

REVIEW BOARD

14 APRIL 2005

APPENDIX 'C'

**SURREY PENSION FUND – ACTUARIAL
VALUATION AS AT 31 MARCH 2004**

Surrey Pension Fund

Actuarial Valuation as at 31 March 2004

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March 2005

Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

Executive Summary

This report sets out the results of our actuarial valuation of the Fund as at 31 March 2004 and is addressed to Surrey County Council as administering authority to the Fund.

The main conclusions are as follows:

- The funding level (ratio of assets to past service liabilities) as at 31 March 2004 is 68% (compared to 75% as at 31 March 2001). This corresponds to a past service deficit of £516m.
- Without anticipating an element of future equity outperformance, the corresponding result would be a funding level of 52%.
- The employers' average cost of future service benefits (i.e. ignoring any past service deficit) is 11.6% of pensionable pay. This includes the impact of the abolition of the 'Rule of 85'.
- Assuming that a funding level of 100% is to be targeted over a period of 20 years on the ongoing basis (i.e. assuming 2% equity outperformance) and our assumptions are borne out in practice, the common employers' contribution rate is 20.5% of pensionable pay.
- Adjustments have been made to the common rate of employers' contribution to take account of certain circumstances that are peculiar to individual employers. The *minimum* contributions to be paid by each employer from 1 April 2005 to 31 March 2008 are shown in our Rates and Adjustment Certificate at Appendix G.
- Employers may make voluntary additional contributions to recover the shortfall over a shorter period.
- All employers are also required to make additional payments in respect of unreduced early retirements as provided for in our Rates and Adjustment Certificate.

We would be pleased to discuss any aspect of our report with the Administering Authority.

Ronald Bowie FFA
22 March 2005

Bryan Chalmers FFA

Surrey Pension Fund
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Surrey Pension Fund Actuarial Valuation as at 31 March 2004

1. Introduction

- 1.1 We have carried out an actuarial valuation of the Surrey Pension Fund ("the Fund") as at 31 March 2004 and have pleasure in presenting our report to Surrey County Council ("the Administering Authority") as the administering authority to the Fund.
- 1.2 The previous valuation was carried out as at 31 March 2001 by Watson Wyatt and the results were set out in the report dated March 2002. They are summarised in the table below. At the previous valuation, the funding level was targeted to increase to 100% over a period of 13 years.

2001 Results Summary	£m
Value of Accrued (Past Service) Liabilities	
Employee Members	549
Deferred Pensioners	180
Pensioners	588
Total Accrued Liabilities (L)	1,317
Value of Fund Assets (A)	989
Surplus/(Deficit)	(328)
Funding Level [(A)/(L)]	75%
Employer Contributions	% of pay
(a) Future Service Funding Rate	9.6%
(b) Past Service Adjustment	10.7%
Total Common Contribution Rate [(a)+(b)]	20.3%

- 1.3 The Fund is part of the Local Government Pension Scheme (LGPS) and is a multi-employer defined benefit pension scheme. It is contracted out of the State Second Pension. Employees' contributions are fixed (mostly at the level of 6% of pay). Employers pay the balance of the cost of the scheme. The actual cost will not be known until the final pensioner dies, so employers' contributions are set to meet the expected cost of the benefit. The employers' contributions are reviewed at a series of three yearly valuation exercises. This valuation is one of the series.

Surrey Pension Fund

Actuarial Valuation as at 31 March 2004

Purposes of Valuation

- 1.4 The main purposes of this valuation are:
- to review the financial position of the Fund against the Administering Authority's funding objectives;
 - to enable completion of all relevant certificates and statements in connection with the Local Government Pension Scheme Regulations 1997 ("the Regulations"), and other relevant regulations; and
 - to comment on the circumstances which may give rise to future volatility in the funding level of the Fund or employers' contributions.

Funding Objectives

- 1.5 The Administering Authority sets the funding objectives in consultation with the employers and is preparing a Funding Strategy Statement (FSS) which is required to be in place by 31 March 2005.
- 1.6 Our valuation is based on the following overriding funding principles for the Fund:
- building up assets to provide for new benefits of current employees as they are earned;
 - recovering any shortfall in assets relative to the value placed on accrued liabilities over the longer-term; and
 - ensuring that there are always sufficient assets to meet the benefits as they fall due for payment to members.

Regulatory Requirements

- 1.7 This valuation is carried out in accordance with Regulation 77 of the Regulations, which specifies that the Administering Authority must obtain:
- an actuarial valuation of the assets and liabilities of each of the Fund as at 31 March 1998 and every three years thereafter;
 - a report by an actuary; and
 - a rates and adjustments certificate.
- 1.8 Within the rates and adjustment certificate we are required to specify:



Surrey Pension Fund *Actuarial Valuation as at 31 March 2004*

- the employers' common contribution rate which, in our opinion, should be paid by all employers so as to ensure the Fund's solvency; and
- any individual adjustments (increases or decreases) to the common contribution rate which, in our opinion, are required by reason of any circumstances peculiar to that employer;

which for this valuation apply for each year of the period of three years beginning with 1 April 2005.

1.9 Under the provisions of the Regulations, we are required to have regard to:

- the existing and prospective liabilities of the Fund arising from circumstances common to all those bodies,
- the desirability of maintaining as nearly constant a rate as possible, and
- the Administering Authority's funding strategy statement.

1.10 The Fund must comply with the Inland Revenue Surplus Test (see Section 5 of this report) where the objective is to remain below a prescribed maximum level of funding.

Use of Results

1.11 This report is provided solely for the purposes of the Administering Authority and the Fund employers to fulfil their and our statutory obligations. It should not be used for any other purpose. The liability figures contained in this report are not appropriate for employer FRS17 accounting purposes. This report should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety.

1.12 Neither we nor Hymans Robertson accepts any liability to any other party unless we have expressly accepted such liability in writing.

1.13 This report has been prepared in accordance with version 7.0 of "Retirement Benefit Schemes - Actuarial Reports - GN9" published by the Institute of Actuaries and the Faculty of Actuaries. The following aspects of GN9 are not relevant to the current circumstances of the LGPS and hence our report does not comply with these aspects of GN9:

- Paragraph 2.5 of GN9 requires the actuary to state the Minimum Funding Requirement (MFR) funding level. As the MFR does not apply to the LGPS, this report does not comply with paragraph 2.5 of GN9.

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- Paragraph 2.6 of GN9 requires the actuary to report on the value of the liabilities which would arise had the Fund wound up on the valuation date (based on the cost of buying out the accrued benefits with insurance policies). As the LGPS is a statutory scheme, there is no regulatory provision for scheme wind up and the scheme members have a statutory right to their accrued benefits. Therefore the concept of solvency on a buy-out basis does not apply to the Fund. Accordingly, this report does not comply with paragraph 2.6 of GN9.
- 1.14 The Government's recent legislation relating to employers' obligations on the voluntary termination of their pension schemes, known as the Debt on Employer regulations, does not apply to the LGPS. The Government's new safety net system from April 2005, the Pension Protection Fund, will also not apply to the LGPS. We assume that all employers will be able to fulfil their obligations to pay contributions certified in this report. To the extent that any employer defaults on its contributions whilst the Fund is in deficit, another employer or employers in the Fund will bear any shortfall.
- 1.15 The membership and accounting data has been provided by the Administering Authority and we have relied on the accuracy of the information provided.
- 1.16 We have however carried out a number of reasonableness checks on the quality of the membership data and from the results of these we have concluded that we have no reason to doubt that the data provided is materially complete and correct.

Surrey Pension Fund
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2. Fund and Benefit Information

Benefits and member contributions

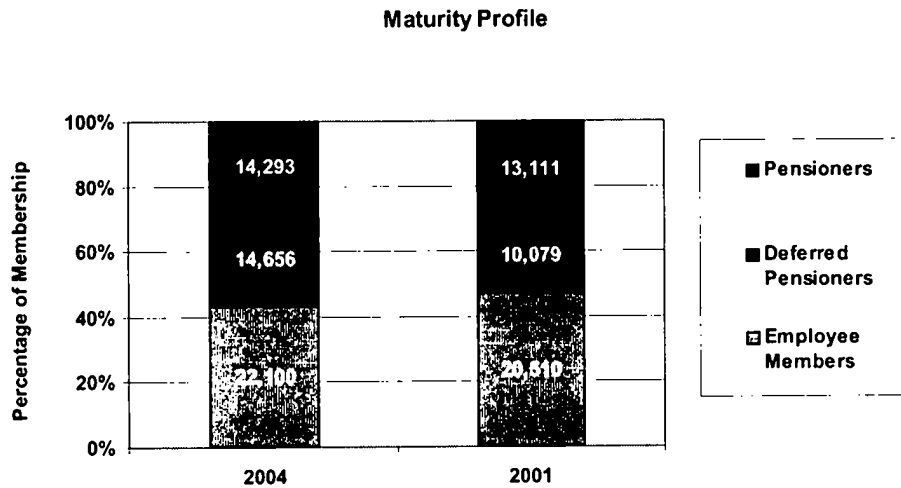
- 2.1 The principal elements of the benefit structure of the Fund are set out in the Regulations and are summarised in Appendix A. These benefits are common to all employers participating in the Fund.
- 2.2 There are a small number of discretionary powers, which may be exercised by the Administering Authority or by individual employers. The principal discretions are also summarised in Appendix A. With the exception of the employers' powers to augment benefits, normally on early retirement, we would not expect that the exercise of these powers would have a material effect on the valuation results.
- 2.3 Although the main benefits affecting our calculations remain unchanged since the previous valuation, there have been a number of amendments to the Regulations, under the auspices of the Government's Stocktake review of the scheme. The changes are summarised in Appendix A. The changes already made do not materially affect the results of our valuation. However the changes that take effect from 1 April 2005, notably the abolition of the Rule of 85 for future service, affects the cost of future service benefits.
- 2.4 Most employees contribute at the rate of 6% of pay, with a closed group of manual employees who joined before April 1998 contributing at the rate of 5% of pay. The employers meet the balance of the cost of the scheme.
- 2.5 The cost of accruing benefits was assessed to be 9.6% of payroll at the 2001 valuation.
- 2.6 At the previous valuation, the common contribution rate payable by the employers was 9.6% of payroll with effect from 1 April 2002 (expressed as 160% of employee contributions). The Common Contribution Rate was adjusted for some employers and the resulting minimum contributions to be paid were certified in the previous valuation report. Additional monetary amounts were also paid by many employers.
- 2.7 Contributions were paid during the inter-valuation period in accordance with the Rates and Adjustments Certificate. During the inter-valuation period the employers therefore paid contributions in excess of the accruing benefits.

Fund membership

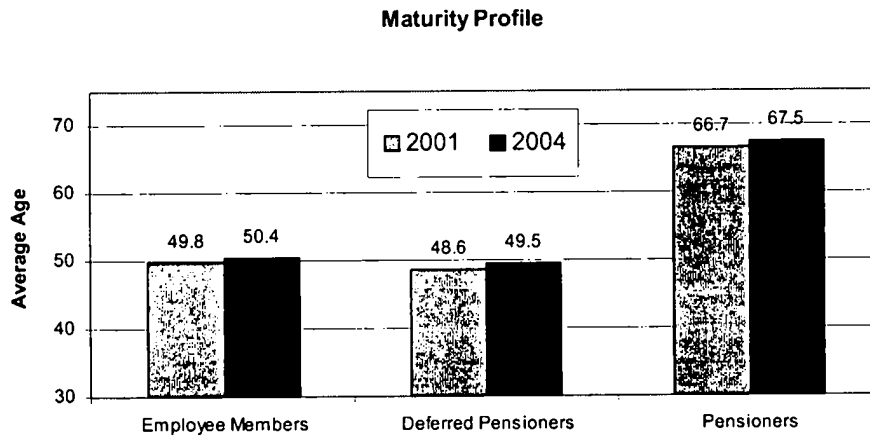
- 2.8 The membership of the Fund as at 31 March 2004, and changes since the previous valuation are summarised in Appendix B for each benefit category.

Surrey Pension Fund Actuarial Valuation as at 31 March 2004

2.9 The chart below illustrates the change in the structure of the Fund's membership between 2001 and 2004. Overall, the proportion of the membership in each category has remained relatively stable.



2.10 The change in the average ages of Fund members (weighted by salary or pension) over the intervaluation period is shown in the chart below.



2.11 The chart and table show a modest degree of ageing within the membership of the Fund, although the process is being slowed by the increase in active membership.

Surrey Pension Fund Actuarial Valuation as at 31 March 2004

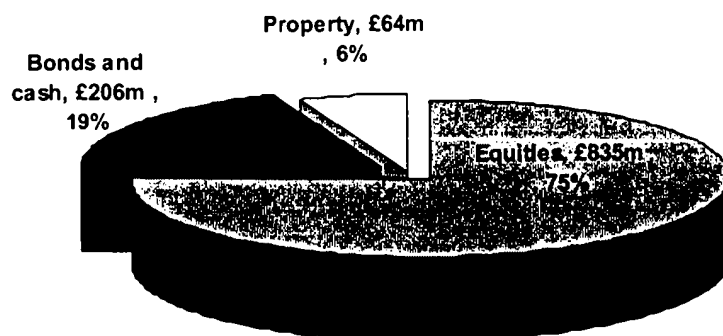
Individual Employer Information

- 2.12 Appendix B also shows the number of members of each of the participating employers, as at the valuation date.

Fund assets

- 2.13 The Administering Authority has provided copies of the accounts for the Fund for the three years from 1 April 2001. The consolidated Revenue Account is shown in Appendix C, together with our estimates of the implied return on the Fund assets in each of the three years. The implied return is calculated from the change in the market value of assets and net annual cashflows to the Fund.
- 2.14 The Fund's assets are invested by the Administering Authority. The market value of assets as at 31 March 2004 was £1,106m¹. A simplified summary of the asset split is shown below. A more detailed breakdown of the Fund assets is provided in Appendix C.

Asset Distribution as at 31 March 2004



- 2.15 The Fund does not formally segregate assets between participant employers. In calculating adjustments to the Common Contribution Rate for individual employer to reflect any "peculiar" characteristics, we apportion assets to individual employers (or to pools of employers). We use a technique known as analysis of surplus to carry out this apportionment process.

¹ (excluding defined contribution AVC funds)

3. Method and Assumptions for 2004 Valuation

Methodology

- 3.1 For this valuation, we have adopted an approach which considers separately the benefits in respect of service completed before the valuation date (past service) and benefits in respect of service expected to be completed after the valuation date (future service). This approach enables us to focus on two results:
- The *past service funding level* of the Fund. This is the ratio of the value of the assets to the value of the past service liabilities, after making allowance for future increases to members' pay. A funding level in excess of 100% indicates a *surplus* of assets over liabilities and a funding level of less than 100% indicates a *deficit*.
 - The *future service funding rate* i.e. the level of contributions required from the employers to support the cost of benefits for future service.
- 3.2 For this valuation we have used the *projected unit method* with a one year control period to determine the cost of benefits accruing for the Fund as a whole and for employers who continue to admit new members. This means that the contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period. The method of valuation has not changed since the previous valuation. A description of the valuation method is set out in Appendix D.
- 3.3 For employers who no longer admit new entrants, we have adopted the *attained age method*, which means that the contribution rate is derived as the average cost of benefits accruing to employee members over the period until they die, leave the Fund or retire. A description of this method is also set out in Appendix D.

Actuarial Assumptions

- 3.4 In our valuation, we must make assumptions about the factors affecting the Fund's finances such as inflation, pay increases, investment returns, how long members will live and staff turnover, etc in order to place a value on the liabilities.
- 3.5 The future level of pay increases will determine the level of benefits to be paid in future in respect of active members and the contributions received by the Fund. Once in payment, pension benefits are increased annually in line with the headline RPI index².

² in line with the Pension (Increases) Act 1971, lower increases can apply to Guaranteed Minimum Pensions.

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- 3.6 The cost of providing benefits depends not only upon the amount but also the incidence of benefits paid i.e. at what point in the future benefits begin to be paid and for how long they continue to be paid.
- 3.7 As contributions are being invested now to provide for benefits payable in the future (i.e. the benefits are being prefunded) part of the cost of providing the benefits can be met from investment returns achieved by the Fund's assets which build up from contributions. The higher the rate of return achieved by the assets, the lower the contribution requirement that has to be paid in future to meet the cost of the benefits.
- 3.8 The assumptions adopted at the valuation can therefore be considered as:-
- The demographic (or statistical) assumptions which generally speaking are estimates of the likelihood of benefits and contributions being paid, and
 - The financial assumptions, such as future levels of inflation, will determine the amount of benefits and contributions payable. The anticipated future rate of investment return is used to discount future benefits and contributions to obtain their current or present value.
- 3.9 The key assumptions have been discussed with the Administering Authority. A summary of the assumptions used is included in Appendix E.

Financial assumptions

- 3.10 Since we have taken assets into account at their market value it is appropriate for us to take our lead from the market when setting the financial assumptions used to value the ongoing liabilities, to ensure compatibility of the asset and liability valuation bases. The key financial assumptions are:
- Future levels of price inflation
 - Future levels of real pay increases – i.e. over and above price inflation
 - The discount rate (investment return) which is applied to future liabilities to determine their present value³.
- 3.11 We have derived our discount rate as the expected future rate of investment return from the broad categories of assets held by the Fund. In deriving this assumption we have considered what additional returns might reasonably be expected from the Fund's investments over and above the minimum risk rate of return on Government bonds.

³ For this valuation we have used the same discount rate for past and future liabilities. In the previous valuation, different discount rates applied.

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3.12 The key assumptions for the current valuation are set out below. The figures marked "real" are net of assumed price inflation.

Financial Assumptions	Mar 2004	
	% p.a. Nominal	% p.a. Real
Minimum Risk rate of return	4.7%	1.8%
Anticipated extra long-term return from:		
Equities	2.00%	
Corporate Bonds	0.40%	
Overall anticipated long term return from:		
Equities	6.70%	3.8%
Bonds (50% gilt 50% corporates)	4.90%	2.0%
Discount Rate	6.3%	3.4%
Pay Increases	4.4%	1.5%
Price Inflation/Pension Increases	2.9%	-

Demographic assumptions

- 3.13 We have recently carried out a major investigation into the demographic experience of our Local Authority fund clients in England and Wales. We have used the rural assumptions derived from this study for this valuation. Details of these are included in Appendix E. The assumptions adopted at the previous valuation are shown in the report on that valuation.
- 3.14 Our aim is that the demographic assumptions should be as close to best estimates⁴ as is practicable. (The *prudence* required under the Funding Strategy Statement is delivered by using an anticipated return from the Fund's equity investments which is below our best estimate of future returns from equities.)
- 3.15 In setting our assumptions, we have made allowance for life expectancy that we believe is appropriate to pensioners in 2004 (applied to pensioners and non-pensioners), in reporting the value of the accrued liabilities in the valuation balance sheet (in Section 5) and the future service contribution rate. Thus these results do not make any allowance for continuing improvements in life expectancy.
- 3.16 We have reported separately on the potential effect of continuing mortality improvements.
- 3.17 The effect of the abolition of the Rule of 85 for service after 1 April 2005 has been included within the calculation of the future service rate.

⁴ Best estimate is defined as a 50:50 chance of the assumption being borne out in practice.

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Comments on the valuation assumptions

- 3.18 There is a broad spectrum of potentially acceptable valuation assumptions.
- 3.19 In our opinion, the assumptions adopted for this valuation lead to an assessment of the financial position of the Fund and the long-term cost of providing the benefits for future service which just falls into the more prudent half of the spectrum.
- 3.20 There are, however, few or no margins to protect employers from further contribution rises if future experience is worse than assumed. Section 6 describes how future valuation results may be affected if the actuarial assumptions are not borne out in practice. We recommend a programme of actively monitoring the developing funding position of the Fund, and the potential impact on future employer contributions.
- 3.21 Moreover, if future experience is better than assumed in this valuation, we would recommend that the opportunity is taken to rebuild prudential margins within the valuation basis. Thus there should be no expectation of employer contribution reductions if experience is better than assumed between 2004 and 2007.

Assets

- 3.22 We have taken the assets of the Fund into account at their market value as indicated in the Fund accounts for the period ended 31 March 2004. This is consistent with the approach of valuing the liabilities by reference to spot market conditions on the valuation date.
- 3.23 The approach taken to valuing the Fund's assets is unchanged since the previous valuation.
- 3.24 The assets of the Fund include additional voluntary contributions (AVCs) paid by members. In some cases, these AVCs are paid on a money-purchase basis, where the accumulated funds are applied at retirement to purchase benefits for the members from the Fund, or via an insurance company. In our valuation we have excluded these assets and the corresponding liabilities.

Surrey Pension Fund Actuarial Valuation as at 31 March 2004

4. Experience since 2001

Results of 2001 Valuation

- 4.1 In the previous valuation of the Fund, the assets were valued at £989m and the past service liabilities on the ongoing basis amounted to £1,317m. There was then a deficit of £328m and the funding level (ratio of assets to liabilities) was 75%.

Financial experience

- 4.2 The chart below shows the actual financial experience of the Fund during the intervaluation period compared to the assumptions adopted at this valuation:

	Nominal		Real	
	Actual % p.a.	Assumed % p.a.	Actual % p.a.	Assumed % p.a.
Investment Returns - Market				
Value (MV) Terms	0.5%	6.3%	-1.6%	3.4%
Pay Increases	5.8%	4.4%	3.7%	1.5%
Pension Increases	2.1%	2.9%	-	-

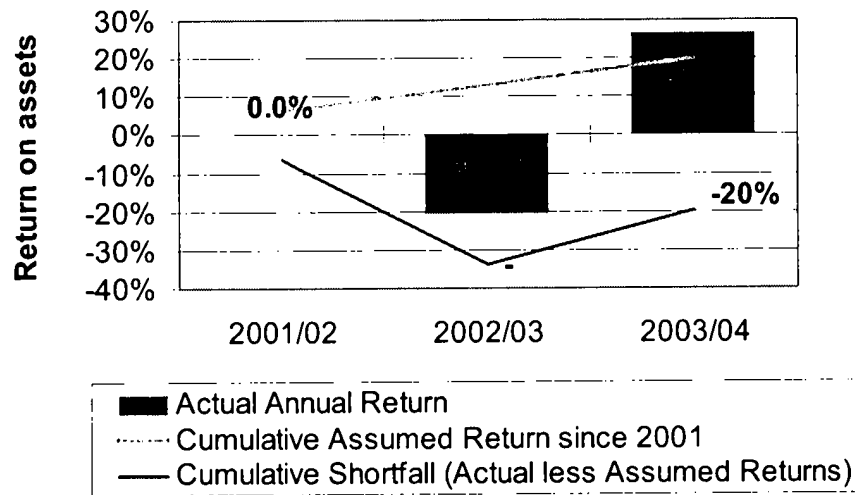
The figures for pay increases exclude any allowance for increments and promotional pay increases. These are included within separate promotional salary scale assumptions (see Appendix E).

- 4.3 The principal conclusions are:
- Investment under-performance relative to the anticipated returns built into the 2001 valuation of liabilities dominates the picture.
 - Nominal investment returns only averaged 0.5% a year over the three year period to 31 March 2004, and -1.6% a year in real terms. This was 5.8% a year less than that assumed at this valuation, leading to an expected reduction in the funding level on a like for like basis of around twenty percentage points for this factor alone.
 - Pay increases over the intervaluation period were more than expected in both nominal and real terms.
 - Price inflation was relatively benign, with headline RPI only rising by 6.9%, or 2.2% a year (actual pension increases are slightly lower because of using September to September RPI for increases in the following April).

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- 4.4 The chart below shows the actual returns on assets in each of the last three years, compared to the cumulative returns required to keep pace with the assumptions (ignoring the smoothing of assets in 2001). By 31 March 2004, the actual returns on assets lagged the valuation assumptions by 20 percentage points.

Investment Performance Relative to 2004 Assumptions



- 4.5 At the previous valuation the common contribution rate payable by the Employers to the Fund was set at the rate of 20.3% of Pay. This was more than the cost to the Employers of benefits accruing and of administration expenses.
- 4.6 Overall, the financial experience of the Fund during the intervaluation period compared to the assumptions adopted at this valuation was a significantly negative factor during the intervaluation period.

Demographic experience

- 4.7 The impact of the variation in experience relative to the demographic assumptions adopted at this valuation as a whole has been a positive factor for the Fund.

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Employee Members

- 4.8 A comparison of the actual number of membership movements for employee members is shown below.

	Actual	Assumed	% Diff
Early Leavers	9,691	4,761	104%
Deaths	71	78	-9%
Ill Health Retirements	180	445	-60%
Early Retirements	190	0	

- 4.9 There were more early leavers than anticipated, which has a positive effect on the funding level, since the benefits for early leavers are lower in value than if they stayed in service due to the link with final salary being broken. There were significantly fewer ill-health early retirements than assumed which also has a positive effect on the funding level.

Pensioner Members

- 4.10 A comparison of the actual and assumed amounts of pensions ceasing on death (expressed as amounts of pension) is shown below. The assumed amounts are based on our 2004 valuation assumptions without any margins for improving mortality. A ratio of less than 100% indicated fewer deaths than anticipated. A ratio of more than 100% indicates more deaths than anticipated.

2001-2004	Amounts of Pension Ceasing (£000s)		
	Actual	Assumed	Ratio
Ill Health Pensioners	667	724	92%
Age Pensioners			
Former Officers	3,007	2,551	118%
Former Manuals	584	546	107%
Dependants	790	727	109%
Total	5,048	4,549	111%

- 4.11 As the table shows, the actual amounts of pension ceasing during the intervaluation period were higher than our 2004 assumptions. We have illustrated the effect of modifying our assumptions at this valuation to allow for pensioners (both current and prospective) to live longer than previously assumed later in this report.
- 4.12 We have amended our demographic assumptions in line with the results of our demographic experience analysis across our English and Welsh clients in 2001. Taken as a whole, the change to the demographic assumptions has increased the value placed on the past service liabilities and increased the assessed cost of future service benefits.

Surrey Pension Fund
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5. Valuation Results

Past Service Position

- 5.1 One of the key funding objectives of the Fund, described in Section 3, is to build up sufficient assets to provide adequate security for members' benefits as they accrue: in other words, to target a funding level of at least 100%. The funding position as at 31 March 2004 is considerably below this target, as shown in the table below.

Accrued (Past Service) Liabilities	£m
Value on minimum risk rate of return:	
Employee Members	988
Deferred Pensioners	382
Pensioners	744
(a) Total	2,114
Less Credit for Anticipated Future Excess Returns:	
Employee Members	(275)
Deferred Pensioners	(110)
Pensioners	(106)
(b) Total Credit for Anticipated Future Returns	(491)
Net Value after Credit for Future Excess Returns:	
Employee Members	713
Deferred Pensioners	272
Pensioners	638
(a)-(b) Total Net Liabilities	1,623
Assets	
Market Value of Assets	1,106
Contributions due for augmentations/redundancies	1
Total Value of Assets	1,107
Surplus (Deficit)	(516)
Funding Level	68%

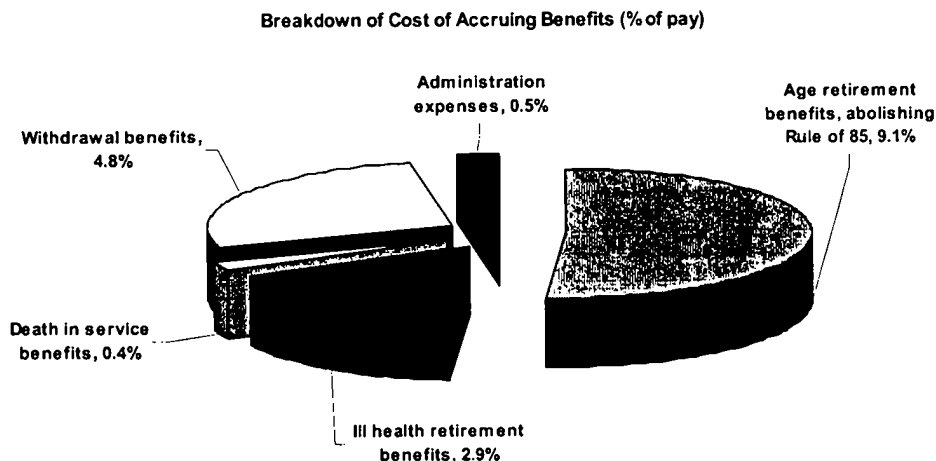
- 5.2 It should be noted that the market value of both assets and liabilities may be volatile. The results of this valuation show only a snapshot of the funding level of the Fund as at 31 March 2004 and this result should be seen in the context of market levels before and since then.



Surrey Pension Fund Actuarial Valuation as at 31 March 2004

Future service

- 5.3 We have calculated the combined employers' long-term future service contribution rate to be 11.6% of pensionable pay. This represents the contributions required, in excess of members' contributions, to provide for benefits accruing to existing members over the year following the valuation. It includes an allowance for expenses and lump sum death in service benefits. It is the rate which would, if our assumptions were borne out, apply to service following the valuation date if there were no past service surplus or shortfall in the Fund.
- 5.4 This rate has been calculated using the Projected Unit Method. Contributions for employers who no longer admit new entrants are calculated using the Attained Age Method, which would generally produce a higher contribution rate. Following discussions with the Administering Authority we have set the future service rate after taking account of the abolition of the Rule of 85.
- 5.5 A split of the cost of future service benefits, including members' contributions, is shown in the chart below.



- 5.6 The employers' future service contributions rate of 11.6% of pensionable pay may be compared with the rate revealed by the previous valuation of 9.6% of pensionable pay. The higher rate revealed by this valuation is the effect of:
- the changes to the financial assumptions; and
 - the adoption of revised demographic assumptions;



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Past service

5.7 The past service funding level of the Fund has declined since the previous valuation. The main reasons for this are:

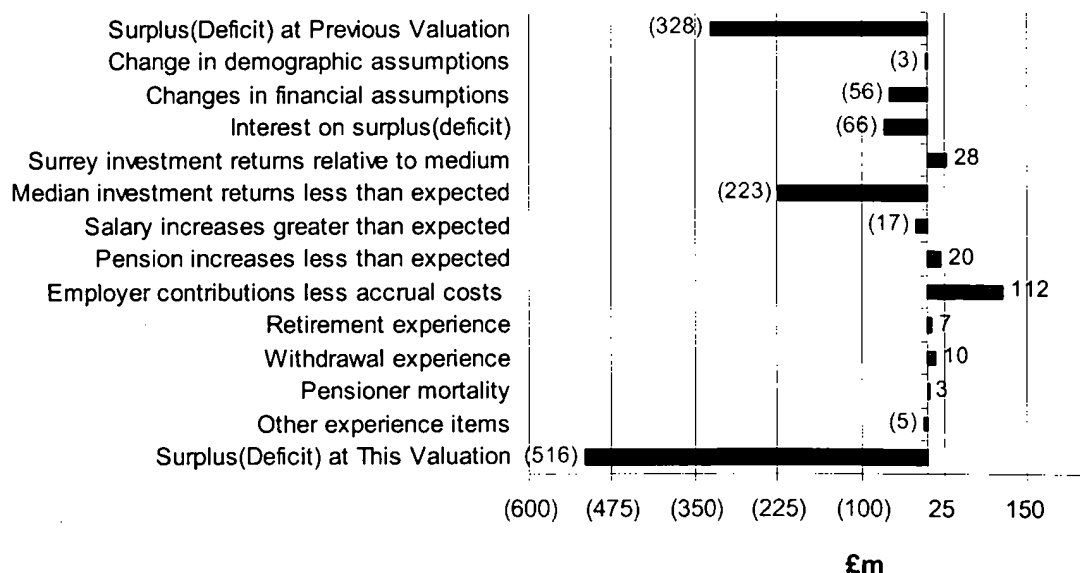
- the poor return on Fund assets over the period since the previous valuation relative to the rate required to keep pace with the liabilities;
- the increases in pensionable pay for employees which were higher than anticipated in the valuation; and
- The changes to the valuation assumptions.

5.8 These losses have been partially offset by:

- The substantially higher contributions paid by some employers relative to the cost of accruals;
- the increases in pensions in payment which were lower than anticipated in the valuation; and

5.9 The net effect of the gains and losses listed in paragraphs 5.7 and 5.8 are summarised in the chart below.

Reconciliation of Opening and Closing Position



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- 5.10 We have calculated the additional contribution rate in respect of the past service deficit to be 8.9% of pensionable pay. This represents the cost of the past service deficit spread over a period of 20 years.

Contributions payable

- 5.11 The common contribution rate payable is the cost of future benefit accrual, increased by an amount to bring the funding level back to 100% over a period of 20 years as set out in the Funding Strategy Statement. In order to achieve some stability of contributions, the required contribution increases will be phased in over a period of 3 years.
- 5.12 The employer common contribution rate based on the funding position as at 31 March 2004 is as follows:

Employer Contribution Rates	% of payroll
Future Service Funding Rate	11.6%
Past Service Adjustment - 20 years spread	8.9%
Total Common Contribution Rate	20.5%

Inland Revenue Surplus Test

- 5.13 In accordance with Paragraph 2(3) of Schedule 22 to the Income and Corporation Taxes Act 1988, we are required to certify to the Inland Revenue whether the Fund has an excessive surplus (over 5%). If this is the case, we would be required to take action to reduce the surplus within 5 years. We can confirm that there is no excessive surplus and our certificate to this effect is included in Appendix F and will be submitted shortly to the Inland Revenue.
- 5.14 The Government has indicated its intention to remove the requirement for the Inland Revenue Surplus Test with effect from 6 April 2006.

6. Influences on Future Funding

- 6.1 The Funding Strategy Statement provides a framework for the Administering Authority to assess its funding risks. The figures and comments in this section are intended to help put the valuation results shown in Section 5, which are critically dependent on the actuarial assumptions (described in Section 3), into context. Results of future valuations will also depend on the assumptions made at those times. Over time, the funding position and the contributions required will vary depending on actual future experience and whether this matches the assumptions made. This section discusses the potential implications of the actuarial assumptions not being borne out in the future.
- 6.2 Whilst the objective of targeting a funding level of 100% over a 20 year period and the decision to allow some employers to phase in contribution rates over a three or six year period help to achieve a degree of stability of employer contributions in the short term, the deferral of the deficit repayment could lead to a less stable (higher) employer contributions in the future.
- 6.3 In addition, the results of future valuations will also depend on the assumptions made at those times. Over time, the funding position and the contributions required will vary depending on actual future experience and whether this matches the assumptions made. This section discusses the potential implications of the actuarial assumptions not being borne out in the future.
- 6.4 The assumption to which the valuation results are most sensitive is that relating to future investment returns (the discount rate), particularly if the Fund's investment strategy is not a close match for the liabilities. Another key assumption to which the valuation results are particularly sensitive is that relating to future mortality, or longevity. The effects of future unexpected changes in mortality, and of other risks and sensitivities, are discussed later in this section.

Investment strategy

- 6.5 A defined benefit pension promise, being a promise to pay an income to a member in retirement, is analogous to a bond, which is an obligation to pay an income to the investor (plus repayment of capital).
- 6.6 Thus for the LGPS the investments which most closely match the liabilities are long-dated index-linked bonds. By "matched" we mean that the financial influences which affect the asset value have a similar effect on the liabilities.
- 6.7 The Administering Authority has adopted an investment strategy which includes broadly 75% invested in equities and 25% invested in bonds and property.

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- 6.8 The financial assumptions used in the valuation are set by reference to the redemption yield available on bond investments of appropriate term, having regard to the Fund liabilities. In addition, we have made an allowance for the excess return which may be expected to be earned on a diversified portfolio of investments, which includes equities and property. However, no explicit account is taken of the additional risks involved in investing in assets which are not a close match to the ongoing liabilities.
- 6.9 If the assets of the Fund were invested wholly in high quality bonds selected such that the cashflows closely match the pattern of benefits expected to be paid from the Fund, ("the Minimum Risk" portfolio), then the valuation results would be broadly⁵ as follows.

Accrued (Past Service) Liabilities	£m
Value on minimum risk rate of return:	
Employee Members	988
Deferred Pensioners	382
Pensioners	744
Total	2,114
Total Value of Assets	1,107
Surplus (Deficit)	(1,007)
Funding Level	52%

Employer Contribution Rates	% of payroll
Future Service Funding Rate	20.5%
Past Service Adjustment - 10 years spread	28.9%
Total Common Contribution Rate	49.4%

- 6.10 The main differences between these results and those on the ongoing basis as reported in Section 5 are as follows:

- it is necessary to hold more money in the Fund now to meet the past service benefits as a result of the lower discount rate (which in turn reflects the lower expected investment return on the "Minimum Risk" portfolio); and
- an increase in the employers' contribution rate is needed to meet the cost of the accruing benefits as it is assumed that lower returns will be achieved in the future.

⁵ We have discounted the liabilities falling due at all future durations at the minimum risk rate of return of 4.7% a year. In practice, the returns available on different bonds vary with the term of the bond.

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- the past service adjustment has been calculated on a target of 100% funding over the average future working lifetime of active membership.

6.11 Note that material residual risks would remain even if the investment policy followed the "Minimum Risk" portfolio. For example, it may not be possible to buy bonds of long enough duration, meaning that there would be uncertainty associated with the returns available on future investments. Our valuation above does not include any explicit contingency reserves in respect of these risks.

Appropriateness of investment strategy

6.12 The degree of mismatch between the actual investment strategy which includes significant investments in equities and property and the minimum risk strategy is significant. As a result the funding level in the Fund will vary considerably if the returns achieved on equities and bonds diverge.

Sensitivity Analysis

6.13 The valuation results are particularly sensitive to the assumed rates of future investment return. If future investment returns are less than expected, for example due to falls in equity markets, the funding level will deteriorate. To illustrate the sensitivity of the funding level to changes in equity and bond markets, we have considered the impact of the following events occurring soon after 31 March 2004:

- a) Equity-type investments (UK and international equities fall by 25%, with no change in bond values or yields); or
- b) The price of bonds rise such that there is a 1% fall in the nominal annual redemption yields available on fixed interest bonds and a 0.5% fall in the real annual yield available on index-linked bonds, with no change in equity prices or dividend yields.

6.14 The table below shows the results which would arise for the whole fund if those events occurred soon after 31 March 2004.

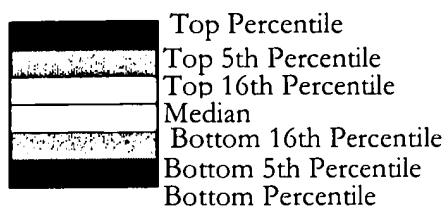
Past Service Funding Levels (FL) (% of Liabilities)	Stable markets change	(a) Equities fall		(b) Bonds rise	
		New FL	Change	New FL	Change
	(i)	(ii)	(iii) = (ii) - (i)	(iv)	(v) = (iv) - (i)
Ongoing valuation (2% ERP)	68%	50%	(18%)	55%	(13%)
Minimum Risk Bond Returns	52%	38%	(14%)	45%	(7%)

6.15 The scenarios illustrated are by no means exhaustive and should not be taken as the limit of how extreme future experience could be. The impact on individual employers could be different to the Fund as a whole, for example less mature employers would be more greatly affected by changes in bond yields than more mature employers.

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6.16 We have also considered the inter-dependency of equity and bond asset classes within our stochastic asset model to illustrate the spread of potential returns. There are no margins for prudence taken in setting the parameters of the model. The mean additional return from equities relative to bonds is assumed to be 3% a year.

6.17 The charts below use the following colour scheme⁶:

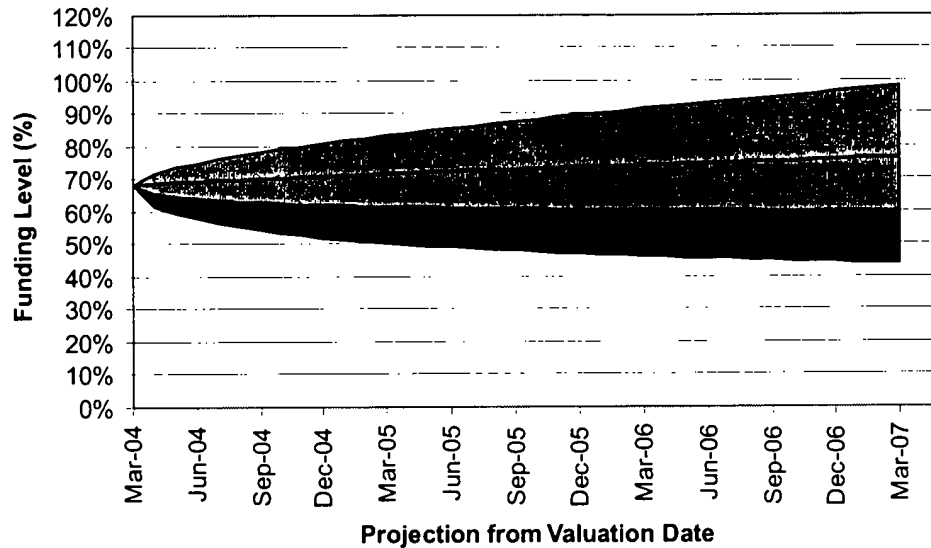


6.18 The first chart illustrates how the funding level for the whole Fund might vary from this valuation date to the next valuation in 2007, allowing for the volatility of different asset classes. No allowance is made for any change in the valuation basis. The turquoise area represents the outcomes which have a roughly 68% chance of occurring, so there is broadly a two in three chance of the funding level being between 58% and 98% at the 2007 valuation. There is a 16% chance of the funding level being less than 58%. The opportunity for investment growth comes with a potentially significant downside risk.

⁶ Please note that we have not shown the best 16% of the distribution of outcomes. This is because we have also not shown the bottom 1%. In broad terms, we estimate that you would have to give up the top 16% to protect yourself from the bottom 1% if you sought to purchase derivatives in the equity market.

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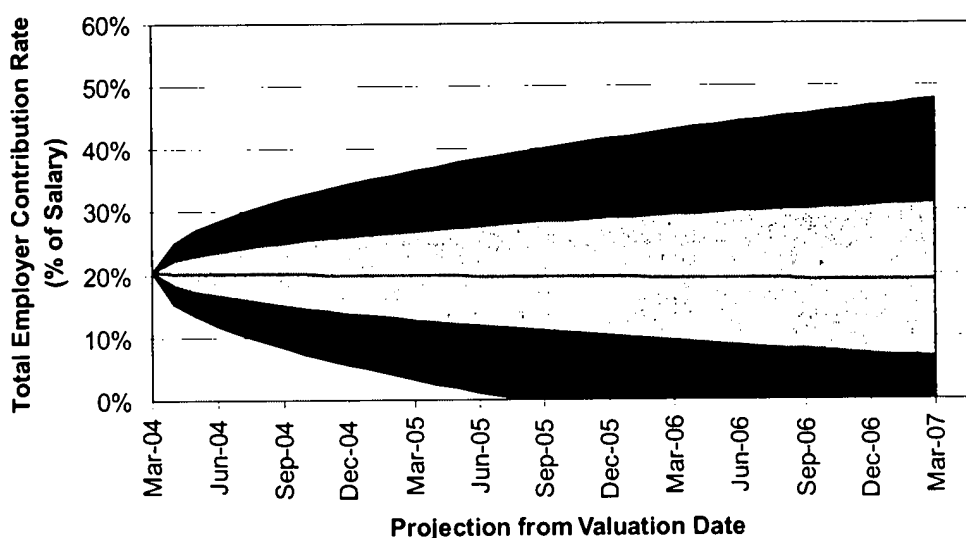
Projection of Scheme Funding Level



- 6.19 The second chart illustrates how the employers' common contribution rate for the whole Fund might vary from this valuation date to the next valuation in 2007, (as a percentage of payroll). The dispersion of results for individual employers could be much greater depending on their maturity position.
- 6.20 Here the turquoise area again represents the outcomes which have a 68% chance of occurring, so there is a two in three chance of the common contribution rate being between 7% and around 31% of payroll in the 2007 valuation. There is also a non-trivial likelihood (around 16%) of the contribution rate being in excess of 31% of payroll. The reason for the wide spread include the volatility of the predominantly equity investments of the Fund and the possible future changes in long term interest rates and inflationary expectations.

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**Projection of Common Contribution Rate
(Deficit Spread over payroll over 20 years)**



6.21 We recommend that the Administering Authority reviews its investment strategy particularly in the light of:

- the funding position revealed by this valuation;
- the reduced prudential margins built into the reserving for liabilities;
- the increased sensitivity of results to interest rate changes following the fall in funding levels and longer deficit spreading periods;
- the capacity of employers to be able to absorb further contribution rises if future experience is worse than assumed; and
- any differences in the profile of employers, for example the fact that Best Value Admission Bodies participate on different terms to other employers.

Asset-liability modelling may be helpful in understanding the investment risks.

Other risks and sensitivities

6.22 The valuation results do not include explicit contingency reserves for other unexpected non-investment related financial and demographic effects.

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Longevity

- 6.23 The valuation results are very sensitive to unanticipated changes in future expected mortality of pensioners. The mortality basis adopted has been calibrated against recent mortality experience of pensioners in similar local authority funds.
- 6.24 Recent medical advances, changes in lifestyles and generally greater awareness of health-related matters have resulted in longevity improving in recent years at a faster pace than most experts had foreseen. It is unknown whether such improvements will continue in the future. Certain factors, such as advancements in genetic medicine would point towards even greater improvements in longevity in the future; conversely, the increase in childhood obesity may result in a decline in longevity in future generations.
- 6.25 We have considered the impact of mortality rates continuing to reduce in line with the standard mortality tables developed by the actuarial profession. This would require additional reserves for benefits already accrued and for future accruals of benefits. The table below summarises the estimated additional amounts that would be required on the basis of the mortality tables specified in Appendix E.

Extra Reserve Required for Continuing Mortality Improvements on Accrued Liabilities (on same financial basis as Section 5)	£25m
Effect of Reserve on Employer Contributions after 20 year spreading	1.70% of pay
Increase in Future Service Cost	0.9% of pay
Net Effect on Employer Contributions	2.60% of pay

- 6.26 The reserving in Section 5 makes no allowance for these potential further improvements in longevity.

Changes to Profile of Liabilities

- 6.27 Future results could also be affected by changes to the profile of the liabilities. For example:
- A rise in average age of employees would lead to the future service rate rising under the Projected Age Method.
 - If the deficit is recovered by contributions expressed as a percentage of payroll, a fall in the payroll of an employer would lead to any deficits being recovered more slowly, and therefore a rise in future contributions. Deficit contributions may also be expressed as monetary amounts.
 - The insolvency of an employer whilst the funding of its liabilities is in deficit, or the departure of an employer without making good any funding shortfall, would lead to greater costs for one or more of the other employers.



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Variations between Other Assumptions and Experience

- 6.28 The other main assumptions to which the valuation results are sensitive, together with their associated risks, are described below.
- Pay increases: if increases in pensionable pay are higher than assumed, the funding position will deteriorate;
 - Pension increases: if pension increases are higher than assumed, the funding position will deteriorate;
 - Withdrawals: if fewer active members withdraw from pensionable service (with refunds of contributions or deferred pensions) than assumed, the funding position will deteriorate;
 - Ill-health retirements: if more members retire early on ill-health grounds, and/or retire at a younger age than assumed, the funding position will deteriorate unless the employer makes additional payments.
 - Changes in real interest rates which could have a material impact on the future service contribution rate.

Ongoing Risk Management

- 6.29 We would be delighted to work in partnership with the Administering Authority, both in regularly monitoring the funding position of the Fund and in reviewing the appropriateness of the Administering Authority's current risk management programme in today's circumstances.

Post Valuation Events

- 6.30 Post valuation events have not been taken into account in the assessment of the funding position. The positive investment return in excess of our valuation assumption is offset by falling bond yields.



7. Conclusions and Recommendations

- 7.1 We have carried out this valuation in accordance with the Administering Authority's Funding Strategy Statement. This statement is currently in draft; however we believe that no further amendments are envisaged which would affect this valuation report.

Whole Fund Position

- 7.2 The valuation reveals that the ongoing funding level of the Fund on 31 March 2004 was 68%. The shortfall of assets compared to the past service liabilities was £516m.
- 7.3 The average cost of accruing benefits payable by the employers, including administration expenses and lump sum death in service benefits, is 11.6% of pensionable pay.
- 7.4 The shortfall of assets over the past service liabilities requires a past service adjustment, to fund the deficit over a period of 20 years, of 8.9% of pensionable pay. The total contribution rate of 20.5% of pay is the Common Contribution Rate.

Employer Contribution Rates

- 7.5 Individual adjustments to the Common Contribution Rate, specific to each employer, or group of employers, shall be paid by the employers with effect from 1 April 2005.
- 7.6 To formally confirm these contribution rates, a Rates and Adjustment Certificate is included as Appendix G, detailing the minimum contribution rates and amounts for each employer after allowing for any individual adjustments. The Certificate details the contributions due in each of the financial years from 2005/06.
- 7.7 Further sums should be paid to the Fund by employers to meet the capital costs of any early retirements using the methods and factors issued by us from time to time.
- 7.8 In addition, payments should be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.

Risk Management

- 7.9 The valuation results are dependent on the valuation method and the actuarial assumptions (described in section 4). Section 6 discusses the key risks underlying the results and the assumptions to which the results are particularly sensitive and provides some illustration of how the Fund's funding position may change if the assumptions are not borne out in the future.



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- 7.10 Under the provisions of the Regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2007. In light of the uncertainty of future financial conditions we recommend that the financial position of the Fund is monitored by means of interim funding reviews in the period up to the next triennial valuation. This will give early warning of changes to funding positions and possible contribution rate changes.
- 7.11 We recommend that the Administering Authority reviews its investment strategy and ongoing risk management programme.

New Employers Joining the Fund

- 7.12 Any new employers or admission bodies joining the Fund should be referred to us for individual calculation as to the required level of contribution. They should also agree to pay the capital costs (as a one-off lump sum payment) of any early retirements based on our advice and using methods and factors issued by us from time to time, together with any additional contributions which may be required if their ill-health early retirement experience is worse than assumed.

Other Matters

- 7.13 Any employer who ceases to participate in the Fund should be referred to us in accordance with Regulation 78 of the Regulations.
- 7.14 Any bulk movement of scheme members:
- involving 10 or more scheme members being transferred from or to another LGPS fund, or
 - involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement
- should be referred to us to consider the impact on the Fund.
- 7.15 We would be pleased to answer any questions arising from our report.



Ronald Bowie FFA
22 March 2005



Bryan Chalmers FFA



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Appendix A - Benefit Structure

Summary of Non Discretionary Benefits Applicable to All Employers

Normal Retirement Age (NRA)	Age 65 or if earlier and a member immediately before 1 April 1998, age 60 or after age 60 on attaining 25 years of scheme membership.
Earliest Retirement Age	Service before 1 April 2005 - NRA or, if earlier, the rule of 85 date (when years of age plus years of scheme membership total to 85). Limitations on payment of benefits prior to age 60. Service after 1 April 2005 – NRA, with limitations on payment of benefits prior to age 65.
Members' Contributions	Officers - 6% of pensionable pay Manual Workers – 5% of pensionable pay (6% for post 31 March 1998 entrants with no continuing rights).
Pensionable Pay	All salary, wages, fees and other payments in respect of the employment, excluding non-contractual overtime and some other specified amounts. Some scheme members may be covered by special agreements.
Final Pay	The pensionable pay in the year up to the date of leaving the scheme. Alternative methods used in some cases, e.g. where there has been a break in service or a drop in pensionable pay.
Period of Scheme Membership	Total years and days of service during which a member of the Fund. Additional periods may be granted (e.g. transfers from other pension arrangements, augmentation).
Normal Retirement Benefits	Pension - 1/80th of final pay for each year of scheme membership. Lump Sum - 3/80th of final pay for each year of scheme membership.

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Early Retirement Benefits	On retirement after age 50 with employer's consent a pension and lump sum based on actual scheme membership completed may be paid, subject to reduction on account of early payment in some circumstances.
Ill-Health Benefits	In the event of premature retirement due to permanent ill-health or incapacity, an immediate pension and lump sum are paid based on actual scheme membership plus an enhancement period of scheme membership. The enhancement period is dependent on scheme membership at date of leaving. No reduction is applied due to early payment.
Pension Increases	All pensions in payment, deferred pensions and dependant's pensions other than benefits arising from the payment of additional voluntary contributions are increased annually. Pensions are increased partially under the Pensions (Increases) Act and partially in accordance with statutory requirements (depending on the proportions relating to pre 88 GMP, post 88 GMP and excess over GMP).
Death after Retirement	<p>A spouse's pension of one half of the member's pension (generally post 1st April 1972 service for widowers' pension) is payable; plus</p> <p>If the member dies within five years of retiring the balance of five years' pension payments will be paid in the form of a lump sum, plus</p> <p>Children's pensions may also be payable.</p>
Death in Service	<p>A lump sum of two times final pay, plus</p> <p>A spouse's pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death, plus</p> <p>Children's pensions may also be payable.</p>

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Leaving Service Options	<p>A deferred pension payable from Earliest Retirement Age (minimum of age 60); or</p> <p>A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or</p> <p>If the member has completed less than three months' pensionable service, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.</p>
State Pension Scheme	<p>The Fund is contracted-out of the State Earnings Related Pension Scheme (SERPS) and the benefits payable to each member are guaranteed to be not less than those required to enable the Fund to be contracted-out.</p>

Notes:

All benefits under the Fund are subject to limits laid down from time to time by the Inland Revenue.

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

Changes to Benefits Since 2001

- A1 There have been a number of changes to the LGPS since the previous valuation. However, prior to the valuation date of 31 March 2004, the only change which we feel could have a material effect on the results was the introduction of the discretionary provision to permit elected members in England in the LGPS for future service (with modifications to the benefit structure).
- A2 Since the valuation date, there have been further changes, including:
- (a) the reduction of the total periods of membership required for an entitlement to preserved LGPS benefits from two years to three months (rather than a transfer value or a refund of members' contributions);
 - (b) the requirement for elections to aggregate former scheme membership with current membership to be made within 12 months of becoming an active member (this option was previously open-ended);
 - (c) the provision to include elected members in England and Wales in the LGPS (with modifications to the scheme structure).

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With regard to (a), as we have not anticipated savings from the members who left with less than two years service and elected to take a refund of contributions, there is no effect on the valuation results from this change. Also for (b), we were unable to anticipate the cost of aggregation in the past, so this change has no effect on the valuation.

A3 In addition the Office of the Deputy Prime Minister has consulted on a number of amendments to the scheme which will be effective from 1 April 2005⁷ including:

- (a) the abolition of the rule of 85 in respect of service after 1 April 2005 for staff aged under 52; and
- (b) the increase of the earliest retirement age from age 50 to age 55.

We have allowed for the abolition of the Rule of 85 in our results in Section 5. For (b), we do not anticipate retirement before age 60, so this has no effect on the valuation.

A4 We have not taken account of any liabilities which may arise from any future requirement to amend the benefits payable from the Fund in respect of sex-equality legislation as it may apply to Guaranteed Minimum Pensions for men and women and the obligation to provide access to the scheme in respect of past service to part-time employees.

Discretionary Benefits

A5 The Regulations give employers a number of discretionary powers, including:

- (a) the awards of periods of augmentation under Regulation 52;
- (b) the payment of benefits on employer's consent prior to age 60 under Regulation 31;
- (c) the reduction or suspension of scheme member contributions on attaining 40 years' scheme membership under Regulation 15;
- (d) not applying the suspension of spouses' pensions on remarriage or cohabitation for members who retired before 1 April 1998.

A6 The effect on benefits or contributions as a result of the use of (a) to (c) above prior to 1 April 2004 has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers. Our assumptions do not anticipate any saving from the suspension of spouses' pension; to the extent that this continues, there will be a saving.

⁷ the Local Government Pension Scheme (Amendment) (No 2) Regulations 2004

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Appendix B - Membership Data

B1. A summary of the membership records on which this valuation is based, and on which the previous valuation was based, is as follows:

Employee Members

	Number 2001	Pensionable Pay (£000) 2001 Actual	Average Pensionable Pay (£) 2001 Actual
Male Officers	4,603	101,300	22,007
Female Officers	12,642	163,500	12,933
Male Manuals	821	10,400	12,667
Female Manuals	2,444	15,300	6,260
Total	20,510	290,500	14,164

	Number 2004	Pensionable Pay (£000) 2004		Average Pensionable Pay (£) 2004	
		FTE	Actual	FTE	Actual
Full Time members					
Pre April 1998 Joiners:					
Male Officers	1,829	59,974	59,974	32,790	32,790
Female Officers	2,263	57,406	57,406	25,367	25,367
Male Manuals	464	7,564	7,564	16,302	16,302
Female Manuals	133	2,064	2,064	15,516	15,516
Post April 1998 Joiners:					
Males	2,585	58,928	58,928	22,796	22,796
Females	3,574	74,883	74,883	20,952	20,952
Full Timers Total	10,848	260,817	260,817	24,043	24,043
Part Time Members					
Pre April 1998 Joiners:					
Male Officers	138	2,823	1,796	20,458	13,016
Female Officers	2,289	46,185	29,569	20,177	12,918
Male Manuals	79	1,072	564	13,569	7,144
Female Manuals	1,515	19,058	10,318	12,579	6,811
Post April 1998 Joiners:					
Males	600	9,796	5,453	16,327	9,088
Females	6,631	94,639	48,352	14,272	7,292
Part Timers Total	11,252	173,573	96,052	15,426	8,536
Grand Total	22,100	434,390	356,869	19,656	16,148

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Pensioners

B2. The table below shows the distribution of pensioners, split by type of pensioner.

	Number 2001	Annual Pension £(000) 2001	Average £ 2001
Male Pensioners	5,333	29,300	5,494
Female Pensioners	5,658	14,300	2,527
Widows	1,971	4,500	2,283
Widowers	149	200	1,342
Total	13,111	48,300	3,684

	Number 2004	Annual Pension £(000) 2004	Average £ 2004
Ill Health Retirals			
Male Officers	499	3,662	7,340
Female Officers	1,071	4,813	4,494
Male Manuals	543	1,836	3,382
Female Manuals	251	421	1,677
Normal/Early Retirements			
Male Officers	2,995	22,315	7,451
Female Officers	3,934	10,374	2,637
Male Manuals	1,421	3,372	2,373
Female Manuals	1,187	1,088	916
Dependants			
Widows	2,049	5,050	2,465
Widowers	209	247	1,180
Children	134	122	908
Total	14,293	53,300	3,729

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Deferred Pensioners

B3. The table below shows the distribution of deferred pensioners.

	Number		Annual Pensions £(000)		Average £	
	2004	2001	2004	2001	2004	2001
Males	4,362	3,497	9,677	7,600	2,218	2,173
Females	10,294	6,582	11,256	7,400	1,093	1,124
Total	14,656	10,079	20,933	15,000	1,428	1,488

Notes

- 1 - The numbers relate to the number of records and so will include members in receipt of or potentially in receipt of more than one benefit.
- 2 - Annual pensions are funded items only include pension increases up to and including the 2004 PI Order.

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Membership Split by Employer

Employer		Number of Members		
Code	Employer	Employees	Deferreds	Pensioners
995	APEX Housing Group Ltd	20	10	15
70	Ash Parish Council	7	4	6
88	Banstead Common Conservators	-	-	1
946	Binscombe Middle School	-	3	1
4	Bisley Parish Council	-	-	-
959	Blenheim High School	42	17	1
897	Bramley Parish Council	1	-	-
918	Brooklands College	128	52	59
947	Burpham Primary School	-	4	1
945	Burstow Primary School	-	2	3
956	Bushy Hill Junior School	-	-	1
807	Carillion Highway Maintnce Ltd	20	-	-
3	Claygate Parish Council	1	-	-
958	Cleves Junior School	-	1	-
902	Collingwood College	-	5	9
16	Cranleigh Parish Council	3	3	4
914	De Stafford School	20	6	2
927	East Surrey College	127	106	44
38	East Surrey Water Company	-	-	1
359	Elmbridge Borough Council	345	324	674
360	Elmbridge Housing Trust	40	19	9
361	Epsom & Ewell Borough Council	255	212	407
907	Epsom & Ewell High School	-	7	1
91	Epsom & Walton Downs Cons	6	3	3
920	Esher College	33	13	8
921	Farnham College	29	21	5
937	Farnham Town Council	7	3	-
5	Frensham Parish Council	1	-	-
949	Fullbrook School	31	13	4
900	Glyn A D T Tech. School	-	1	-



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Employer Code	Employer	Number of Members		
		Employees	Deferreds	Pensioners
922	Godalming College	72	17	6
29	Godalming Joint Burial Committee	-	1	4
679	Godalming Town Council	4	2	1
955	Godstone Village School	-	1	-
906	Gordon's School	11	1	5
348	Grove School	-	-	1
379	Guildford Borough Council	872	578	601
929	Guildford College of F E	235	209	71
901	Guildford County School	-	-	3
44	Hanover Housing Association	320	214	95
75	HASLEMERE SC/SHOTTERMILL	-	1	-
11	Haslemere Town Council	2	-	-
909	Hawkedale School	5	3	1
908	Heathside School	-	7	3
954	Hinchley Wood School	25	9	2
931	Holy Trinity School	-	1	-
18	Horley Town Council	3	4	6
92	J.S.Jeffries Swimming Pool	5	4	1
35	Lingfield HPL School	-	-	-
46	Meath Homes	-	-	1
14	Merton & Sutton Joint C B	6	7	13
13	Mid Southern Water	-	7	102
436	Mole Valley District Council	353	244	347
94	Moor House School	61	38	17
470	N SY JNT SEWRGE BRD (CLO	-	-	1
917	N.E.S.C.O.T	236	103	79
802	National Care Standards Commn (CSCI wef 1 April 2004)	19	4	-



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Employer		Number of Members		
Code	Employer	Employees	Deferreds	Pensioners
12	Nonsuch Park J.M.C	3	-	6
37	North Surrey Water Company	-	-	6
942	Northmead School	16	4	3
22	NUT PROB HM (RAINER)	-	-	2
932	Parkmead Infant School	-	2	1
891	Peerless Housing Group	52	22	13
518	Peper Harow Foundation	6	26	11
28	PEPER HAROW SCHOOL	-	10	7
930	Pewley Down School	-	1	-
953	Pippins School	7	1	-
481	Reigate & Banstead Borough Council	426	370	641
803	Reigate & Banstead Hsg Trust	71	7	10
924	Reigate College	53	12	4
93	Reigate Grammar School	34	9	10
808	Ringway Highway Services	5	-	-
9	Ripley Parish Council	-	-	-
986	Rosebery Housing Association	9	12	8
913	Rosebery School	-	10	1
494	Runnymede Borough Council	394	243	323
471	RYL PHILANTHROPIC SC	-	-	1
804	S W T Countryside Services Ltd	24	1	-
390	S.A.D.A.S	16	6	-
940	Salesian School	-	4	5
941	Sayes Court Junior School	-	1	-
89	SE Employers Assn	-	4	5
935	Send Parish Council	1	-	-
809	SERCO LTD	33	-	-



Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

Employer		Number of Members		
Code	Employer	Employees	Deferreds	Pensioners
939	Shalford Parish Council	-	-	1
938	Shere Parish Council	1	-	-
96	Sir William Perkins's School	17	2	6
936	South East Arts Board	1	47	3
76	South East Regional Arts	-	7	3
33	Southlands College	-	5	13
536	Spelthorne Borough Council	295	254	475
925	Spelthorne College	25	4	12
994	Spelthorne Housing Assn	-	5	7
943	St Thomas Of Canterbury	-	1	2
919	St. Paul's Catholic College	22	34	4
911	Stoneleigh First School	-	2	3
926	Strodes College	31	8	8
896	Surrey Assoc. for Visual Impairment	32	9	6
805	Surrey Community Dev Trust	2	-	-
45	Surrey County Council	12,919	8,640	7,375
547	Surrey Heath Borough Council	265	207	321
23	Surrey Magistrates Courts	133	128	134
966	Surrey Police (LGPS)	1,245	377	199
74	Surrey Police Committee m	-	115	242
20	Surrey Probation Board	235	66	13
19	Surrey Probation Committee	-	101	121
34	Surrey Valuation Tribunal	1	3	3
951	Tadworth Primary School	-	3	-
553	Tandridge District Council	295	233	299
916	Thamesmead School	-	2	-
912	The Beacon School	-	5	1



Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

Employer		Number of Members		
		Employees	Deferreds	Pensioners
Code	Employer			
980	The Princess Alice Hospice	6	-	-
95	The Royal Grammar School	30	16	15
347	The Royal School, Hindhead	-	1	-
974	The Surrey Inst of Art & Design	180	112	36
948	The Winston Churchill Sc	-	3	1
7	Tongham Parish Council	1	-	-
73	University Of Surrey	735	526	409
811	VT4S Ltd	218	-	-
761	W S C A D – now SIAD	-	7	10
950	Wallace Fields Junior School	-	5	3
584	Waverley Borough Council	445	331	434
806	Waverley Community Transport	7	-	-
10	West End Parish Council	1	-	-
21	West Surrey Water Board	-	-	4
952	Whyteleafe School	-	4	-
8	Windlesham Parish Council	4	-	-
895	Witley Parish Council	1	1	1
603	Woking Borough Council	423	354	465
928	Woking College	16	18	3
985	Woking Community Transport	18	6	6
604	Woking Meals Service(Closed)	-	1	3
957	Woodlea Primary School	-	1	-
6	Worplesdon Parish Council	1	-	-
933	Yattenden School	-	3	-



Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

Appendix C - Accounts and Asset Data

Assets at 31 March 2004

- C1. We were supplied with audited accounts for the years ended 31 March 2002, 31 March 2003 and 31 March 2004. The accounts for the year ended 31 March 2004 indicated that the market value for the Fund's assets as at the valuation date amounted to £1,105,555,000. Members' Additional Voluntary Contributions are excluded from this total and from the value placed on the Fund's liabilities.
- C2. A summary of the Fund's assets as at 31 March 2004 is as follows:

Market Value of Assets	as at 31 March 2004	
	£(000)	%
UK Equities	501,319	45%
UK Fixed Interest Gilts	74,731	7%
UK Corporate Bonds	81,887	7%
UK Index Linked Gilts	3,979	0%
Overseas Equities	333,743	30%
Overseas Bonds	16,238	1%
Property	64,409	6%
Cash	22,513	2%
Net Current Assets	6,737	1%
TOTAL (excluding AVCs)	1,105,555	100%

This excludes the assets in respect of money purchase AVCs.

Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

Revenue Accounts for the Intervaluation Period

Revenue Accounts	Year to	31 Mar 04	31 Mar 03	31 Mar 02	TOTAL
		£ (000)	£ (000)	£ (000)	£ (000)
EXPENDITURE	Retirement Pensions	51,893	50,071	48,500	150,465
	Retirement Lump Sums	7,141	6,781	6,555	20,477
	Death Benefits	1,267	769	586	2,621
	Transfer Values	8,640	8,621	6,370	23,631
	Refunds/CEPs	785	566	593	1,945
	Admin Expenses	975	962	1,030	2,967
	Investment Expenses	2,508	1,659	1,791	5,957
	Other Expenditure	-	-	-	-
TOTAL		73,209	69,429	65,426	208,063
INCOME	Employee Contributions	21,372	19,386	17,929	58,687
	Employer Contributions	70,592	74,204	69,131	213,928
	Transfer Values	10,394	11,651	9,644	31,689
	Investment Income	42,150	27,235	27,113	96,498
	Other Income	-	-	-	-
TOTAL		144,508	132,477	123,817	400,801
Fund Value					
Assets at Start of Year		844,897	1,022,002	988,881	988,881
Net Cashflow		71,299	63,048	58,391	192,738
Change in value		189,360	(240,153)	(25,270)	(76,064)
Assets at End of Year		1,105,555	844,897	1,022,002	1,105,555
Annual Returns					
Approx Rate of Return		26.6%	-20.6%	0.0%	0.2%
WMLA Median		23.4%	-19.5%	-0.9%	-0.5%

Fund insurance arrangements

C3. There are no insurance arrangements in place to provide benefits under the Regulations.

Appendix D - Valuation Method

- D1. Using our assumptions we estimate the payments which will be made from the Fund throughout the future lifetimes of existing employee members, deferred pensioners, pensioners and their dependants. We then calculate the amount of money which, if invested now, would be sufficient to make these payments in future, assuming that future investment returns are in line the discount rate. This amount is called "the present value" (or, more simply, "the value") of members' benefits. Separate calculations have been made in respect of benefits arising from service before the valuation date ("past service") and from service after the valuation date ("future service").
- D2. This process is carried out separately for each employer. Where differences between participant employers are not considered material, we may agree with the administering Authority to pool together their results.

Past service funding position

- D3. A comparison is made of the value of the assets held with the value of benefits for past service (but allowing for future pay and pension increases). If there is an excess then there is a past service surplus. If the converse applies there is a past service shortfall.

Future service contribution rate

Employers Admitting New Entrants

- D4. For employers who continue to admit new entrants we have adopted the projected unit method of valuation. This is summarised below.

Projected Unit Method

- D5. The first stage is to calculate the value of benefits (other than the lump sum death-in-service benefits) accruing to existing employee members over the year following the valuation date, by reference to projected pay as at the date of retirement or earlier exit. The value of members' ordinary contributions over the same period is then deducted and the net cost to the employer is calculated by expressing the value of the benefit accruing as a percentage of the members' pensionable pay over the year following the valuation date.
- D6. The cost of the lump sum death in service benefit is separately assessed as the amount which is likely to be paid out in an average year, based on the membership structure at the valuation date. Finally, an addition is made to cover the expenses of administration of the Fund.



Surrey Pension Fund

Actuarial Valuation as at 31 March 2004

- D7. The method described above is applied only to the Fund membership at the valuation date, and results in an increasing contribution rate over time if the assumptions adopted are unchanged and the average age of membership increases (for example, if there are no new entrants to the Fund). This is due to the fact that the cost of benefits typically increases with age. The opposite would also be true assuming the age profile of the scheme membership decreased. If the admission of new entrants is such that the membership profile remains broadly unchanged and the assumptions adopted are unchanged, then the contribution rate brought out at future valuations should be reasonably stable.

Employers not Admitting New Entrants

- D8. For employers who are no longer admitting new entrants we have adopted the *attained age* method of valuation. This is similar to the projected unit method described above, and produces the same past service position. The future service contribution rate calculation under the attained age method is summarised below.

Attained Age Method

- D9. The first stage is to calculate the value of the benefits (other than the lump sum death-in-service benefits) accruing to existing employee members over their anticipated period of future membership, by reference to projected pay as at the date of retirement or earlier exit. The value of members' ordinary contributions over the same period is then deducted and the net cost to the employer is calculated by expressing the value of the benefit accruing as a percentage of the members' pensionable pay over their remaining lives.
- D10. The cost of the lump sum death in service benefit is separately assessed as the amount which is likely to be paid out in an average year, based on the membership structure at the valuation date. Finally, an addition is made to cover the expenses of administration of the Fund.
- D11. If the actuarial assumptions adopted are unchanged, this funding method will, for pension benefits, give rise to a stable contribution rate in future years in respect of the existing membership. But this will only be so if certain surpluses or deficiencies revealed at subsequent actuarial valuations (i.e. those arising due to the fact that the cost of a year's accrual of pension increases with each year of age) are reflected in the contribution rate payable.

Overall result

- D12. Any past service surplus (or shortfall) that remains can be applied to reduce (or increase) the contribution rate actually payable by the employers over the period following the valuation date.

Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

Appendix E - Valuation Assumptions

Financial assumptions

E1. The key assumptions adopted for this valuation are summarised in the table below.

Financial Assumptions	Mar 2004	
	% p.a. Nominal	% p.a. Real
Discount Rate	6.3%	3.4%
Pay Increases	4.4%	1.5%
Price Inflation/Pension Increases	2.9%	-

Demographic assumptions

E2. The demographic assumptions represent our estimate of future experience in the Fund. They take account of expected future trends (for instance future improvements in life expectancy) as well past experience in the Fund and other Local Government client funds. Sample rates are shown in the following tables:

Age	Incidence per 1000 active members per annum									
	Male Officers & Post 98 Males					Female Officers & Post 98 Females				
	Death	Ill Health		Withdrawal		Death	Ill Health		Withdrawal	
		Retirement					Retirement			
	F/T	P/T	F/T	P/T		F/T	P/T	F/T	P/T	
20	0.25	-	-	164	245	0.14	-	-	155	232
25	0.25	-	-	109	162	0.14	0.5	0.4	105	156
30	0.30	0.5	0.4	77	115	0.21	0.8	0.6	88	131
35	0.35	0.6	0.5	60	90	0.35	1.6	1.2	76	113
40	0.60	1.1	0.8	48	72	0.56	2.1	1.6	63	94
45	1.00	2.6	1.9	40	59	0.91	3.4	2.5	52	77
50	1.60	7.0	5.3	30	46	1.33	6.6	4.9	40	59
55	2.50	14.4	10.8	27	40	1.75	17.3	13.0	30	45
60	4.50	28.8	21.6	16	24	2.24	-	-	14	21

Surrey Pension Fund
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Age	Incidence per 1000 active members per annum									
	Male Manuals					Female Manuals				
	Death	Ill Health Retirement		Withdrawal		Death	Ill Health Retirement		Withdrawal	
		F/T	P/T	F/T	P/T		F/T	P/T	F/T	P/T
20	0.25	-	-	164	164	0.14	-	-	156	156
25	0.25	2.6	2.6	109	109	0.14	2.1	2.1	105	105
30	0.3	4.2	4.2	77	77	0.21	2.9	2.9	88	88
35	0.35	6.2	6.2	60	60	0.35	4.2	4.2	76	76
40	0.60	8.6	8.6	48	48	0.56	5.8	5.8	63	63
45	1.00	12.5	12.5	40	40	0.91	7.4	7.4	52	52
50	1.60	18.2	18.2	30	30	1.33	10.9	10.9	40	40
55	2.50	29.4	29.4	27	27	1.75	20.5	20.5	30	30
60	4.50	56.0	56.0	16	16	2.24	-	-	14	14

Age	Promotional Salary Scales							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	FT	PT	FT	PT	FT	PT	FT	PT
20	100	100	100	100	100	100	100	100
25	100	100	100	100	100	100	100	100
30	123	113	100	100	115	105	100	100
35	138	123	100	100	126	110	100	100
40	148	128	100	100	136	115	100	100
45	158	128	100	100	136	115	100	100
50	168	128	100	100	136	115	100	100
55	168	128	100	100	136	115	100	100
60	168	128	100	100	136	115	100	100



Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

Other Assumptions

Age Retirements It is assumed that active members will retire at age 60 or when they would satisfy the *Rule of 85* if later subject to no later than age 65.

Pensioner Mortality Current Pensioners - PXA92 c2004
Prospective Pensioners - PXA92 c2004

The following age ratings are applied in each case:

	<u>Males</u>	<u>Females</u>
Officers (& post-98 joiners)	-2 years	-2 years
Manuals	+1 years	+0 years

Ill Health Retirement - as above, except rated up by 5 years (6 years for male officers and male post-98 joiners)

Proportions Married (including a loading for dependants benefits) Widows – one year older than female pensioners
A varying proportion of members will be married and entitled to a spouse's pension. Sample proportions are:

<u>Age</u>	<u>Males</u>	<u>Females</u>
40	62%	67%
60	80%	75%
80	72%	55%

Wife/Husband Age Difference Husbands are assumed to be 3 years older than their wives

Pensioner Mortality for additional reserve for continuing improvements in life expectancy Current Pensioners - PXA92 c2014
Prospective Pensioners - PXA92 c2030
Age ratings as above

Administration Expenses 0.5% of payroll

Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

Appendix F - Surplus Certificate

This Certificate is given to the Commissioners of Inland Revenue for the purposes of Paragraph 2(3) of Schedule 22 to the Income and Corporation Taxes Act 1988.

Name of Scheme: Surrey Pension Fund

Inland Revenue Reference Number: 49/6389

We hereby certify that:-

- (1) in our opinion as at 31 March 2004 the value of the assets of the scheme did not exceed 105 per cent of the value of the liabilities of the scheme.
- (2) the assets and liabilities to which paragraph (1) refers have been determined in accordance with principles and requirements prescribed by the Pension Scheme Surpluses (Valuation) Regulations 1987.



Signature

Date: 22 March 2005
Name: Ronald Bowie FFA
Qualification: Fellow of the Faculty of Actuaries
Firm: Hymans Robertson
Central Exchange
20 Waterloo Street
Glasgow
G2 6DB



Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

Appendix G - Rates and Adjustments Certificate

In accordance with Regulation 77 of the Local Government Pension Scheme Regulations 1997, as amended, we have made an assessment of the contributions which should be paid to the Fund by the employing authorities as from 1 April 2005 in order to maintain the solvency of the Fund.

The required contribution rates are set out in the attached statement.

Signature



Date: 22 March 2005
Name: Ronald Bowie FFA
Qualification: Fellow of the Faculty of Actuaries
Firm: Hymans Robertson
Central Exchange
20 Waterloo Street
Glasgow
G2 6DB

Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

STATEMENT TO THE RATES AND ADJUSTMENTS CERTIFICATE

The Common Rate of Contribution payable by each participating body under Regulation 77(3)(a) for the period 1 April 2005 to 31 March 2008 is 20.5% of payroll (342% of employee contributions).

Individual Adjustments are required under Regulation 77 for the period 1 April 2005 to 31 March 2008 resulting in minimum total contribution rates expressed as a percentage of pensionable pay and/or a monetary amount. These are set out below.

Employer Code	Employer Scheduled bodies	Percentage of Payroll	Percentage of Members' Contributions	Additional Monetary Amount		
		01-Apr-05 to 31-Mar-08	01-Apr-05 to 31-Mar-08	01-Apr-05 to 31-Mar-06	01-Apr-06 to 31-Mar-07	01-Apr-07 to 31-Mar-08
				(£000).	(£000).	(£000).
359	Elmbridge Borough Council	11.7	195	493	677	861
361	Epsom & Ewell Borough Council	12.5	208	584	584	584
379	Guildford Borough Council	11.3	188	1,580	1,606	1,632
436	Mole Valley District Council	12.1	201	388	519	650
481	Reigate & Banstead Borough Council	12.0	200	794	1,031	1,267
494	Runnymede Borough Council	12.5	208	0	220.5	441
536	Spelthorne Borough Council	12.3	205	0	301	602
45	Surrey County Council	11.6	193	16,720	16,720	16,720
547	Surrey Heath Borough Council	12.8	213	0	248	495
966	Surrey Police Authority	10.1	168	931	931	931
20	Surrey Probation Board	11.1	185	254	254	254
553	Tandridge District Council	12.6	210	962	962	962
584	Waverley Borough Council	13.0	216	964	964	964
603	Woking Borough Council	11.6	193	1,470	1,470	1,470

Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

Employer	Percentage of Payroll 01-Apr-05 to 31-Mar-08	Percentage of Members' Contributions 01-Apr-05 to 31-Mar-08	Additional Monetary Amount 01-Apr-05 to 31-Mar-08 £pa
Employer Code Scheduled Bodies (continued)			
70 Ash Parish Council	14.6	243	20,723
897 Bramley Parish Council	14.6	243	476
3 Claygate Parish Council	12.0	200	41
16 Cranleigh Parish Council	14.6	243	10,277
91 Epsom & Walton Downs Cons	14.6	243	16,846
937 Farnham Town Council	14.6	243	9,661
5 Frensham Parish Council	12.0	200	145
679 Godalming Town Council	14.6	243	8,870
11 Haslemere Town Council	12.0	200	38
18 Horley Town Council	14.6	243	7,786
14 Merton & Sutton Joint C B	14.6	243	15,517
12 Nonsuch Park J.M.C	14.6	243	17,974
935 Send Parish Council	14.6	243	723
938 Shere Parish Council	14.6	243	1,749
34 Surrey Valuation Tribunal	7.9	132	4,000
7 Tongham Parish Council	14.6	243	161
10 West End Parish Council	12.0	200	36
8 Windlesham Parish Council	14.6	243	3,095
895 Witley Parish Council	14.6	243	1,952
6 Worplesdon Parish Council	12.0	200	247

Surrey Pension Fund
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Employer Code	Employer	Further Education Establishments	Percentage of Payroll	Percentage of members' contributions
			01-Apr-05 to 31-Mar-08	01-Apr-05 to 31-Mar-08
918	Brooklands College		17.0	283
927	East Surrey College		17.1	285
920	Esher College		14.1	235
921	Farnham College		14.1	235
922	Godalming College		14.1	235
929	Guildford College of F E		16.5	275
917	N.E.S.C.O.T		17.0	283
924	Reigate College		14.1	235
925	Spelthorne College		14.1	235
926	Strodes College		14.1	235
974	The Surrey Inst of Art & Design		14.8	247
928	Woking College		14.1	235
Admitted Bodies				
995	APEX Housing Group Ltd		35.6	593
807	Carillion Highway Maintnce Ltd		15.5	258
360	Elmbridge Housing Trust		14.3	238
44	Hanover Housing Association		16.4	273
92	J.S.Jeffries Swimming Pool		23.0	383
94	Moor House School		15.8	263
802	National Care Standards Commn (CSCI wef 1 April 2004)		17.3	288
891	Peerless Housing Group		23.4	390
518	Peper Harow Foundation		53.4	890
803	Reigate & Banstead Hsg Trust		15.6	260
93	Reigate Grammar School		23.0	383
808	Ringway Highway Services		16.6	277
986	Rosebery Housing Association		23.0	383
804	S W T Countryside Services Ltd		13.7	228
390	S.A.D.A.S		11.6	193
809	SERCO LTD		9.9	165
96	Sir William Perkins's School		23.0	383
896	Surrey Assoc. for Visual Impairment		23.0	383
805	Surrey Community Dev Trust		12.2	203
980	The Princess Alice Hospice		23.0	383
95	The Royal Grammar School		23.0	383
73	University Of Surrey		17.9	298
811	VT Four S Ltd		11.6	193
806	Waverley Community Transport		11.4	190
985	Woking Community Transport		23.0	383



Surrey Pension Fund
Actuarial Valuation as at 31 March 2004

Employer	Percentage 01-Apr-05	Percentage of 01-Apr-05
	to 31-Mar-08	to 31-Mar-08
Employer No Actives		
88 Banstead Common Conservators	-	-
38 East Surrey Water Company	-	-
29 Godalming Joint Burial Committee	-	-
75 Haslemere SC/Shottermill	-	-
35 Lingfield HPL School	-	-
46 Meath Homes	-	-
13 Mid Southern Water	-	-
37 North Surrey Water Company	-	-
22 Nut Prob HM (Rainer)	-	-
28 Peper Harow School	-	-
471 Ryl Philanthropic SC	-	-
89 SE Employers Assn	-	-
939 Shalford Parish Council	-	-
76 South East Regional Arts	-	-
33 Southlands College	-	-
994 Spelthorne Housing Assn	-	-
74 Surrey Police Committee m	-	-
347 The Royal School, Hindhead	-	-
761 W S C A D – now SIAD	-	-
21 West Surrey Water Board	-	-
604 Woking Meals Service(Closed)	-	-

Notes

Please note that the monetary amounts are stated at 2005/06 values, so for 2006/07 onwards will need to be uplifted by a minimum increase of 4.4% per annum, to reflect expected future pay and price inflation. Surrey Pension Fund will write to individual employers year on year to confirm the monetary amounts then due.

Contributions expressed as a percentage should be paid into Surrey Pension Fund at a frequency in accordance with the requirements of the Regulations.

Further sums should be paid to the Fund to meet the costs of any early retirements using methods and factors issued by me from time to time.

Further sums should be paid to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those included within our assumptions.

The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by ourselves.