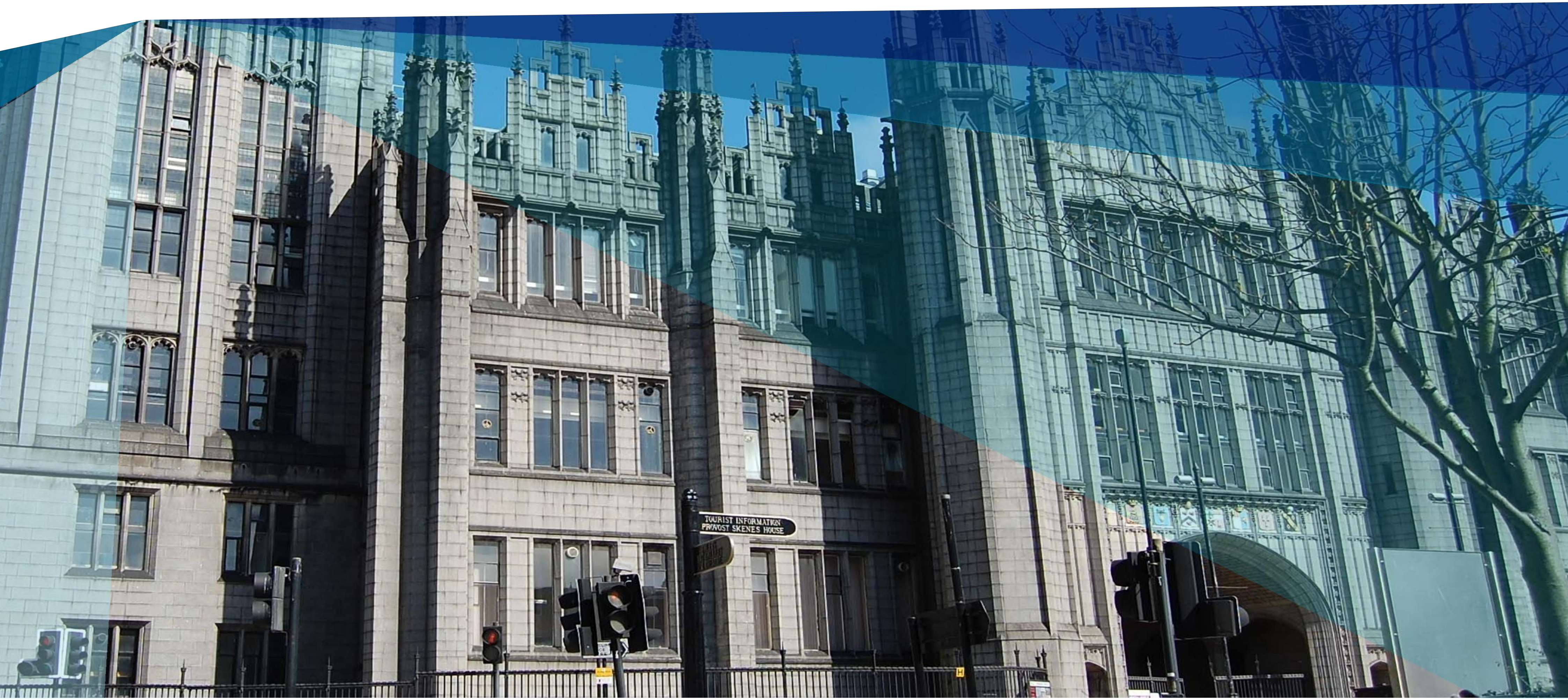
FUNDING REPORT OF THE ACTUARIAL VALUATION AS AT 31 MARCH 2014

ABERDEEN CITY COUNCIL TRANSPORT FUND

MARCH 2015



TALENT • HEALTH • RETIREMENT • INVESTMENTS

MARSH & McLENNAN COMPANIES

CONTENTS

1

Introduction

This report is addressed to Aberdeen City Council as the Administering Authority of the Aberdeen City Council Transport Fund (“the Administering Authority”) and is provided to meet the requirements of Regulation 32 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended). It describes the factors considered when carrying out the actuarial valuation as at 31 March 2014 and the decisions reached as a result.

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

- 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”).
- An appropriate plan for making up the shortfall if there are less assets than liabilities.
- 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.

Signature:		**Date of signing:**	31 March 2015
Name:	Paul Middleman	**Qualification:**	Fellow of the Institute and Faculty of Actuaries

This report has been prepared in accordance with the version of the *Pensions Technical Actuarial Standard* current at the date this report is signed. It also complies with the relevant requirements of *Technical Actuarial Standards R: Reporting Actuarial Information*, *D: Data* and *M: Modelling*, where they apply to this report. These Standards are all 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 contribution rates for the future for First Aberdeen. 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 First Aberdeen and, if the Administering Authority and Mercer consent, it may be disclosed to other third parties.

2

Key results of the funding assessment

2.1. Past service funding position

The table on the right compares the assets and liabilities of the Fund at 31 March 2014. Figures are also shown for the last valuation as at 31 March 2011 for comparison.

The table shows that at 31 March 2014 there was a shortfall of £6.4m. An alternative way of expressing the position is that the Fund's assets were sufficient to cover 93% of its liabilities – this percentage is known as the funding level of the Fund.

At the previous valuation at 31 March 2011 the shortfall was £3.6m, equivalent to a funding level of 95%. The key reasons for the changes between the two valuations are considered in 3.2.

	£m	
	31 March 2014	**31 March 2011**
Total assets	79.8	67.9
Liabilities:		
Active members	24.2	23.1
Deferred pensioners	12.9	11.4
Pensioners	49.1	37.0
Total liabilities	86.2	71.5
Past service surplus / (shortfall)	(6.4)	(3.6)
Funding level	93%	95%

The liability value at 31 March 2014 shown in the table is known as the Fund's "funding target". The 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 Administering Authority's Funding Strategy Statement (FSS).

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

The above liabilities allow for the fact that pension increases will continue to be recharged £ for £ to the North East Scotland Pension Fund in respect of pensionable service accrued prior to 26 October 1986.

2.2. Normal 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 three years from this valuation date to the next valuation date (the "Common Contribution Rate"). A summary of the assumptions used is provided in Appendix A.

The table on the right gives a breakdown of the Common Contribution Rate at 31 March 2014 and also shows the corresponding rate at 31 March 2011 for comparison. In calculating the average Common Contribution rate we have made no allowance for members to opt for the 50:50 scheme.

	% of Pensionable Pay	
	31 March 2014	**31 March 2011**
Normal contribution rate including expenses	50.9	36.8
Average member contribution rate	6.0	6.0
Common Contribution rate	44.9	30.8

The benefits earned under the LGPS change with effect from 1 April 2015, and the Common Contribution Rate at 31 March 2014 allows for these changes. The impact of these benefit changes on the Common Contribution Rate is given in section 3.3.

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).

2.3. Allowance for post valuation market changes

Since 31 March 2014 there have been significant changes in the financial market position. In particular there has been a fall in gilt yields, which underpin the assessment of the past service liability values and therefore the long term funding target, which has led to a worsening of the funding position and an increase in the shortfall. The Administering Authority and the employer have agreed that the contributions will initially be maintained at the 2014/15 levels with the option to review deficit contributions annually on an upward only basis.

The Schedule to the Rates and Adjustments Certificate (attached as Appendix H) sets out the contributions for the three year period to 31 March 2018. The contributions take into account the funding plan, as laid down in the FSS. Contribution requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

2.4. Correcting the shortfall

The funding objective as set out in the FSS is to achieve and maintain a funding level of 100% of liabilities (the 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 (or contribution reductions to refund any surplus).

Under the same method and assumptions as used for calculating the funding target, by maintaining contributions at the 2014/15 levels (33% of pensionable pay plus £1.5m p.a.), the deficit of £6.4 million could be eliminated in approximately 6-7 years.

3

Experience since last valuation

3.1. Summary of key inter-valuation experience

The last actuarial valuation was carried out with an effective date of 31 March 2011. Since the last valuation the Government announced that the benefit structure under the LGPS will change with effect from 1 April 2015. The changes do not affect benefits earned prior to 1 April 2015, and so do not directly affect the funding level or shortfall of the Fund as detailed in section 2.1, but do affect the Common Contribution Rate for the Fund as quoted in section 2.2 (the impact of the changes is given in section 3.2). Details of the benefits are given in Appendix D.

The average salary increase (weighted by liability) for the Fund members who were in service for the whole of the inter-valuation period was 2.5% per annum.

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

- April 2012 5.2%
- April 2013 2.2%
- April 2014 2.7%

During the inter-valuation period, the gross investment return on the Fund’s assets has averaged 6.9% per annum.

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

As noted in 2.1, the shortfall at 31 March 2011 was £3.6m. The table below sets out the main reasons for the change in the shortfall between 31 March 2011 and 31 March 2014.

Analysis of changes in funding position	**£m**
Shortfall at 31 March 2011	(3.6)
Unwinding of interest on 2011 shortfall	*(0.5)*
Investment returns versus expectations	*4.7*
Deficit contributions paid	*5.6*
Salary increases versus expectations	*1.6*
Change in demographic assumptions	*(2.5)*
Change in financial assumptions	(10.5)
Member movements and other factors	*(1.2)*
Shortfall at 31 March 2014	(6.4)

The above analysis highlights the key factors affecting the Fund since the previous valuation:

- A deterioration in the position due to changes in underlying financial conditions, principally reductions in real gilt yields, which increases the liabilities.
- Certain changes made to the underlying demographic assumptions to reflect the Fund and LGPS wide experience have also had a negative impact on the shortfall. These changes are discussed in detail in Appendix A.
- These have been offset by positive investment performance, the impact of contributions paid by First Aberdeen and lower than expected pay increases for active members.
- As discussed in section 2.3, the financial conditions have worsened since 31 March 2014 increasing the value of the Fund's past service liabilities and shortfall and this has been taken into account when determining the recovery plan.

3.3. Reasons for the change in Common Contribution Rate since the last actuarial valuation

The table below sets out the main reasons for the change in the Common Contribution Rate between 31 March 2011 and 31 March 2014.

Analysis of changes in Common Contribution Rate	**%**
Common Contribution Rate at 31 March 2011	30.8
Change in profile	*+2.1*
Change in demographic assumptions	*+1.5*
Change in financial assumptions	*+8.3*
Impact of LGPS changes from 1 April 2015	*+2.2*
Common Contribution Rate at 31 March 2014	44.9

- The change in the financial assumptions has caused a significant increase in the employer contribution requirement. This has been driven in large part by the significant fall in real yields over the inter-valuation period (the assumptions used to calculate the contribution rate, and their derivation, are discussed in Appendix A).
- The upcoming changes to the LGPS, which produce an increase in employer costs given the profile of the Fund membership versus a typical LGPS Fund. This is principally due to the transitional protections that apply to eligible members in the Fund.

4

Variability and risk

The contributions for the Employer set out in the Schedule to the Rates and Adjustments Certificate (Appendix H) have been determined as described in Appendix A of this report and in line with the parameters as set out in the Funding Strategy Statement.

The funding of defined benefits is by its nature uncertain. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

It is likely, especially in the short-term, that the assumptions will not be borne out in practice. It is therefore important to consider the potential impact on the employer contribution rates of actual experience differing from what has been assumed. The details in this section do this, based on the valuation results for the Fund as a whole as at 31 March 2014. As noted in section 2.4 the funding position has deteriorated since the valuation date.

It should be borne in mind that the valuation results set out in Section 2 of this report, and the assumptions on which they are based, represent only one outcome, and measures which are set for funding purposes might well not be appropriate in other circumstances.

4.1. Projected funding position at next actuarial valuation

As part of this valuation, the Fund has agreed with the Employer to put in place a recovery plan to pay off the shortfall. The next actuarial valuation will take place with an effective date of 31 March 2017. If, on average, experience up to that date from 31 March 2014 is in line with the assumptions made for this current actuarial valuation and the illustrative contributions are paid, the expected funding level would be 99% at 31 March 2017.

4.2. Least risk basis

In assessing the value of the Fund's liabilities (the funding target), allowance has been made for asset out-performance and an Inflation Risk Premium 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 closely matches the liabilities and represents the least 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 least risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

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. On this basis of assessment, the assessed value of the Fund's liabilities at the 2014 valuation would have been higher, and the declared funding level would be correspondingly reduced to 89% and an equivalent deficit of approximately £9.9 million at 31 March 2014.

4.3. Material risks faced by the Fund

This section provides a broad overview of the risks faced by the Fund and their potential mitigation. However, this issue is covered in greater detail in the Funding Strategy Statement.

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. 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:

- If the 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. If the reason for the employer not paying the agreed contributions is one of financial difficulties, then the Administering Authority's focus would switch to the need to secure as far as possible that any debt from the employer on it exiting the Fund can be recovered. This risk will be mitigated by regular employer covenant reviews, strengthening of covenant as appropriate, and monitoring of changes in employer covenant. The Administering Authority has put in place a monitoring process in relation to employer covenant.

- If market levels and / or gilt yields change such that the liability values increase by more (or decrease by less) than the assets, the funding position would be worse than expected. An increase in employer contributions would be expected as a result. The same comments would apply if general population mortality studies and analysis of the Fund show that pensioners are living longer, or if improvements in mortality are found to be at a faster rate than allowed for. The analysis shown below illustrates the quantitative impact of such changes.

- 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, and they review the Fund's investment strategy alongside each actuarial valuation to ensure it is consistent with the funding strategy adopted.

- If members make decisions around their options such that those decisions increase the Fund's liabilities (e.g. by not commuting pensions for cash to the extent assumed), the funding position would be worse than expected. As a result, future employer contributions might then need to be increased.

- The Administering Authority, in conjunction the Employer, is implementing a Risk Management Framework to control certain financial risks. This will be considered as part of the 2017 Valuation.

4.4. 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 used, then the projected future funding level will be different from the level described above in 4.1.

To illustrate how sensitive the funding level is to experience being different from the assumptions, the table below shows how the valuation results at 31 March 2014 would have differed given small changes in the key assumptions.

	Increase in shortfall at 31 March 2014 (£m)	**Increase in the average future service contribution rate at 31 March 2014 (% of Pensionable Pay)**
Discount rate reduces by 0.25%	+3.5	+2.2
Long-term inflation is 0.25% higher than assumed	+2.8	+2.1
Pensionable Salary growth is 0.5% higher than assumed	+0.6	Nil
Members live one year longer than assumed	+2.7	+1.0
Growth assets fall by 25%	+12.7	Nil

The same changes in the opposite direction would reduce the shortfall and the average future service contribution rate.

APPENDIX A

Assumptions

A.1. 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 scheme are paid many years in the future. In the period before the benefits are paid, the Administering Authority invests the funds held by the scheme 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. The discount rate adopted so set the Funding Target is derived by mapping projected cashflows arising from accrued benefits to a yield curve (which is based on market returns on UK Government gilt stocks and other instruments of varying durations), in order to derive a market consistent gilt yield for the profile and duration of the Scheme's accrued liabilities. To this an Asset Out-performance Assumption ("AOA") of 0.25% per annum is added to reflect the Fund's actual investment strategy. This AOA of 0.25% p.a. has been assessed as the equivalent to a differential AOA of 1.5% p.a. pre-retirement and 0.0% p.a. post-retirement as at 31 March 2014, which was the approach used at the 2011 valuation.

Assumption	Why it is important and how it impacts on the liabilities
Inflation	Pensions in payment increase in line with price inflation. 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. The inflation assumption will be taken to be the investment market's expectation for RPI inflation based on the difference between yields derived from conventional and index-linked UK Government gilts as at 31 March 2014, reflecting the profile and duration of the Scheme's accrued liabilities but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index. The reduction to market implied RPI inflation at the valuation date is 0.5% per annum, as per 2011.
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. The assumption for real salary increases in the long term is 2.0% p.a. over the CPI inflation assumption described above. This includes allowance for promotional increases. This is consistent with the assumption at the previous valuation. However, in the short term, salary increases are assumed to be lower to reflect the employer's budgeted salary growth expectations. For the purpose of the results shown in this report, we have assumed that salary increases for the first four years following the actuarial valuation will be based on CPI.
Pension increases	Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. The pension increase assumption is modified appropriately to reflect any benefits which are not fully indexed in line with inflation.

Assumption	**Why it is important and how it impacts on the liabilities**
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 mortality assumptions will be based on information in relation to self-administered pension schemes published by the Continuous Mortality Investigation CMI, making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are adjusted to reflect the Fund's membership profile and recent mortality experience, and are set out in the summary section below. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in an allowance for longevity 'improvement' year on year in the future in line with the 2013 CMI projections subject to a long-term improvement trend of 1.5% per annum. Members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 3 years older for current pensioners, and 4 years older for future pensioners.
Commutation	It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take a 3/80ths cash sum (the standard for pre April 2009 service). The 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.

Assumption	Why it is important and how it impacts on the liabilities
Early retirements (non-ill health)	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. 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 the common contribution rate calculations, 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 reduced 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.
Early retirements (ill-health)	Members can retire before their normal retirement age due to ill-health in certain circumstances. There are three levels of ill-health retirement, with each giving rise to different levels of benefit. Tier 3 retirements are funded separately outside the Scheme. A small proportion of the active membership is assumed to retire due to ill-health, as set out in the table in the next section. In addition the proportion assumed to fall into each ill health tier is also shown.
Proportions with dependants on death	The Fund pays benefits to qualifying dependants (spouse/civil partner/dependent child) on the death of a member. Therefore, the proportion of members with a qualifying dependant impacts on the total cost of benefit provision, with a higher proportion of dependants meaning a higher cost. The valuation calculations assume a proportion of the active membership to retire in normal health prior to age 65, as set out in the table in A.2.

Assumption	Why it is important and how it impacts on the liabilities
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. Expenses of administration are allowed for by adding a % of Pensionable Pay to the future service rate. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
Discretionary benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.
50:50 option	From 1 April 2015 there is a 50:50 option available to members, whereby they can opt to receive 50% of the standard Fund benefits in return for paying 50% of the standard employee contributions. When calculating the average Common Contribution Rate we have assumed no members will select this option. This assumption will be reviewed at the next valuation.

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 be still be alive by the date of each payment, and then discounting each payment back to the effective date of the valuation; 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.

A.2. Assumptions used to calculate the funding target

The tables below summarise the key assumptions used in the calculation of the Funding Target and those used for the 31 March 2011 actuarial valuation.

Financial assumptions	**31 March 2014**	**31 March 2011**
Discount rate:		
- pre-retirement	3.65 % p.a.	5.9 % p.a.
- post-retirement	3.65 % p.a.	4.4 % p.a.
Assumed long term CPI inflation	3.1 % p.a.	3.2 % p.a.
Salary increases - Long term	5.1 % p.a.	5.2% p.a.
- Short term (4 years)	3.1% p.a.	N/A
Pension increases in payment	3.1 % p.a.	3.2 % p.a.

Demographic assumptions	**31 March 2014**	**31 March 2011**
Pre-retirement mortality – base table	AC00 tables with adjustments of 73% (male) and 60% (female) to reflect the Fund's membership profile	PA92 year of birth tables adjusted by 1 year (females only) to reflect the Fund's membership profile. Future improvements in line with medium cohort projections
Post retirement mortality – base table	CMI Self-Administered Pension Schemes (SAPS) tables with scheme and member category specific adjustments (see further detail below)	CMI Self-Administered Pension Schemes (SAPS) tables with scheme and member category specific adjustments (see further detail in 2011 valuation report)

Demographic assumptions	31 March 2014	31 March 2011
Post retirement mortality – future improvements:		
Males	CMI_2013_M [1.5%]	CMI_2009_M [1.0%]
Females	CMI_2013_F [1.5%]	CMI_2009_F [1.0%]
Ill health retirement	(see further detail below)	(see 2011 valuation report)
Withdrawal	(see further detail below)	(see 2011 valuation report)
Proportions married	(see further detail below)	(see 2011 valuation report)

Post retirement mortality

		Base Table	Improvements	Adjustment (M / F)
Current pensioners	Normal health	S1PA	CMI_2013 [1.5%]	103% / 107%
	Ill-health	S1PA	CMI_2013 [1.5%]	Normal health + 3 years
	Dependants	S1PMA / S1DFA	CMI_2013 [1.5%]	228% / 120%
	Future dependants	S1PMA / S1DFA	CMI_2013 [1.5%]	100% / 105%
Current active / deferred	Active normal health	S1PA	CMI_2013 [1.5%]	106% / 103%
	Active ill-health	S1PA	CMI_2013 [1.5%]	Normal health + 4 years
	Deferred	S1PMA	CMI_2013 [1.5%]	127% / 91%
	Future dependants	S1PMA / S1DFA	CMI_2013 [1.5%]	100% / 105%

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.

For example, a “+1 year” rating would mean beneficiaries are assumed to have the mortality of someone one year their senior which has the effect of reducing their life expectancy and hence reducing the assessed value of the corresponding liabilities.

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.

For example, a “103%” weighting would mean beneficiaries have mortality rates 3% higher than the unadjusted table which reduces the assessed value of the corresponding liabilities.

The mortality assumptions used for the 31 March 2014 valuation result in the following life expectancies.

	Years
Life expectancy for a male aged 65 now	22.3
Life expectancy at 65 for a male aged 45 now	24.3
Life expectancy for a female aged 65 now	24.3
Life expectancy at 65 for a female aged 45 now	26.9

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:

	% retiring per annum	**% retiring per annum**
Age	Males	Females
35	0.09	0.08
45	0.26	0.24
55	1.14	1.00

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:

	Tier 1	**Tier 2**	**Tier 3**
Males	72%	9%	19%
Females	73%	14%	13%

	Conditions	**Benefits based on**
Tier 1	No reasonable prospect of undertaking gainful employment before age 65.	Accrued membership plus prospective membership to age 65
Tier 2	Reasonable prospect of obtaining gainful employment before age 65.	Accrued membership plus 25% of prospective membership to age 65
Tier 3	Retirements are funded separately outside the Scheme.	

Withdrawal

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

	% leaving per annum	**% leaving per annum**
Age	Males	Females
25	13.50	14.92
35	3.39	4.18
45	1.69	2.59

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), and that spouses/partners of female (male) members are three years older (younger), on average than the member.

	% spouse/partner	**% spouse/partner**
Age	Males	Females
25	34	56
35	81	84
45	92	93
55	95	95
65	90	90

A.3. Assumptions used to calculate future service cost

The cost of future accrual (normal cost) has been calculated using the same actuarial assumptions as used to calculate the funding target as set out above.

A.4. Assumptions used to calculate the contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target.

The investment return assumed for the contributions under the recovery plan is taken to apply throughout the recovery period. As a result, any change in investment strategy which would act to reduce the expected future investment returns could invalidate these assumptions and therefore the funding strategy.

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 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.

In addition to the current pensioners and spouses in the table, there were 3 current dependant pensioners as at 31 March 2014 with pensions totalling £3,213 per annum.

	31 March 2014	31 March 2011
Active members		
Number	84	118
Total Pensionable Salaries (£000s p.a.) [1]	2,208	2,795
Average Pensionable Salary (£ p.a.)	26,284	23,689
Average age[2]	54.6	53.5
Average past service[3]	29.5	27.3
Deferred pensioners[4]		
Number	156	179
Total deferred pensions revalued to valuation date (£000s p.a.)	496	573
Average deferred pension (£ p.a.)	3,178	3,199
Average age[2]	52.8	52.4
Current Pensioners and Spouses		
Number	400	365
Total pensions payable (£000s p.a.)	2,888	2,444
Average Pension	7,220	6,696
Average Age[2]	69.4	67.9

[1] Including actual pay for part time members
[2] Weighted by accrued pension/deferred pension/pension
[3] Weighted by salary
[4] Including frozen refunds

APPENDIX C

Assets

The market value of the Fund's assets was £79,838,000 on the valuation date based on the audited accounts.

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.

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. Details of the investment strategy can be found in the Statement of Investment Principles.

	Actual market value of assets at 31 March 2014	
	£000s	**%**
Fixed Interest	16,588	20.8
Index Linked	7,163	9.0
Equities	29,721	37.2
Pooled Vehicle	20,875	26.1
Cash and current assets / (liabilities)	5,491	6.9
Total	79,838	100

APPENDIX D

Scheme Benefits

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 2008 (as amended). The principal regulations relating to benefits earned up to 31 March 2014 are:

The Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008

The Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008

The benefits offered under the LGPS will change with effect from 1 April 2015, and the regulations relating to benefits earned after that date are:

The Local Government Pension Scheme Regulations (Scotland) 2014

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) (Scotland) Regulations 2014

We have made no allowance for other changes which may be introduced in the future.

The benefits arising from the award of compensatory added years (CAY) of service on premature retirement have been treated as follows:

The general position is that the CAY benefits (together with associated pension increases) are recharged to the relevant employer. These benefits are therefore excluded from the valuation. However, for any employers who have opted to discharge part or all of their liability in respect of CAY, this has been allowed for when assessing the contribution requirements. Where appropriate, the contributions certified in the Rates and Adjustments Certificate allow for the additional costs.

The contributions certified in the Rates and Adjustments Certificate allow for the liabilities in relation to pension increases payable on benefits accrued before 26 October 1986 within the Fund which are recharged on a £ for £ basis to the North east Scotland Pension Fund.

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.

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” judgement) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. There is no consensus or legislative guidance as to what adjustments have to be made to scheme benefits to correct these inequalities for ongoing schemes (i.e. for schemes other than those which are in the Pension Protection Fund). The valuation makes no allowance for removal of these inequalities. It is consequently possible that additional funding will be required for equalisation once the law has been clarified. It is recommended that the Administering Authority seek further professional advice if it is concerned about this issue.

APPENDIX E

Summary of Income and Expenditure

INCOME	Year ending 31 March			
	2012	**2013**	**2014**	**Total**
	£000s	£000s	£000s	£000s
Fund at beginning of year	**67,896**	**72,341**	**80,734**	**67,896**
Contributions to Fund:				
Employees	170	152	144	466
Employers	3,434	1,900	2,032	7,366
Investment income	1,762	1,517	1,655	4,934
Other income	257	308	309	874
Change in market value of investments	3,344	8,050	-1,563	9,831

EXPENDITURE	Year ending 31 March			
	2012	**2013**	**2014**	**Total**
	£000s	£000s	£000s	£000s
Retirement and Spouses' Benefits	2,580	2,763	2,821	8,164
Retiring allowances and death gratuities	1,872	694	574	3,140
Refund of conts	0	2	0	2
Transfer Values paid	0	26	22	48
Investment expenses	11	-16	-1	-6
Administration expenses	59	65	57	181
Fund at end of year	**72,341**	**80,734**	**79,838**	**79,838**

APPENDIX F

Analysis of experience of the membership of the Fund for the period 1 April 2011 to 31 March 2014

The analysis below compares the actual experience over the 3 year period with the assumptions used for the 2014 valuation.

	Actual	Expected	%
Ill Health Retirements	1	4	27
Withdrawals	6	2	252
Pensioner Deaths	29	26	112

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

APPENDIX G

Rates and Adjustments Certificate issued in accordance with Regulation 32 of the Administration Regulations

Name of Fund	**Aberdeen City Council Transport Fund**

Primary Contribution Requirements

I hereby certify that, in my opinion, the common rate of employer's contributions payable in each year of the period of three years beginning 1 April 2014 should be at the rate of 44.9 per cent of Pensionable Pay (including those in respect of members of the LGPS under the 50:50 option).

I hereby certify that, in my opinion, the amount of the employer's contributions payable in each year of the period of three years beginning with 1 April 2015, as set out above, should be individually adjusted as set out 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) unless otherwise noted in Appendix H or in a separate agreement with the employer, and the contributions in the attached schedule take account of any such agreements.

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 the employer in total over the 3 years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by the employer will be subject to a minimum of zero.

The employer contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or parties.

In addition the Administering Authority will monitor the covenant of First Aberdeen Ltd on an annual basis and reserves the right to adjust the required contributions if there is any significant change in employer covenant to the Fund.

Regulation 32(8)

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:		**Date of signing:**	31 March 2015
Name:	Paul Middleman	**Qualification:**	Fellow of the Institute and Faculty of Actuaries

APPENDIX H

Schedule to the Rates and Adjustment Certificate dated 31 March 2015

	2015/16		2016/17		2017/18	
Employers	**Individual Adjustment**	**Total Contribution Rate**	**Individual Adjustment**	**Total Contribution Rate**	**Individual Adjustment**	**Total Contribution Rate**
First Aberdeen Ltd	-11.9% plus £1,500,000	33.0% plus £1,500,000	-11.9% plus £1,500,000	33.0% plus £1,500,000	-11.9% plus £1,500,000	33.0% plus £1,500,000

Notes:

1. The percentages shown are percentages of pensionable pay and apply to all members, including those who are members under the 50:50 option under the LGPS from 1 April 2015.

2. The employer can choose to pay in advance their £ lump sum contributions for a given year by 30 April each year. Where the employer chooses to make such payments in advance, the certified lump sum should be multiplied by a factor of 0.982 to arrive at the required figure. The employer will also need to notify the Fund of its intentions before making any advance payment.

3. Separate payments will be made from the North East Scotland Pension Fund to the Aberdeen City Council Transport Fund in respect of pension increases payable to retired members relating to benefits accrued prior to 26 October 1986. These recharge amounts will be calculated by the Fund separately.

4. Total annual contributions are subject to a minimum of zero.

MERCER

Mercer Limited
Number 4 St Paul's Square
Old Hall Street
Liverpool L3 9SJ
+44 (0)151 236 9771