Haringey Council

Agenda item:

Pensions Committee	**On 18/06/09**

Report Title. **Actuarial funding update as at 31 March 2009**	
Report of **The Chief Financial Officer** Signed :	
Contact Officer : **John Hardy – Corporate Finance** **Telephone 020 8489 3726**	
Wards(s) affected: **All**	Report for: Noting

1. Purpose of the report

1.1. To report the results of the interim actuarial funding update as at 31 March 2009.

2. Introduction by Cabinet Member

2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1. Not applicable.

4. Recommendation

4.1 That the report be noted.

5. Reason for recommendation

5.1. This report is for noting.

6. Other options considered

6.1. Not applicable.

7. Summary

7.1. The appended report of the actuary sets out the interim actuarial funding update as at 31 March 2009.

7.2. The level of funding as a whole as at 31 March 2009 is estimated to be 53 per cent.

7.3. The actuary does not propose to revise the minimum level of employer contribution rates as a result of this actuarial funding update.

7.4. The Council's next triennial actuarial valuation is as at 31 March 2010 with the results due by late 2010 or early 2011.

8. Head of Legal Services Comments

8.1 The Head of Legal Services has been consulted on the content of this report. The consideration of this report falls within the duty of an administering authority to obtain proper advice at reasonable intervals concerning its investments and the adequacy of the fund to meet its commitments. Further, the Head of Legal Services confirms that the position stated at paragraph 15.6 of the report reflects the statutory regime imposed by Part 4 of the Local Government Pension Scheme (Administration) Regulations 2008.

9. Equalities & Community Cohesion Comments

9.1. There are no equalities issues arising from this report.

10. Consultation

10.1. Not applicable.

11. Service Financial Comments

11.1. The need for any changes to the employer's contribution rate will be fully assessed as part of the triennial valuation as at 31 March 2010. Results will be available by late 2010 or early 2011. Budgetary implications will be considered as part of the Financial Planning process.

12. Use of appendices /Tables and photographs

12.1. Appendix 1 - Report of Actuary.

13. Local Government (Access to Information) Act 1985

Report of Actuary.

14. Background

14.1 The Fund is independently valued every three years by a firm of actuaries to assess the adequacy of the Fund's investments and contributions to meet its liabilities. The last triennial valuation was completed as at 31 March 2007. The next triennial valuation will be as at 31 March 2010 with the results due by late 2010 or early 2011. In addition interim valuations are undertaken annually.

14.2 The appended report by the Council's Actuary sets out the interim actuarial funding update as at 31 March 2009.

15. Actuarial valuation

15.1 The appended report of the actuary includes a results schedule and a commentary on the results.

15.2 The funding level as at 31 March 2007 was 77.7 per cent and this has reduced to 53 per cent as at 31 March 2009. The funding level has improved to 58 per cent as at 8 May 2009.

15.3 As a result of this valuation the common employers contribution rate has increased from 21.5 per cent to 33 per cent from 31 March 2007 to 31 March 2009. This contribution rate has reduced to 31 per cent as at 8 May 2009. This represents an average contribution rate for all employers in the Fund.

15.4 The above deterioration is mainly related to the general and large scale fall in the value of stocks and shares.

15.5 The Actuary advises that there is no power in the LGPS regulations to increase employer's contributions between triennial valuations due to market conditions (other than for admission bodies whose admission agreement is to end soon).

15.6 The approved contribution rate for the Haringey part of the Fund as at 31 March 2007 was 22.9 per cent compared with 33 per cent as at 31 March 2009. The need for any changes to the contribution rate will be fully assessed as part of the triennial valuation as at 31 March 2010. Results will be available by early 2011.

HYMANS ROBERTSON

NAVIGATOR

Version 2.34

Funding projection as at 8 May 2009
London Borough of Haringey Pension Fund

Prepared by:

Bryan T Chalmers FFA
for and on behalf of Hymans Robertson LLP

13 May 2009

> **Important note!**
> **Accuracy of funding projections**
> In the current extreme market conditions, the results presented in this report may have diverged from the underlying position by more than would normally be the case.
>
> The only way to accurately assess the position is to undertake a full actuarial valuation. You should therefore be aware that there may be a significant difference between the results presented here and those that would be obtained from a full actuarial valuation.
>
> Furthermore, the projected funding position may be particularly volatile at present, reflecting current circumstances.

Hymans Robertson LLP
One London Wall London EC2Y 5EA **T** 020 7082 6000 **F** 020 7082 6082
20 Waterloo Street Glasgow G2 6DB **T** 0141 566 7777 **F** 0141 566 7788
120 Edmund Street Birmingham B3 2ED **T** 0121 210 4333 **F** 0121 210 4343

PUBLIC | SECTOR

APPENDIX

Contents:

EXECUTIVE SUMMARY

Following the triennial actuarial valuation for the London Borough of Haringey Pension Fund ("the Fund") as at 31 March 2007 we have been instructed to provide annual funding updates. This report represents the second of these updates. Our starting point is the most recent formal valuation of the Fund as at 31 March 2007. The funding level (i.e. the ratio of assets to liabilities) at 31 March 2007, on the ongoing valuation basis was 78%. The employers' common contribution rate was 21.5% of pay.

Since the valuation, the returns achieved by the Fund's assets have fallen short of the valuation assumptions, due primarily to poor equity market performance. The funding level at 31 March 2009, on the ongoing basis, is estimated to be 53%. The common contribution rate is 33% of pay as at 31 March 2009. This is significantly higher than the rate certified at the 2007 valuation mainly due to the fall in the funding level. Since 31 March 2009, asset values and hence the funding level have recovered slightly to 58% at 8 May 2009 resulting in a common contribution rate of just under 31% of payroll. Whilst the financial position is significantly worse than it was at the last valuation no immediate changes to employer contributions are planned. It should be noted that there is no power in the LGPS regulations to increase employer contributions between valuations due to market conditions (other than for admission bodies whose admission agreement is to end soon). Even if there were, we would caution against amending long-term funding plans on the basis of short-term market performance. Whilst we believe that it is important to adopt a transparent, market-based approach to the measurement of the financial health of the Fund, a more pragmatic approach to setting employer contributions is required which reflects the nature and security of the Fund, as well as recognising differences between employers. I look forward to discussing this report and some of our ideas for the 2010 valuation at the Pensions Committee meeting on 18 June 2009, but I am happy to discuss this before then if you wish.

The report also includes a summary of the reasons for the change in funding level, the funding level on a gilts basis (i.e. no allowance for asset outperformance above gilt yields) and an illustration of the sensitivity of the funding level to changes in general market conditions.

This report does not allow for the individual circumstances of individual employers. The results for individual employers can vary and be quite different to the Fund as a whole depending on their membership, experience and the profile of their liabilities. Differences in the relationship between the ratio of accrued liabilities and the payroll can also have a significant influence on changes in employer contributions.

Finally, none of the figures in this report allow for membership movements since 31 March 2007.

Bryan T Chalmers FFA

ESTIMATED PROJECTION OF FUNDING POSITION AS AT 8 MAY 2009

Summary of funding position:

The projection of the funding level since the latest formal actuarial valuation as at 31 March 2007 is shown below.

Date	31 Mar 2007 £m	31 Mar 2009 £m	8 May 2009 £m
Liabilities - Ongoing Basis			
Assets	620	499	546
Liabilities	798	948	943
Surplus/(Deficit)	(178)	(449)	(397)
Funding Level	78%	53%	58%

Key assumptions and financial indicators:

Date Discount rate	31 Mar 2007 p.a.	31 Mar 2009 p.a.	8 May 2009 p.a.
- Pre-ret.			
Nominal	6.1%	5.8%	6.1%
Real	2.9%	2.7%	2.7%
- Post-ret.			
Nominal	6.1%	5.8%	6.1%
Real	2.9%	2.7%	2.7%
Sal. escalation	4.7%	4.6%	4.8%
(A): FIGs	4.5%	4.2%	4.5%
(B): ILGs	1.2%	1.0%	1.1%
(C): Inflation	3.2%	3.1%	3.3%
(D): AA Corp.	5.4%	6.7%	6.7%
(E): AA Spread	0.9%	2.5%	2.2%
(F): AOA	1.6%	1.6%	1.6%
FTSE All Share	3,283.2	1,984.2	2,281.5
FTSE 100	6,308.0	3,926.1	4,462.1

(A) : Annualised UK govt. fixed interest gilt yield (over 15 years)

(B) : Annualised UK govt. index-linked gilt yield (over 15 years, 3% inflation)

(C) : Implied inflation derived from (1+(A))/(1+(B))-1

(D) : Annualised iBoxx AA rated corporate bonds (over 15 years)

(E) : Credit risk spreads derived from (D) - (A)

(F) : Asset outperformance assumption pre-retirement assumed to be constant throughout the projection period and expressed relative to fixed interest gilt yields

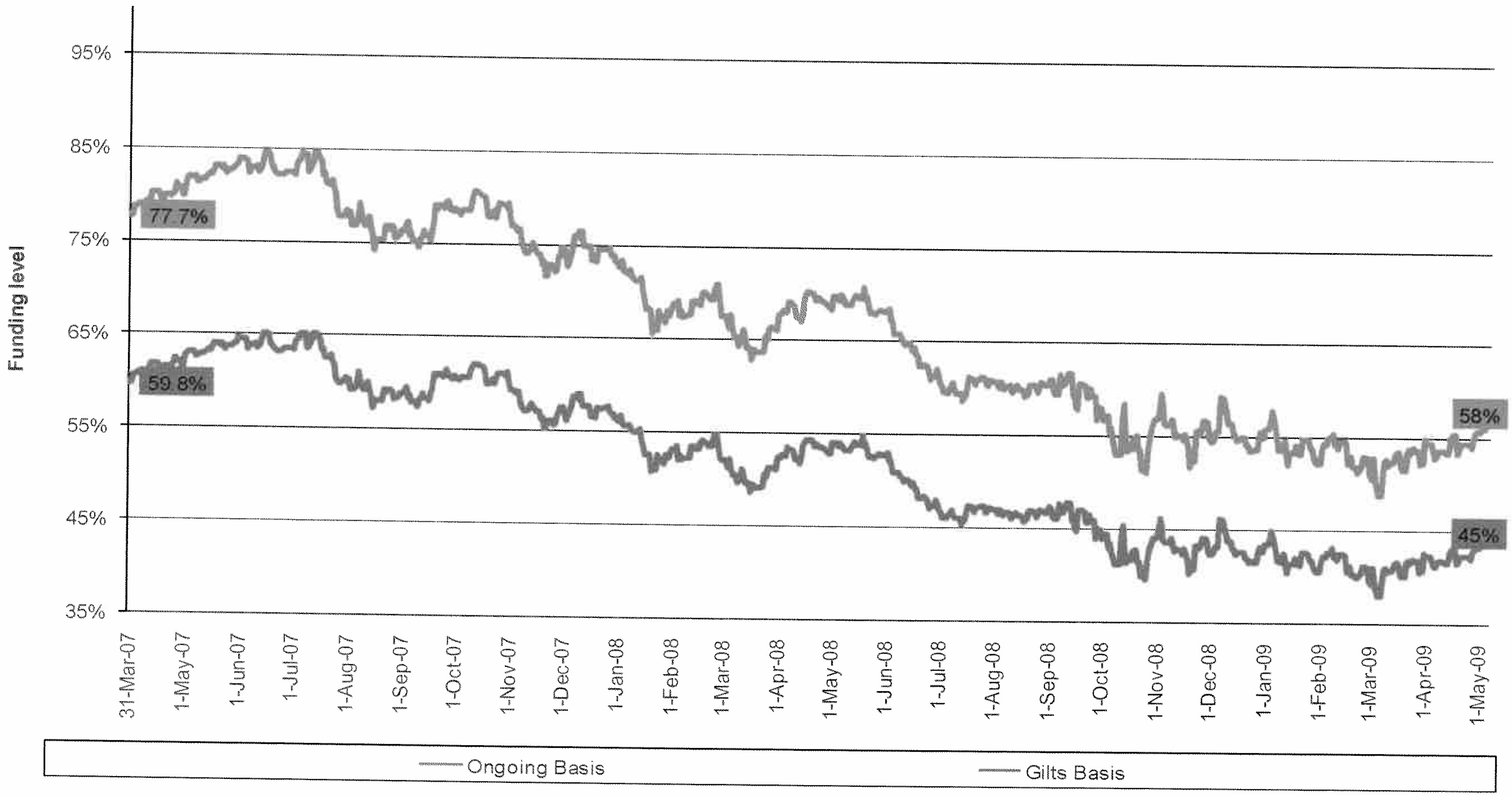
ESTIMATED FINANCIAL POSITION ON ALTERNATIVE BASES

Date Liabilities - Gilts Basis	31 Mar 2007 £m	31 Mar 2009 £m	8 May 2009 £m
Assets	620	499	546
Liabilities	1,038	1,222	1,214
Surplus/(Deficit)	(418)	(723)	(668)
Funding Level	60%	41%	45%

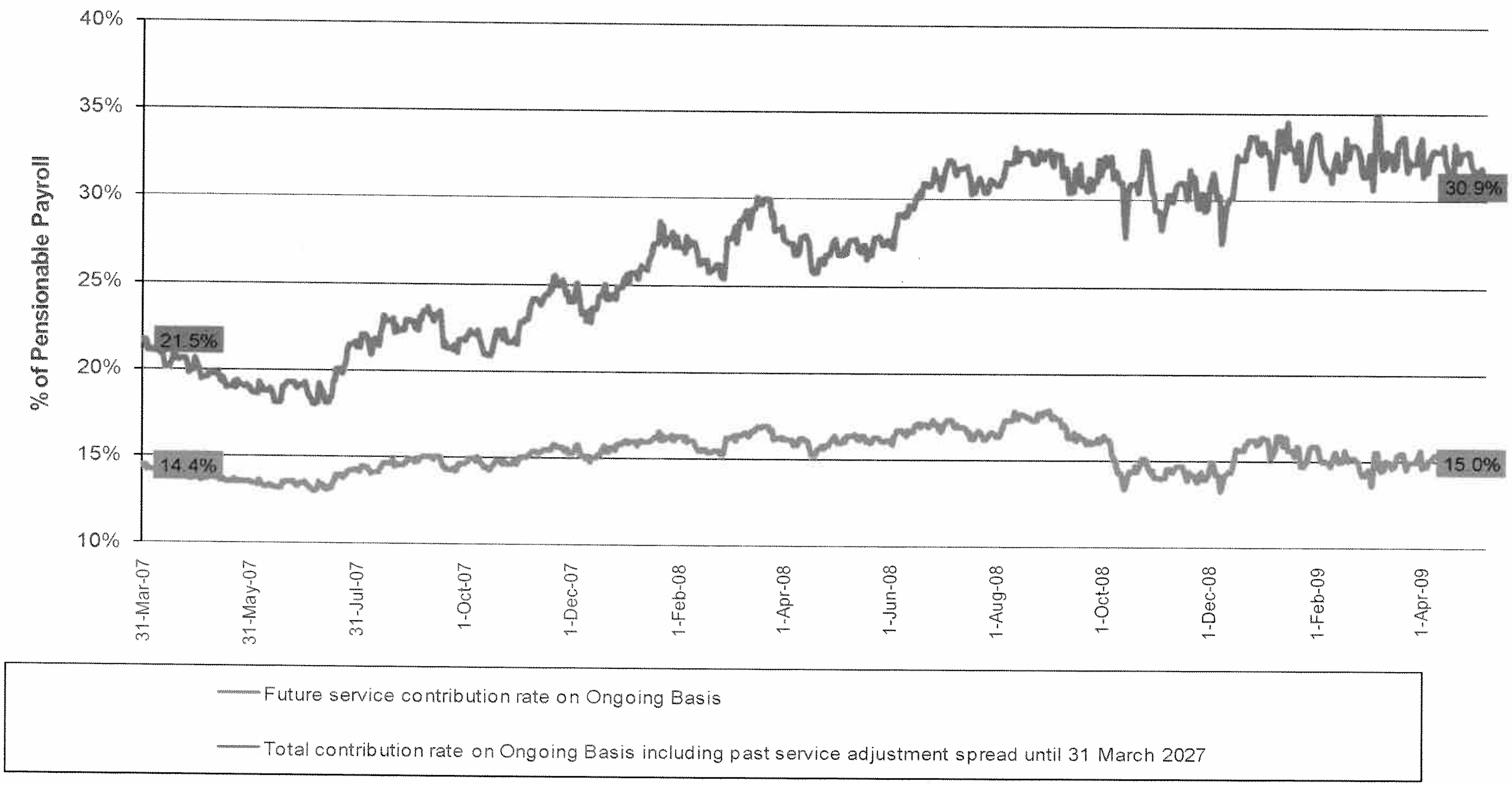
Key assumptions:

Discount rate	p.a.	p.a.	p.a.
- Pre-ret.			
Nominal	4.5%	4.2%	4.5%
Real	1.3%	1.1%	1.1%
- Post-ret.			
Nominal	4.5%	4.2%	4.5%
Real	1.3%	1.1%	1.1%
Sal. escalation	4.7%	4.6%	4.8%

ESTIMATED PROJECTION OF FUNDING LEVEL FROM 31 MARCH 2007 TO 8 MAY 2009



ESTIMATED PROGRESSION OF EMPLOYER'S CONTRIBUTION RATE FROM 31 MARCH 2007 TO 8 MAY 2009



ATTRIBUTION ANALYSIS

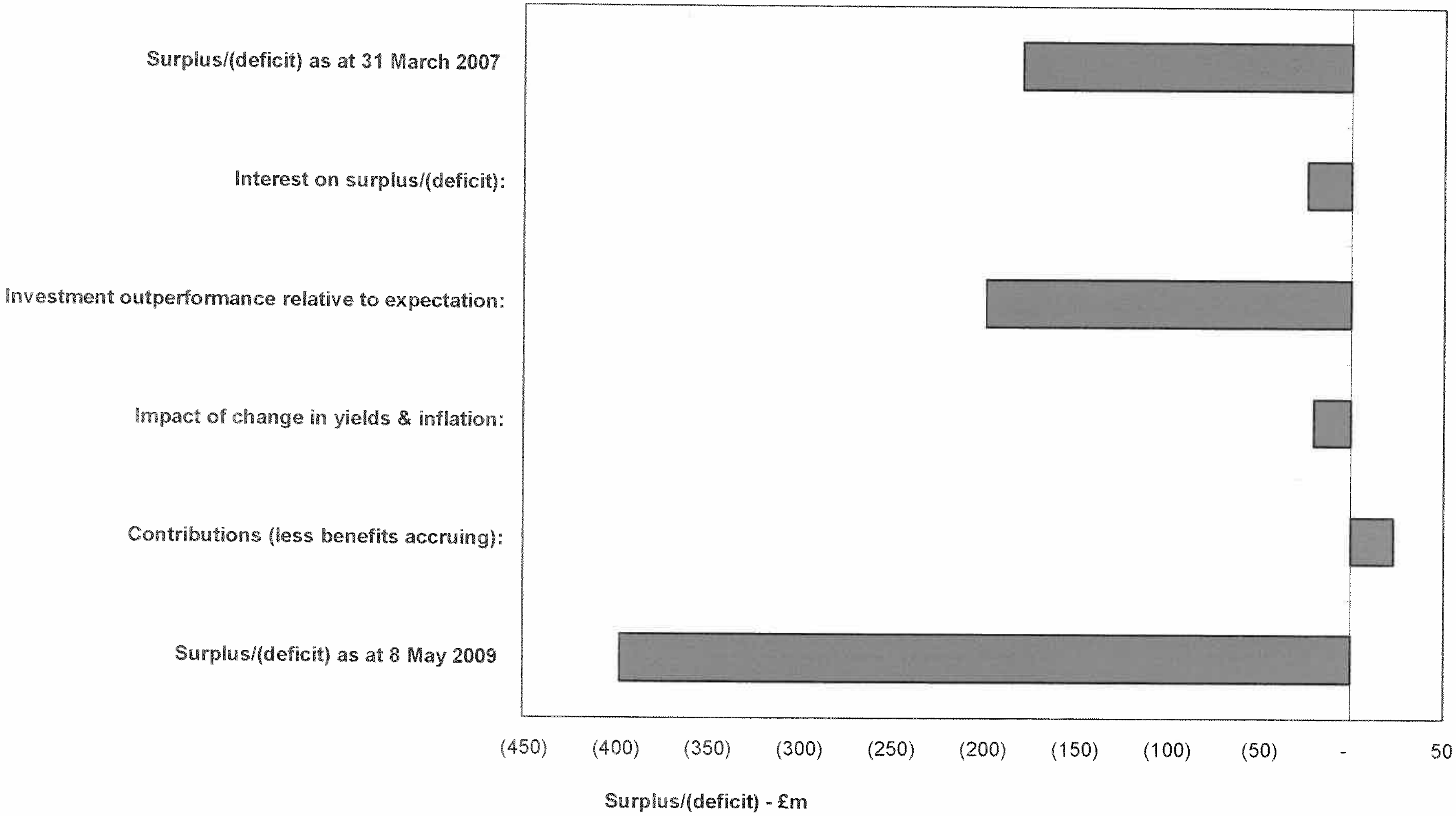
	£m	
Asset value as at 31 March 2007		**620**
Contributions paid in:	87	
Benefit payments:	(47)	
Investment return on benchmark index:	(72)	
Investment outperformance relative to benchmark:	(43)	
Asset value as at 8 May 2009		**546**

	£m	
Liability value as at 31 March 2007		**798**
Cost of benefits accruing:	64	
Interest on liabilities:	107	
Impact of change in yields & inflation:	20	
Benefit payments:	(47)	
Liability value as at 8 May 2009		**943**

	£m	
Surplus/(deficit) as at 31 March 2007		(178)
Interest on surplus/(deficit):	(24)	
Investment outperformance relative to expectation:	(198)	
Impact of change in yields & inflation:	(20)	
Contributions (less benefits accruing):	23	
Surplus/(deficit) as at 8 May 2009		(397)

Please note that figures in this schedule and the chart on the next page are estimates only.

ATTRIBUTION ANALYSIS



SENSITIVITY MATRIX

Fixed Interest Gilt, semi-annual yield (% p.a.)	3,750	4,000	4,250	4,462	4,750	5,000	5,250
4.90	55% (386.1)	58% (365.2)	60% (344.3)	62% (326.6)	65% (302.6)	67% (281.7)	70% (260.8)
4.75	54% (408.1)	56% (387.2)	59% (366.3)	61% (348.6)	64% (324.6)	66% (303.7)	68% (282.8)
4.60	53% (430.6)	55% (409.7)	57% (388.8)	59% (371.1)	62% (347.1)	64% (326.2)	67% (305.3)
4.43	52% (456.7)	54% (435.8)	56% (414.9)	58% (397.2)	60% (373.2)	63% (352.3)	65% (331.4)
4.30	51% (477.1)	53% (456.2)	55% (435.3)	57% (417.6)	59% (393.5)	61% (372.7)	64% (351.8)
4.15	49% (501.0)	52% (480.2)	54% (459.3)	55% (441.6)	58% (417.5)	60% (396.6)	62% (375.8)
4.00	48% (525.6)	50% (504.7)	52% (483.8)	54% (466.1)	57% (442.0)	59% (421.1)	61% (400.3)
	Equity - FTSE 100 Price Index (proxy)						

8 May 2009 Projection

58% (397.2)

All amounts are in £m

The starting point for this sensitivity matrix is the projected results as at 8 May 2009 on the Ongoing Basis.

The funding position is sensitive to changes in equities and bond yields and the funding graph reflects this based on historic market conditions.

The above table shows the impact of future changes in the bond yields (which affect the liabilities) and equities (using the FTSE100 Index as a proxy for equity markets generally both in the UK and overseas). The calculations assume that these changes occur immediately. In practice any changes will occur over time and the actual funding level will therefore also be affected by further benefit accrual, contributions and differences between expected and actual investment returns. Crucially, the calculations assume that all other factors and assumptions remain unchanged. In particular, the impact of the change in bond yields assumes that the implied inflation assumption remains unchanged. However, the liabilities are more sensitive to changes in real bond yields (i.e. net of assumed future inflation) rather than the nominal bond yield.

APPENDIX 1: RELIANCES AND LIMITATIONS

Reliances and limitations

In projecting forward the valuation results, a number of assumptions are made with regard to actual experience. As such, the accuracy of the projection declines over time. We would expect our projection to be within +/-2% of the underlying position for each year of projection. However, greater differences are possible, particularly if there have been volatile financial market movements or significant membership changes (especially if the scheme is small and individual member movements affect the funding position of the scheme). It is not possible to fully assess the accuracy of these projections without carrying out a full actuarial valuation.

The projection allows for:

(1) movements in the value of the assets as measured by manager performance and index returns;
(2) movements in liabilities as a result of changes in bond yields and hence inflation and discount rate assumptions;
(3) estimated cash-flows (contributions and benefit payments); and
(4) expected accrual of benefits for employee members from their service accrued since the latest valuation date (estimated based on the salary roll as at the latest valuation).

The projection does not allow for:

(1) changes in the mix of assets held since the last valuation;
(2) variations in liabilities arising from salary rises, deferred pension revaluation or pension increases differing from those assumed in the valuation;
(3) changes in the salary roll of employee members;
(4) variations between actual and expected demographic experience (e.g. on withdrawals or mortality); and
(5) changes in the asset outperformance assumption.

This actuarial funding update report is provided solely for the purposes of illustrating the projected funding position(s). It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. Hymans Robertson LLP accept no liability to any third party unless we have expressly accepted such liability in writing.

Investment indices and yields used

The analysis set out in this report is prepared from and based upon external market data sources that we believe to be reliable but the accuracy of which cannot be guaranteed. The assets of the scheme are projected using benchmark indices which to the best of our understanding, are the indices that best replicate the performance of the scheme's assets. The performance of the scheme's assets will, at times, be different from our projections and the difference may be material to our projections. Where the investment data is available, we have allowed for investment manager under/out-performance.

Compliance with professional standards

The method and assumptions used to project the updated funding position are consistent with those used in the latest formal actuarial valuation, although the financial assumptions have been updated to reflect changes in financial conditions since the valuation. As such, the advice in this report is consistent with that contained in the latest formal valuation report. This update therefore complies with guidance note GN9 issued by the Institute and Faculty of Actuaries and maintained by the Board for Actuarial Standards, only to the extent required by paragraph 1.4 of GN9.

APPENDIX 2: BENCHMARK INDICES AND BASIS YIELDS

Benchmark Indices
- FTSE 100
- FTSE 250
- FTSE Small Cap
- FTSE All Share
- FTSE All World Series North America (£)
- FTSE All World Series Japan (£)
- FTSE All World Series Developed Europe (£)
- FTSE All World Series Developed Asia Pacific (£)
- FTSE All World Series All World Developed Ex UK (£)
- FTSE All World Series All World Ex UK (£)
- FTSE All World Series All Emerging (£)
- UK Government Fixed Interest Gilts (Over 15 Years)
- UK Government Index-Linked Gilts (Over 5 Years)
- UK Government Index-Linked Gilts (Over 15 Years)
- iBoxx A rated UK Corporate Bonds (Over 15 Years)
- iBoxx AA rated UK Corporate Bonds (Over 15 Years)
- iBoxx AAA rated UK Corporate Bonds (Over 15 Years)
- iBoxx All Investment Grades rated UK Corporate Bonds (Over 15 Years)
- JP Morgan Government Bond Unhedged US (£)
- JP Morgan Government Bond Unhedged Euro (£)
- JP Morgan Government Bond Unhedged Japanese (£)
- JP Morgan Government Bond Unhedged Australian (£)
- JP Morgan Global Government Bond Ex UK (£)
- IPD Property
- Cash Indices LIBOR 1 Month

All indices used to project asset values are total return indices. However, any figures quoted in this report are from price indices as these are more widely recognised.

Some of the following yields are used in the projection of the liabilities.

Basis Yields
- iBoxx AA rated UK Corporate Bond Over 15 Year Yield
- FTSE Actuaries Index-Linked Gilts (3% Inflation) Yield Series (Over 15 Years)
- FTSE Actuaries UK Government Fixed Interest Gilts Yield Series (Over 15 Years)

MFR only:
- FTSE All Share Net Dividend Yield
- FTSE Actuaries Index-Linked Gilts (5% Inflation) Yield Series (Over 5 Years)
- FTSE Actuaries UK Government Fixed Interest Gilts 15 Year Yield

Some of the above indices have been used to track movements in the value of the assets. The indices are a standard list and not necessarily the same indices that the managers have been asked to track or beat. Some asset classes are not easily tracked by these benchmarks and therefore other approximations have had to be used in this projection leading to greater errors than the +/-2% per year from the true underlying position stated in Appendix 1.