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Report on the actuarial valuation as at 31 March 2023

North East Scotland Pension Fund

15 March 2024

A business of Marsh McLennan

Contents

Section 1
Introduction

This report is addressed to the Administering Authority of the North East Scotland Pension Fund ("the Administering Authority") and is provided to meet the requirements of Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) ("the Regulations"). It describes the factors considered by the Administering Authority when carrying out the actuarial valuation as at 31 March 2023 and the decisions reached as a result.

The purpose of the actuarial valuation is for the Administering Authority to determine:

1. The expected cost of providing the benefits built up by members at the valuation date (the "liabilities"), and compare this against the funds held by the Fund (the "assets").

2. The contributions needed to cover the cost of the benefits that active members will build up in the future and other costs incurred in running the Fund (the 'Primary Contribution Rate').

3. An appropriate plan for achieving a 100% solvency funding level if the Fund has more/less assets than liabilities. This plan will cover the amounts which will need to be paid (the 'Secondary Contribution Rate') and the timeframe over which they will be paid ('the Recovery Period').

Signature		
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Qualification	Fellow of the Institute and Faculty of Actuaries	Fellow of the Institute and Faculty of Actuaries
Date	15 March 2024	

This report uses various technical terms. These are explained in more detail in the explanatory boxes which appear throughout this report, and in the Glossary in Appendix I.

This report has been prepared in accordance with Technical Actuarial Standards 100 General Actuarial Standards (TAS 100 v2) and TAS 300: Pensions which are issued by the Financial Reporting Council. The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Fund and determining a contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor do we accept liability to the Administering Authority if the information provided in this report is used for any purpose other than that stated. The report may be disclosed to members and others who have a statutory right to see it. It may also be disclosed to any participating employer and, if the Administering Authority and Mercer consent, it may be disclosed to other third parties.

Section 2

Funding Strategy – Key Elements

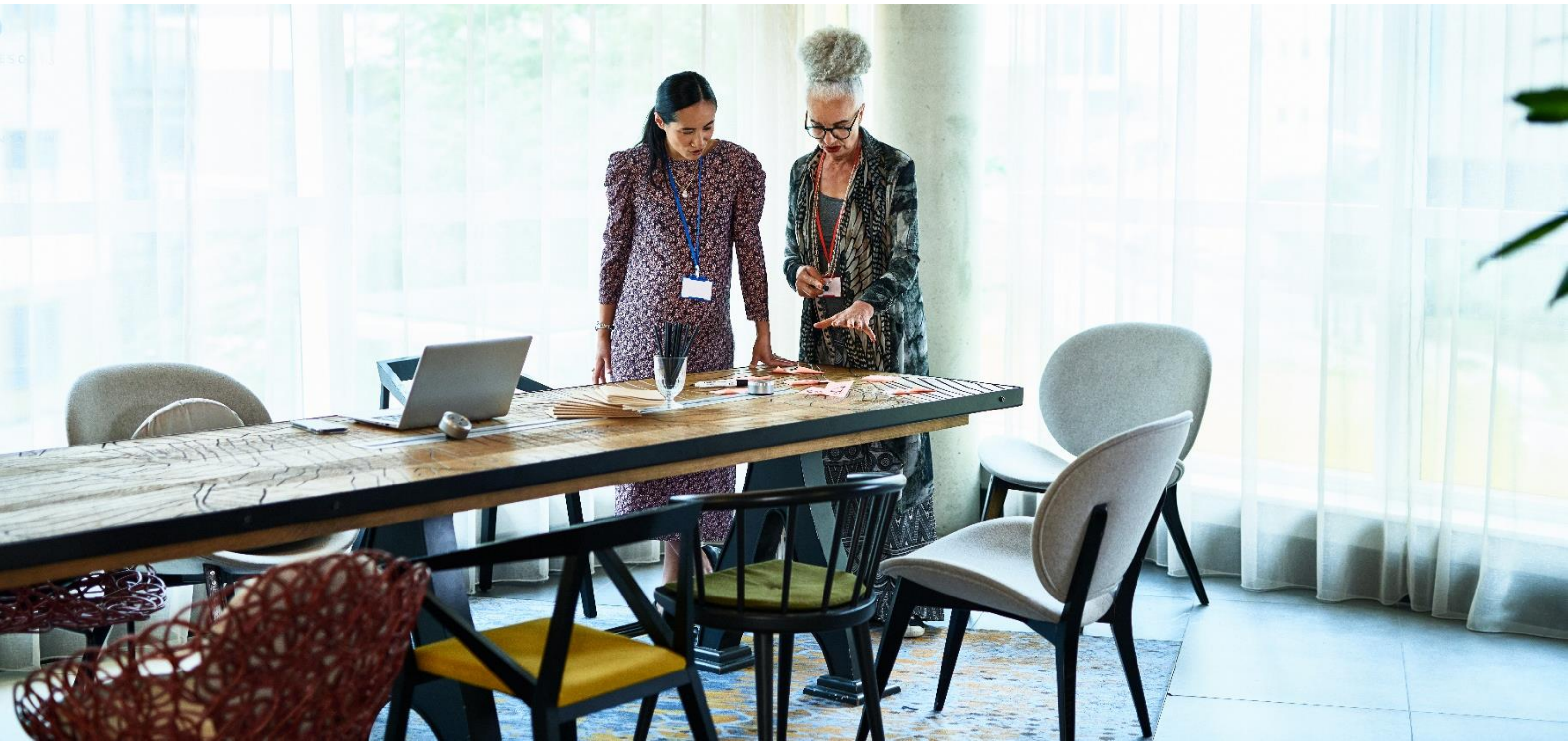
Fundamental to the valuation results is the funding strategy adopted by the Fund. This funding strategy is set out in a specific document (the Funding Strategy Statement or FSS for short) which is one of the Administering Authority's key governance documents for the Fund. In essence, the FSS sets out an overview of the approach to be used for the actuarial valuation. Amongst other things it outlines the assumptions, both economic and demographic, to be used in calculating the value of the liabilities built up, the contributions required to correct any funding shortfall or surplus, and the contribution rate required to fund the benefits for future service. It also sets out the strategy for making good any funding shortfall, in particular how any shortfall is expected to be financed in terms of the balance between future contributions and future investment returns, and the period over which any surplus or shortfall is expected to be recovered.

> The FSS is the Administering Authority's key governance document in relation to the actuarial valuation. It sets out the funding policies adopted, the actuarial assumptions used, and the timescales over which deficits will be paid off. Employers are consulted about the FSS as part of the actuarial valuation process.

The principal elements of the funding strategy adopted for this actuarial valuation are as follows:

- **The McCloud Judgment** (see Appendix D for details) – we have carried out a stand-alone estimate of the cost of the McCloud Judgment, and the results of this at whole Fund level are shown in Section 3 of this report. The past service liabilities at the valuation date include an allowance for the proposed McCloud remedy. As the remedy ended on 31 March 2022, the Primary Contribution Rate does not include an allowance for McCloud.
- **Assumed rate of future long term average CPI inflation** – 2.6% p.a., based on the yields available on gilts and index-linked gilts of appropriate duration less an adjustment of 0.8% p.a. (reflecting an average RPI/CPI structural gap and an inflation risk premium).
- **Real investment returns over and above CPI for past service** – 2.0% p.a., based on the anticipated real returns achievable on the Fund's expected long term investment strategy with a suitable margin for prudence.
- **Real investment returns over and above CPI for future service** – 1.5% p.a., based on the anticipated real returns achievable on future invested contributions.
- **Future pay growth** – 1.5% p.a. over and above CPI.
- **Baseline life expectancy** based on a scheme-specific mortality study.
- **Future mortality improvements** based on the CMI 2022 model with a long term improvement trend of 1.75% p.a.
- **Allowance for known observed CPI inflation** between 1 September 2022 and 31 March 2023 to refine the estimate of the 2024 pension increase order and liability cash flows.

- **Introduction of a funding buffer** of generally 115% of liabilities to reflect current economic uncertainty and aid future contribution stability. Only surplus above the funding level buffer can be refunded to employers through future surplus offsets
- An average spread period of 13 years for correcting any imbalance between the existing assets and past service liabilities (subject to the funding buffer). The FSS sets out the circumstances in which this might vary from one employer to another.



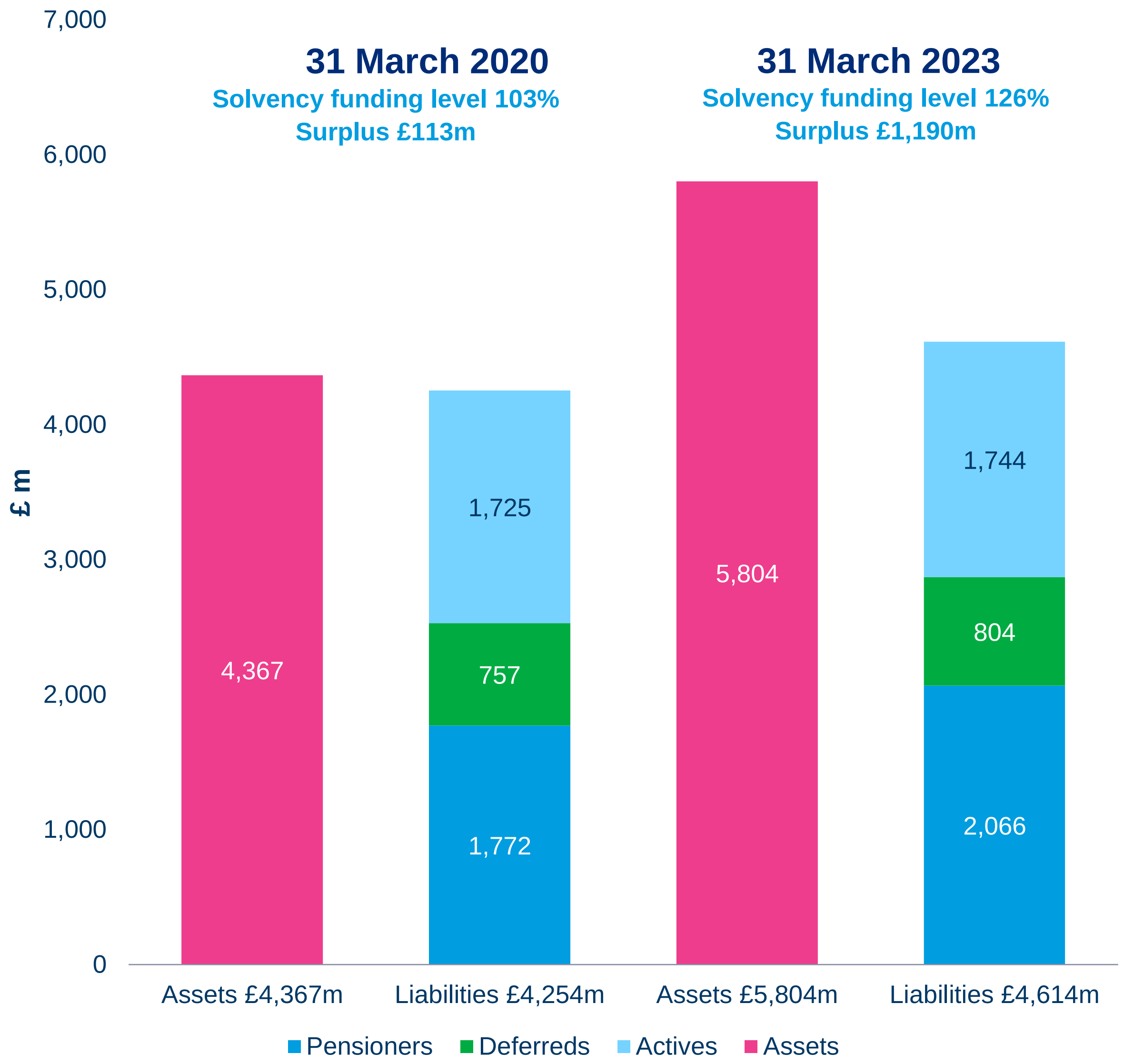
Section 3

Key results of the funding assessment

Solvency funding position

The table below compares the assets and liabilities of the Fund at 31 March 2023. Figures are also shown for the last valuation as at 31 March 2020 for comparison.

On 1 April 2022, the Aberdeen City Council Transport Fund ("ACCTF") merged with the North East Scotland Pension Fund ("NESPF"). The 31 March 2023 valuation results were calculated following this merger and include the former ACCTF assets and liabilities. In particular, the 31 March 2023 figures below include the Bulk Annuity Insurance Buy in Contract with Rothesay Life Plc in respect of a specified group of pensioners. For the purpose of the actuarial valuation the 31 March 2023 liabilities relating to the insured pensioner members have been assessed on the Fund's ongoing valuation basis and the assets have been taken from the audited Fund accounts.



The LGPS Regulations require the contributions to be set so as to secure the Fund's solvency and long term cost efficiency. In this context solvency means being able to meet the liabilities as and when they arise, with long term cost efficiency meaning that contribution levels should not be set so as to give rise to additional costs at a later date. In practice, contribution levels have been set so as to target a solvency funding level of 100%, based on the funding parameters outlined in Section 2 above.

The liability value at 31 March 2023 shown in the chart above is known as the Fund's **"solvency funding target"**. The solvency funding target is calculated using assumptions that the Administering Authority has determined are appropriate having consulted with the Actuary, and are also set out in the FSS.

The chart shows that **at 31 March 2023 there was a surplus of £1,190m** against the Fund's solvency funding target. An alternative way of expressing the position is that **the Fund's assets were sufficient to cover 126% of its liabilities** – this percentage is known as the solvency funding level of the Fund.

At the previous valuation at 31 March 2020 the surplus was £113m, equivalent to a solvency funding level of 103%. The key reasons for the changes between the two valuations are considered in Section 4.

Further details of the way in which the solvency funding target has been calculated are set out in Appendix A.

Primary Contribution Rate

The valuation looks at the normal employer contribution rate required to cover the cost of the benefits (including death benefits and expenses) that will be built up over the year after the valuation date (the "Primary Contribution Rate"). A summary of the assumptions used is provided in Appendix A.

The table below gives a breakdown of the Primary Contribution Rate at 31 March 2023 and also shows the corresponding rate at 31 March 2020 for comparison. In calculating the average Primary Contribution Rate we have not made any allowance for future members to opt for the 50:50 scheme.

The "Primary rate" of the employers' contribution is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs.

Active members pay contributions to the Fund as a condition of membership in line with the rates required under the governing Regulations (see Appendix D).

Primary Contribution Rate	% of Pensionable Pay	
	31 March 2020	31 March 2023**
Normal Contribution rate for retirement and death benefits	27.4	25.8
Allowance for administrative expenses	0.4	0.4
Total normal contribution rate	27.8	26.2
Average member contribution rate	6.1	6.0
Primary contribution rate*	21.7	20.2

** In line with CIPFA guidance, the Primary Contribution Rate is the weighted average of the individual employer Primary Contribution Rates as derived based on their individual circumstances (e.g. whether or not they are closed to new entrants).*

***For consistency these contributions exclude the active members of the former ACCTF.*

Correcting the imbalance – Secondary Contribution Rate

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

> The “Secondary rate” of an individual employer’s contribution is an adjustment to the Primary Contribution Rate to reflect any past service deficit or surplus, to arrive at the rate the employers are required to pay.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average weighted period adopted is 13 years (subject to the funding buffer). The total initial surplus offset (the “Secondary rate” for 2023/24) is an offset of approximately 6.2% per annum (which allows for the funding buffer based on the contribution plans which have been set for individual employers under the provisions of the FSS).

The McCloud Judgment

As described in Section 2 of this report, we have carried out a stand-alone estimate of the cost of the McCloud Judgment. We have included an estimate of the cost in the past service liabilities at the valuation date of £19 million. This represents 0.4% of total past service liabilities at 2023 and is included in the 2023 liability figures above. The equivalent estimate included in the 2020 liability figures was £34 million (0.7%). Provision for these estimated McCloud costs has been included within the Secondary Contribution Rate shown above and in the corresponding Secondary Contribution Rate for each individual employer.

The “McCloud Judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. This is likely to result in increased costs for some employers. Regulations took effect from October 2023, with a retrospective effect back to April 2015 and a remedy end date of 31 March 2022.

Section 4
Experience since last valuation

Summary of key inter-valuation experience

The last actuarial valuation was carried out with an effective date of 31 March 2020.

The average Pensionable Salary increase for the Fund members who were in service for the whole of the inter-valuation period was 4.7% per annum.

Pensions in payment (in excess of Guaranteed Minimum Pensions (GMPs) were increased as guaranteed under the Fund as follows:

April 2021 0.5%

April 2022 3.1%

April 2023 10.1%

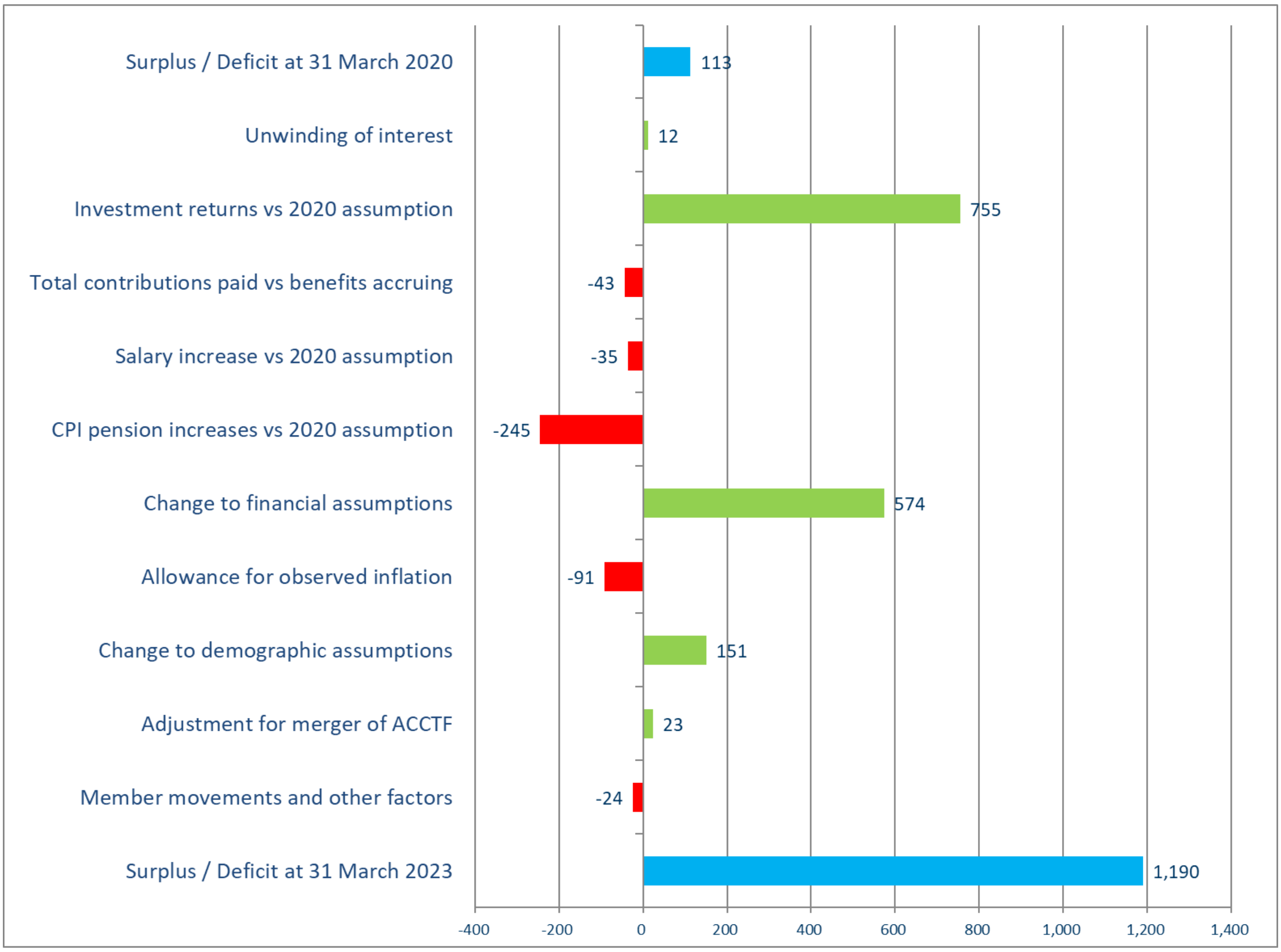
> The outcomes from the valuation are determined both by the assumptions adopted for the future, and the Fund's historic experience relative to assumptions made in the past. In this section we consider the effect of the Fund's experience over the last three years.

Over the inter-valuation period, benefit inflation has averaged 4.5% p.a.. Over the three years to 31 March 2023 the gross investment return on the Fund's assets has averaged 9.1% p.a., meaning that the average real return over CPI inflation has been about 4.6%p.a.

In addition to the published pension increase orders, we have made allowance for known observed CPI inflation over the period 1 September 2022 to 31 March 2023 as this will be reflected in the April 2024 pension increase order.

Reasons for the change in funding position since the last actuarial valuation

The surplus at the last valuation date, including the McCloud reserve was £113m. The chart below sets out the main reasons for the change in the surplus between 31 March 2020 and 31 March 2023 (figures shown in £m).



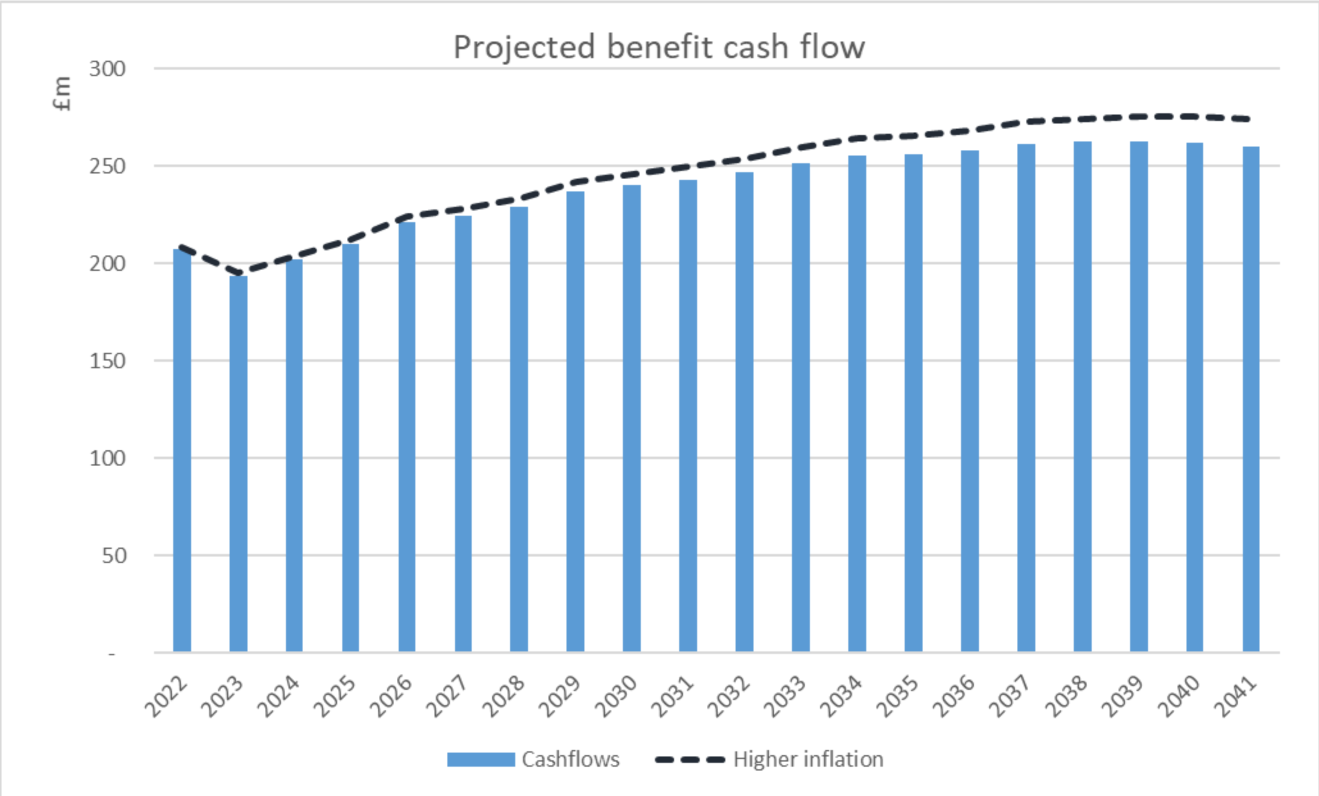
Section 5

Cash flows, risks and alternative funding positions

Benefit cash flows

The projected benefit cash flows which result from applying the assumptions as set out in Section 2 are shown in the chart below. These exclude the insured members whose benefits are matched by the buy-in policy. The additional trendline sets out how those total projected benefit cash flows would change if we were to assume inflation of 0.25% p.a. higher than the assumption of 2.6% p.a. used for the actuarial valuation. Over the 20 years following the valuation date, the extra benefit payments which would result from the extra 0.25% p.a. inflation assumption are projected to be c£140m.

> The actuarial valuation process is principally concerned with projecting all the expected benefit cash flows into the future, and then converting them into present day values by discounting them to allow for assumed future investment returns. The chart shows those projected cash flows, and also illustrates how sensitive they are to the future inflation assumption.



Projected funding position at next actuarial valuation

As part of this valuation, the Administering Authority has set an average spread period of approximately 13 years. The next actuarial valuation will take place with an effective date of 31 March 2026. If experience up to that date were to be in line with the assumptions made for this current actuarial valuation and contributions are paid at the agreed rates or amounts, there would be a surplus at 31 March 2026 of £1,467m, equivalent to a funding level of 127%.

Material risks faced by the Fund

The Fund is subject to some potentially material risks that are, to an extent, outside the Administering Authority's control, but could affect the funding level and ultimately the employer contribution requirements. Any material worsening of the funding level will mean more contributions are needed (either at an increased rate or at the same rate over a longer period) to be able to provide the benefits built up in the Fund – unless experience acts in other ways to improve the funding level. Examples of such risks, and how the Administering Authority manages them, are:

> Funding a defined benefit pension scheme such as the LGPS which is open to new members is by its nature uncertain, and involves some level of risk. The principal funding risks are investment (e.g. whether the Fund earns the desired level of long term real returns) and demographic (e.g. whether longevity of members is longer or shorter than anticipated). In practice, the key is whether such risks can be managed and mitigated.

- If an Employer becomes unable to pay contributions or to make good deficits in the future, the Fund's assets will be lower than expected and the funding level will be worse than expected. The Administering Authority regularly monitors the financial strength of the employers so that actions can be taken to mitigate (but not fully remove) the risk.
- If future investment returns on assets are lower than assumed in the valuation, the Fund's assets will be lower, and the funding level worse, than expected. The Administering Authority has a process in place to monitor investment performance quarterly, and it reviews the Fund's investment strategy alongside each actuarial valuation.
- If CPI inflation is greater than assumed over a prolonged period this means that the benefit payments and therefore Fund liabilities will be greater than expected leading to potentially higher employer contributions at future valuations. The Fund invests in assets which have some correlation to inflation so to some degree the impact will be mitigated and the Administering Authority keeps this under review on an ongoing basis.
- If improvements in life expectancy are greater than assumed, the cost of benefits will increase because members are living longer than expected. This will mean the funding level will be worse than expected. The Administering Authority regularly reviews the Fund's experience and ensures that the assumptions it makes about members' life expectancy take the most recent information available into account.
- If members make decisions about their options which increase the Fund's liabilities, the funding level will be worse than expected. An example would be if members commute less pension for cash than is being assumed. The Administering Authority reviews the Fund's experience at each valuation to ensure that their treatment of member options remains appropriate.

Recognising this uncertainty and the desire for sustainability of contributions, the Administering Authority has introduced a Funding Buffer of generally 115% of liabilities (or as separately agreed with the Administering Authority if appropriate) to reflect current economic uncertainty and aid future contribution stability. Only surplus above the funding level buffer can be refunded to employers through future surplus offsets.

Sensitivity of funding position to changes in key assumptions

The value placed on the Fund's liabilities is critically dependent on the assumptions used to carry out the calculations. If future experience differs from the assumptions the Administering Authority has used after consulting with the employers, then the projected future funding level will be different from the level described above.

To illustrate how sensitive the funding level is to experience being different from assumed, the table below shows how the valuation results at 31 March 2023 would have differed given small changes in the key assumptions.

Assumption change	Reduction (increase) in surplus at 31 March 2023 (£m)	Resultant surplus (deficit) at 31 March 2023 (£m)
Original solvency funding position	-	1,190
Real investment return e.g. return above inflation 0.25% lower than assumed	178	1,012
Pensionable Salary growth 0.25% lower than assumed	(16)	1,206
Long term improvement rate in life expectancy increased by 0.50% per annum	59	1,131
Assets fall by 25%	1,451	(261)

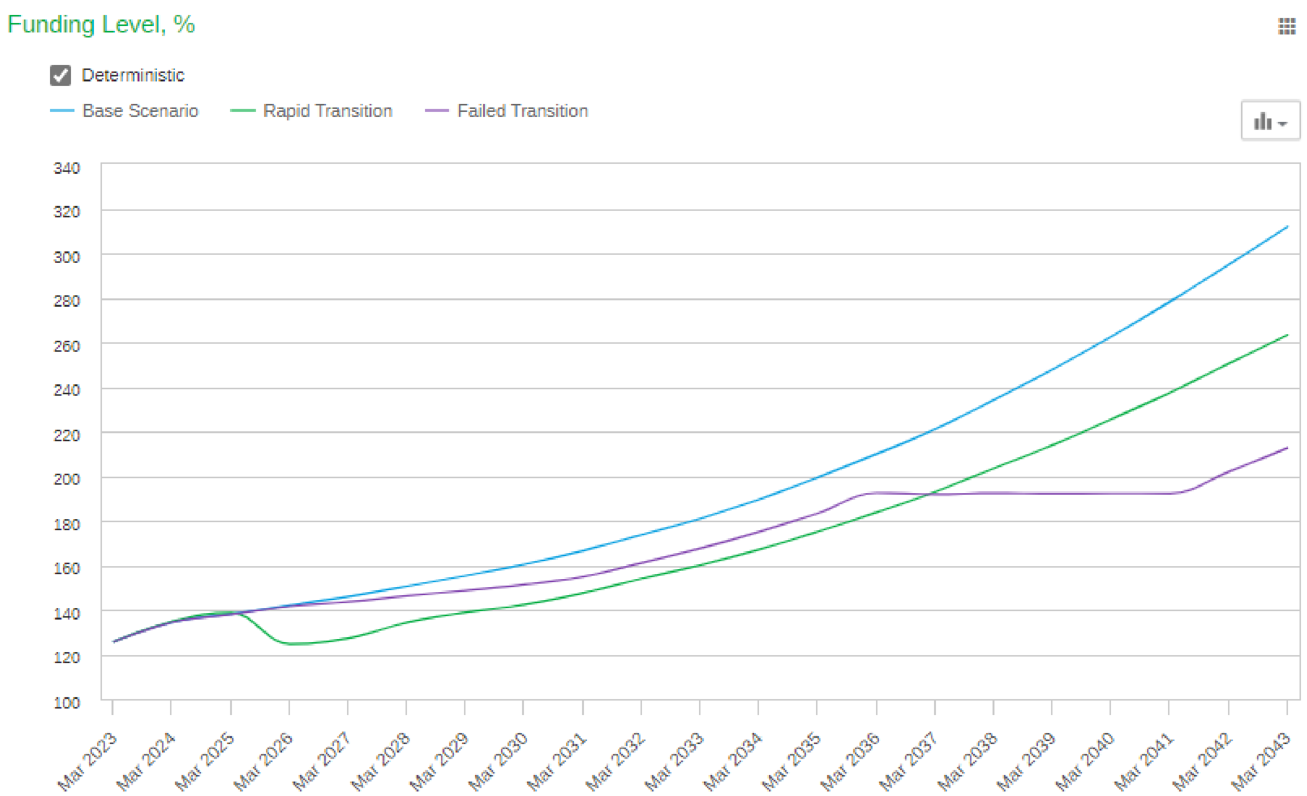
The figures above consider each impact in isolation. In practice the Fund's risk management framework will mitigate the financial risks to varying degrees.

Climate change

Climate change has the potential to be a material financial risk to the Fund – whether that be the costs of moving to a low carbon economy, the cost of physical damages caused as a result of climate change or even as a result of litigation/regulation to address past practices. Climate change is expected to affect most if not all of the risks highlighted above, however, the extent of and interaction between these impacts are uncertain. As part of the valuation we and the Administering Authority has considered the impact on projected funding level of the following simplified climate change scenarios and a summary of the output is set out below (the key assumptions underpinning these scenarios is included in Appendix A). These risks will continue to be monitored by the Administering Authority.

The scenarios shown are **not** meant to be predictors of the impact of climate change but are meant to illustrate the risks associated with the transition risks (short term) and physical risks (long term) of two different example climate change scenarios over a period of 20 years. The potential risks associated with climate change have been considered when setting the assumptions in this report. The two scenarios considered are as follows:

- Rapid transition - Policy and technology developments come together to deliver the rapid reduction in emissions to limit heating to below 1.5°C. There are material transition costs associated with this that reduce returns.
- Failed transition - Transition is limited and not co-ordinated. Emissions continue to rise. Transition risks are very small but significant physical risks come in to play.



Mercer supports limiting warming to 1.5 degrees Celsius but recognises that given the current warming trajectory, based on existing policies and actions, this pathway may represent a short term shock to investment portfolios. Investors should position their portfolios in line with their objectives whilst also understanding the potential impact of transition risks and physical damages.

Minimum risk funding position

In assessing the value of the Fund's liabilities (the solvency funding target), allowance has been made for investment returns as described in Appendix A, taking into account the investment strategy adopted by the Fund, as set out in the Fund's Statement of Investment Principles (SIP).

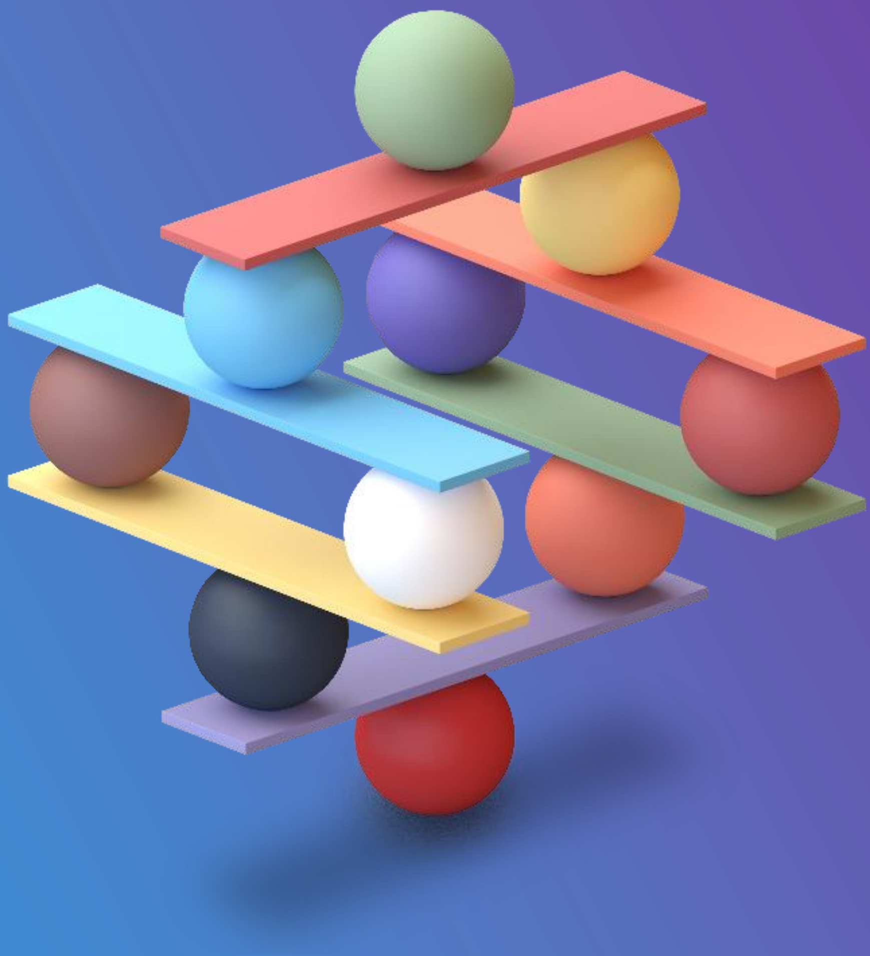
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which attempts closely to match the liabilities and provide a high level of certainty in future investment returns above CPI inflation. This represents a "minimum risk" investment position. Such a portfolio would consist mainly of a mixture of long term index-linked and fixed interest gilts. Investment of the Fund's assets in line with the minimum risk portfolio would minimise fluctuations in the Fund's minimum risk funding level between successive actuarial valuations but would result in much higher employer contributions (all other things equal).

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments. In this event the value of the Fund liabilities would have increased substantially, to £5,803m, and the funding level would have reduced correspondingly to 100%. If the actuarial assumptions are borne out in practice and contributions are paid in line with the Rates and Adjustment Certificate for all employers, the projected funding level on this basis at the next actuarial valuation would be slightly higher at 102%.

The value of the liabilities on the ongoing solvency funding target assumptions was £4,614m, which is £1,189m less than the value on the minimum risk basis. The funding plan is therefore making a prudent allowance for future investment returns of £1,189m over and above those available from the notional minimum risk investment portfolio to support the funding of member benefits along with contributions payable. This is an indication of the expected return built into the funding strategy for the Fund as a whole.

Managing investment risk and other risks e.g. employer covenant is a key objective for the Administering Authority. The policies to manage these risks are set out in the Funding Strategy and Statement of Investment Principles.

Appendices



Appendix A
Assumptions

How the benefits are valued

In order to calculate the liabilities, there is a need to make assumptions about various factors that affect the cost of the benefits provided by the Fund – for example, how long members will live, or the future level of inflation. The table below explains the key assumptions being made in the valuation.

Assumption	Why it is important and how it impacts on the liabilities
Discount rate	The majority of benefits in a pension fund are paid many years in the future. In the period before the benefits are paid, the Administering Authority invests the funds held by the Fund with the aim of achieving a return on those funds. When calculating how much money is needed now to make these benefit payments, it is appropriate to make allowance for the investment return that is expected to be earned on these funds. This is known as “discounting”. The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculation reflects this by placing a lower value on the liabilities if the “discount rate” is higher.
Inflation	Pensions in payment increase in line with Consumer Price Inflation (CPI). Salary growth is also normally linked to price inflation in the long term. A higher inflation assumption will, all other things being equal, lead to a higher value being placed on the liabilities.
Pensionable Salary growth	Benefits earned prior to 1 April 2015 for active members are based on their salaries immediately before retirement, so it is necessary to make an assumption about future Pensionable Salary growth. The higher this assumption, the higher the value placed on the liabilities for active members. Equally, pay growth will impact on the potential liabilities in relation to the McCloud Judgment as the assumption affects the value of the final salary underpin.
Life expectancy	Pensions are paid while the member (and potentially their spouse or partner) is alive. The longer people live, the greater is the cost of providing a pension. Allowing for longer life expectancy therefore increases the liabilities.

The liabilities of the Fund are calculated by projecting forward all of the future benefit cash flows and discounting them back to the effective date of the valuation, using these assumptions. For example, the liability for a single pensioner is calculated by estimating the amount of each pension payment they will receive in the future, multiplying by the probability that the member will still be alive by the date of each payment, and then discounting each payment back to the effective date of the valuation using the appropriate discount rate, and then summing up all of these discounted amounts. The liabilities for the whole Fund are calculated by summing the liabilities for each of the individual members.

Financial assumptions used to calculate the solvency funding target

The table below summarises the key financial assumptions used in the calculation of the solvency funding target at whole Fund level and those used for the 31 March 2020 actuarial valuation. Section 2 of this report sets out how these assumptions might vary from one employer to another.

Financial assumptions	31 March 2020	31 March 2023
Discount rate		
Past Service	3.35% p.a.	4.60% p.a.
Future Service	3.60% p.a.	4.10% p.a.
Price inflation (CPI)	2.10% p.a.	2.60% p.a.
Salary increases (long term)	3.60% p.a.*	4.10% p.a.
Pension increases in payment:	2.10% p.a.	2.60% p.a.

**at the 2020 valuation employers also selected from one of the following in relation to a short term pay allowance – no allowance/1% p.a. for 3 years or 2% p.a. for 3 years*.

The key financial assumption is the expected long term investment return above CPI inflation as this is usually the principal factor which determines the long term cost to employers via their contributions. In determining this we consider first the long term real returns (i.e. returns above CPI) which the Fund's investment strategy can be expected to deliver based on market outlook at the valuation date taking into account the projected cash flow position of the Fund. This analysis then helps us recommend and agree with the Administering Authority on a suitably prudent assumption for the valuation discount rate based on the investment strategy, any risk management framework in place, and reasonably allowing for the likely changes in investment strategy as the Fund matures.

Our analysis of expected future real investment returns uses a Monte Carlo simulation (stochastic) model, based on 4,000 simulations. Within the overall analysis we specify and calibrate a range of economic and asset class models. Our analysis uses an asset correlation matrix to help generate each stochastic simulation. The model includes estimates for long term expected returns and inflation along with volatilities each asset class and inflation.

In order to consider the level of prudence we look at the likelihood of the expected real return from the Fund's assets exceeding the assumption made. We measure this by considering the percentile expected return from the analysis. A return assumption higher than the 50th percentile return from the analysis can be deemed to be prudent and retain margins to provide some protection against increases in contributions at future valuations.

At this actuarial valuation the real discount rate which we have used is 2.0% p.a., which is the 83rd percentile return from our analysis. At the previous valuation the real discount rate used was 1.25% p.a., which at the time was the 58th percentile. It should be noted that there is considerable uncertainty in market and inflation outlook at the 2023 valuation which has been taken into account when setting the assumptions and contribution plans for employers.

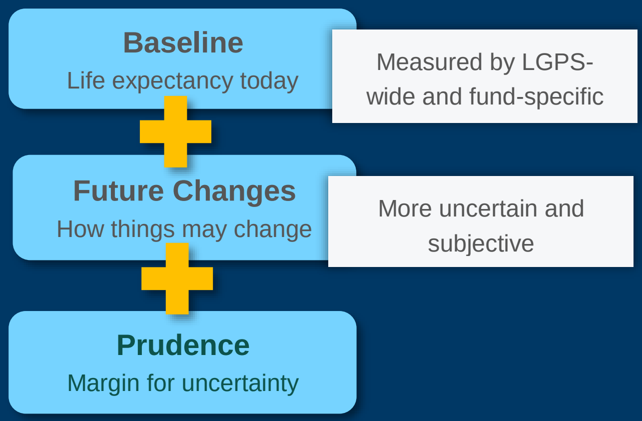
Demographic assumptions used

Post-retirement Mortality

Mortality (or life expectancy) tables are typically made up of three elements: a baseline table (equivalent to the expected current mortality), an allowance for future improvements, and a margin for prudence. Very few pension funds are large enough for them to be able to determine a bespoke set of baseline assumptions based purely on the fund's own membership experience. Typically, the life expectancy assumptions are set by benchmarking a fund's membership profile and mortality experience against larger external datasets.

There are two separate decisions on mortality assumptions:

- The baseline table for the current rates of mortality; and
- The allowance for future improvements.



For this actuarial valuation, we have benchmarked the Fund's membership profile and experience against the "S tables" published by the CMI. We have applied weightings and age ratings as appropriate to adjust the standard tables so as to arrive at assumptions which are appropriate for the Fund. This has been based on our detailed study using Longevitas which considers a range of lifestyle factors to derive the weightings. Full details are set out in our separate report.

As for the 2020 valuation, we have generally used the S3PA tables ("middle" tables for females), other than for female dependants where the S3DA tables have been used and for members retiring in ill health, where the S3IA tables have been used.

The weightings and age ratings applied to the above are set out in the table below.

Current Status	Retirement Type	2020 weighting/age rating	2023 weighting/age rating
Annuitant	Normal Health	114% males, 101% females	114% males, 108% females
	Dependant	150% males, 104% females	142% males, 126% females
	Ill Health	136% males, 144% females	164% males, 207% females
	Future Dependant	146% males, 121% females	142% males, 126% females
Active	Normal Health	121% males, 101% females	118% males, 108% females
	Ill Health	134% males, 151% females	263% males, 349% females
Deferred	All	144% males, 116% females	125% males, 113% females
Active/ deferred	Future Dependant	153% males, 128% females	134% males, 125% females

A weighting applied to an actuarial table has the effect of increasing or reducing the chance of survival at each age, which increases or reduces the corresponding life expectancy. Similarly, an age rating applied to an actuarial table has the effect of assuming that beneficiaries have a life expectancy equal to those older (or younger) than their actual age.

Future improvements are assumed to follow the CMI 2022 model with a 1.75% p.a. long term improvements trend (Smoothing Parameter (Sκ) of 7, with all other parameters core, i.e. zero initial improvements parameter and no allowance for 2020 or 2021 data).

At the 2020 actuarial valuation the CMI 2019 model with 1.75% p.a. long term trend (and Sκ=7.5) was used.

The mortality assumptions used for the 31 March 2023 valuation result in the following life expectancies.

	Years
Life expectancy for a male aged 65 now	21.1
Life expectancy at 65 for an active male aged 45 now	22.8
Life expectancy for a female aged 65 now	23.4
Life expectancy at 65 for an active female aged 45 now	25.5

Pre-retirement Mortality

The following mortality tables (together with any appropriate weightings and age ratings) have been adopted for mortality rates in the period up to retirement.

	31 March 2020	31 March 2023
Base Table	DxL08 tables with adjustments of 80% (male) 50% (female) to reflect the Fund's membership profile	DxL08 tables with adjustments of 80% (male) 70% (female) to reflect the Fund's membership profile
Allowance for Future Improvements	CMI_2015 [1.5%]	CMI_2022 [1.75%]

Commutation

Members have the option to commute part of their pension at retirement in return for a lump sum at a rate of £12 cash for each £1 per annum of pension given up. Following an analysis of the take-up rates, it has been assumed that, on average, retiring members will take 75% of the maximum tax-free cash available at retirement. This is slightly lower than the assumption at the 2020 actuarial valuation, which was equivalent to members taking about 80-85% of the maximum tax-free cash available depending on profile.

Retirement lump sums are less costly for the Fund to provide than the alternative pension, as members receive only £12 of each £1 p.a. of pension given up. If members take the cash sum option at a higher rate than has been assumed then this will normally lead to an improvement in the funding level.

Early retirement

If members take early retirement to a greater extent than has been assumed then this will typically lead to a worsening of the funding level. This is because many members are able to take substantial parts of their benefits from age 60 without them being reduced for early payment.

Some members are entitled to receive their benefits (or part of their benefits) unreduced from an age prior to the Fund's normal pension age under the "Rule of 85" provisions of the Regulations. This age will be at some point between ages 60 and 65, depending on the length of a member's pensionable service. The calculations in respect of the relevant service to which these terms apply (basically pre April 2008 service but with transitional protections for certain members) allow for members to retire at this age.

For post April 2008 service (other than protected service) the situation is different since the "Rule of 85" has been removed (and for post December 2006 service for new entrants to the Scheme from that date). For this service we have assumed the earliest age at which unreduced benefits become an entitlement is 65, except for those members who have protected status under the transitional provisions.

For post April 2015 service, early retirement factors are applied where the retirement age described above is below the member's eligible retirement age for unreduced benefits for post April 2015 service. Factors are in line with the standard scheme factors produced by the Government Actuary's Department. No allowance has been made for non-ill health early retirements prior to the ages specified above. Additional capital contributions will be paid by employers in respect of the cost of these retirements.

However, for those members who are entitled to receive their accrued benefits (or part of those benefits) prior to the retirement age described above and who are over this age but under 65, a proportion of the active membership is assumed to retire in normal health prior to age 65, as set out below:

Age	% retiring per annum	
	Males	Females
60	10	20
61	8	15
62	8	15
63	8	15
64	8	15
65	100	100

These are the same assumptions as the 2020 valuation.

The appropriate early retirement factors are applied to the relevant tranche of benefits in line with the Government Actuary's Department (GAD) guidance.

Ill health retirement

A small proportion of the active membership has been assumed to retire owing to ill health. As an example of the rates assumed, the following is an extract from the decrement table used:

The level of ill health retirement benefit provided for a member falls into one of three "tiers", depending on whether and when the member might be expected to resume gainful employment. Tier 1, for example, is on the basis that the member is unlikely to be able to do so before Normal Pension Age. Full details are set out in the LGPS (Scotland) Regulations and associated guidance.

Age	% retiring per annum	
	Males	Females
35	0.03	0.03
45	0.09	0.09
55	0.41	0.36

These are the same assumptions as the 2020 valuation.

The proportion of ill health early retirements falling into each tier category, split by males and females, has been assumed to be as set out below (which is the same assumption as used in the 2020 valuation):

Tier 1	Tier 2
86%	14%

Withdrawal

This assumption relates to those members who leave the Fund with an entitlement to a deferred pension or transfer value. It has been assumed that active members will leave the Fund at the following sample rates:

Age	% leaving per annum	
	Males	Females
25	20.25	22.38
35	5.09	6.27
45	2.54	3.89

In relation to pre 2015 benefits, deferred benefits tend to be less costly for the Fund to provide than if the member had remained in the Fund until retirement. If the number of members leaving the Fund is greater than expected then this will typically lead to a slight improvement in the funding level.

These are the same assumptions as the 2020 valuation.

Partners' and Dependants' Proportions

It has been assumed that the proportions of members below will on death give rise to a dependant's pension (spouse's and partner's), and that spouses/partners of female (male) members are three years older (younger), on average than the member.

Age	% spouse/partner	
	Males	Females
25	43	51
35	69	68
45	72	68
55	74	68
65	76	62

If more members than assumed have partners then this will lead to an increase in the number of dependants pensions coming into payment over and above that expected. This would lead to a worsening of the funding level.

The assumption has been changed since the last valuation. The 2020 valuation assumption is set out in our 2020 valuation report.

Assumptions used to calculate the Primary Contribution Rate

The cost of future accrual (the Primary Contribution Rate) has been calculated using the same actuarial assumptions as used to calculate the solvency funding target and recovery plan as set out above except that the financial assumptions adopted are as described below.

The financial assumptions for assessing the future service contribution rate should take account of the fact that contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date.

The financial assumptions in relation to future service (i.e. the Primary Contribution Rate) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 1.5% per annum taking account the desire for overall contribution stability/sustainability and the uncertainty in future market returns and inflation. With a long term average assumption for price inflation of 2.60% per annum, this gives rise to an overall discount rate of 4.1% p.a. (the corresponding discount rate at the 2020 actuarial valuation was 3.60% p.a.).

The real discount rate of 1.50% p.a. represents the 87th percentile return from our analysis of future return expectations based on the strategic investment strategy. At the previous valuation the real discount rate used was also 1.50% p.a., which at the time was at the 55th percentile.

Climate change modelling

The ongoing funding level includes implicit allowance for climate change to the extent that this is expected and priced into markets. We have illustrated how other climate change scenarios (on a simplified basis) could impact on the projection of funding level in section 5. These assumptions are not mean to be predictors of the impact of climate change and represent two scenarios out of many possible outcomes.

Modelling Assumptions

	Rapid Transition		Failed Transition
	Year 3 shock	Cumulative impact over 20 years	Cumulative impact over 20 years
UK Yield impact	0.09% p.a.	0.04% p.a.	-0.07% p.a.
Inflation expectations	-0.10% p.a.	0.00% p.a.	-0.01% p.a.
Equity market shock	Global Equities: -14.1% Emerging markets: -14.8% Small Cap: -14.1%	Global Equities: -9.4% Emerging markets: -8.1% Small Cap: -9.4%	Global Equities: -30.4% Emerging markets: -40.5% Small Cap: -30.4%
High yield Debt (HYD) and Multi-Asset Credit (MAC) shock	HYD: -8.7% MAC: -8.3%	HYD: -6.6% MAC: -5.0%	HYD: 0.9% MAC: 0.3%
Emerging Market Debt (EMD) shock	-5.7%	1.2%	-3.6%
Diversified Growth Fund shock	-9.8%	-5.6%	-16.6%
Hedge fund shock	-0.1%	2.9%	-2.9%
UK life expectancy	Any changes in life expectancy due to climate change, such as deaths due to extreme heat vs improved mortality due to milder winters, are expected to be largely offsetting in the UK over the next 20 years.		

These assumptions are relative to the Mercer base case scenario which uses Mercer's economic growth models. At the end of the projection period all assumptions return to the Mercer base case assumptions.

Appendix B
Summary Membership Data

The membership data is summarised in the table, with figures at the previous valuation shown for comparison.

Data in relation to members of the Fund were supplied by the Fund's administrator on behalf of the Administering Authority. The accuracy of the data provided has been relied on. While reasonableness checks on the data have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently, Mercer does not accept any liability in respect of its advice where it has relied on data that is incomplete or inaccurate.

NESPF (combined figures for ACCTF merger)	31 March 2020	31 March 2023
Active members		
Number	26,037	27,638
Total Pensionable Salaries (£000s p.a.)	507,151	609,021
Average Pensionable Salary (£ p.a.)	19,478	22,036
Average age (pension weighted)	51.2	51.6
Deferred pensioners (including undecideds)		
Number	22,347	25,790
Total deferred pensions revalued to valuation date (£000s p.a.)	39,006	48,923
Average deferred pension (£ p.a.)	1,745	1,897
Average age (pension weighted)	49.9	50.3
Pensioners (including dependants) – combined insured and non-insured		
Number	23,464	26,192
Total pensions payable (£000s p.a.)	120,025	134,909
Average pension (£ p.a.)	5,115	5,151
Average age (pension weighted)	70.7	71.6

Appendix C
Assets

The market value of the Fund's assets was £5,803,777,000 on the valuation date. This includes the assets in relation to the Former Aberdeen City Council Transport Fund. In particular, the Bulk Annuity Insurance Buy in Contract with Rothesay Life Plc in respect of a specified group of former ACCTF pensioners.

The Administering Authority's investment strategy is to proportion the Fund's assets by asset class as shown in the table below. The actual distribution of assets will vary over time due to changes in financial markets. The table also shows the distribution of assets at the valuation date.

	Investment strategy	Actual market value of assets at 31 March 2023	
	%	£000s	%
Bonds	22.5	901,728	15.5
Equities	50	3,127,615	53.9
Infrastructure	10	409,396	7.1
Direct Property	10	367,200	6.3
Private Equity	5	480,612	8.3
Private Debt		155,026	2.7
Cash / other	2.5	222,028	3.8
Value of insurance buy-in with Rothesay		158,000	2.7
Current Assets / Liabilities		(17,828)	-0.3
Total	**100**	**5,803,777**	**100**

The Administering Authority also holds additional voluntary contributions (AVCs) which are separately invested. These assets have been excluded from the market value shown as they exactly match the value of the benefits they cover.

The details of the assets at the valuation date and the financial transactions during the inter-valuation period have been obtained from the audited accounts for the Fund.

Appendix D
Benefit Summary

The benefits valued within our calculations are those in force at the effective date of the valuation. Full details of these can be found in the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended). The principal details are as follows:

Scheme Regulations

The Local Government Pension Scheme (Scotland) Regulations 2018 (https://www.legislation.gov.uk/ssi/2018/141/contents)

The Local Government Pension Scheme (Transitional Provisions, Savings) (Scotland) Regulations 2014 (https://www.legislation.gov.uk/ssi/2014/233/contents/made)

Compensatory Added Years (CAY)

The Fund is also responsible for paying and, where appropriate, recharging to employers the benefits arising from the award of compensatory added years (CAY) of service on premature retirement. Unless these CAY benefits have been converted into “funded” benefits, they are normally recharged to the relevant employer (together with associated pension increases), and so are excluded from the valuation.

Additional Voluntary Contributions (AVCs)

The benefits that will emerge from money purchase AVCs paid by members, and SCAVCs paid by employers, and the corresponding invested assets in respect of these AVCs and SCAVCs, have been excluded from the valuation.

GMP Equalisation / Indexation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the “Barber” Judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Following the Lloyds Bank case in 2018, Treasury issued a consultation on equalising and indexation of GMPs in all the public service pension schemes, including the LGPS, and this was concluded on 23 March 2021 (23.03.2021_Response_to_GMP_consultation_final__002_.pdf (publishing.service.gov.uk).

The outcome is that all members whose State Pension Age is after 5 April 2016 will receive full CPI indexation on the GMP elements of their benefits resulting in their total pension increasing in line with CPI inflation which will address the equalisation issues identified in the view of the Government.

Directions made by the Treasury under Section 59A of the Social Security Pensions Act 1975 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/761639/Treasury_Direction_under_section_59A_Social_Security_Pensions_Act_1975.pdf).

This has been allowed for in this valuation when assessing the liabilities and this is consistent with the approach applied at the 2020 actuarial valuation.

Consideration is being given to whether any adjustment needs to be made in relation to a small number of exceptional cases (as set out in the consultation response) along with historic transfer payments made to members leaving the Fund and all parties are awaiting further guidance from the Government. No explicit allowance has been made in this valuation for these potential liabilities and this will be considered once the guidance and data is available. We would not expect it to be material in the context of the total Fund liabilities but this can only be considered once the full details are available.

The McCloud Judgment

The McCloud Judgment in the LGPS refers to the legal decisions (initially by the Employment Appeal Tribunal and then ratified by the Court of Appeal) in the Sargeant/McCloud cases for the Fire and Judiciary pension arrangements. The Court ruled that transitional protections afforded to older members when these schemes were amended constituted unlawful age discrimination. Remedial action, in the form of benefit changes for these schemes, is therefore required as announced by the Government.

Although the above cases did not relate directly to the LGPS, the LGPS also put in place protections for older members as part of the reforms which came into effect from 2014/2015. For the LGPS these took the form of an underpin, where older members would get the better of the benefits payable under the new and old schemes.

The Government published a consultation in July 2020 including a proposed remedy for the LGPS. This is likely to result in increased costs for some employers. Remedial regulations took effect from October 2023, with a retrospective effect back to April 2015 in Scotland, and a remedy end date of 31 March 2022.

Following discussions with the Administering Authority, in order to consider a reasonable provision for the potential costs in employer contributions we have assumed that the eventual remedy will be that the underpin which applies to older members will also be extended to apply to younger members who joined the Fund before 1 April 2012 (the cut-off date for the protections to apply). More specifically we have been instructed to:

- Estimate the underpin benefits for active members for service after 31 March 2015 (when the new scheme took effect) up to 31 March 2022.
- Compare this to the actual post 31 March 2015 benefits accrued up to 31 March 2022.
- Calculate the cost for each member as the value of the underpin benefits less the value of the actual benefits (ignoring members where the value of the actual benefits is higher).
- Sum these costs across all active members to give the impact of the underpin for each employer.

We have calculated this cost across all benefits (including deferred benefits for active members who are assumed to leave the scheme before retirement in the future).

At this stage, as the data was not readily available for the valuation we have not calculated any costs for members who had already left service or retired as at 31 March 2023. Given the nature of the underpin we expect any costs for this group of members to be immaterial at whole Fund. We also believe the approach applied to active members and the assumptions underlying the actuarial valuation contain prudential margins which are sufficient to cover the vast majority of such costs for the affected employers.

The position will be reassessed at the 2026 valuation (or earlier contribution review if required for some employers) when we expect the final remedy to have been implemented and to be reflected in the underlying data we will receive.

Appendix E

Analysis of membership experience

The analysis below compares the actual experience over the 3 year period with the assumptions used for the 2023 valuation.

	Actual	Expected	%
Ill Health Retirements	252	260	97
Withdrawals	6,617	3,679	180
Pensioner Deaths	2,349	2,245	105

Note that actual withdrawals can include members moving to another LGPS Fund, bulk transfers and also transfers under the special transfer club terms.

Appendix F

Valuation Dashboard

2023 Past service funding position - local funding basis	
Funding level (assets/liabilities)	126%
Funding level (change since last valuation)	+23%
Asset value used at the valuation (£m)	5,804
Value of liabilities (£m)	4,614
Surplus (deficit) (£m)	1,190
Discount rate – past service	4.60% p.a.
Discount rate – future service	4.10% p.a.
Assumed pension increases (CPI)	2.60% p.a.
Method of derivation of discount rate, plus any changes since previous valuation	See Appendix A
Assumed life expectancies at age 65	
Average life expectancy for current pensioners - men currently age 65	21.1
Average life expectancy for current pensioners - women currently age 65	23.4
Average life expectancy for future pensioners - men currently age 45	22.8
Average life expectancy for future pensioners - women currently age 45	25.5

The basis for the purposes of the LGPS Scheme Advisory Board funding position (the "LGPS SAB basis") is a set of assumptions determined by the SAB. Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. We are happy to supply further details of the LGPS SAB basis as requested.

Past service funding position LGPS SAB basis (for comparison purposes only)		
Market value of assets	5,804	
Value of liabilities	4,425	
Funding level on LGPS SAB basis (assets/liabilities)	131%	
Funding level on LGPS SAB basis (change since last valuation)	+6%	
<u>Contribution rates payable:</u>	2023 valuation	2020 valuation
Primary contribution rate	20.2%	21.7%
Secondary contributions:		
Secondary contributions - 1st year of rates and adjustment certificate (£m)	-40.8	-13.7
Secondary contributions – 2nd year of rates and adjustment certificate (£m)	-42.5	-16.1
Secondary contributions – 3rd year of rates and adjustment certificate (£m)	-44.2	-14.9
Giving total expected contributions:		
Total expected contributions - 1st year of rates and adjustment certificate (£m figure based on assumed payroll)	92.1	104.0
Total expected contributions – 2nd year of rates and adjustment certificate (£m figure based on assumed payroll)	95.9	106.0
Total expected contributions – 3rd year of rates and adjustment certificate (£m figure based on assumed payroll)	99.8	111.8
Assumed payroll (cash amounts in each year):		
Total assumed payroll - 1st year of rates and adjustment certificate (£m)	658	543
Total assumed payroll – 2nd year of rates and adjustment certificate (£m)	685	563

Total assumed payroll – 3rd year of rates and adjustment certificate (£m)	713	584
3-year average total employer contribution rate	14.0%	19.1%
Average employee contribution rate (% of pay)	6.0%	6.1%
Employee contributions (£m p.a. based on assumed 1st year payroll)	39.5	33.1
<u>Deficit recovery and surplus spreading plan:</u>	2023 valuation	2020 valuation
Latest deficit recovery period end date	n/a	2040
Earliest surplus spreading period end date	2027 (2037 based on average recovery period)	2024
The time horizon end date (where this methodology is used by the fund's actuarial advisor)	n/a	n/a
The funding plan's likelihood of success (where this methodology is used by the fund's actuarial advisor)	n/a	n/a
Percentage of liabilities relating to employers with deficit recovery periods of longer than 20 years	0%	0%
<u>Additional information:</u>		
Percentage of total liabilities that are in respect of Tier 3 employers	8%	
Included climate change analysis/comments in the 2023 valuation report	Yes	
Value of McCloud liability in the 2023 valuation report (on local funding basis)	£19m	

Appendix G

Rates and Adjustments Certificate issued in accordance with Regulation 60

Name of fund	North East Scotland Pension Fund

Primary Contribution Rate

We hereby certify that, in my opinion, the primary rate of the employers' contribution for the whole Fund for each of the three years beginning 1 April 2024 is 20.2% of pensionable pay. The primary rate of contribution for each employer for the three year period beginning 1 April 2024 is set out in the attached schedule.

Secondary Contribution Rate

We hereby certify that, in my opinion, the secondary rate of the employer's contribution for the whole Fund for each of the three years beginning 1 April 2024 is an **offset** of the following:

2024/25 6.2% of pensionable pay

2025/26 6.2% of pensionable pay

2026/27 6.2% of pensionable pay

The secondary rate of contribution for each employer for each of the three years beginning 1 April 2024 is set out in the attached schedule. The above secondary rates, and the secondary rates for each employer.

Contribution amounts payable

The total contribution payable for each employer is the total of the primary and secondary rates as detailed in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically or at intervals agreed with the Administering Authority) unless otherwise noted in the schedule.

Further adjustments

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's Actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the three years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of nil% of pay.

The individual employer contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of the McCloud Judgment remedy as set out in this report and/or any benefit costs being insured with a third party or parties including where the third party or parties participate in the Fund.

In cases where an element of an existing Scheme employer's surplus or deficit is transferred to a new employer on its inception, the Scheme employer's secondary contributions, as shown on the schedule to this Certificate in Appendix H, may be reallocated between the Scheme employer and the new employer to reflect this, on the advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

The Administering Authority and employer with advice from the Fund's Actuary can agree that contributions payable under this certificate can be sourced under an alternative financing arrangement which provides the Fund with equivalent cash contributions.

Regulation 60(8)

In order to maintain solvency of the Fund, and in accordance with Regulation 60(8) of the regulations, we have calculated the contributions that should be paid into the fund over the period 1 April 2024 to 31 March 2027 in order to maintain the solvency of the Fund.

The assumptions underpinning the calculation of the contribution rates included in this certificate are set out in the Funding Strategy Statement and summarised in Appendix A of the Fund Actuary's report on the 31 March 2023 Actuarial Valuation. These assumptions determine our estimate of the number of members (and associated pensions and liabilities) who will become entitled to a pension under the provisions on the LGPS.

No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Signature:		
Name:	Paul Middleman	Laura Evans
Qualification:	Fellow of the Institute and Faculty of Actuaries	Fellow of the Institute and Faculty of Actuaries
Date of signing:	15 March 2024	

Appendix H

Schedule to the Rates and Adjustments Certificate dated 15 March 2024

Employer	Notes	Primary rate 2024/25 to 2026/27	Secondary rates			Total Contribution rates		
			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Scheme Employers								
Aberdeen City Council		19.6%	-9.1%	-9.1%	-9.1%	10.5%	10.5%	10.5%
Aberdeenshire Council		20.3%	-4.3%	-4.3%	-4.3%	16.0%	16.0%	16.0%
The Moray Council		20.6%	-6.3%	-6.3%	-6.3%	14.3%	14.3%	14.3%
Grampian Valuation Joint Board		20.3%	-10.2%	-10.2%	-10.2%	10.1%	10.1%	10.1%
Moray College		20.5%	-3.1%	-3.1%	-3.1%	17.4%	17.4%	17.4%
NESTRANS		19.6%	-0.6%	-0.6%	-0.6%	19.0%	19.0%	19.0%
North East Scotland College		20.6%	-8.0%	-8.0%	-8.0%	12.6%	12.6%	12.6%
Scottish Fire and Rescue Service		20.7%	-3.6%	-3.6%	-3.6%	17.1%	17.1%	17.1%
Scottish Police Authority (Combined)		19.7%	-2.7%	-2.7%	-2.7%	17.0%	17.0%	17.0%
Scottish Water		20.1%	-5.8%	-5.8%	-5.8%	14.3%	14.3%	14.3%

Employer	Notes	Primary rate 2024/25 to 2026/27	Secondary rates			Total Contribution rates		
			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Community Admission Bodies								
Aberdeen Endowments Trust		24.2%	-1.8%	-1.8%	-1.8%	22.4%	22.4%	22.4%
Aberdeen Foyer		24.3%	-17.7%	-17.7%	-17.7%	6.6%	6.6%	6.6%
Aberdeen Heat and Power		21.4%	0.0%	0.0%	0.0%	21.4%	21.4%	21.4%
Aberdeen Performing Arts		22.5%	-11.1%	-11.1%	-11.1%	11.4%	11.4%	11.4%
Aberdeen Sports Village		22.4%	-4.9%	-4.9%	-4.9%	17.5%	17.5%	17.5%
CIC (Community Integrated Care) [Formerly Inspire]		23.9%	-17.8%	-17.8%	-17.8%	6.1%	6.1%	6.1%
Fersands and Fountain		24.1%	-2.0%	-2.0%	-2.0%	22.1%	22.1%	22.1%
Fraserburgh Harbour		23.1%	-23.1%	-23.1%	-23.1%	0.0%	0.0%	0.0%
Home Start Aberdeen		34.5%	-15.6%	-15.6%	-15.6%	18.9%	18.9%	18.9%
Homestart NEA		26.7%	-0.6%	-0.6%	-0.6%	26.1%	26.1%	26.1%
Mental Health Aberdeen		25.3%	-5.9%	-5.9%	-5.9%	19.4%	19.4%	19.4%
North East Sensory Services		23.8%	-4.3%	-4.3%	-4.3%	19.5%	19.5%	19.5%
Outdoor Access Trust Scotland		21.8%	-2.1%	-2.1%	-2.1%	19.7%	19.7%	19.7%

Employer	Notes	Primary rate 2024/25 to 2026/27	Secondary rates			Total Contribution rates		
			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Pathways		22.5%	-3.8%	-3.8%	-3.8%	18.7%	18.7%	18.7%
Peterhead Port Authority		18.1%	-1.6%	-1.6%	-1.6%	16.5%	16.5%	16.5%
Printfield Community Project		26.2%	-6.4%	-6.4%	-6.4%	19.8%	19.8%	19.8%
Robert Gordon's College		23.0%	0.0%	0.0%	0.0%	23.0%	23.0%	23.0%
Sanctuary Scotland		23.6%	-17.0%	-17.0%	-17.0%	6.6%	6.6%	6.6%
Save Cash and Reduce Fuel		22.5%	-22.5%	-9.0%	-9.0%	0.0%	13.5%	13.5%
Scotland's Lighthouse Museum		21.2%	-10.0%	-10.0%	-10.0%	11.2%	11.2%	11.2%
Sport Aberdeen		20.5%	-11.3%	-11.3%	-11.3%	9.2%	9.2%	9.2%
Station House Media Unit		22.4%	-22.4%	-22.4%	-22.4%	0.0%	0.0%	0.0%
The Robert Gordon University		21.2%	-8.2%	-8.2%	-8.2%	13.0%	13.0%	13.0%
Transferee Admission Bodies								
Alcohol and Drugs Action		23.5%	-6.2%	-6.2%	-6.2%	17.3%	17.3%	17.3%
Bon Accord Care and Bon Accord Support (combined)		20.3%	-3.9%	-3.9%	-3.9%	16.4%	16.4%	16.4%
Forth and Oban		26.1%	-2.6%	-2.6%	-2.6%	23.5%	23.5%	23.5%
idVerde		22.4%	-10.0%	-10.0%	-10.0%	12.4%	12.4%	12.4%

Employer	Notes	Primary rate 2024/25 to 2026/27	Secondary rates			Total Contribution rates		
			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Robertsons City		23.5%	-2.7%	-2.7%	-2.7%	20.8%	20.8%	20.8%
Robertsons Shire		22.0%	-1.8%	-1.8%	-1.8%	20.2%	20.2%	20.2%

The following employers exited the Fund during 2023/24. Termination assessments will be completed and any additional contributions or exit credits required will be notified separately:

Employer
Aberdeen Cyrenians
First Aberdeen
Xerox UK Ltd

Important notes to the Certificate:

1. The percentages shown are percentages of pensionable pay and apply in respect of all members, including those who are members under the 50:50 option under the LGPS.

2. With the agreement of the Administering Authority employers may opt to pay any element of their employer contributions in advance instead of monthly amounts, with either all three years being paid in April 2024 or payment being made earlier than due in the year in question. The cash amounts payable will be reduced in return for this early payment as follows:

   - 2025/26 payments made in April 2024 will be reduced by 6.52% (i.e. the above amounts will be multiplied by 0.9348)
   - 2026/27 payments made in April 2024 will be reduced by 10.63% (i.e. the above amounts will be multiplied by 0.8937)
   - Payments made annually in advance will be reduced by 2.22% (i.e. the above amounts will be multiplied by 0.9778)

At the absolute discretion of the Administering Authority employers may be able to prepay at different dates and the discount factors applied will be adjusted accordingly in line with the approach above.

3. Where % contributions are being paid in advance, for these cases the employer will need to estimate in advance the pensionable pay for the entire period (subject to an agreed adjustment with the Administering Authority) and a balancing adjustment to reflect the actual pensionable pay over the period would be made at the end of the period (no later than 30th April as appropriate following the year-end). Consideration will be required for employers in surplus as at 31 March 2023, where any surplus offset would be made up front before any reduction for early payment is applied. Further information on the policy for prepayments can be provided by the Fund upon request. It should be noted that only certain employers will be able to pay their primary rate in advance due to the operational complexity.

4. Employers will not be allowed to prepay any member contributions and these must be paid in line with the Regulations.

5. Where the secondary rate is a £ deduction to the primary rate due to an employer being in surplus, the total annual contributions payable by each employer will be subject to a minimum of nil% of pay i.e. no monies can be refunded to an employer whilst they participate in the Fund.

6. The above secondary contributions include provision for the estimated effect of the McCloud Judgment based on the proposed remedy. Whilst it is possible that the Fund may require additional contributions from employers at that point in time if the McCloud remedy is substantially different from that currently anticipated, based on the Administering Authority’s current knowledge and understanding of the likely outcome it believes that requiring such additional contributions is an unlikely outcome. In the event that additional contributions are required, this certificate will then be updated to reflect these changes. Any contribution changes will take effect from a date to be determined by the Administering Authority.

Appendix I
Glossary

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2015, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for "Consumer Prices Index". CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differs from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

CPIH: An alternative measure of CPI which includes owner occupiers' housing costs and Council Tax (which are excluded from CPI).

Deficit: the extent to which the value of the Fund's past service liabilities exceeds the value of the Fund's assets.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer Covenant: the degree to which an employer participating in an occupational pension scheme is willing and able to meet the funding requirements of the scheme.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. It is normally the same as an employer's Primary Contribution Rate under the Regulations.

Employer's Primary Contribution Rate: the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary Contribution Rate for the whole Fund is the weighted average (by payroll) of the individual employers' Primary Contribution Rates.

Employer's Secondary Contribution Rate: an adjustment to the Primary Rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary Rate may be expressed as a percentage adjustment to the Primary Rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary Rate is specified in the Rates and Adjustments Certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary Rates. Secondary Rates for the whole fund in each of the three years shall also be disclosed. These will be calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

Equities: shares in a company which are bought and sold on a stock exchange.

Funding Buffer: Requires part of the surplus to be held back to act as a cushion against future adverse experience (reflecting the current market uncertainty). Aids with future stability for long term employers.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement (FSS): This is a key governance document that outlines how the administering authority will manage employer's contributions to the Fund.

Guaranteed Minimum Pension (GMP): This part of a member's pension which was earned between 6 April 1978 and 5 April 1997 and which replaces part of that member's State Scheme benefits in respect of that period.

Investment Strategy: the long term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

McCloud Judgment: This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

Past Service Liabilities: this is the present value of the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

Percentile: A method of ranking a series of outcomes. For example, a 10th percentile outcome means that only 10% of results would be expected to be as good as or better than the 10th percentile and 90% of results would be expected to be worse.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and guidance requires the assumptions adopted for an actuarial valuation overall to be prudent.

Real Return or Real Discount Rate: a rate of return or discount rate net of CPI inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time (“the recovery period”, as set out in the Funding Strategy Statement.

SAB Funding Basis or SAB Basis: a set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the “Section 13 review” as carried out by the Government Actuary’s Department. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2023was 2.4% p.a., so it can be substantially different from the actuarial assumptions used to calculated the Fund’s solvency funding position and contribution outcomes for employers.

Solvency/Funding Level: the ratio of the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the past service liabilities assessed on the ongoing concern basis.

Spread Period: a strategy by which the Fund will remove a funding surplus via contribution adjustments over a specified period of time (“the spread period”), as set out in the Funding Strategy Statement.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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