 2013 valuation report, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

6.8 Employer covenant and likely term of membership are considered when setting contributions. For some employers it may be agreed to pool contributions. Any costs of non ill-health early retirements must be paid by the employer. If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

6.9 Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. The Fund Actuary will take account of the higher rate at subsequent valuations.

7 Different types of employer participating in the Fund

7.1 Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

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7.2 In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

7.3 The LGPS Regulations define various types of employer as follows:

- **Scheduled bodies:** councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so called because they are specified in a schedule to the LGPS Regulations. It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion over whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the Department for Communities and Local Government (DCLG) regarding the terms of academies' membership in LGPS Funds. Employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

- **Admission bodies:** other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer: **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer: **transferee admission bodies** ("TAB"). CABs will include housing associations and charities and TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

7.4 The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;

- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education;

- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

7.5 It should also be borne in mind that:

- The Fund provides invaluable financial security to local families, namely, retired local community employees, and to their families after their death; 7

- The Fund must have assets available to meet retirement and death benefits, which in turn means that employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund;

- Each employer will generally only pay for its own employees and ex-employees (and their dependants);

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and

- Council contributions to the Fund should be at a suitable level, to protect the interests of current and future council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in the future; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

7.6 Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees. For instance, where an employer is considered relatively low risk then the Fund may permit greater smoothing of contributions (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come, and that lower levels of contributions now may mean higher contributions in the future.

7.7 On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period). This is because of the higher probability that at some point it will fail to meet its pension contributions, with its deficit then falling to other Fund employers.

7.8 The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A. More detailed descriptions relating to this section are given in Appendix D).

8 Calculating contributions for individual employers

8.1 A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit to improve the stability of employer contributions. These include, where circumstances permit:-

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- capping of employer contribution rate changes within a pre-determined range ("stabilisation")
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

8.2 The Administering Authority recognises that there may occasionally be circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case-by-case basis for employers.

8.3 Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method,
- lower contributions in the short term may generate lower investment returns over the long term. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term, and
- it will take longer to reach full funding, all other things being equal.

8.4 Table 1 summarises how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Table 1: The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Local Authorities, Police**	**Colleges etc**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)				Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No	No	No	No	No
Maximum deficit recovery period – Note (c)	20 years	20 years	20 years	Future working lifetime	Future working lifetime	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	% of payroll	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority				Preferred approach: contributions kept at future service rate. However, contractors may be permitted to reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	At the discretion of the Administering Authority		None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					To be reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- 7 the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular, contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies to Surrey County Council, all District and Borough Councils and the Office of the Police and Crime Commissioner for Surrey.

This is subject to there being no material events which cause the employer to become ineligible, e.g., significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise, the stabilised details are as follows:

- Deficit contributions have been set to ensure that stabilised employers are paying no less than 80% by 2016/17 of deficit contributions calculated to ensure the Employer is fully funded in 20 years under the 2013 formal valuation assumptions.

- The future service component of the contribution rate has been fixed for all stabilised employers except the Office of the Police and Crime Commissioner for Surrey. This has been set at the market implied future service rate to ensure this employer is paying contributions above the assessed cost of benefits accruing.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

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Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example, where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 20 years.

Note (d) (Deficit Recovery Payments)

Deficit recovery payments for each employer covering the three year period until the next valuation will generally be set as a monetary amount.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to:

- significant reductions in payroll,
- altered employer circumstances,
- Government restructuring affecting the employer's business, or
- failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

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a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion; and

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the Transfer of Undertakings Protection of Employment (TUPE) transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor. 7

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. There are three different routes that such employers may wish to adopt. Clearly, as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

Subject to an assessment of the strength of the employer and appropriate safeguards in place, the Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of ongoing employers. The actuary will therefore adopt an approach, where possible, that protects remaining employers from the likelihood of any material loss emerging in future:

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee. At its absolute discretion the Administering Authority may agree to recover any outstanding amount via an increase in the Awarding Authority's contribution rate, over an agreed period, outside any stabilisation mechanism in place;

c) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

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Pooling Employers

8.5 The Administering Authority can give consideration to setting up pools for employers with very similar characteristics. This will always be in line with its broader funding strategy. With the advice of the Actuary, the Administering Authority allows smaller employers of similar types to pool their contributions in order to smooth out the effects of costly events, e.g., ill-health retirements or deaths in service.

8.6 Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool. Transferee Admission Bodies are usually also ineligible for pooling. Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

8.7 Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority. Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools. Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Additional flexibility in return for added security

8.8 The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority. Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

8.9 Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value. The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

Non ill health early retirement costs

8.10 It is assumed that members' benefits are payable from the earliest possible retirement age without incurring a reduction to their benefit. It should be noted that the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014. Employers are required to pay additional contributions (strain) wherever an employee retires before attaining this age. Therefore the actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

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8.11 With the agreement of the Administering Authority the payment can be spread as follows:

Major Employing bodies:	up to 5 years
Community Admission Bodies and Designating Employers:	up to 3 years
Academies:	up to 3 years
Transferee Admission Bodies:	payable immediately.

Ill health early retirement costs

8.12 Admitted Bodies will usually have an 'ill health allowance'. Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions to cover the additional liability. For small employers, a single ill health retirement may result in a significant increase to liabilities.

Ill health insurance

8.13 If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

8.14 The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy has ceased.

8.15 Currently, the Fund is giving consideration to the taking out of ill health insurance.

Employers with no remaining active members

8.16 In general, an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro rata basis at successive formal valuations;

- The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation, the remaining assets would be apportioned pro rata by the Fund's actuary to the other employers in the Fund in proportion to each employer's assets.

8.17 In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members. 7

9 Investment Strategy

9.1 The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy. The Investment strategy is set by the administering authority, after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

9.2 The investment strategy is set for the long-term, but is reviewed regularly. Normally, a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile. The same investment strategy is currently followed for all employers.

Link between funding strategy and investment strategy

9.3 The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa. Therefore, the funding and investment strategies are inextricably linked.

Funding strategy reflecting the Fund's investment strategy

9.4 In the opinion of the Fund actuary, the proposed funding strategy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government.

9.5 However, in the short term, such as the triennial assessments at formal valuations, there is scope for considerable volatility with a material chance that in the short term and even medium term, asset returns will fall short of this target. The stability measures in place will dampen, but not remove, the effect on employers' contributions. The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

9.6 The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence: the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability: how much employers can afford;

- Stewardship: the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability: employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

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9.7 The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme, i.e., keeping employer rates affordable, is best achieved by investing in higher returning assets, e.g., equities. However, equities are also very volatile, which can conflict with the objective to have stable contribution rates.

9.8 Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling (a set of calculation techniques applied by the Fund's actuary), to model the range of potential future solvency levels and contribution rates.

9.9 The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach. The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes, struck an appropriate balance between the above objectives. In particular, the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund. Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

Monitoring of overall funding position

9.10 The Administering Authority monitors the relative funding position, i.e., changes in the relationship between asset values and the liabilities regularly. It reports this to the Pension Fund Board meetings.

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A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a* ***clear and transparent fund-specific strategy*** *which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain* ***as nearly constant employer contribution rates as possible****; and*
- *to take a* ***prudent longer-term view*** *of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on 31 January 2014 for comment.

b) Comments were requested within 30 days;

c) Following the end of the consultation period the FSS was updated where required and then published on 14 March 2014.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website at www.surreypensionfund.org
- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives;
- A summary issued to all Fund members;
- A full copy [included in/linked from] the annual report and accounts of the Fund;

- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

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It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Surrey Pension Fund Board and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example, there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at www.surreypensionfund.org

Appendix B: Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to play their part.

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer; 7
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- liaise regularly with the Administering Authority to ensure correct data and records are held in respect of employees' benefits;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including setting employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;

- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

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- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay

Risk	Summary of Control Mechanisms
	increases. Inter-valuation monitoring, as above, gives early warning. Some investment in index-linked bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism for eligible employers has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions through deficit spreading and phasing in of contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro rata among all employers.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation. The Fund also sets life expectancy assumptions using ClubVita, which is a specialised longevity company and provides life expectancy assumptions based on the profile of the Fund's own membership
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees leading to the possibility of there not being sufficient liquid funds	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay for deficit contributions. Between valuations regularly monitor level of active members on both

Risk	Summary of Control Mechanisms
available to pay liabilities as they fall due.	a total Fund basis and by individual employer. Regularly monitor how cash flow positive the Fund is. Regularly review investment strategy.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to Table 1. For other employers, review of contributions is permitted in general between valuations (see Note (f) to Table 1) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

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C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Failure to collect and account for contributions from employers and employees on time	Regular monthly monitoring and reconciliation of Fund contributions received, including a detailed analysis of individual employer contributions and employee contributions by pay banding. Robust debt management processes are in place to recover any late payments

Loss of funds through fraud or misappropriation	Procedures and processes are in place and applied in relation to eg: checking for "ghost" scheme members; multiple levels of authorisation for claims and fund payments plus secondary checking of lump sum payments. Procedures are documented and staff are trained and managed in carrying these out. The Fund's internal auditors carry out regular reviews.

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C5 Governance risks

Risk	**Summary of Control Mechanisms**
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever

Risk	Summary of Control Mechanisms
	possible (see Notes (h) and (j) to Table 1). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to Table 1). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to Table 1).
Failure to comply with the Myners' Investment Principles	Compliance as detailed in the Statement of Investment Principles is kept under regular review.
Lack of relevant expertise, knowledge and skills at officer and member level in relation to administering the LGPS	Training needs assessments for the Administering Authority are carried out and an annual training plan produced. The Fund subscribes to the CIPFA Knowledge and Skills Framework for the LGPS and makes this information available to all members of the Pension Committee and relevant officers. Appropriately qualified external advisers and consultants are used as appropriate.
Failure to hold personal data securely and keep pension records up-to-date and accurate	Personal data and scanned documents relating to scheme members are maintained in an online system via individual password access for those that need to maintain and access this information. Procedures for maintaining pension records are documented and the process is monitored and managed within the Pensions Administration team. Procedures are regularly reviewed by the Fund's internal auditors.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

7 Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis.

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

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[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members. 7

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined.

D4 What affects a given employer's valuation results?

- past contributions relative to the cost of benefits accrued;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- differences in the valuation basis on the value placed on the employer's liabilities;
- different deficit/surplus spreading periods or phasing of contribution changes;
- differences between actual and assumed rises in pensionable pay;
- differences between actual and assumed increases to pensions in payment and deferred pensions;
- differences between actual and assumed retirements on grounds of ill-health from active status;
- differences between actual and assumed amounts of pension ceasing on death;
- additional costs of any non ill-health retirements relative to any extra payments made;

over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. The process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to Table 1.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 0.5% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by
7 longer term growth at RPI plus 1.5% per annum.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we have proposed a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the CMI model of “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is to add around 1 year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate. These calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

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Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations.
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day allowing for future expected investment return. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value.

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Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	Individuals who have built up (and still building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.

Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, i.e., where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large tax-raising employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is carried out every three years (last done as at 31 March 2013), but can be updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term gilt yields at that date.

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **14 FEBRUARY 2014**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **PENSION FUND RISK REGISTER**

SUMMARY OF ISSUE:

Surrey County Council, as administering authority for the Surrey Pension Fund, is responsible for the delivery of benefit promises made to members of the Surrey Pension Fund. It achieves this by setting objectives and goals with varying timeframes. Risks lie in failing to meet the intended goals.

Risks that are established as an issue must be identified and evaluated via a risk register. The risks must be prioritised with existing controls or new controls implemented to mitigate the risks. This should be recorded in a risk register, which needs monitoring on a quarterly basis.

RECOMMENDATIONS:

It is recommended that:

1. Members assess the Risk Register in Annex 1, making any suggestions for amendment/additions as necessary.

REASON FOR RECOMMENDATIONS:

A solid framework of risk management is required in order to manage the considerable risk environment surrounding the governance and investment of the pension fund.

DETAILS:

Background

1 A review of the current risk register for the Pension Fund will give the Pension Fund Board the opportunity to influence and drive the Pension Fund risk management process for 2013-2014.

Risk Management Process

2 The risk management policy of the Surrey Pension Fund is to adopt best practice in the identification, evaluation and control of risks in order to ensure that the risks are recognised, and then either eliminated or reduced to an manageable level. If neither of these options is possible, then means to mitigate the implications of the risks should be established.

3 The Pension Fund & Treasury Manager has identified a number of risks associated with the Pension Fund. The risks are grouped as follows:

- Investment
- Financial
- Funding
- Operational
- Governance

4 Each of the risk areas has been assessed in terms of its impact on the Fund as a whole, on the fund employers, and on the reputation of the Pension Board and Surrey County Council as the administering authority. Assessment has also been given as to the likelihood of the risk.

5 Each of the three areas of impact identified above is assessed on a scale of one to four, with four implying the highest level of impact. The likelihood of the risk description (between one and five) is then applied to the combined impact score, which produces an overall risk score. Depending on the score, the risks are then identified as Red, Amber or Green.

6 To comply with best practice, a scoring process has been implemented, which will reassess the risk scores after the mitigating action taken to control and reduce the risks. The risk register includes a revised impact score and net risk score as a result of those mitigating actions.

7 The latest schedule is included as Annex 1. There are four new entries onto the schedule, as shown with the indicator ‘New’.

8 Within the residual red risks, cost ranges are provided on the implications where possible.

9 At the Board meeting of 15 November 2013, the Board was informed that longevity risk was now rated at number one with the net score highlighting the negligible impact that mitigating actions could have on the risk. Board members debated the importance of the risk and the possibility that the trend of lengthening life span had reached its peak.

10 The actuary has since made the following points:

- *There is much uncertainty around future improvements in life expectancy. The most common school of thought is that people will continue to live longer, although the rate of increase, which has been around two years per decade for some time now, may slow down.*

- *All else being equal, contributions would need to increase in future if people continue to live longer in the future than in the past.*

- *Later retirement ages will help mitigate some of the cost but it is thought that the increases in retirement age that have been scheduled will not keep pace with the increases in life expectancy.*

- *There is also some evidence, however, that suggests individuals who work for longer tend to live longer also, as this keeps them healthier.*

- *Reference longevity not improving in 2012, one single year of data is not statistically significant: it could have just been a hard winter for example. Over short periods, it is likely you would get variance from one year to the next and the years immediately before 2012 showed a material increase in life expectancy. It is of course the longer term trends that are important.*

Review

11 The risk register will continue to be reviewed on a quarterly basis.

8

CONSULTATION:

12 The Chairman of the Pension Fund Board has been consulted and has offered full support for the quarterly scrutiny process.

RISK MANAGEMENT AND IMPLICATIONS:

13 The risk related issues are contained within the report's Annex 1.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

14 There are no expected additional costs from compiling, maintaining and monitoring a risk register.

CHIEF FINANCE OFFICER COMMENTARY

15 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the risk register will provide officers with a suitable platform for the monitoring and control of pension fund risks.

LEGAL IMPLICATIONS – MONITORING OFFICER

16 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

17 The creation of a risk register will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

18 There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

19 The following next steps are planned:

- Monitoring by officers and reporting to the Board every quarter.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board members.

Annexes:
List the annexes attached to this report.
Annex 1: Pension Fund Risk Register

Sources/background papers:
None

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Risk Group	Risk Ref.	Previous	Risk Description	Impact: Fund	Impact: Employers	Impact: Reputation	Impact: Total	Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score
Funding	1	1	Pensioners living longer: adding one year to life expectancy will increase the future service rate by 0.8%	4	4	1	9	5	45	TREAT- 1) Hymans Robertson use long term longevity projections in the actuarial valuation process. 2) SCC has joined Club Vita, which looks at mortality rates that are employer specific.	5	45
Funding	2	2	Bond yields fall leading to a increase in value of liabilities: a 0.1% reduction in the discount rate will increase the liability valuation by 2%	4	4	3	11	4	44	TREAT-1) IAS19 data is received annually and provides an early warning of any potential problems. 2) Early consultation with the actuary will take place with regard to the 2013 valuation. 3) Training on hedging this future cost provided to the Pension Fund Board.	3	33
Funding	3	4	Pay & price inflation is significantly more or less than anticipated: an increase in CPI inflation by 0.1% will increase the liability valuation by 1.4%	4	4	3	11	4	44	TREAT- 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS17 and actuarial valuations) should be long term assumptions. 3) The fund holds investment in index-linked bonds to mitigate some of the risk. 4) Training on hedging this future cost provided to the Pension Fund Board.	3	33
Funding	4	New	Impact of increases to employer contributions following the actuarial valuation	3	3	3	9	3	27	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where approprate with stabilisation and phasing in processes.	3	27
Funding	5	New	Structural changes in an employer's membership or an employer fully/partially closing the scheme	4	3	1	8	3	24	TREAT- 1) Administering Authority actively monitors prospective changes in membership.	3	24
Operational	6	5	Rise in ill health retirements impact employer organisations	1	4	1	6	4	24	TREAT- 1) Possibility of insuring against the cost and impact (paper included in Board agenda of 15 November 2013).	4	24
Governance	7	6	Changes to LGPS regulations	4	3	1	8	4	32	TREAT-1) Fundamental change to LGPS regulations to be implemented from 1 April 2014. 2) Impact on contributions and cashflows will need to be considered during the 2013 valuation process. 3) Fund will respond to consultations.	3	24
Investment	8	7	Investment Managers fail to achieve performance targets over the longer term: a shortfall of	4	4	4	12	3	36	TREAT- 1) The Investment Management Agreements clearly state SCC's expectations in terms of performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Board should be positioned to move quickly if it is felt that targets will not be met. 4) Having LGIM as a rebalancing/transition manager facilitates quick	2	24
Investment	9	8	Inappropriate long-term investment strategy	4	4	4	12	3	36	TREAT- 1) Use of investment consultants to monitor investment strategy. 2) Separate source of advice from Fund's independent advisor. 3) Setting of Fund specfic benchmark relevant to the current position of fund liabilities. 4) Overall asset allocation regularly monitored by Pension Fund Board. 5) Fund manager targets set based on market benchmarks or absolute return measures.	2	24
Financial	10	9	The effect of a possible increase in employer contribution rates on service delivery	4	4	4	12	3	36	TREAT- 1) Stabilisation of contribution rates for long term secure employers as laid out in the Funding Strategy Statement. 2) Phasing of contribution increases for other employers. 3) Suitable deficit recovery periods.	2	24
Financial	11	10	Financial loss of cash investments from fraudulent activity	4	4	4	12	3	36	TOLERATE - 1) Policies & procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Governance arrangements are in place in respect of the Pension Fund. External advisors assist in the development of the Investment Strategy. Fund Managers have to provide SAS 70 or similar (statement of internal controls).	2	24
Investment	12	11	Investment markets fail to perform in line with expectations	4	4	3	11	3	33	TREAT-1) The Full actuarial valuation takes place every three years. Moreover, IAS19 data is received annually and provides an early warning of any potential problems. 2) The asset outperformance assumption of 1.6% is achievable over the long term when compared with historical data.	2	22
Operational	13	12	Financial failure of a fund manager leads to increase costs and service impairment	4	3	4	11	3	33	TREAT- 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager.	2	22
Funding	14	13	Impact of government policy on the employer workforce	3	3	1	7	4	28	TREAT- 1) Hymans Robertson use prudent assumptions on future of workforce. Employers to flag up potential for major bulk transfers. The potential for a significant reduction in the workforce as a result of the pressures that the public sector is under may have an additional impact on the Fund. 2) Need to make worst case assumptions about diminishing workforce when carrying out the actuarial valuation.	3	21
Funding	15	New	Deterioration in funding because of a mismatch of assets and liabilities	4	3	3	10	3	30	TREAT- 1) Active monitoring from Board, officers and consultants.	2	20
Funding	16	New	Falling active payrolls lead to insufficient deficit recovery payments	4	4	2	10	3	30	TREAT- 1) Deficit payments calculated as monetary amounts.	2	20
Investment	17	14	Fall in equity markets leading to deterioration in funding levels and increased contribution requirements from employers	4	3	3	10	3	30	TREAT- 1) About 40% of fund made up of bonds, property funds, diversified growth funds and private equity, limiting exposure to listed equities. 2) The investment strategy is continously monitored and periodically reviewed to ensure optimal asset allocalltion reflecting the continued belief that in the long-term equities are the best asset class.	2	20
Governance	18	3	Failure to take difficult decisions inhibits effective Fund management	3	2	4	9	3	27	TREAT-1) Ensure activity analysis encourages decision making on objective empirical evidence rather than emotion. Ensure that basis of decision making is grounded in ALM Study/SIP/FSS/Governance statement and that appropriate advice is sought.	2	18
Financial	19	15	Counterparty risk within the SCC treasury management operation	2	2	4	8	3	24	TOLERATE - 1) A separate bank account for the pension fund has been in operation since 1 April 2011. Since then the fund has held cash investment separate from SCC. 2) Lending limits with banks are set at levels that are appropriate given credit ratings. 3) The current pension fund treasury strategy is based on that of SCC.	2	16
Operational	20	16	Poor data quality results in poor information and decision making	2	2	4	8	3	24	TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. 2) Pension Fund team and pension board members are able to integrgate data to ensure accuracy.	2	16
Operational	21	17	Insufficient attention to social, ethical & environmental risks leads to reputational damage and/or financial loss	1	1	3	5	4	20	TREAT-1) Review SIP in relation to published best practice (e.g. UN Principles for responsible investment) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published SIP. 3) The Fund is now a member of the Local Authority Pension Fund Forum, which raises officer awareness of ESG issues and facilitates engagement with fund managers.	3	15
Financial	22	18	An employer ceases to exist with insufficient funding or adequacy of bond	3	1	1	5	4	20	TOLERATE- 1) Admitted body contribution rates are set at a level that is intended to reflect 100% funding. 2) The terms of admission agreements/bonds provide for regular review of bond adequacy. 3) Fund will consider seeking a guarantor.	3	15
Operational	23	19	Concentration of knowledge in small number of officers and risk of departure of key staff	2	3	2	7	3	21	TREAT-1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Board will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	14
Funding	24	20	Employer bodies transferring out of the pension fund or employer bodies closing to new membership	1	4	1	6	3	18	TOLERATE- 1) Maintain knowledge of employer plans. 2) Impact of any one employer leaving is minimal (other than SCC). 3) Admitted bodies represent approximately 7% of annual contributions paid. 4) Contributions rates and deficit recovery periods reflect the employer covenant.	2	12
Governance	25	21	Change in membership of Pension Fund Board leads to dilution of member knowledge and understanding	4	1	1	6	4	24	TREAT- 1) Succession planning process to be implemented. 2) Ongoing training of Pension Fund Board members. 3) Pension Fund Board new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework and the results of the test undertaken in 2012. New Board members to take the test.	2	12
Operational	26	22	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	4	6	3	18	TOLERATE- 1) Ensure that all requests for information (Freedom of Information, Member & Public questions at Council, etc) are managed appropriately and that Part 2 items remain so. 2) Maintain constructive relationships with employing bodies to ensure that news is well managed.	2	12
Operational	27	23	Financial failure of third party supplier results in service impairment and financial loss	2	2	2	6	3	18	TOLERATE-1) Performance of third parties (other than fund managers) monitored. 2) Review of Northern Trust took place in January 2009, ahead of decision on whether to retain (Jan 2009) - a fee reduction was secured in 2011). 3) Actuarial and investment consultancies are provided by two different providers.	2	12
Operational	28	24	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Unsuccessful fund managers may seek compensation following non compliant process	1	1	4	6	3	18	TOLERATE - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	2	12
Investment	29	25	Asset reallocations in volatile markets may lock in past losses	4	4	3	11	2	22	TREAT- 1) LGIM rebalances the Fund's asset allocation on a monthly basis (within tolerance ranges). 2) Pension Fund Board takes a long term view of strategic asset allocation. 3) Pension Fund Board acts on advice from external parties.	1	11
Governance	30	26	Failure to comply with legislative requirements e.g. SIP/FSS/Governance Policy/Fol	4	1	4	9	2	18	TOLERATE -1) Publication of all documents on external website. 2) Managers expected to comply with SIP and IMA. 3) Pension Board self-assessment to ensure awareness of all relevant documents. 4) Annual audit review.	1	9
Financial	31	27	Inaccurate cash flow forecasts for Treasury Management leads to shortfalls on cash levels & redemptions necessary to ensure that funds available	2	1	1	4	2	8	TOLERATE- 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals.	2	8
Operational	32	28	Poor specification leads to shortfall against expectations	2	3	3	8	2	16	TOLERATE- 1) Ensure all expectations communicated effectively (e.g. consultant RFP) and that contracts are clear.	1	8
Financial	33	29	Incorrect, failed or late drawdown payments made (& interest accrued)	4	1	2	7	2	14	TOLERATE- 1) Treasury manager receives drawdown notices as soon as received and incorporates into cashflow planning.	1	7
Financial	34	30	Incorrect, failed or late employee/employer contributions payments received	1	4	1	6	2	12	TOLERATE- 1) Monthly monitoring of pensions contributions against expectation. 2) Reminders sent to employers when they fail to meet payment deadline. 3) Scope to report persistent late payment to OPRA.	1	6
Operational	35	31	Unauthorised access to offices leads to theft of intellectual property and confidential information	1	1	4	6	2	12	TOLERATE- 1) Clear desk policy. Ensure all sensitive data is locked away. Challenge any unknown visitors.	1	6
Governance	36	32	Transition from IAG to Pension Fund Board with full committee status creates operational difficulties due to increased membership and remit	2	1	2	5	2	10	TREAT - 1) Terms of Reference for new Board completed. 2) Pension Board new member induction programme. 3) Additional support from Democratic Services.	1	5

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **14 FEBRUARY 2014**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **PENSION FUND BUSINESS PLAN 2014/15**

SUMMARY OF ISSUE:

The 2001 Myners Report recommended that local authority pension funds should approve an annual business plan in respect of the objectives required for the ensuing year. Business planning is regarded as an important tool, assisting in the identification of how service delivery can be maximised within resource constraints. 9

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board adopt the attached Business Plan shown in Annex 1 in respect of the 2014/15 financial year.

REASON FOR RECOMMENDATIONS:

A business plan is required by best practice in order to set relevant targets and monitor progress.

DETAILS:

Background

1 At the Board meeting of 31 May 2013, the Pension Fund Board approved a business plan for 2013/14, identifying the key issues affecting the Pension Fund over the medium term and a timetable of activities needed to help achieve the strategic objectives.

2 At the next Board meeting on 23 May 2014, an outturn report will be presented, detailing the progress and achievements made against the 2013/14 business plan.

Business Plan 2014/15

3 In preparation for the next financial year, Annex 1 sets out a draft recommended business plan for 2014/15. The plan lists the investment and pension administration tasks scheduled to be carried out during 2014/15, the target date when these should be achieved, and the responsible officer.

CONSULTATION:

4 The Chairman of the Pension Fund Board has been consulted on the proposed change and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

5 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

6 The costs of the proposed actions will be funded from the administrative expenses of the pension fund.

CHIEF FINANCE OFFICER COMMENTARY

9

7 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed within the business plan and that the document will provide the Board and officers with a useful framework to aid the setting of objectives, implementation and monitoring of progress.

LEGAL IMPLICATIONS – MONITORING OFFICER

8 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

9 The creation of a business plan will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

10 There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT:

11 The following next steps are planned:

- Commencement of the year's work programme in line with the business plan.
- Progress monitoring will take place and, if necessary, matters will be discussed at future Board meetings.
- Outturn report of the 2014/15 financial year to be presented at the first meeting of the Pension Fund Board in 2015/16.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Business Plan 2014/15

Sources/background papers:
None

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Surrey Pension Fund
Business Plan and Actions for 2014/15

Administration			
Objective(s) - to ensure scheme is run in accordance with the rules; in accordance with agreed service standards; and compliance with Regulations - to deal with and rectify any errors and complaints in a timely way			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Chief Finance Officer and Pension Fund Board to receive key performance indicators report on a quarterly basis	Ongoing with reports due at each Board meeting	Phil Triggs/Paul Baker
2	Pension Fund Board to receive the Pension Fund Annual Report	By 30 September 2014	Phil Triggs
3	Ensure that any complaints against action or inaction by pension staff are dealt with in a timely manner	Ongoing	Paul Baker
4	Review the content of the pension fund website to ensure it is relevant and kept up to date.	Ongoing	Paul Baker/Phil Triggs
5	Implement new LGPS 2014 Scheme which takes effect on 1 April 2014	Progress report to Pension Fund Board meeting of 23 May 2014	Paul Baker/Phil Triggs

Communication			
Objective(s) - to convey the security of the Scheme - to ensure members understand and appreciate the value of their benefits			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Production of a newsletter to pensioners in April each year	April 2014	Paul Baker
2	Timely production of benefit statements	Active members by 30 Sep 2014 Preserved members by 30 June 2014 Councillors by 31 Aug 2014	Paul Baker
3	Ensure communication material complies with current legislation and effectively communicates the benefits of the scheme Ensure communication material is amended to comply with the requirements of the new LGPS 2014	Ongoing Include in progress report to Board meeting on 23 May 2014	Paul Baker
4	Communication on a timely basis of material scheme changes to Pension Fund Board, employer bodies and members	Ongoing	Phil Triggs/Paul Baker
5	Prepare Pension Fund Annual Meeting (Nov) and receive positive feedback from employers	21 November 2014	Phil Triggs/Paul Baker

Actuarial/Funding			
Objective(s) - to monitor the funding level of the Scheme including formal valuation every 3 years - to monitor and reconcile contribution payments to the Scheme by the employers and scheme members - to understand legislative changes which will impact on funding			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Conclude 2013 actuarial valuation	31 March 2014	Phil Triggs/Paul Baker
2	Receive satisfaction survey feedback from employers (scheduled and admitted bodies)	30 April 2014	Phil Triggs
3	Provide employers with IAS19/FRS17 funding statements when requested	Scheduled bodies: Mar 2014 Colleges: July 2014 Academies: August 2014	Phil Triggs
4	Monitor and reconcile contributions schedule for the County Council and scheme employers	Ongoing	Phil Triggs
5	Member training covering funding issues	Ongoing	Phil Triggs

Surrey Pension Fund Board Members			
Objective(s) - to train and develop all members to enable them to perform duties effectively - to meet quarterly and to include investment advisor and independent advisors as required - to run meetings efficiently and to ensure decisions are made clearly and effectively			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Review decision making process to ensure decisions are made effectively	Ongoing with new Pension Fund Board	Board Members
2	Review Pension Fund Board member training requirements and implement training plan as appropriate	Ongoing	Phil Triggs
3	Agree annual plan for Pension Fund Board member training	23 May 2014	Phil Triggs
4	Ensure that meeting papers are issued at least seven days prior to meeting	Ongoing	Phil Triggs
5	Ensure that governance remains in line with revised Myners/CIPFA principles to ensure 100% compliance	Ongoing 2014/15	Phil Triggs

Financial & Risk Management			
Objective(s) - To properly record financial transactions to and from the Scheme and produce annual report and accounts within six months of year end - Manage advisers fees against budgets - Assess the risk associated with the management of the Scheme			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Monitor pension fund expenses for next financial year with the target of unit cost in lowest quartile	Ongoing 2014/15	Phil Triggs
2	Produce Annual Statement of Accounts	23 May 2014	Phil Triggs
3	Produce Pension Fund Annual Report	30 September 2014	Phil Triggs
4	Ensure ongoing risk assessments of the management of the fund for 2014/15	Ongoing and reported to every Board meeting	Phil Triggs
5	To implement a system of disaster recovery/business continuity in the event of major disaster	Ongoing 2014/15	Phil Triggs/Paul Baker

Investment			
Objective(s) - Periodically review investment strategy and benchmarks - Monitor performance against benchmarks - Meet with investment managers to discuss performance			
Action	**Description**	**Timescale**	**Primary Responsibility**
1	Ongoing consideration of CIPFA/Myners principles	Ongoing 2014/15	Phil Triggs
2	Review of investment manager arrangements	March 2015	Phil Triggs
3	Review asset allocation with consultant and independent advisor	March 2015	Phil Triggs
4	Discuss/meet with all investment managers and report to Pension Fund Board	Quarterly 2014/15	Phil Triggs
5	Review SIP	March 2015	Phil Triggs
6	Pension Fund Board to receive quarterly monitoring reports	Quarterly 2014/15	Phil Triggs
7	Respond to national initiatives on pension fund merger/collaboration and report to the Pension Fund Board as necessary	Ongoing 2014/15	Phil Triggs

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **14 FEBRUARY 2014**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **REVISED STATEMENT OF INVESTMENT PRINCIPLES**

SUMMARY OF ISSUE:

With adjustments to governance practices within the Pension Fund, it is necessary to approve a revised Statement of Investment Principles (SIP).

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

1 Approve the revised Statement of Investment Principles shown in Annex 1.

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REASON FOR RECOMMENDATIONS:

The Pension Fund Board must approve all working documents produced for the Pension Fund.

DETAILS:

Background

1 In accordance with Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, as an administering authority, the Council must prepare and maintain a written statement of the principles governing its decisions on the investment of the pension. It also has to review the policy from time to time and revise it if considered necessary following such a review, as is recommended here in the light of additions to the Fund's portfolio.

Revised Statement

2 The revised Statement of Investment Principles (SIP) is shown as Annex 1.

Monitoring and Review

3 The SIP is kept under constant review and will be submitted for approval to future Board meetings when any revision is required.

CONSULTATION:

4 The Chairman of the Pension Fund has been consulted on the revised draft and has offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

5 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

6 There are no financial and value for money implications.

CHIEF FINANCE OFFICER COMMENTARY

7 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed SIP offers a clear structure, reflecting the current investment strategies approved by the Pension Fund Board.

LEGAL IMPLICATIONS – MONITORING OFFICER

8 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

9 The approval of the SIP will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

10 There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

11 The following next steps are planned:

- Adoption of the revised SIP
- SIP is kept under review

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Revised Statement of Investment Principles

Sources/background papers:
None

Statement of Investment Principles 2014/15

Statement of Investment Principles

1. Overall Responsibility

The County Council is the designated statutory body responsible for administering the Surrey Pension Fund on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments. The content of this Statement reflects the County Council's compliance with the requirements of the Myners Review of Institutional Investment, which can be found at Annex 2.

The Local Government Pension Scheme (England and Wales) (Amendment) (No 2) Regulations 2005 came into effect on 14 December 2005. The Regulations provide the statutory framework within which LGPS administering authorities are required to publish a governance policy statement. 10

A copy of the Surrey Pension Fund's current governance policy statement can be found on the County Council's website. **www.surreypensionfund.org**

Investment policy and associated monitoring and review are delegated to the Surrey Pension Fund Board, which is made up of:

- six nominated members of the County Council;
- two representatives from the Borough/District Councils nominated by the Surrey Local Government Association;
- one representative from the external employers;
- one representative of the members of the Fund.

The Pension Fund Board is advised by a representative of the Fund's professional investment advisor, an independent advisor, the Chief Finance Officer and the Strategic Finance Manager (Pension Fund and Treasury).

The Pension Fund Board meets on a quarterly basis.

2. Investment Objectives

The Pension Fund Board seeks to ensure that the Pension Fund has sufficient assets to be able to meets its long term obligations to pay pensions to the Fund's members, i.e., over the long term to be at or above a 100% funding level. It also has an objective to maintain employer contribution rates as reasonably stable and affordable as possible. In order to meet these objectives, a number of secondary objectives have been agreed:

i) To have a clearly articulated strategy for achieving and maintaining a fully funded position over a suitable long term time horizon; the Board recognises that funding levels can be volatile from year to year depending as they do both on investment market levels and on estimates of liability values, so the long-term strategy needs to be capable of steering a steady course through changing market environments.

ii) To have a strategic asset allocation that is both well diversified and expected to provide long term investment returns in excess of the anticipated rise in the Fund's liabilities.

iii) To appoint managers that the Board believes can consistently achieve the performance objectives set and to give each appointed manager a clearly defined benchmark and performance objective against which they can be judged.

iv) To ensure investment risk is monitored regularly both in absolute terms (the risk of losing money) and relative to the Fund's liabilities (the risk of funding shortfalls); the Board will have regard to best practice in managing risk.

10 v) To have sufficient liquid resources available to meet the Fund's ongoing obligations.

vi) To achieve an overall Fund return 1% per annum in excess of the overall benchmark over rolling three-year periods.

3. Investment Style and Management

The Board has delegated day-to-day management of various parts of the Fund to external fund managers each of which has been given an explicit benchmark and performance objective. The Board retains responsibility for ensuring the mix of managers and by implication the overall asset allocation is suitable for the long-term objectives defined above.

The Board has appointed two different types of manager: 'Index Relative' who seek to achieve a return relative to a market index within a specified asset type and 'Absolute Return' who seek to achieve a desired return outcome by moving between different asset types.

Index Relative managers

The managers in this category have been set differing performance targets and will take accordingly differing levels of risk relative to the benchmark index they are given.

Passive mandates seek to replicate the market index as closely as possible and are expected to take very little relative risk. Typically, such portfolios will have the largest number of individual holdings each of which will be close to the index weighting. The expected performance should be within 0.5% of the index return in any year.

Core active mandates seek to achieve a performance between 0.75% per annum and 2% per annum ahead of the relevant market index. Typically, core active mandates have diversified portfolios and take medium levels of relative risk. Most managers will only be appointed to manage a single asset class (for example, global equities, bonds or property).

Concentrated active mandates seek to outperform their relevant index by 3% per annum or more and take larger relative risks by owning a smaller number of individual holdings. The Pension Fund Board usually confines such mandates to specialist managers in regional equities.

Absolute Return managers

The managers in this category are all expected to achieve returns well ahead of cash or inflation in the long-term.

Diversified Growth managers use a very broad range of asset classes and actively vary allocations between asset types depending on investment market conditions. They will also use derivatives from time to time to limit the scope for large falls in value. The expected returns from such mandates will be close to the long term return from equity markets but with much less volatility. 10

Absolute return managers also seek to achieve good long term returns with dampened down volatility, but typically they are focused on a particular investment area. The desired outcome is similar to Diversified Growth mandates but with possibly greater variability across mandate types and usually with a much smaller amount invested in each capability.

Fees

The level of fees paid to managers varies greatly according to the complexity of the mandate and the geographic area involved. Fees are usually expressed as a proportion of assets under management. There may also be additional performance related fee charges.

Fees for passive mandates tend to be very low, particularly in developed markets where information is readily available. Fees are higher for mandates that require greater manager skill. Typically a concentrated active mandate will have a higher fee rate than a core active manager and a small absolute return mandate will have a higher fee rate than a larger diversified growth mandate.

Current Manager Structure

The table below shows the current asset allocation and manager structure of the Fund.

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	Category	Allocation Policy %	Fund %	Control Range% +/-
Equities			**63.0**	**+/-3.0**
UK			29.0	
Legal and General	*Passive*	*10.0*		
Majedie	*Concentrated Active*	*7.0*		
Mirabaud	*Concentrated Active*	*4.0*		
UBS	*Core Active*	*8.0*		
Overseas			34.0	
Legal and General	*Passive*	*14.0*		
Marathon	*Concentrated Active*	*12.0*		
Newton	*Core Active*	*8.0*		
Property			**7.0**	**+/-3.0**
CBRE	*Core Active*	7.0		
Alternatives			***10.0***	**+/-3.0**
Standard Life	*Diversified growth*	*6.0*		
Baillie Gifford	*Diversified growth*	*4.0*		
Bonds			**20.0**	**+/-3.0**
Fixed interest gilts			5.25	
Legal and General	*Passive*	*2.5*		
Western	*Core Active*	*2.75*		
Index linked gilts			4.0	
Legal and General	*Passive*	*4.0*		
Corporate bonds			8.0	
Legal and General	*Passive*	*2.5*		
Western	*Core Active*	*5.5*		
Total Return			*2.75*	
Franklin Templeton	*Unconstrained*	*2.75*		
Total			**100.0**	

The Fund also has a commitment to invest up to 5% of the fund in private equity. This allocation is achieved by investing both in fund of funds and direct funds, managed by a number of private equity specialists. The investments are funded through cash flow. The Pension Fund Board reviews the private equity strategy on an annual basis and makes commitments in order to achieve the target commitment level of 5% of the Fund.

Fees paid to managers vary due to the levels of risk taken and the geographic areas in which the manager is invested. Fees are generally expressed as a proportion of assets under management. Performance fees are in place for a number of the Fund's managers. The following table shows the Fund's private equity investments as at 31 March 2013.

Name	Currency	Inception	Commitment
UK Funds			**£/€/$**
HG Capital MUST 3	£	2001	2.0
HG Capital MUST 4	£	2002	3.0
HG Capital 5	£	2006	10.0
HG Capital 6	£	2009	10.0
HG Capital 7	£	2013	15.0
ISIS II	£	1999-2002	12.0
ISIS III	£	2003	14.0
ISIS IV	£	2007	15.0
ISIS Growth Fund	£	2013	10.0
Darwin Property Fund	£	2013	20.0
Euro Fund of Funds			
Standard Life ESP II	€	2004	10.0
Standard Life ESP 2006	€	2006	15.0
Standard Life ESP 2008	€	2008	15.0
Standard Life ESF	€	2011	17.5
Standard Life SOF	$	2013	20.0
US Fund of Funds			
Blackrock Div PEP I	$	2001	5.0
Blackrock Div PEP II	$	2003	5.0
Blackrock Div EP III	$	2005	17.5
GSAM PEP 2000	$	2000	10.0
GSAM PEP 2004	$	2004	10.0
GSAM PEP 2005	$	2006	17.0
GSAM PEP X	$	2008	18.0
GSAM PEP XI	$	2011	18.0
GSAM Vintage Fund VI	$	2013	20.0
US Funds			
Capital Dynamics US Solar Fund	$	2011	25.0
Capital Dynamics Energy/Infra	$	2013	25.0

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4. Policy on Kinds of Investment

The Pension Fund Board, having regard to funding levels, cash needs and risk tolerance, determines the overall Fund asset mix. The following table shows the strategic asset allocation benchmark for both the managed Fund (i.e. excluding private equity) and the total fund:

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	Target Allocation exc. Private Equity	Target Allocation inc. Private Equity
Bonds	%	
Gilts	5.25	5.0
Corporate Bonds	8.0	7.6
Index-Linked gilts	4.0	3.8
Unconstrained	2.75	2.6
Property	7.0	6.7
Total Bonds/Property	27.0	25.7
UK Equity	29.0	27.5
Overseas Equity	34.0	32.3
Global	30.0	28.5
Emerging markets	4.0	3.8
Total Equity	63.0	59.8
Diversified Growth	10.0	9.5
Private Equity	n/a	5.0
TOTAL	100.0	100.0

Acceptable asset classes are:

- UK Equities
- UK Fixed Interest
- UK Index Linked Gilts
- UK Property through pooled funds
- Overseas Equities, major classes being:
  - North America
  - Europe
  - Pacific Rim including Japan
  - Emerging Markets
- Global Bonds
- Overseas Index Linked Stocks
- Unquoted Equities via Pooled Funds
- Emerging Market Equities via Pooled Funds, unless specifically authorised
- Direct investment in private equity funds or fund of funds

The use of derivatives and other financial instruments is permitted within pre-agreed limits for specific purposes such as asset allocation switches and currency hedging. Underwriting is permitted provided that the underlying stock is suitable on investment grounds and complies with existing investment criteria. Stock lending is only permitted subject to specific approval.

There are statutory limits on the proportion of the Fund that can be invested in certain types of investment as determined by the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013.

5. Investment Performance Targets and Benchmarks

Manager	Portfolio	Benchmark Index	Performance Target
UBS	UK Equities	FTSE All Share	+2.0% p.a. (gross of fees) over rolling 3-year periods
Mirabaud	UK Equities	FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods
Marathon	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share FTSE All Share	+2.5% p.a. (gross of fees) over rolling 3-year periods Absolute return focused, but aims to out-perform the FTSE All Share Index by an unspecified amount over the long term
Newton	Global Equities	MSCI AC World	+2.0% p.a. (gross of fees) over rolling 3-year periods
Western	Fixed Income	70.0%: Markit i Boxx £ Non-Gilts ex-BBB All Stocks 30.0%: FTSE A UK Gilts – All Stocks	+0.75% p.a. (gross of fees) over rolling 3-year periods
Franklin Templeton	Unconstrained Global Fixed Income	Barclays Multiverse Index	+4% to 7% p.a. (gross of fees) over rolling 3-year periods
LGIM	Multi-Asset Equities and Bonds	Combination of indices as per agreed mandate	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods
CBRE	Property	IPD UK All Balanced Funds	+0.5% p.a. (gross of fees) over rolling 3-year periods
Baillie Gifford	Diversified Growth	UK Base Rate	+3.5% p.a. (net of fees) over rolling 5-year periods
Standard Life	Diversified Growth	6 month LIBOR	+5.0% p.a. (gross of fees) over rolling 5-year periods
Internal	Private Equity	MSCI World Index	+5% p.a. (net of fees) over the life o the contract
Internal	Cash	LIBID 7-day rate	LIBID 7 day rate

The over-riding aim is to run the Pension Fund in accordance within the relevant legislation and subject to the following performance target: "to outperform the Surrey benchmark by 1% per annum over rolling 3-year periods, with a maximum underperformance of -2% in any one year."

The overall Surrey benchmark is shown below in detail.

Type of funds	Level of Risk	Target Return Out-Performance p.a.
Passive (index-tracker)	Low	0 – 0.5%
Core Active	Medium	0.75% - 2.0%
Concentrated Active	High	2.0 - 2.5%
Diversified growth	Medium	3.5% - 5%
Unconstrained	Medium	4% - 7%
Total	Medium	1%

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The performance target for the private equity Funds is to outperform returns on quoted UK Equities (FTSE All Share Index) by 2% per annum.

6 Risk Measurement and Management

There are a number of risks to which any investment is exposed. The Pension Fund Board recognises that, whilst increasing risk increases potential returns over a long period, it also increases the risk of a shortfall in returns relative to that required to cover the Fund's liabilities as well as producing more short term volatility in the funding position.

In addition to targeting an appropriate overall level of investment risk, the Pension Fund Board seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Pension Fund Board aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The following risks are recognised and considered by the Pension Fund Board:

Mismatch risk: the primary risk upon which the Pension Fund Board focuses is the arising of a mismatch between the Fund's assets and its liabilities.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Pension Fund Board and is reviewed on a regular basis.

Diversification risk: the Pension Fund Board recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Pension Fund Board aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

Concentration risk: the Pension Fund Board is also aware of concentration risk which arises, for example, when a high proportion of the Fund's assets are invested in securities, whether debt or equity, of the same or related issuers or in the same or similar industry sectors. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

Liquidity risk: the Pension Fund Board recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Pension Fund Board believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

Manager risk: the Fund's assets are invested with a number of managers to provide appropriate diversification.

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Regulatory and political risk: across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Pension Fund Board will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

Exchange rate risk: this risk arises from unhedged investment overseas. The Fund has a currency hedging policy in place: 50% of its exposure to the US dollar, Euro and Yen.

The documents governing the appointment of each investment manager include a number of guidelines which, among other things, are designed to ensure that only suitable investments are held by the Fund. The Investment Managers are prevented from investing in asset classes outside their mandate without the Pension Fund Board's prior consent.

Arrangements are in place to monitor the Fund's investments to help the Pension Fund Board check that nothing has occurred that would bring into question the continuing suitability of the current investments. To facilitate this, the Pension Fund Board meets with the Investment Managers from time to time, and receives regular reviews from the Investment Managers and its investment advisors.

The safe custody of the Fund's assets is delegated to professional custodians (either directly or via the use of pooled vehicles).

Should there be a material change in the Fund's circumstances, the Pension Fund Board will review whether and to what extent the investment arrangements should be altered; in particular whether the current risk exposure remains appropriate.

7 Policy on Balance Between Different Kinds of Investment

The Council has set target asset allocation ranges for each kind of investment within the overall benchmark. Fund Managers are required to report quarterly their current country, sector or asset allocation positions, whichever is relevant, against their strategy, and to seek approval for variations to their strategies.

8 Policy on Realisation of Investments

Fund Managers are required to maintain portfolios that consist of assets that are readily realisable. Any investment within an in-house or pooled fund, which is not readily tradable, requires specific approval.

10

9 Monitoring and Review

The target funding level is set triennially, consequent upon the actuarial review. The statutory requirement is to move towards 100% funding over a period of time, agreed with the Fund Actuary as the average expected future working lifetime of the scheme membership (20 years).

Investment strategy will be reviewed annually, with a major review taking place no later than every five years. The SIP will also be reviewed annually.

A review of investment management arrangements is carried out at least every three years. Investment management performance is reviewed annually upon receipt of the third party performance information.

The individual manager's current activity and transactions are presented quarterly in discussion with the Pension Fund Board.

An Annual Meeting is held in November each year and is open to all Fund employers.

10 Stewardship and Responsible Investment

The Council wishes to have an active influence on issues of environmental, social or governance (ESG) concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, e.g., ESG or reputational issues that could bring a particular investment decision into the public arena.

Whilst the Fund has no specific policy on investing or divesting in stock with regard to ESG issues, in comparing potential investment decisions, and where differences in predicted returns are deemed immaterial, external fund managers could deploy ESG considerations in deciding upon selection.

The Pension Fund also holds expectations of its fund managers to hold companies to account on the highest standards of behaviour and reputational risk management which may damage long term performance, and for those issues to be part of their stock selection criteria.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. Share voting is undertaken in-house, after consultation with fund managers, and consultation with the Pension Fund Board on potentially contentious issues. A quarterly report will be posted to the Fund website.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of LGPS funds that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility. 10

11 Custody

Managers are required to hold cash and stocks in an account managed by Northern Trust, the Fund's independent global custodian, or by agreement otherwise as appropriate. The Pension Fund aims to hold only a minimum working cash balance. A separate bank account is in place to hold any excess funds held by the administering authority for the purpose of day-to-day cash management of the pension fund.

12 Administration

Funds officers prepare a quarterly report to the Pension Fund Board, preparing the audited annual report and financial statements in line with statutory deadlines, and maintain an up to date record of cash balances at Surrey to ensure surplus cash is invested promptly and resources are available to meet the benefit outflow as it arises.

Annex 1

Myners Investment Principles – Compliance Statement

Principle 1: Effective Decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and

- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

✓ **Full compliance**
The Pension Fund Board is supported in its decision making role by the Chief Finance Officer and the Pension Fund and Treasury Manager.

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Members of the Pension Fund Board participate in regular training delivered through a formal programme. Training is provided at every quarterly meeting.

Principle 2: Clear Objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

✓ **Full compliance**
The Fund's overall objectives are defined in the Funding Strategy Statement and are directly linked to the triennial actuarial valuation. The investment objectives are clearly stated in the Statement of Investment Principles.

The content of the Funding Strategy Statement reflects discussions held with individual scheme employers during the actuarial valuation process. Employers understand that contribution rates are set having given consideration to the key tenets of affordability, sustainability and stability but also with the understanding that any decisions made must be prudent. To this end, the strength of the employer covenant is considered when setting contribution rates.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

✓ **Full compliance**

The Fund actuary reviews the funding position of each employer every three years and this valuation includes an assessment of the gap between the employer's share of the Fund assets and the liabilities specific to each employer. The strength of the employer covenant is considered when setting contribution rates.

The Fund's investment strategy is reviewed following each triennial valuation to ensure that the investment strategy will achieve the expected returns assumed during the valuation process.

As a member of Club Vita, a bespoke set of assumptions are specifically tailored to fit the membership profile of the Surrey Fund. The assumptions selected are intended to make an appropriate allowance for future improvements in longevity, based on the actual experience of the Fund.

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. 10

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

✓ **Full compliance**

Each manager's performance is measured regularly against targets, which are specified in the contract between the Fund and the manager. The Fund's global custodian produces performance data for each manager and for the Fund as a whole. The target outperformance for the Fund as a whole is specified within the Statement of Investment Principles. The Fund performance is also assessed with reference to the local authority peer group.

Performance data is reported to Pension Fund Board on a quarterly basis. Fund managers present to the Pension Fund Board on at least an annual basis and officers have at least one additional meeting per annum to discuss the portfolio composition, strategy and performance.

Consideration has been given to quantitative measures to assess the performance of the Pension Fund Board although options other than measuring meeting attendance are limited.

Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Stewardship Code.
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

✓ **Full compliance**

All new investment mandates will be expected to include a statement of a manager's adoption of the Stewardship Code.

The Council wishes to have an active influence on issues of environmental or ethical concern with companies in which the Pension Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Council requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, e.g., environmental, social or reputational issues that could bring a particular investment decision into the public arena.

The Fund wishes to be an active shareholder and exercise its voting rights to promote and support good corporate governance principles. In addition, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

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Many of the Fund's managers are signed up to the Principles of Responsible Investment (PRI), which provides a framework for investors to consider environmental, social and corporate governance issues when making investment decisions.

On an annual basis, those managers that are not signed up to the Stewardship Code and PRI are required to provide a statement on how far they do comply with the requirements and their reasons for not becoming a signatory.

Principle 6: Transparency and reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives
- Provide regular communication to scheme members in the form they consider most appropriate

✓ **Full compliance**

The Fund's annual report includes all of the Fund's policies including the governance policy statement, governance policy compliance statement, communications policy statement, Funding Strategy Statement and Statement of Investment Principles. The annual report can be found on the council's website together with standalone versions of each of these documents.

Quarterly reports to the Pension Fund Board on the management of the Fund's investments are publicly available on the council's committee administration website.

Pensions newsletters are sent to Fund members.

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **14 FEBRUARY 2014**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **KEY PERFORMANCE INDICATORS**

SUMMARY OF ISSUE:

In line with best practice, Pension Fund Board members will be supplied with Pension Fund key performance indicators (KPIs) on a quarterly basis, covering investment and administration practices.

RECOMMENDATIONS:

It is recommended that:

1 The Pension Fund Board discuss and approve the KPI statement format as shown in Annex 1.

11

REASON FOR RECOMMENDATIONS:

To comply with best practice.

DETAILS:

Requirement

1 In line with best practice, future Pension Fund Board meetings will be supplied with a schedule of Pension Fund key performance indicators (KPIs), covering investment and administration practices.

Key Performance Indicators

2 The KPIs cover the following areas:

- Funding level
- Death benefit administration
- Retirement administration
- Benefit statements
- New joiners
- Transfers in and out
- Material posted on website
- Employer and member satisfaction
- Investment performance
- Data quality
- Contributions monitoring
- Audit
- Overall administration cost

3 The KPI schedule is shown as Annex 1.

4 Periods covered in the schedule range from one month, three months and twelve months.

5 Members are invited to discuss the performances set out in the schedule.

6 At the Board meeting of 15 November 2013, members asked as to the administration cost per member. The data below relates to total cost and administration cost per member for the 2012/13 financial year.

Compared to 52 Local Authority Pension Funds

Total cost per scheme member

SCC	£14.50
Average fund	£21.42

Staff Administration cost per scheme member

SCC	£6.05
Average fund	£9.29

Compared to 13 comparable sized funds

Total cost per scheme member

SCC	£14.50
Average fund	£18.50

Staff Administration cost per scheme member

SCC	£6.05
Average fund	£8.31

7 At the Board meeting of 15 November 2013, members indicated that some of the targets needed adjustment as a result of the apparent ease of their achievement. Officers have assessed the targets and made changes as appropriate. These are indicated where relevant.

CONSULTATION:

8 The Chairman of the Pension Fund has been consulted on the proposed change and has offered full support regarding the content and structure of the information.

RISK MANAGEMENT AND IMPLICATIONS:

9 There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

10 There are no financial and value for money implications.

CHIEF FINANCE OFFICER COMMENTARY

11 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed KPI model offers an effective framework for the monitoring of the essential pension fund KPIs.

LEGAL IMPLICATIONS – MONITORING OFFICER

12 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

13 The reporting of such information will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

14 There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

15 The following next steps are planned:

- Continued improvement in the indicators.
- Further refinement and additions of useful data.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman.

Annexes:
Schedule of Key Performance Indicators

Sources/background papers:
None

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KPI - DETAILED ACTIONS, TIMESCALE AND REPORTING REQUIREMENTS: To 31 December 2013 Annex 1

No	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/Deterioration
1	FUNDING							
	IMPROVE FUNDING LEVEL Funding level to increase from current levels of 72%	**100%**	PT	**72.3%**	31/03/13	**72.0%**	31/12/10	→ 0.30%
2	PPENSION ADMINISTRATION							
	DEATH BENEFITS Notify potential beneficiary of lump sum death grant within 5 days	**95%**	PB	**100.00%**	3 months to 31 Dec 13	**100.00%**	3 months to 30 Sep 13	→ 0.00%
	Write to dependant and provide relevant claim form within 5 days of notification of death	**90%**		**99.16%**	3 months to 31 Dec 13	**98.15%**	3 months to 30 Sep 13	↑ 1.01%
	Pay death grant within 5 days of receipt of relevant documentation	**90%**		**97.22%**	3 months to 31 Dec 13	**100.00%**	3 months to 30 Sep 13	↓ -2.78%
	Issue notification of dependant's pension within 5 days of receipt of relevant claim forms	**90%**		**97.22%**	3 months to 31 Dec 13	**100.00%**	3 months to 30 Sep 13	↓ -2.78%
	RETIREMENTS Retirement options to members within 10 days	**90%**	PB	**95.76%**	3 months to 31 Dec 13	**92.66%**	3 months to 30 Sep 13	↑ 3.10%
	New retirement benefits processed for payment following receipt of election within 10 days	**95%**		**99.22%**	3 months to 31 Dec 13	**97.89%**	3 months to 30 Sep 13	↑ 1.33%
	BENEFIT STATEMENTS ABS issued to 95% of eligible active members by 30th September	**95%**	PB	**100.00%**	3 months to 31 Dec 13	**Pending**	3 months to 30 Sep 13	
	DBS issued to 85% of eligible deferred members by 30th June	**95%**		**100% issued by 26/09/13**	3 months to 31 Dec 13	**Pending**	3 months to 30 Sep 13	
	NEW JOINERS New starters processed within 20 days	**90% (85%)***	PB	**98.02%**	3 months to 31 Dec 13	**96.39%**	3 months to 30 Sep 13	↑ 1.63%
	TRANSFERS IN Non LGPS transfers-in quotations processed within 20 days	**90% (85%)***	PB	**100.00%**	3 months to 31 Dec 13	**99.07%**	3 months to 30 Sep 13	→ 0.93%
	Non LGPS transfers-in payments processed within 20 days	**90% (85%)***		**100.00%**	3 months to 31 Dec 13	**99.07%**	3 months to 30 Sep 13	→ 0.93%
	TRANSFERS OUT Non LGPS transfers-out quotations processed within 20 days	**90% (85%)***	PB	**100.00%**	3 months to 31 Dec 13	**100.00%**	3 months to 30 Sep 13	→ 0.00%
	Non LGPS transfers out payments processed within 20 days	**90% (85%)***		**100.00%**	3 months to 31 Dec 13	**100.00%**	3 months to 30 Sep 13	→ 0.00%
	MATERIAL POSTED ON WEBSITE Relevant Communications Material will be posted onto website within one week of being signed off	**95%**	PB	● **100%**	3 months to 31 Dec 13	● **100%**	3 months to 30 Sep 13	
3	CUSTOMER SERVICE							
	EMPLOYER SATISFACTION/SURVEY Overall satisfaction score for employers to be 80%	**80%**	PT/PB	**Data pending**	12 months to 31 Mar 14	**Data pending**	12 months to 31 Mar 13	
	MEMBER SATISFACTION/SURVEY Overall satisfaction score for members to be 80%	**80%**	PB	● **97%**	12 months to 31 Mar 14	● **97%**	12 months to 31 Mar 13	
4	INVESTMENT PERFORMANCE							
	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE Returns to at least match the benchmark	**Benchmark**	PT	**BENCHMARK 12.5%**	12 months to 31 Dec 13	**BENCHMARK 12.7%**	12 months to 30 Sep 13	↓ -0.90%
				ACTUAL 15.7%	12 months to 31 Dec 13	**ACTUAL 16.8%**	12 months to 30 Sep 13	
5	DATA							
	DATA QUALITY Data quality within the Fund should be at least 90% accurate.	**90%**	PB	● **99%**	12 months to 31 Mar 13	● **99%**	12 months to 31 Mar 12	
6	CONTRIBUTIONS							
	CONTRIBUTIONS RECEIVED **Pension Fund** 98% (total value) of contributions to be received by 21st day of the ensuing period.	**98%**	PT	**98%**	Jan-14	**98%**	Oct-13	→ 0.00%
7	AUDIT							
	CLEAN AUDIT REPORT Receive an unqualified audit opinion from the external auditors	**Clean Report**	PT/PB	**Achieved**	12 months to 31 Mar 13	**Achieved**	12 months to 31 Mar 12	
	Annual audit returns no significant findings	**No significant findings**		**Achieved**		**Achieved**		
8	COST							
	COST PER MEMBER Administration cost per member to remain in lowest CIPFA benchmarking quartile	**< lowest quartile**	PT/PB	**Achieved**	12 months to 31 Mar 13	**Achieved**	12 months to 31 Mar 12	

11

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **14 FEBRUARY 2014**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **REVIEW OF PENSION ABATEMENT POLICY**

SUMMARY OF ISSUE:

The introduction of the new Local Government Pension Scheme (LGPS) from 1 April 2014 requires the pension fund administering authority (AA) to review its discretionary pension policy on the abatement of retirement pensions when a scheme member in receipt of a LGPS pension is re-employed in local government employment.

The regulations also require the AA to make policy decisions in relation to other pension matters that do not require a formal written policy statement. One such policy decision that requires review is whether or not to require medical clearance of scheme members before they are permitted to purchase an additional pension.

RECOMMENDATIONS:

It is recommended that the Board :

1. adopt a policy that continues with the existing practice of not abating the pension of a scheme member that is re-employed by a local government pension scheme employer as outlined in paragraphs 1-18.

2. adopt a policy that continues with the existing practice requiring a scheme member to receive medical clearance before being permitted to purchase an additional pension as outlined in paragraphs 19-25.

REASON FOR RECOMMENDATIONS:

Adopting a policy that does not abate pension upon re-employment will simplify pension administration and will be more compatible with modern day working practices such as working for longer, part time working and flexible retirement.

Adopting a policy that requires scheme members to be medically cleared before being permitted to purchase an additional pension will reduce the risk of employers incurring significant costs if a member is retired on permanent ill-health grounds.

12

DETAILS:

Background

Pension Abatement

1. The Local Government Pension Scheme Regulations require that each pension fund administering authority must formulate and keep under review a policy on pension abatement. Pension abatement is the extent, if any, to which a scheme member's pension in payment is reduced or suspended where the member has entered a new employment that entitles them to re-join the Local Government Pension Scheme (LGPS).

2. If an administering authority's policy is to abate pensions on re-employment it means that any amount by which the annual pension in payment, plus the annual pay from the new employment, exceeds the indexed annual pay from the former employer, results in a reduction in pension on a pound for pound basis during the period of re-employment. The indexed annual pay means that CPI (consumer price index) increases are applied to bring the member's pay from the former employer up to today's value to ensure a fair comparison.

3. The following example illustrates how abatement works in practice:

EXAMPLE

Indexed rate of pay of former employment	£37,000
Annual pension in payment	£ 6,000

Therefore, in this example, the member can earn up to £31,000 a year before the pension would have to be abated, because the pension (£6,000) plus the new salary (£31,000) does not exceed the former pay of £37,000.

If however the member earned say £35,000 a year in the new employment, the pension would have to be abated by £4,000 a year because the pension (£6,000) plus the new salary (£35,000), exceeds the former pay (£37,000) by £4,000.

Therefore, if the member earned in excess of £37,000 in the new employment, the pension in payment would be completely abated.

4. When formulating an abatement policy, the pension regulations require that the administering authority has regard:

a) to the level of potential financial gain at which it wishes abatement to apply;

b) to the administrative costs which are likely to be incurred as a result of abatement in the different circumstances in which it may occur; and

c) to the extent to which a policy not to apply abatement could lead to a serious loss of confidence in the public service.

5. The abatement of pensions has been a feature of most public sector schemes since the 1950s. Until 1998 it was compulsory for local government administering authorities to apply the abatement provisions in full. However, in 1998 the government changed the pension regulations to provide administering authorities with the discretion to decide, after consultation with the fund scheme employers, to what extent, if at all, the abatement provisions should apply.

6. The general principle of applying the abatement provisions to public sector pensions is to ensure that a member in receipt of a public sector pension should not be financially better off if they became re-employed in the public sector. This can only ever be partially achieved because the abatement provisions are scheme specific. This means that the member's pension is only subject to abatement if the re-employment occurs with an employer with access to the same pension scheme as the pension is being paid from.

7. For example, if a local government pensioner takes up employment with a NHS Primary Care Trust the pension would not be affected and vice versa, because local government and NHS employees are eligible for membership of different schemes.

8. If however, for example, a retired library assistant applied for an administrative job with a local government employer, because a library assistant post and administrator post would both come under the local government pension scheme the pension would be subject to abatement. However, if a retired Teacher applied for the same administrator post the teacher's pension would not be subject to abatement because the teacher's pension would be paid from the Teachers Pension Scheme, even though the retired teacher and retired library assistant may have been employed by the same employer.

9. The pension regulations governing abatement are not particularly robust in that it is relatively easy to circumvent the abatement provisions with the help of the pensioner's new employer. For example, as the assessment of the pensioner's salary in the new employment is based on contractual entitlement, it is possible for an employee to be contracted for a lower number of hours but then work non-contractual additional hours that cannot be taken into account for abatement purposes. It is also possible to avoid the abatement provisions by becoming employed on a number of fixed-term contracts or to work as a consultant.

10. Many local authorities now consider that pension abatement is no longer compatible and, in some cases, conflicts with modern day working practices. For example, it is acknowledged that people will need to work for longer and pension abatement is considered a barrier for some employees to do this. Pension abatement can also conflict with the LGPS flexible retirement provisions which allow eligible employees, with their employers consent, to draw their pension and continue working on a reduced hours basis without the abatement provisions applying.

11. Pension abatement is a difficult process to administer. All pensioners need to be clearly informed in writing that they are required to inform Pension Services if they are re-employed in local government employment. Unfortunately, past experience has shown that many pensioners still failed to advise Pension Services when they were re-employed and this may only be detected either when Pension Services specifically writes to all pensioners or through the National Fraud Initiative run by the Audit Commission every two years.

12. Although several pensioners do get re-employed in local government employment, past experience has shown that a very small proportion, around 4%, actually required abatement of their pensions. However, all cases of re-employment have to be investigated even though the outcome rarely requires the pension to be abated. This involves writing to the new employer to confirm the level of the pensioner's pay and then carrying out the calculation and informing the pensioner of the outcome. In the event that the pensioner has a contractual change in pay then the whole procedure has to be repeated. The whole abatement process takes up a considerable amount of administrative resources.

13. The process is likely to be even more complex under the new LGPS because the new scheme regulations do not allow the part of a member's pension that accrues from 1 April 2014 to be taken into account when considering abatement.

14. The fund's abatement policy was last reviewed in June 2010 when it was decided that in future, pensions should not be abated when a pensioner takes up further local government employment and, in cases where pensions were currently being abated, that they should be reinstated in full. This decision had the overwhelming support of the fund employers.

15. At the time this decision was made the fund had 14,837 pensions in payment at an annual cost of £74.5 million. The number of pensions that were being abated in part or full amounted to 21 at a total abatement of £86,000 a year.

16. The reasons that led to the council resolving in June 2010 to no longer apply the abatement provisions as outlined in the above paragraphs, are still valid today. In addition, the change in the pension regulations that only enables the pension that has accrued to 31 March 2014 to be abated together with the uncertainty surrounding how we would treat the pensioners that have been re-employed since abatement of pensions ceased in 2010, makes it even more impracticable to change the existing policy.

17. It is therefore recommended that there is no change to the existing policy in that pensions are not abated when a LGPS pensioner is re-employed in local government employment.

18. The pension abatement policy will be kept under review and will be brought for approval to future Board meetings when any material revision is required.

Purchase of Additional Pension – Medical Clearance

19. The pension scheme enables a scheme member to pay additional pension contributions or make a lump sum payment to purchase an additional pension. The maximum additional pension that a scheme member can purchase under the new scheme will increase from £5,000 to £6,500 a year.

20. In the event that a scheme member who is paying additional contributions is retired on permanent ill health grounds the additional contributions remaining are deemed to have been paid and the additional pension awarded in full from the date of early retirement.

21. In the event that a scheme member who has made a lump sum payment to purchase an additional pension is retired on permanent ill health grounds the full additional pension is also paid from the date of early retirement rather than the normal retirement age.

22. In both scenarios in paragraphs 20 and 21 above the resultant cost to the scheme employer would be substantial. For this reason the scheme regulations enable administering authorities to require that all scheme members who elect to purchase an additional pension must first be medically cleared before being allowed to do so.

23. The fund's current policy is that it requires all scheme members who elect to purchase an additional pension to receive medical clearance before being permitted to do so to ensure that there is no medical reason present that may cause the member to be retired early on permanent ill health grounds.

24. The medical clearance is obtained through the County Council's occupational health service at a cost to the scheme member of £40.00.

25. It is recommended that the fund should continue to require that medical clearance is obtained from the County Council's occupational health service before a member is permitted to purchase an additional pension.

CONSULTATION:

26. The Chairman of the Pension Fund has been consulted on the proposed document and has offered full support for the proposal.

RISK MANAGEMENT AND IMPLICATIONS:

27. Adopting a policy that requires scheme members to be medically cleared before being permitted to purchase an additional pension will reduce the risk of employers incurring significant costs if a member is subsequently retired on permanent ill-health grounds.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

28, Any amount of a scheme member's pension that could be abated would result in a saving to the fund. However, in relative terms, this saving would be an insignificant amount compared to the total value of pensions in payment and the benefits that would be derived from not having a policy to abate pensions.

CHIEF FINANCE OFFICER COMMENTARY

29. The administrative difficulties and incompatibility with modern working practices associated with the abatement of pensions far outweigh the financial benefit the fund would receive from abating a small number of pensions. Requiring medical clearance to be obtained before a member can purchase an additional pension is a sensible precaution to reduce the risk of additional costs being incurred by the fund if the member is retired on permanent ill health grounds. On this basis, Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed in this report.

LEGAL IMPLICATIONS – MONITORING OFFICER

30. There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

31. The approval of these policies will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

32. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

33. The following next steps are planned:

- The Board's decision regarding its proposed policy on abatement of pensions will be sent to the scheme employers for consultation.
- A further report will be submitted on the outcome of the consultation at the next board meeting.

Contact Officer:
Paul Baker
Pensions Manager

Consulted:
Pension Fund Board Chairman

Annexes:
None

Sources/background papers:
None

SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **14 FEBRUARY 2014**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **PENSION FUND ADMINISTRATION STRATEGY**

SUMMARY OF ISSUE:

A Pension Fund Administration Strategy is set out in Annex 1 for the Board to approve.

RECOMMENDATIONS:

It is recommended that:

The Pension Fund Board approves the Strategy as set out Annex 1.

REASON FOR RECOMMENDATIONS:

The creation of a Pension Administration Strategy will provide greater clarity for the administering authority and scheme employers in relation to their roles and responsibilities in administering the LGPS. This in turn will help maintain good working relationships and efficient administration.

DETAILS:

Background

1 Regulation 65 of the Local Government Pension Scheme (Administration) Regulations 2008 permits an administering authority to publish a written statement of the authority's policies in relation to such matters as it considers appropriate in a Pensions Administration Strategy.

2. At the last Board meeting, a draft pension administration strategy was agreed for consultation with the Fund's employers. Responses received, where considered appropriate, have been incorporated into the final draft attached as Annex 1.

Monitoring and Review

2 The Pension Administration Strategy will be kept under review and will be brought for approval to future Board meetings when any material revision is required. In any event, as a minimum, it will be reviewed every two years.

CONSULTATION:

3 The Chairman of the Pension Fund has been consulted on the proposed document and has offered full support for the proposal.

13

RISK MANAGEMENT AND IMPLICATIONS:

4 There are no risk related issues contained within the report's proposals.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

5 There are no financial and value for money implications.

CHIEF FINANCE OFFICER COMMENTARY

6 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed Administration Strategy offers a clear structure, reflecting best practice with regard to the administration function.

LEGAL IMPLICATIONS – MONITORING OFFICER

7 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

8 The approval of the administration strategy will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

9 There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

10 The following next steps are planned:

- If the administration strategy is approved by the Board, it will be published on the pension fund website and a copy sent to each fund employer.

Contact Officer:
Paul Baker
Pensions Manager

Consulted:
Pension Fund Board Chairman

Annexes:
Pension Administration Strategy

Sources/background papers:
None

Surrey Pension Fund Administration Strategy

1. Legislative Framework

1.1 This strategy statement has been prepared by Surrey County Council as the administering authority to the Surrey Pension Fund in accordance with Regulation 65 of the Local Government Pension Scheme (Administration) Regulations 2008.

2. Review

2.1 This strategy will be kept under review and will be revised, after consultation with scheme employers, following any material changes in legislation or policies that relate to the strategy.

3. Purpose

3.1 The purpose of the strategy is to establish levels of performance and procedures for liaison and communication for both the administering authority (AA) and the employers participating in the fund with a view to maintaining good working relationships, transparency and efficient administration.

4. Employer Duties & Responsibilities

4.1 The employer should nominate a person or persons to liaise with the AA on pension administration matters.

4.2 The employer should ensure that any information passed on behalf of the employer to the AA or any requests for information made on behalf of the employer to the AA are undertaken by a duly authorised officer of the employer.

4.3 The employer should notify the AA in respect of the following changes in a scheme member's status and within the required timescale by completing the appropriate pension form or secure on-line submission:

- New Joiner
  Within one month of joining

- Change in member's details e.g. hours, maternity etc
  Within one month of the change

- Retirements
  Two months prior to the date of retirement. It is however recognised that there will be occasions where this time limit cannot be met, for example, because the member has retired with little or no notice or details of pensionable pay cannot be provided until the member has left employment.

- Death in Service
  Within five working days of the member's death

13

- Leavers
  Within one month of the member leaving

- TUPE transfer of scheme members
  At least two months before the transfer date. This is to allow adequate time for pension protection to be put in place as appropriate.

4.4 The employer must determine the pension contribution rate at which its employees should contribute to the scheme from 1 April each year and, where there is a change to the member's pensionable pay during the year, from that date. Where an employee holds more than one post, the employer must determine the rate applicable for each post.

4.5 The employer will ensure that member and employer pension contributions are deducted at the correct rate, including contributions due on leave of absence with reduced or no pay, maternity leave and any additional contributions the member has requested to pay.

4.6 The employer will ensure that pension contributions are paid to the AA within seven days of the end of each month.

4.7 The employer will ensure that additional voluntary contributions are paid to the relevant provider within seven days of being deducted from the member's pay.

4.8 The employer must, no later than 30 April each year, provide the AA with year-end information to 31 March in an approved format in respect of each post the member holds.

4.9 The employer is responsible for exercising the discretionary powers given to employers by the LGPS regulations. The employer is also responsible for publishing its policy in respect of these discretions to its employees and forwarding a copy to the AA.

4.10 The AA is not required to verify the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. Therefore, employers should ensure that all information provided is accurate.

4.11 Any over-payment resulting from inaccurate information supplied by the employer may be recovered from the employer if it cannot be recovered from the scheme member.

4.12 In the event of the AA being fined by The Pensions Regulator, this fine may be passed on to the relevant employer where that employer's action or inaction resulted in the fine.

4.13 The employer must nominate a person to hear complaints made under Stage 1 of the Internal Disputes Resolution Procedure and should provide this person's name, job title, and office address. When an amendment to these details is made, a notification of the change should be sent to the AA immediately.

4.14 The employer must obtain the approval of the AA as to its choice of registered medical practitioner for the purposes of awarding ill health retirement under the Scheme regulations.

4.15 The employer must pay to the AA any cost identified by the AA as a result of the employing authority's decision to release any pension benefits prior to a member's normal retirement age. Such payments should be made within 30 days from the date of receipt of an invoice issued by the AA or such longer period as agreed by the AA. 13

4.16 The employer must also pay to the AA any charge identified by the AA as a result of the employing authority's decision to award any additional benefits to a scheme member in accordance with its statement of policy regarding the exercise of certain discretionary functions. Such payments should be made within 30 days from the date of receipt of an invoice issued by the AA or such longer period as agreed by the AA.

5. Administering Authority Duties & Responsibilities

New Joiners

5.1 *Confirmation letter of scheme admittance to all members.*
Within 20 days

5.2 *Transfers from previous pension schemes.*
Within 20 days

Existing Active Members

5.3 *Annual Benefit Statement*
By 30 September providing year end data has been received from the employer

5.4 *Benefit estimates to employers*
Within ten days of receipt of request

5.5 *Retirements*
Within ten days of retirement

5.6 *Death in Service*
Death Benefits and dependants' pensions
Within five days

Early Leavers

5.7 *Deferred Benefit statement*
Within one month of leaving

5.8 *Refunds*
Within ten days

5.9 *Transfer to new pension scheme*
Within 20 days

Deferred Benefit Members

5.10 *Annual Benefit Statement*
By 30 June

5.11 *Benefits put into payment*
Within ten days

5.12 *Death Benefits and dependants' pensions*
Within five days

13 **Pensioner Members**

5.13 *Changes in personal details*
Payroll record updated before next payroll run

5.14 *Death benefits and dependants' pensions*
Within five days

*The timescales for completing the tasks above are measured from the date the AA is in receipt of all the relevant information required to complete the task is expressed in "working days"

Communication

5.15 The AA will provide employers with the necessary forms and documents for it to carry-out its pension administration responsibilities. These forms to be available in paper and electronic format, where appropriate.

5.16 The AA will provide a guide to the Local Government Pension Scheme for scheme members for employer to issue.

5.17 The AA will provide a joiner pack to new scheme members.

5.18 The AA will issue a newsletter for active scheme members at least once a year

5.19 The AA will issue regular employer newsletters and provide training at County Hall for employers to comply with their pension administration responsibilities.

5.20 The AA will enable scheme members and employers to visit Pension Services during normal working hours from 8.30am to 5.30pm.

5.21 The AA will maintain a Pension Fund Website which will include:

- General information on the LGPS
- Copies of all the publications of the pension fund including newsletters, scheme guides, strategy statements, annual reports and accounts.
- Standard forms to be used by employers when providing information to the pensions team

5.22 The AA will arrange a Pension Fund Annual General meeting for employers and produce an annual report.

Data Quality and Security

5.23 The AA will ensure that the data held on the systems used to administer the scheme will be secure and regularly backed up to an off-site location. The AA will apply year end data quality control and review processes.

6. Unsatisfactory Performance by an Employer

6.1 Where an employer materially or consistently fails to operate in accordance with the standards laid down in this strategy, which results in additional administration costs being incurred by the AA, the AA may issue a written notice to the employer requiring that these extra costs are met by the employer. Steps to recover additional administration costs would normally only be pursued after support and training had been offered by the AA to address the underperformance. 13

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SURREY COUNTY COUNCIL

PENSION FUND BOARD

DATE: **14 FEBRUARY 2014**

LEAD OFFICER: **SHEILA LITTLE, CHIEF FINANCE OFFICER**

SUBJECT: **INVESTMENT STRATEGY REVIEW**

SUMMARY OF ISSUE:

Following the actuarial valuation, Mercer has been requested to conduct an investment strategy review of the Surrey Pension Fund.

RECOMMENDATIONS:

It is recommended that the Pension Fund Board:

1 Give consideration to investing in a more risk aware manner relative to the Fund's liabilities with a view to the establishment of a liability driven investment strategy (LDI) portfolio. This should be set up on a relatively small scale initially with the level of liability protection increased as and when the funding level moves towards 100%.

2 Give consideration to introducing more diversified sources of return with a view to introducing Infrastructure Debt as a new asset category and increasing the allocation to diversified growth funds (DGF).

3 Give consideration to implementing such changes in the short term, thus preparing a platform for the future strategy requirements, with the ultimate view to locking in some of the improvement in the funding level that has been seen since the valuation date of 31 March 2013.

4 Prepare additional training for members in order to facilitate decision making on these strategy issues.

REASON FOR RECOMMENDATIONS:

The Pension Fund Board must monitor and adapt its investment strategy according to a changing market environment.

DETAILS:

Background

1 This report provides both a summary of the deliberations that that need to be considered by the Pension Fund Board in order that Members can review the current investment strategy in light of the 2013 Triennial Actuarial Valuation outcome.

14

2 The Triennial Valuation cycle provides a good point at which to review the investment strategy as we have a current valuation of the liabilities of the Fund. The changes in funding level between one triennial valuation and the next is effectively the best measure of how the Fund's liabilities are developing with respect to changing bond yields in the market, and how the investment strategy has performed, relative to expectations, in those same investment markets.

3 The Fund's current investment strategy was agreed by the Investment Advisory Group (IAG) in early 2012. At that time, the most critical concerns of the IAG were primarily that a revised investment strategy should seek to provide a reduction in investment return volatility, following the asset valuation falls seen in late 2008 and early 2009.

4 It should be noted that currently, the expected return (based on best estimate assumptions) on the Fund's assets in circa 3.2% per annum over gilts. The actuary assumes an excess return on 1.6% over gilts for the purposes of the actuarial valuation.

Revised Strategy

5 Mercer has been commissioned to undertake an investment review and this is included as Annex 1 to this report. Mercer will present at the meeting of 14 February 2014 and managers from Axa Investment Managers will provide associated training.

Liability Driven Investment

6 Mercer has recommended that the Fund establish a liability driven investment strategy (LDI) portfolio.

7 LDI is an investment style that seeks to match the movements in the value of a Fund's liabilities with a basket of investments whose value will be affected by prevailing bond yields in exactly the same way as the value of the Fund's liabilities. Due to the historic low yields at present, an attempt to match all of the Fund's liabilities would be considered expensive; however, the decision to match a scheme's inflation-linked liabilities is much more attractive, especially for the LGPS as there are direct inflation linkages to the pension liabilities.

8 Despite the current low yields and the resultant expensive switch, Mercer's advice is that it is time to set up such a LDI structure, given the level of training and due diligence required (nine to twelve months is a reasonable expectation), so looking at this now could put the Fund in a better position where it could react relatively swiftly to capture what would be considered attractive future de-risking opportunities. Without the appropriate structure in place, the opportunity to de-risk when opportune could easily be missed.

Infrastructure Debt

9 There are clear benefits for LGPS funds to take on infrastructure investments with the potential to offer stable, transparent and inflation-linked cashflows in order to address the inflation-indexed liabilities of the fund.

10 There will be an emphasis on putting the platform in first with a view to building up the allocation over time, based on funding improvements and also as real yields increase.

Diversified Growth Funds

11 Further venture into DGF will assist with further return diversification and improved risk management. 14

CONSULTATION:

12 The Chairman of the Pension Fund has been consulted on the revised draft and would support members being trained in order to implement such a strategy as and when needed.

RISK MANAGEMENT AND IMPLICATIONS:

13 The risk related issues are addressed in the Mercer report in Annex 1.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

14 The financial and value for money implications are addressed within the Mercer report in Annex 1.

CHIEF FINANCE OFFICER COMMENTARY

15 The Chief Finance Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed, with the proviso that training needs should be addressed prior to any decisions on the implementation of the proposed strategy review recommendations. Members should be well informed and trained on the proposed structure for the way ahead and satisfied that the changes are relevant to the requirements of the Pension Fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

16 There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

17 The investment strategy review will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

18 There are no potential implications for council priorities and policy areas.

14

WHAT HAPPENS NEXT

19 The following next steps are planned:

- Adoption of the principles of the investment strategy review.
- Further training provided to Board members.
- Officers implement changes required as a result of future specific Board recommendations.

Contact Officer:
Phil Triggs, Strategic Finance Manager (Pension Fund and Treasury)

Consulted:
Pension Fund Board Chairman

Annexes:
Revised Statement of Investment Principles

Sources/background papers:
None
