Hewitt Associates Limited
40 Queen Square
Bristol BS1 4QP
Tel +44 (0) 117 941 6200 Fax +44 (0) 117 929 8060
www.hewitt.com/uk

Powys County Council Pension Fund
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Prepared for: Powys County Council
Prepared by: Chris Archer FIA

Approximate funding update for Powys County Council Pension Fund 31 December 2009

Introduction

This funding update for the Powys County Council Pension Fund ("the Fund") shows the estimated change in the financial position of the Fund since 31 March 2007. Estimates are shown using two different sets of valuation assumptions. This document must be read in conjunction with the limitations set out in the Appendix.

Funding position

The funding ratios for the Fund as at 31 March 2007, and the estimated funding ratios as at 31 December 2009 relative to the funding targets indicated, are as follows:

	Value at 31 March 2007		Estimated value at 31 December 2009	
	Ongoing funding target	Low risk solvency measure	Ongoing funding target	Low risk solvency measure
Surplus/(Deficit) (£M)	(105)	(182)	(229)	(344)
Funding ratio	**73%**	**61%**	**57%**	**47%**

Aggregate Employer Contribution rates

The aggregate employer contribution rate to the Fund as at 31 March 2007 and an estimate of that contribution rate, if recalculated based on market conditions as at 31 December 2009, are as follows. Please note that individual employer contribution rates could be very different.

Please note that the impact of any assumed short term additional investment returns has been kept at the level indicated in our 2007 valuation. This item can vary over time in a counter intuitive manner. We have kept it constant for clarity.

	Value at 31 March 2007 % pensionable pay	Estimated value at 31 December 2009 % pensionable pay
Employer future service rate	15.5	19.3
Adjustment for surplus / deficit	6.8	12.2
Assumed short term additional investment returns (2007 impact)	(1.3)	(1.3)
Total employer contribution rate	21.0	30.2

Changes in Economic Conditions

From 31 March 2007 to 31 December 2009 the return on UK equities (as measured by the FTSE All Share Total Return Index) was -6.7%.

The yield available on index-linked gilts (as measured by the annualised gross redemption yield on the FTSE Index-linked Gilts (over 5 years with 5% inflation) Index) fell by 0.7% pa over the period.

The yield available on fixed interest gilts (as measured by the annualised gross redemption yield on the FTSE Fixed Interest Gilts (20 year, all stocks) Index) fell by 0.2% pa over the period.

As a result of these changes the estimated Ongoing funding ratio has significantly reduced, and the estimated aggregate employer contribution rate has significantly increased.

Financial Assumptions

The changes in the key assumptions, taken into account in rolling forward the liability values, are:

	31 March 2007		31 December 2009	
	Ongoing funding target	Low risk solvency measure	Ongoing funding target	Low risk solvency measure
Discount rate In service Left service	 6.5% 5.5%	 4.7% 4.7%	 6.3% 5.3%	 4.5% 4.5%
Salary growth	4.7%	4.7%	5.3%	5.3%
Pension increases	3.2%	3.2%	3.8%	3.8%
Recovery period	25 years from 1 April 2008 (26 years)		26 years from 1 January 2010	

The “Low risk” liabilities are estimated by adjusting the Ongoing funding liabilities to values based on a discount rate set by reference to an index yield on long dated gilts. Other assumptions are as used to evaluate the Ongoing liabilities.

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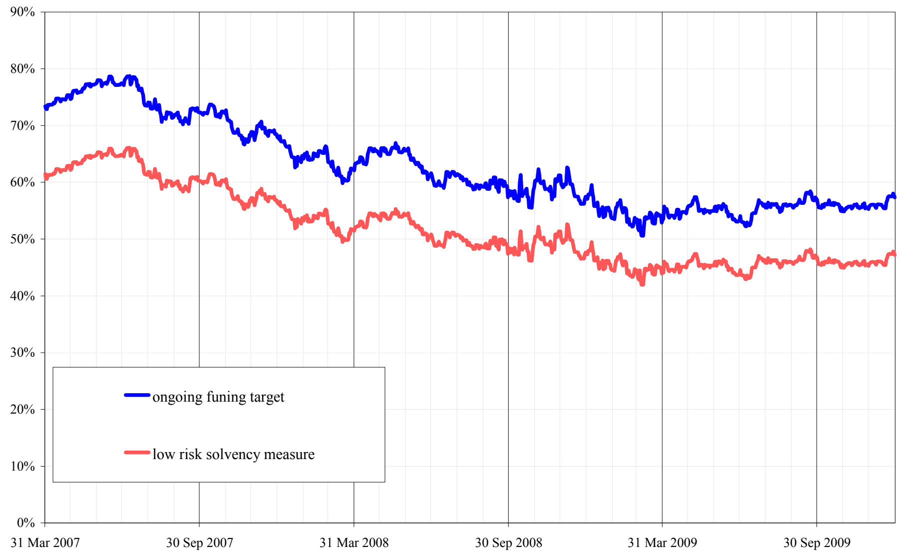
This update is for the Administering Authority and is for information only. The update has been prepared using methods and assumptions consistent with those in the report on the 31 March 2007 formal actuarial valuation (see Appendix). However, it is not formal actuarial advice and does not comply with Actuarial Guidance Note GN9: Funding Defined Benefits – Presentation of Actuarial Advice (v8.1). If you intend to rely upon this update when making any decision about scheme funding, please let us know so that we can provide advice that complies with GN9 and our professional duty as actuarial advisor.

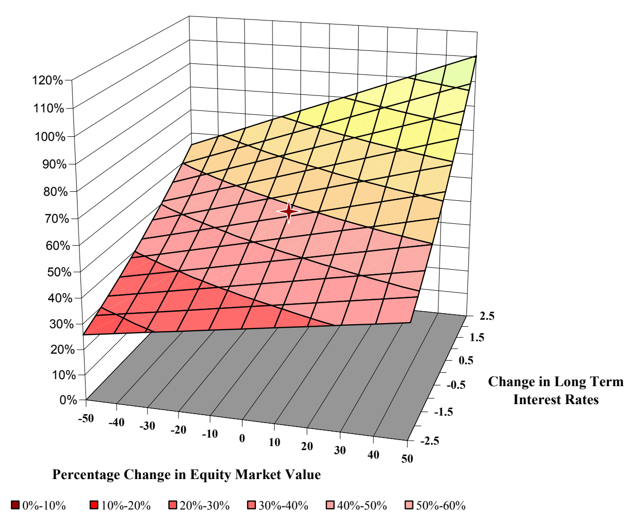
Graph of funding ratios

The graph below shows the progress of the Fund's Ongoing and "Low risk" funding ratios since 31 March 2007.



Sensitivity of ongoing funding ratio

The chart below shows the sensitivity of the Ongoing funding ratio to changes in equity values and/or long term interest rates, as at the effective date of this update.



Limitations

Please refer to the Appendix for important information regarding the limitations of this update.

Appendix

Method and Limitations

The figures and graphs in this update are estimates based on the financial position of the Fund as at 31 March 2007. That position has been rolled forward in an approximate way taking account of the interaction of the Fund's assets and liabilities and changes in the economic factors and asset values that affect them.

These estimates are approximate, and are intended to illustrate the broad relative movements in assets and liabilities.

The assets are estimated by rolling forward, from 31 March 2007, the sums invested in each asset class, in line with index returns appropriate to each class. Values are recalibrated for known investment returns achieved by the Fund. Approximate allowance is also made for contributions received and benefits/expenses paid. Our allowance for economic factors is based on changes in yields on quoted indices for long-dated gilts.

The Ongoing funding liabilities are estimated by rolling them forward from 31 March 2007, in an approximate manner, allowing for the impact of changes in gilt yields on the financial assumptions used to calculate them. The method also allows for interest accruing on the liabilities, the additional benefits accruing to active members, benefits paid to pensioners and, to the extent available, the actual levels of pension increases and general salary increases that have occurred.

The roll forward is based on the assumption that the actual demographic experience of the Fund since 31 March 2007 has been in line with the assumptions made at the time.

The roll forward does not take account of factors such as changes in the age/sex composition of the Fund's membership nor for any significant changes to the membership data that may have occurred, for instance as a result of major events such as redundancy exercises or bulk transfers in to or out of the Fund.

The contribution rate required to meet the estimated deficiency is calculated assuming that the total payroll of the employers contributing to the Fund has increased at 1.5% per annum above price inflation since the valuation date. This is consistent with our valuation assumption. If the payroll has increased at a lower rate, then the contribution would be higher than indicated. Equally if the payroll has increased at a higher rate then the contribution would be lower than indicated.

The "Low risk" liabilities are estimated by adjusting the Ongoing funding liabilities for the reduced discount rate. The adjustment uses average values for key data items for each membership category (active / deferred / pensioner). This approach is therefore also approximate.

As the period of the roll forward increases, the accuracy of the estimated funding position may decrease.

You should refer to the valuation report dated 31 March 2008 for further information about the approach to funding, the calculation of the funding measures and the derivation of assumptions. This document is consistent with the advice in the valuation report.