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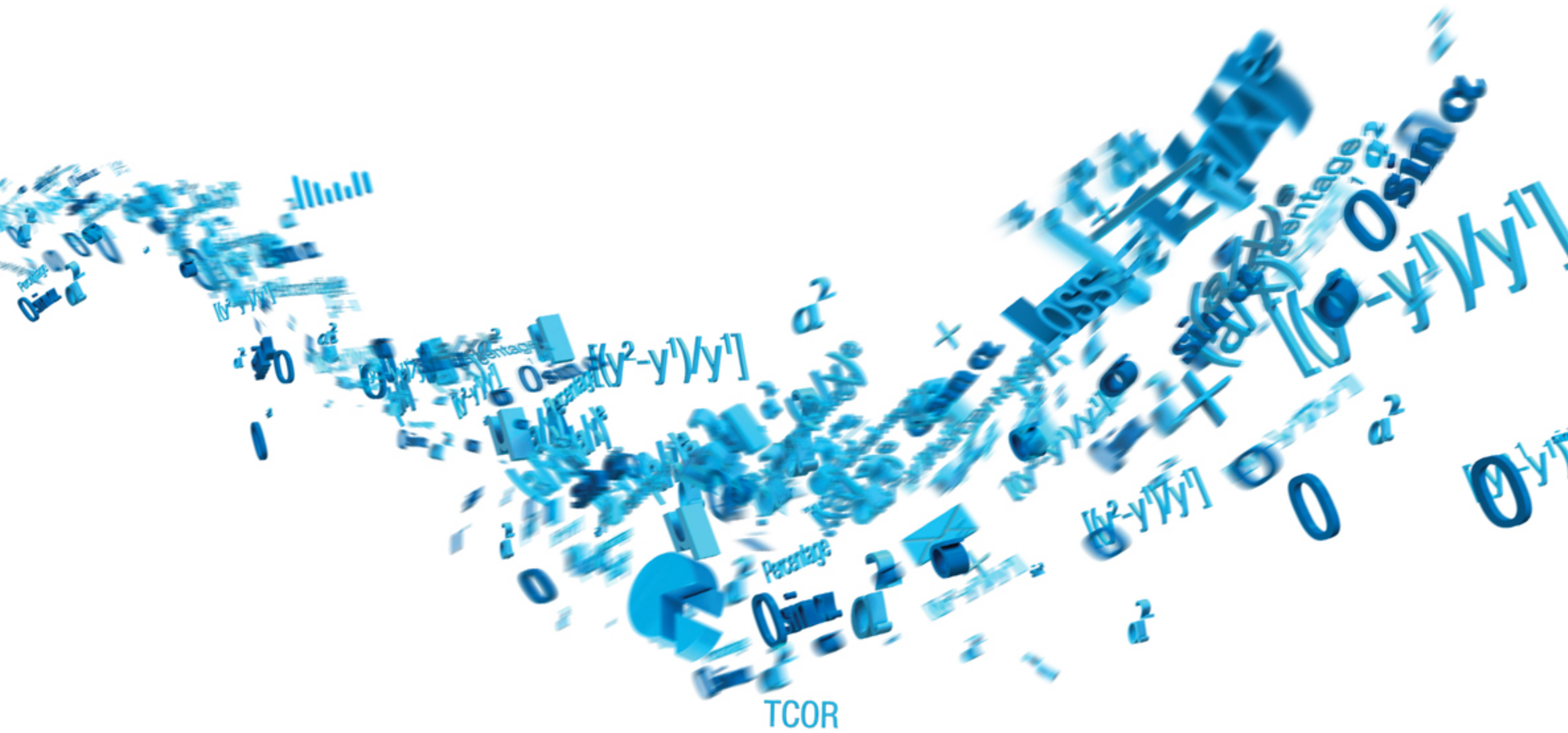

Exit Valuation in respect of Colin Laver Heating Ltd

City and County of Swansea Pension Fund

Prepared for	City and County of Swansea, Administering Authority of the City and County of Swansea Pension Fund
Prepared by	Chris Archer FIA
Date	17 June 2016

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1. Results and Next Steps

On the basis of the instructions, data, methods and terminology explained in the remainder of this document, we have calculated the following figures in relation to the exit from the Fund of the Employer.

Important additional information

These results must be read in conjunction with the important additional information contained in the body of this document, including other documentation to which the reader is referred.

Funding Position

The accumulated shortfall with interest added in line with the investment return assumption to 31 May 2016, is also shown in the table below.

For comparison we also show the results of the 2013 triennial valuation for the Employer.

	2013 Valuation Results (£000s) (Ongoing funding target)	Orphan outcome (£000s) ('gilts' funding target)
Assets	289.9	309.7
(Liabilities)	270.5	(342.4)
Total surplus/(shortfall) at the Exit Date	19.4 (at 31 March 2013)	(32.7)
Interest on shortfall	N/a	(0.5)
Total surplus/(shortfall)	N/a	(33.2)

Commentary on Results

At the 2013 actuarial valuation the surplus attributable to the Employer was around £19.4K calculated using the ongoing funding target appropriate for the Employer. The position has therefore deteriorated by around £53,000 since the 2013 actuarial valuation based on the Orphan outcome.

The main factors that have led to a reduction in the funding position are:

- changes in financial conditions since 31 March 2013 leading to a fall in the real discount rate (i.e. the difference between the discount rate and the CPI inflation assumption)
- a change in the funding target reflecting the circumstances at exit

The assumptions used for the ongoing funding target for orphan bodies at the last valuation made an allowance for the reversion of gilt yields of 0.7% per annum and we set out that this is unlikely to have been fully recognised by the time Colin Laver exits the Fund (in reality, gilt yields have reduced since the last valuation). As a consequence it was agreed that Colin Laver should continue its contribution rate of 19.7% of pay which did not take full account of the 'surplus' and we suggested a review one year before eventual cessation. This review did not take place.

This reduction has been partially offset by the following main factor which led to an improvement in funding position:

- investment returns achieved by the Fund over the period since the 2013 valuation being higher than assumed.

Next steps

In your capacity as Administering Authority, please could you consider the calculations we have carried out and instruct us on how to proceed to certification. In particular, please consider:

- Whether the outcome envisaged is appropriate to the circumstances of the Employer or whether another outcome might more closely reflect the liability that will eventually be incurred by the Fund in respect of the members involved.
- Who will make good the shortfall and how that might happen.
- If some liabilities are to become 'orphan' liabilities, whether you would like us to calculate an additional reserve to cover administration expenses in relation to the orphan members.

We also recommend that you review the data summary and other information regarding the circumstances of the Employer, on which our calculations are based, and advise us if anything appears incorrect.

Where appropriate, we have produced an Employer Supplement at the back of this document suitable for passing to the Employer to provide them with a summary of the work we have carried out and the results. This may also be shared with any Related Employer, Subsuming Body or Guarantor.

Once you have confirmed the outcome and the data / information to be used, we will re-calculate figures if necessary. If a shortfall exists we will then issue a revision to the Rates and Adjustments Certificate in respect of the final amount.

2. General Information

The purpose of this document is to provide a final valuation of the liabilities in the Fund under Regulation 64 of the Regulations in relation to the exit of the Employer from the Fund.

Users of this document

This document has been commissioned by the Administering Authority to the Fund.

The advice contained in this document is provided to our client, in its capacity as Administering Authority to the Fund. **This advice should not be passed to the Employer or to any other party without our advance written permission.** We accept no responsibility to any party other than our client in relation to the advice.

Where appropriate, we have produced an Employer Supplement at the back of this document suitable for passing to the Employer to provide them with a summary of the work we have carried out and the results. This may also be shared with any Related Employer, Subsuming Body or Guarantor.

Context

The terms used in this document, the descriptions and the information used in our calculations (based on information supplied by the Administering Authority) are as follows. Where it has been necessary to make assumptions these are indicated in the table below.

Readers should refer to the Background Information Document for more information.

Terms used in document	Description	Information (where applicable)
Administering Authority		City and County of Swansea
Background Information Document	The document entitled 'Background Information: Actuarial calculations and funding' dated 9 November 2015	
Exit Date	The date the Employer exited the Fund	4 November 2015
Employer		Colin Laver Heating Ltd
Financial Date	The date of the market conditions underlying the calculations in this document	31 October 2015
Fund		City and County of Swansea Pension Fund
Outcomes illustrated	Orphan, Subsumption or other (see Background Information Document for more detail)	Orphan

Terms used in document	Description	Information (where applicable)
Regulations	The relevant regulations in force at the Exit Date	The Local Government Pension Scheme Regulations 2013
Triennial Valuation Report	The report dated 31 March 2014 on the actuarial valuation of the Fund as at 31 March 2013	
Type of Body	This relates to the regulatory framework under which the Employer participated in the Fund before the Exit Date.	Admission Body

Purpose of this document

The Employer exited the Fund on the Exit Date.

This report sets out the results of the final exit valuation as required by the Regulations.

The calculations in this document are a valuation exercise, the results of which may ultimately lead to contribution requirements through a revision to the Rates and Adjustments Certificate.

Data

The data on which our calculations are based is summarised in Appendix A. The data was supplied by the Administering Authority and we have relied on the accuracy of that data in performing our calculations.

We have performed some broad checks on the accuracy and consistency of the data and have no reason to believe that it is not adequate for the purposes of this exercise.

Developments since the Exit Date

The Regulations require that the liabilities of the Employer are valued as at the date of exit. As a result, no allowance has been made for any membership changes, differences between the return on Fund assets and liabilities or changes in market conditions since the Exit Date. Any gains or losses since the Exit Date will be borne by the Subsuming Body (if applicable), and all other employers in the Fund in other cases.

Unfunded pensions

The Employer may also be responsible for paying some unfunded pensions, e.g. Compensatory Added Years (CAY) pensions. We have not made any allowance for these in our calculations.

Please contact us if the Employer is responsible for unfunded pensions and you would like further advice in respect of this.

3. Method and Assumptions

The liabilities which exist on exit depend on the circumstances at that time.

Alternative outcomes on exit of the Employer

There are four common types of outcome at the exit of an employer from the Fund.

Orphan

Active members may not be re-employed, and all liabilities would become non-active 'orphan' liabilities in the Fund (i.e. no particular employer(s) would have future responsibility for funding these liabilities in the Fund).

Subsumption

All of the liabilities and assets may be subsumed by a Subsuming Body (which will generally be the Related Employer) as appropriate into its own pool of liabilities and assets, and the Subsuming Body would be a source of future funding for those liabilities.

BTV orphan

Active members may transfer back to the Related Employer or to another new employer. Non-active liabilities would become 'orphan' liabilities (i.e. no particular employer(s) would have future responsibility for funding these liabilities in the Fund).

BTV subsumption

Active members may transfer back to the Related Employer or to another new employer. Non-active liabilities would be subsumed by the Related Employer or (if different) any Subsuming Body as appropriate into its own pool of liabilities, and this body would then be a source of future funding for those liabilities.

Readers should note that this list is not exhaustive and other outcomes are possible, such as payment of 'cash equivalent' transfer values for non-pensioners.

We understand that all liabilities are to become 'orphan' liabilities in the Fund. The outcome will therefore be as described under the 'Orphan' heading above.

Method used for all members under Orphan outcome

Should a shortfall arise in respect of the 'orphan' liabilities in the future, all remaining employers in the Fund would be required to pay additional contributions to pay off this shortfall.

The Orphan outcome therefore assumes that the Administering Authority will wish to back the 'orphan' liabilities with more secure, matching assets such as UK Government bonds and reflects a more prudent approach to valuing the liabilities. This, in turn, results in a greater level of immediate shortfall payment, reducing the probability that additional contributions will be required from other employers at subsequent valuations.

Assumptions

The key assumptions used in our calculations are summarised in Appendix A. These assumptions are market related and are designed to produce liability values which are compatible with assets taken at market value.

The actuarial assumptions are consistent with those adopted for the 2013 actuarial valuation (updated for changes in market conditions), with the following exception:

- Where the Fund is assumed to have no access to future funding and liabilities become orphan liabilities in the Fund, we have made no allowance for any investment returns in excess of the returns available on UK Government bonds in the discount rate, i.e. a 'gilts funding target' has been used.

We believe that the methodology discussed above for setting the assumptions is reasonable for this exercise.

The assumptions to which this exercise is most sensitive are the key financial assumptions and the assumed levels of future mortality. A sensitivity analysis is provided in the Background Information Document.

Determining the notional asset share

In calculating the Employer's notional asset share at exit we have used, as our starting point, the notional asset share of the Employer calculated as part of the actuarial valuation as at 31 March 2013. We have projected this forward to the Exit Date allowing for:

- Investment returns earned by the assets of the Fund provided by the Administering Authority, net of investment expenses (assumed to be 0.4% per annum).
- Index returns appropriate to the mix of assets of the Fund for the remaining period up to the Exit Date.
- Contributions paid by the members and the Employer.
- Other cashflows in respect of the Employer's membership.

This gave rise to a notional asset share attributable to the Employer at the Exit Date as set out in Section 1.

Administration expenses

You may also wish to make allowance for future administration expenses. This can be done by calculating the present value of estimated future expenses over the expected future lifetime of the members. This has not been included in the results in Section 1.

Appendix A: Summary of Data and Assumptions

Summary of membership and cashflow data

Our calculations have been based on the membership and cashflow data which was provided by the Administering Authority.

DEFERREDS	Number	Total deferred pension at 4 November 2015 (£000's)	Average age (unweighted) at 4 November 2015
Male	1	*	*
Female	0	0.0	0.0
Total	1	*	*

*Anonymised for data protection purposes

PENSIONERS	Number	Total pension at 4 November 2015 (£000's)	Average age (unweighted) at 4 November 2015
Male	2	8.3	60.5
Female	0	0.0	0.0
Total	2	8.3	60.5

CASHFLOW DATA	1 April 2013 to 31 March 2014	1 April 2014 to 31 March 2015	1 April 2016 to 4 November 2016
Employer normal contributions	9,362.75	9,254.20	6,869.23
Employee contributions	3,089.25	3,053.43	2,266.45
Retirement lump sums	0.00	0.00	55,217.15

Asset data

The Administering Authority provided the following Fund investment returns (gross of investment expenses) earned by the Fund's assets. These returns are checked for reasonableness against the Fund's broad asset allocation and appropriate index returns over the period.

Quarter	Return
Quarter 2 2013	-0.20%
Quarter 3 2013	2.90%
Quarter 4 2013	4.50%
Quarter 1 2014	-0.10%
Quarter 2 2014	2.10%
Quarter 3 2014	1.90%
Quarter 4 2014	2.00%
Quarter 1 2015	4.40%
Quarter 2 2015	-2.50%
Quarter 3 2015	-4.50%

We have used an index return appropriate to the mix of Fund assets held for any periods for which investment returns were unavailable. The index return was 4.3% and covered the period from 1 October 2015 to Exit Date.

We have reduced the gross return by 0.4% p.a. to allow for investment expenses, which is based on recent experience of the Fund from the annual Reports and Accounts and is consistent with the 2013 Actuarial Valuation of the Fund. Please let us know whether any part of the return is quoted net of investment expenses, which would mean the returns used in our calculations can be increased.

Financial assumptions

The financial assumptions on which our calculations are based are as follows:

Assumption type	Orphan outcome (% p.a.)
Investment return	2.50
Pension increases	2.10
Revaluation of pension accounts	2.10

Demographic assumptions

The demographic assumptions are consistent with those used in the 2013 actuarial valuation of the Fund. Further details are as set out in the Triennial Valuation Report.

Appendix B: Compliance and disclaimer

Compliance with the standards published for the Actuarial Profession

This document is required to comply with Technical Actuarial Standard 'R' (Reporting Actuarial Information), Technical Actuarial Standard 'D' (Data), Technical Actuarial Standard 'M' (Models) and the Pensions Technical Actuarial Standard issued by the Financial Reporting Council.

We set out below all of the information we have provided which we consider material to your decisions on what exit shortfall should be payable by the Employer.

- The Triennial Valuation Report
- Papers 5 and 6 of our suite of assumptions papers on the actuarial valuation of the Fund as at 31 March 2013
- The Background Information Document

In our opinion these documents, the supporting calculation processes and associated intermediate process documentation, comply with the standards noted above.

Disclaimer

The advice set out in this report has been prepared under instruction of our client, the Administering Authority of the Fund, on the understanding that it is solely for the benefit of our client, the Administering Authority.

As such, it should not be used or relied upon by any other person for any other purpose, and all third parties are hereby notified the report shall not be used as a substitute for any enquiries, procedures or advice which ought to be undertaken or sought by them. We do not accept any responsibility for any consequences arising from any third party seeking to rely on this report.

We neither warrant nor represent (either expressly or by implication) to any third party who receives this report that the information in the report is fair, accurate or complete, whether at the date of its preparation or at any other time.

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

Employer Supplement

We understand that Colin Laver Heating Ltd (the 'Employer') has exited the City and County of Swansea.

Introduction

When an employer exits the Fund, Regulation 64 of the Regulations sets out that the Administering Authority must obtain:

- An actuarial valuation as at the exit date of the liabilities of the Fund in respect of benefits in respect of the exiting employer's current and former employees; and
- A revised Rates and Adjustments certificate showing the exit payment due from the exiting employer in respect of those benefits.

We have been asked by our client, the Administering Authority, to provide a final valuation of the liabilities in the Fund under Regulation 64 of the Local Government Pension Scheme Regulations 2013, in relation to the exit of the Employer from the Fund.

This document summarises the results of this exercise.

Our client has permission to pass this document on to the Employer, or any Related Body, Subsuming Body or Guarantor in line with the conditions set out below. The Employer should refer to the Funding Strategy Statement for more information the funding principles and funding targets which apply.

Results

The shortfall in the Fund upon exit of the Employer as at the Exit Date, and the accumulated shortfall with interest to 31 May 2016, are set out in the table below.

	(£000's)
Assets	309.7
(Liabilities)	(342.4)
Total (Shortfall) at the Exit Date	(32.7)
(Interest on shortfall)	(0.5)
Total (Shortfall)	(33.2)

Method and assumptions

The liabilities which exist on exit depend on the circumstances at the time.

As all liabilities became non-active 'orphan' liabilities in the Fund upon exit of the Employer (i.e. no other Fund Employer will have ongoing responsibility for them), we have made no allowance for any investment returns in excess of the returns achievable on UK Government bonds in the discount rate, i.e. a 'low risk' funding target has been used appropriate at the Exit Date.

The Employer's notional asset share at the Exit Date has been determined by projecting forward the asset share from the most recent actuarial valuation of the Fund allowing for investment returns and cashflows in relation to the Employer and its members from the valuation date to the Exit Date.

Summary of membership and cashflow data

Our calculations have been based on the membership and cashflow data which was provided by the Administering Authority.

DEFERREDS	Number	Total deferred pension at 4 November 2015 (£000's)	Average age (unweighted) at 4 November 2015
Male	1	*	*
Female	0	0.0	0.0
Total	1	*	*

* Anonymised for data security purposes

PENSIONERS	Number	Total pension at 4 November 2015 (£000's)	Average age (unweighted) at 4 November 2015
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Employee contributions	3,089.25	3,053.43	2,266.45
Retirement lump sums	0.00	0.00	55,217.15

Financial assumptions

The key financial assumptions on which our calculations for this Employer are based are as follows:

Assumption type	Assumption (% p.a.)
Investment return	2.50
Pension increases	2.10
Revaluation of pension accounts	2.10

Demographic assumptions

The demographic assumptions are consistent with those used for the actuarial valuation of the Fund as at 31 March 2013.

Disclaimer

We permit this supplement to be released to the Employer, any related employer which is party to the admission agreement (if applicable), and to any guarantor (if applicable) (the Third Parties) for information only.

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No decisions should be taken on the basis of this supplement and nothing within it removes the need for readers to take proper advice in relation to their specific circumstances.

This is not formal actuarial advice, and is not covered by the scope of actuarial guidance TAS R, TAS D, TAS M or the Pensions TAS.