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## 2010 Actuarial Valuation: Results Summary

### Scope

This document is addressed to Haringey Council (*"the Council"*) in its capacity as Administering Authority to the London Borough of Haringey Pension Fund (*"the Fund"*). It has been prepared by Hymans Robertson LLP to provide information on the results arising from the 2010 actuarial valuation for discussion at the Pensions Committee Meeting on 20 December 2010. It has not been prepared for use for any other purpose and should not be so used.

No liability is accepted under any circumstances by Hymans Robertson LLP for any loss or damage occurring as a result of reliance on any statement, opinion or any error or omission contained herein where the report is used by or disclosed to a third party.

### Introduction

We have carried out a valuation of the Fund as at 31 March 2010. The valuation of the Fund on a triennial basis is a regulatory requirement and is used to determine contribution rates payable by participating employers for the 3 year period commencing 1 April 2011.

The purpose of this document is not only to communicate the initial results but, in addition, explain:

- the Fund's experience since the 2007 valuation;
- factors affecting the 2010 valuation;
- the sensitivity of the results to the assumptions made.

Our aim is to provide you with the information that you require in order to understand and manage the risks of the pension fund and arrive at the very best strategy for the long-term success of the Fund.

The results shown are on the basis proposed and discussed at the initial valuation results meeting on 9 November 2010 with officers of the Fund and this basis is used to propose the funding strategy and contributions for the period 2011-14.

The Fund has also undertaken additional modelling work in order implement a contribution stabilisation policy for long term secure employers for whom it is appropriate.

### Reliances and limitations

This document has been prepared for the purpose of reviewing the funding strategy and employer contributions to the Fund and nothing contained within it affects any member's benefits. Furthermore, none of the figures should be used for accounting purposes (e.g. under FRS17 or IAS19) or for any other purpose (e.g. a termination valuation under Regulation 38).

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have previously issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented favourably on the quality of the data provided.

The figures in this report are based on our understanding of the benefit structure of the LGPS as at 31 March 2010. Details of this will be provided in our final valuation report.

This paper does not comply with Guidance Note 9 for the content of a final valuation report. The following technical standards are applicable to this report: TAS D and TAS R.

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**Results**

The tables below summarise the financial position of the Fund at 31 March 2010.

Past Service Position	(£m)
Past Service Liabilities	960
Market Value of Assets	664
Surplus / (Deficit)	(296)
<b>Funding Level</b>	<b>69.2%</b>

These results are based on our proposed set of assumptions for this valuation.

These initial valuation results are for the Fund as a whole. The underlying results for individual employers will differ from these results and will vary according to each employer's individual circumstances.

The valuation results take account of the following:

- The change to CPI linked pension increases from RPI following the Chancellor's Budget Statement on 22 June 2010, resulting in a saving of £52m;
- The two year pay freeze (with allowances made for the nominal increases for low paid staff), resulting in a saving of £31m;
- The change in 'baseline' mortality assumption, resulting in a saving of £23m;
- Allowance for future mortality improvements based on Medium Cohort with a 1% per annum minimum improvement, resulting in a cost of £83m; and
- A change in the retirement pattern for those members with pre April 2008 service who will retire after 31 March 2020, resulting in a saving of £23m.

A contribution stabilisation policy will be applied to those long term, secure employers for whom it is appropriate to do so.

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## Events since 2007

Since the previous formal valuation of the Fund at 31 March 2007 various events have taken place, which have had an effect on the estimated cost of the Fund.

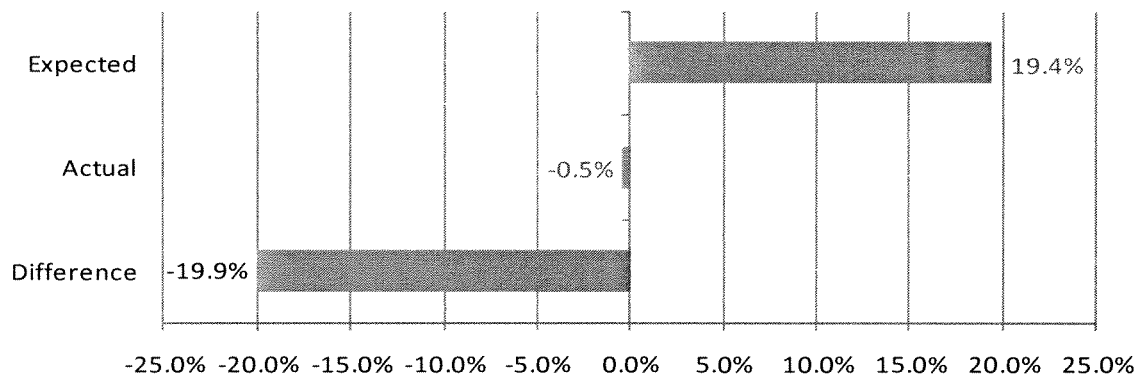
### Changes in market conditions

As we are carrying out a market-related valuation, the performance of the various investment markets since 2007 have had a significant effect on the assets, liabilities and future service cost of the Fund.

### Assets

The economic events of the last three years will live long in the memory. Rarely has there been a period of such volatility in global investment markets, with the banking crisis triggering a global recession which hit big institutional investors like pension funds very hard. There has been some recovery since the lows of 2008/09 but, overall, the performance of the Fund's investments has been worse than expected over the three year period to 31 March 2010.

The performance of the Fund's assets over the three years to 31 March 2010, relative to the expectation at the previous valuation, is summarised below:



In annual terms, the actual return on the Fund's investments over the three years to 31 March 2010 was -0.2% pa whereas the expectation from the previous valuation was that it would be 6.1% pa. The cumulative underperformance of -19.9% relative to expectations since 2007 has had a significant negative effect on the past service position of the Fund at this valuation.

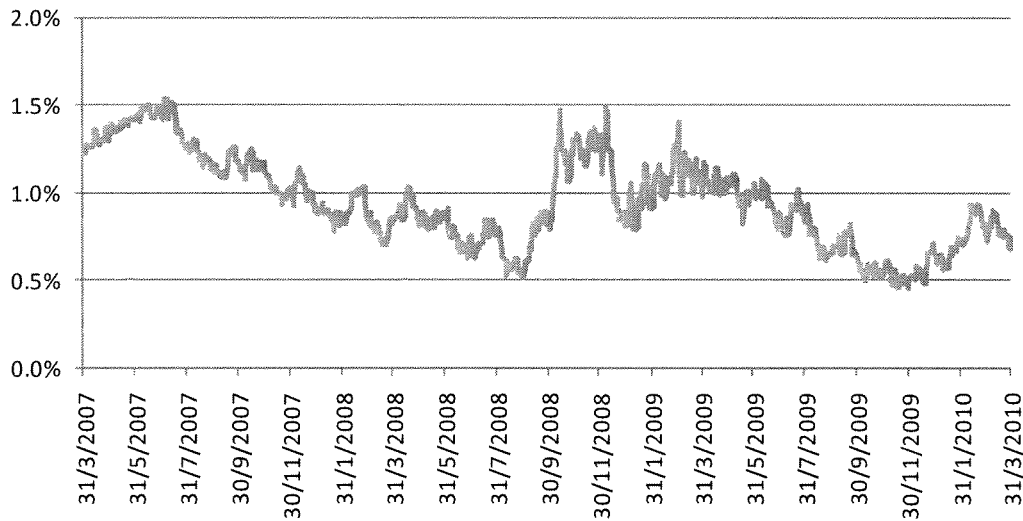
The experience of the last three years serves to underline the fact that, whilst the riskier assets in the pension fund are expected to outperform more risk averse investments (such as government bonds and cash) over the long-term, they are susceptible to volatility in the short-term.

### Liabilities

The discount rate used to value the Fund's future benefit payments is based on the return on fixed interest gilts, whilst the benefits themselves are projected to increase in line with both salary and price inflation. Therefore, the "real" return available on gilts (i.e. the return on fixed interest gilts net of inflation) is a key indicator in the measurement of liabilities.

The return on suitable index-linked gilts is a good proxy for real gilt yields. The chart below illustrates the movement in this return over the three year period to 31 March 2010.

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All other things being equal, a decrease in real gilt yield serves to increase the value placed on the Fund's liabilities and vice versa. The decrease in the real yield since 2007 has itself served to increase the value of the Fund's liabilities by around 10.3%.

Therefore, the past service position has worsened both as a result of the Fund's assets not growing by as much as expected and a higher value being placed on the liabilities.

#### Future service

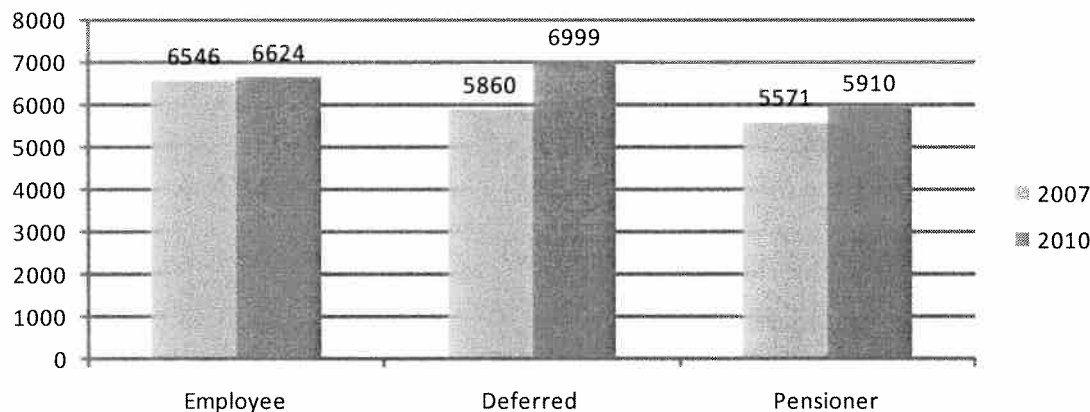
There is a similar relationship between real gilt yields and the future service contribution rate. All other things being equal, the fall in real gilt yields since 2007 will serve to push up the expected cost of new benefits earned by employee members in future.

Note that volatility in the market value of the Fund's equity-type investments has no immediate effect on the future service contribution rate, as opposed to the immediate and often tangible effect it can have on the past service position (i.e. the effect on the deficit at any given time). The effect on the future service rate may manifest itself at a later date, when the assumptions used to calculate it are updated to take account of this experience.

#### Changes in the Fund's membership

The membership profile of the Fund has changed since the previous valuation. New employee members have joined the Fund whilst others have left the Fund, retired or died. Whilst membership changes were anticipated at the previous valuation, the actual changes have inevitably not exactly matched our expectations. The chart below summarises both the number of members in each membership category at 31 March 2010, with the corresponding membership profile at the previous valuation shown for reference.

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### Maturity

The membership data that we have been provided with suggests that the Fund is gradually maturing. In other words, the proportion of the total membership attributable to employee members is gradually receding, meaning that the burden on contributing members of meeting the cost of any change in the Fund's liabilities is becoming progressively greater. If this trend were to continue, the result would be that in future the overall contribution rate would become much more heavily influenced by the past service funding level, rather than simply the cost of new benefits being earned in future by contributing members.

Another measure of the maturity of the Fund is to look at the average age of its membership and the expected remaining future working lifetime (FWL). This is set out in the table below:

Membership Profile	Average Age		FWL	
	2007	2010	2007	2010
Employees	50.1	51.4	7.2	8.3
Deferred Pensioners	49.6	50.8	-	-
Pensioners	64.8	66.0	-	-

Note that the ages presented here are not simple averages – they are weighted by liability. This gives a much more relevant assessment of the membership profile.

The expected future working lifetime indicates the anticipated length of time that the average employee member will remain as a contributor to the Fund. Note that it allows for the possibility of members leaving, retiring early or dying before retirement (all of which we must consider when we are thinking about the contributions that we expect members to pay and to have paid on their behalf in the future).

Underneath this analysis of the whole fund membership, individual employers will have varying degrees of maturity. Those that are the most mature will have contribution rates that are potentially more volatile. This can be problematic for the management of the Fund, especially if such employers have very few employee members left.

### Pre-retirement experience

The table below summarises the main areas of experience for active members over the three years to 31 March 2010. Also shown are the corresponding figures that we would have expected based on our 2007 valuation assumptions.

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Pre-Retirement Experience	Actual	Expected	A/E
Early leavers	1,872	2,048	-9%
Ill health retirements	20	108	-81%
Salary increases (pa)	3.8%	5.2%	-25%

**Early leavers**

There were fewer early leavers than anticipated. This serves to increase the Fund's liabilities, as broadly speaking deferred benefits are assumed to grow at a slower rate (price inflation) than those for active members (salary inflation).

**Ill health retirements**

There were significantly fewer ill health retirements than expected. This serves to decrease the Fund's liabilities, as ill health benefits are costly. Those who retire early through ill health not only receive their benefits before their normal retirement age but are also credited with additional service, both of which place a strain on the Fund.

**Non-ill health early retirements**

We do not make any assumption about non ill-health early retirements. Whilst the level of ill health in the population is linked to certain underlying factors that can be analysed, events such as redundancy are often made for commercial reasons and are far more difficult to predict. Where such early retirements have been granted, this will serve to increase the Fund's liabilities (except where pensions have been specifically reduced to reflect their early payment). Such an increase is usually offset by a lump sum payment from the retiree's employer (a "strain" payment). However, as time elapses it is unlikely that this payment will exactly match the liability it was originally intended to cover (for example, the member may go on to live much longer than expected).

**Salary increases**

Salaries have increased at a slower rate than expected over the last three years. This serves to decrease the Fund's liabilities, as members' retirement benefits are ultimately linked to final salary.

**Post-retirement experience**

Once retired, members (and possibly their dependants) will receive pension benefits for as long as they survive. The key factors that influence the cost of these benefits to the Fund are therefore pensioner mortality and increases to pensions in payment.

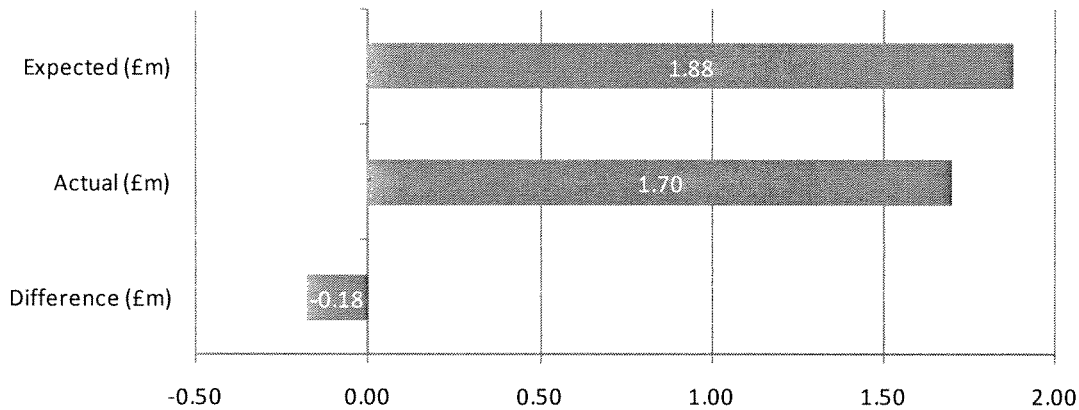
**Pension increases**

The assumption we made for pension increases at the 2007 valuation was 3.2% pa. The actual annualised rate of increase over the three years to 31 March 2010 was only 2.9% pa. This has had a positive impact on the funding position.

**Pensioner mortality**

The chart below summarises the post-retirement mortality experience. Note that when we analyse pensioner deaths and derive our assumptions for the future, we do not simply base our analysis on the number of pensioners dying. Rather, we look at the amount of pension that subsequently ceases to be paid out by the Fund. This is a more relevant figure, as the cost to the Fund will be more heavily influenced by those who are in receipt of larger pensions.

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As the table shows, the amount of pensions ceasing over the last three years was less than was anticipated. This places a bigger financial burden on the Fund.

**Changes to the LGPS benefit structure**

Since the 2007 valuation, a number of changes have been made to the LGPS benefit structure. The primary change was the arrival of the new LGPS scheme on 1 April 2008. Benefits earned by members up to 31 March 2008 will continue to be calculated in accordance with the scheme rules at that date. For membership from 1 April 2008, the main changes to the scheme are:

- Pension calculated as 1/60 x final pay x period of scheme membership (1/160 for spouses, civil partners and nominated co-habiting partners)
- Option to exchange part of retirement pension for lump sum (up to maximum of 25% of capital value of total benefits)
- Employee contribution rates based on salary (from 5.5% to 7.5%)
- Earliest retirement age for non ill-health retirements of age 55 (with employer consent)
- Two-tier system of service enhancement for ill-health retirement.
- Death grant of 3 x final pay for death in service
- Death grant of 10 x pension, less total of pension payments already received, for death after retirement

The figures presented in this report allow fully for the changes to the LGPS since the previous valuation.

**Summary of events since 2007**

The table below briefly summarises the effect that events since 2007 have had on the financial position of the Fund.

Positive Impact	Negative Impact
Membership changes	Asset returns
Pension increases	Liability assumptions
RPI to CPI	
Pay Increases	
<b>Overall Impact</b>	<b>Negative</b>

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## 2010 – Our proposed approach

The approach that is used to derive the valuation results is comprised of two main components:

- The funding method, which is essentially the actuarial techniques used in our calculations.
- The actuarial assumptions, which are the key variables that feed into the funding method.

There are a variety of options open to the actuary both in terms of the method and the assumptions. In this respect, the choice may seem subjective, with different approaches yielding different results. However, we have formulated our approach to this valuation by adhering to the following key principles:

- **Affordability.** Contribution levels should not be set unnecessarily high as to make the pension scheme unaffordable.
- **Sustainability.** Contribution levels should also be sustainable over the long term.
- **Stability.** Contributions should not be unduly volatile from one valuation to the next.
- **Prudence.** An appropriate allowance must be made for the risks that may arise in future.
- **Transparency.** The approach should be "up front", easily communicated and verifiable.
- **Durability.** The approach adopted should stand the test of time.

These principles are all essential to meeting the funding objectives of the pension fund, which are set out in detail in the Funding Strategy Statement. The actuarial methodology used will be explained in full in the formal valuation report.



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## 2010 – Assumptions

Broadly speaking, our assumptions fall into two categories – financial and demographic.

Demographic assumptions typically try to forecast **when** exactly benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether they will exchange some of their pension for tax-free cash.

Financial assumptions typically try to predict the **size** of these benefits. For example, how large members' final salaries will be at retirement and how their pensions will increase over time. In addition, the financial assumptions also help us to estimate how much all these benefits will cost the Fund in today's money.

Details of our recommended assumptions for this valuation are set out below.

### Financial assumptions

The table below summarises the financial assumptions that we believe are most appropriate for the valuation of members' benefits at this valuation. The corresponding assumptions from the 2007 valuation are shown for reference.

Financial assumptions	31 March 2010		31 March 2007	
	Nominal	Real	Nominal	Real
Discount Rate	6.1%	2.8%	6.1%	2.9%
Salary Increases*	5.3%	2.0%	4.7%	1.5%
Price Inflation / Pension Increases	3.3%	-	3.2%	-

\*Excluding promotional increases. Note that this is the long term assumption – increases are assumed to be 1% for 2010/11 and 2011/12.

A further explanation of how we have derived these assumptions is set out below.

### Discount rate

In order to place a value on the Fund's liabilities, we first estimate all of the benefits that we expect to be paid from the Fund in the future. We then convert these to a value in today's money by working back (or "discounting") to the valuation date. This process requires the use of a discount rate. All other things being equal, a higher discount rate results in lower liabilities and vice versa. This is akin to the operation of a bank account – the higher the interest rate, the less we have to set aside now to reach our savings target in the future.

For the purposes of this valuation, the discount rate should reflect the returns that the Fund expects to earn on its investments over the long term. This is done by considering the expected return on the lowest risk investments held (government bonds) and applying a margin to allow for the greater returns that are expected to be generated by the equity-type investments held (equities, property etc). We refer to this additional margin as the Asset Outperformance Assumption (AOA).

At the previous valuation in 2007, we adopted an AOA of 1.6% pa. This was based on historical evidence of the returns on equity-type investments and the prevailing investment strategy of the Fund. It also explicitly allowed for a degree of prudence. Our modelling shows that there are a range of future outcomes for the way in which equity-type investments might perform.

For this valuation, we again believe that an AOA of 1.6% pa is a prudent and appropriate assumption to adopt.

The table below details the composition of the discount rate at 31 March 2010:

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Discount rate	31 March 2010	
	Nominal	Real
"Gilt-based" discount rate	4.5%	1.2%
Asset Outperformance Assumption	1.6%	-
Funding basis discount rate	6.1%	2.8%

Note that the discount rate in nominal terms is unchanged from the 2007 valuation. This occurs because the yield on fixed interest gilts of a suitable term happens to be identical at 31 March 2007 and 31 March 2010 (4.5% pa). Given that we are also retaining the 2007 Asset Outperformance Assumption for this valuation, this leads to the discount rate being 6.1% pa again. However, note that the real discount rate has fallen since 2007 due to the rise in price inflation.

#### Price inflation / pension increases

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in payment. We have allowed for this in our valuation calculations as at 31 March 2010.

The table below confirms our assumption for CPI/pension increases at this valuation:

Assumed pension increases	31 March 2010
Market-derived RPI	3.80%
Adjustment for "formula effect"	0.50%
CPI / pension increases	3.30%

Basing pension increases on CPI rather than RPI will serve to reduce the value placed on the Fund's liabilities.

#### Salary increases

Pay for public sector employees will be frozen for a period of two years, with a flat increase of £250 being applied to all those earning less than £21,000 pa. Although this "pay freeze" does not officially apply to local government employers, it has been suggested that they are expected to show similar restraint in respect of pay awards.

Therefore, based on an analysis of the membership in LGPS funds, the average expected increase in pensionable pay across all employers should be around 1% pa for the next two years.

After this point, our assumption will revert back to RPI plus 1.5% pa. The table below summarises our proposed salary increase assumption:

Assumed salary increases	31 March 2010
Year to 31 March 2011	1.0%
Year to 31 March 2012	1.0%
Thereafter*	5.3%

\*Based on our assumption for RPI as at 31 March 2010 (3.8% pa) plus 1.5% pa.

Note that this assumption is made in respect of the general level of salary increases (e.g. as a result of inflation and other macroeconomic factors). We also make a separate allowance for expected pay rises granted in the future as a result of promotion. This assumption takes the form of a set of tables which model the expected promotional pay awards based on each member's age and class. Further details on this are available on request.

#### Longevity

Of all the demographic factors, longevity (or mortality) is the one that presents the greatest uncertainty. Indeed, many pension funds now regard longevity to be their second largest risk (after investment performance).

In setting the assumptions for longevity, there are two principal factors that we must consider:

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- The life expectancy for members based on what we know today – known as “baseline longevity”.
- How this life expectancy is forecast to improve in the future – known as the “longevity improvement”.

At the previous valuation in 2007, for baseline longevity we selected a set of standard mortality tables (known as PMA92 for males and PFA92 for females) and then tailored them to the experience of LGPS funds by applying age ratings. We then allowed for future longevity improvements by projecting forward these tables to the year 2017 (for pensioners) and 2033 (for active and deferred members).

### Baseline longevity

Once again, our starting point is to select a set of standard mortality tables. However, these are not the same tables that were chosen in 2007, which were based on the mortality experience of individuals who had purchased pensions from life insurance companies. A more recent set of standard tables has now been published by the actuarial profession which are based on the longevity experience of occupational pension funds (the so-called “SAPS” tables). By applying a scaling factor to these tables, we can now obtain a more accurate fit to LGPS experience.

### Longevity improvement

There is a consensus amongst actuaries that life expectancy will continue to improve in the future. However, there is no clear consensus about the pace of this improvement (and how long it will persist). This was reflected by the recent refusal of the Pensions Regulator to endorse any one particular model of longevity improvements in its assessment of private sector pension schemes.

The view of the actuarial profession is that the allowance for future longevity improvements should be at the discretion of each individual pension fund, after taking advice from their actuary.

The table below summarises our proposed longevity assumptions for the Fund as at 31 March 2010:

Longevity assumptions	31 March 2010
Longevity - baseline	S1NMA / S1NFA
Longevity - improvements	Medium Cohort with 1% minimum improvements

### Other demographic assumptions

We are in the unique position of having a very large local authority data set from which to derive our other demographic assumptions. This year, as in previous years, we have made full use of this to analyse the trends and patterns that are present in the membership of local authority funds and tailor our assumptions to reflect LGPS experience.

As with the financial and longevity assumptions, these demographic assumptions affect both the past service and future service valuation results. Further details on these assumptions are set out below.

### Withdrawals (early leavers)

In the past, the principle factor influencing the rate of these withdrawals was age. Typically, younger members were more likely to withdraw than their older counterparts who are nearing retirement. Further analysis has shown that the withdrawal rate is not only affected by age but that the length of pensionable service also has an effect. Those with a smaller amount of service appear more likely to withdraw (with longer serving individuals less likely).

As a result, for this valuation we have derived a set of withdrawal assumptions that allow for both the age of the member and the length of pensionable service. This should help to place a more accurate value on both the past service liabilities and the future service contribution rate.

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**Ill-health early retirements**

Prior to the introduction of the new scheme on 1 April 2008, the benefits granted for ill-health early retirement were well established and we had a considerable amount of past data from which to derive our future assumptions. With the advent of the new scheme, there is now a three-tier system of ill health early retirement, with benefits dependant on the severity of each member's disability.

Accurately predicting future ill-health retirement patterns under the new three-tier benefit structure is much more difficult as there is relatively little data for us to analyse. Our approach for this valuation has therefore been to derive an assumption that maintains the allowance for the cost of ill health retirements at the same level as that allowed for at the 2007 valuation. In broad terms our assumption is as follows:

- 15% of ill health retirements will be Tier 1.
- The remaining 85% will be split equally between Tier 2 and Tier 3.
- Half of the members allocated to Tier 3 will be "upgraded" to Tier 2 within three years of their retirement.

There are further, more complex assumptions that we have made which reflect the rules that are now in force for ill health retirement. Further details on these are available on request.

It is expected that we will have a greater amount of data on ill health experience at the next valuation. We will then review our ill health assumptions accordingly at that point.

**Commutation**

At the previous valuation in 2007, we made the assumption that 50% of retiring members took the maximum permissible amount of tax-free cash via commutation (equivalent to 75% in the new post-April 2008 scheme). We have no reason to believe that this is no longer appropriate for the Fund and therefore will be adopting the same assumption at this valuation.

**Retirement age**

Since the introduction of the new LGPS many members now have two tranches of pension - namely that which was accrued before and after 1 April 2008. In theory, these can be paid without reduction from two different retirement ages. In practice, the member can only retire once and so both pensions are paid from a single age.

In order to ensure that we are treating these accrued benefits correctly in our valuation calculations, we are now explicitly calculating the appropriate retirement age for each member (rather than simply using the age provided in the membership data extract).

**Further comments on the assumptions****Level of prudence**

As stated at the beginning of this section, our proposed approach to this valuation must include a degree of prudence. This has been achieved by explicitly allowing for a margin of prudence in the Asset Outperformance Assumption.

For the avoidance of doubt, we believe that all other proposed assumptions represent the "best estimate" of future experience. This effectively means that there is a 50% chance that future experience will be better or worse than the chosen assumption.

Taken as a whole, we believe that our proposed assumptions are more prudent and appropriate, than the best estimate.

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## 2010 – Initial results

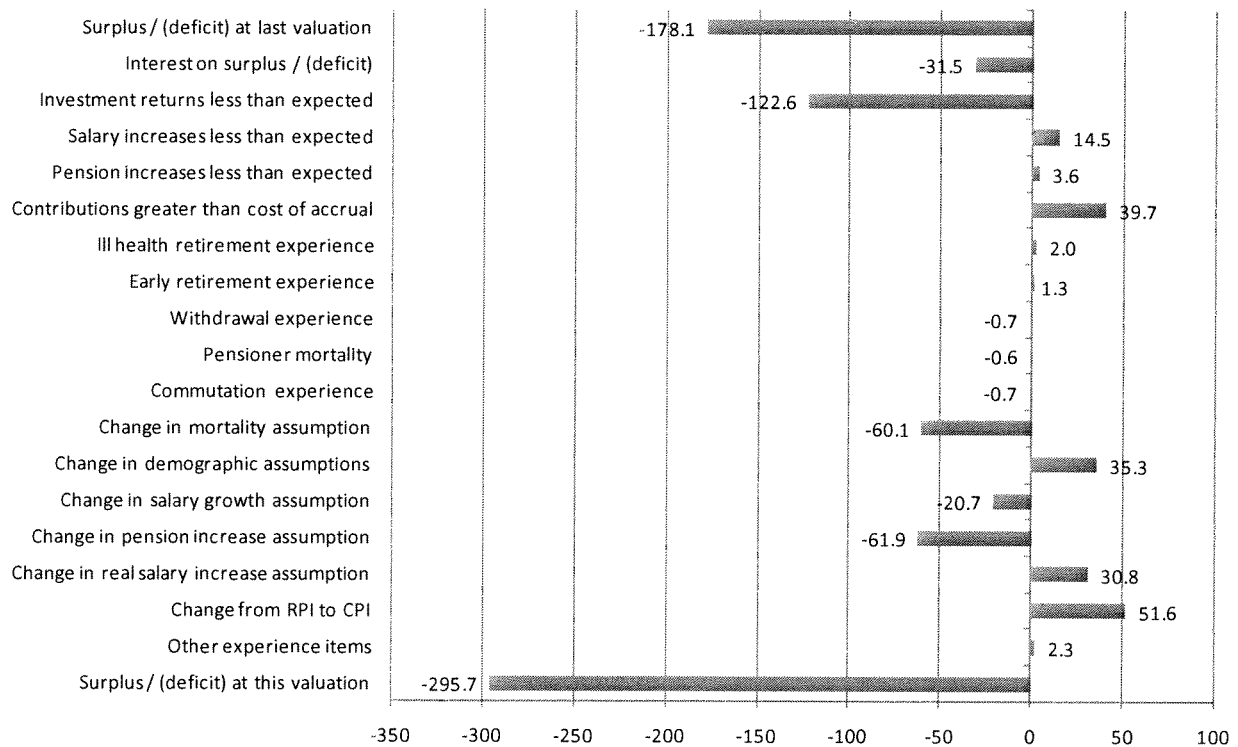
### Past service – funding level and deficit

The table below shows the initial results for the past service position of the whole fund at 31 March 2010. These 2010 figures are based on our proposed valuation assumptions, as set out in the previous section. The final results of the previous valuation at 31 March 2007 are also shown for reference.

Valuation Date	31 March 2007	31 March 2010
<b>Past Service Position</b>	<b>(£m)</b>	<b>(£m)</b>
Past Service Liabilities		
Employees	355	399
Deferred Pensioners	154	205
Pensioners	290	355
Total Liabilities	798	960
Market Value of Assets	620	664
<b>Surplus / (Deficit)</b>	<b>(178)</b>	<b>(296)</b>
<b>Funding Level</b>	<b>77.7%</b>	<b>69.2%</b>

### Why the past service position has changed

The chart below illustrates the various factors that have led to the deficit rising between the previous valuation and this one.



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Further comments on some of these items in this chart:

- There is an interest cost of £32m. This is broadly three years of compound interest at 6.1% pa applied to the previous valuation deficit of £178m.
- Investment returns being lower than expected since 2007 lead to a loss of £123m. This is roughly the difference between the actual and expected three-year return applied to the whole fund assets from the previous valuation of £620m, with a further allowance made for cashflows during the period.
- The change in financial conditions between the previous valuation and this one have given rise to a loss of £0.2m (includes change in salary increase assumption, pension increase assumption and change from RPI to CPI). This is principally a result of higher inflation, leading to a lower real discount rate being used, offset by lower than expected salary increases in the first two years and the change from RPI to CPI.
- The change in longevity assumptions has given rise to a loss of £60m.
- Changes to other demographic assumptions (such as withdrawal and ill health retirement) has given rise to a £35m gain.
- The overall impact of actual experience over the last three years has been a gain arising of around £59m (includes salary, pension, contributions, ill-health, early retirement, withdrawal, pensioner and commutation experience over the inter-valuation period). Underlying this figure, withdrawals have had a negative impact and ill health early retirements have had a positive impact, but this has been partly offset by fewer people opting to exchange their pension for tax-free cash.
- Other experience items, such as changes in the membership data, have served to reduce the deficit at this valuation by around £2m.

#### Illustrative results from alternative assumptions – past service position

These initial valuation results are based on our proposed set of assumptions, which we believe are most appropriate for the Fund given its circumstances. However, they are by no means the only set of assumptions that could be used.

The table below illustrates the funding level and deficit that would arise from using various combinations of the two most influential assumptions - namely investment return and longevity.

Past service position		Asset Outperformance Assumption		
		1.1%	1.6%	2.1%
Longevity	2007 valuation longevity	67% (328)	73% (239)	81% (159)
	2010 Valuation (baseline)	69% (302)	75% (216)	83% (138)
	2010 Valuation (Improvements 1)	63% (389)	69% (296)	76% (211)
	2010 Valuation (Improvements 2)	61% (427)	67% (331)	73% (243)

The shaded box contains the initial results for this valuation, based on our proposed set of assumptions. Some points to note from this table are:

- “Improvements 1” are the longevity improvements that we are proposing for this valuation (we recently incorporated these in our 2010 FRS17 reports).
- “Improvements 2” are a more cautious set of improvements.

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- Although not shown in this table, if we were to take no advance credit for future investment performance over and above government bond yields (effectively adopting an asset outperformance assumption of 0%) then this would lead to a funding level of 50% and a deficit of £662m.
- The reserve for future improvements in longevity is estimated at £80m (i.e. £296m minus £216m).

**Post-valuation events**

These initial valuation results are effectively a snapshot of the Fund as at 31 March 2010. However, since that date various events have taken place which will have had an effect on the financial position of the Fund. Whilst we have not explicitly altered the valuation results to allow for these events (other than for the switch from RPI to CPI-based pension increases) a short discussion of these "post-valuation events" can still be beneficial in understanding likelihood of meeting the various funding objectives.

**Lord Hutton review of public sector pensions**

As you will be aware, the Coalition Government has set up an independent review of public sector pensions including the LGPS. This review will look at issues such as affordability, fairness, impact on mobility and plurality of current public service provision.

Chaired by Lord Hutton, phase 1 of this review has been completed and phase 2 is currently underway.

Ultimately, this review may recommend changes to the LGPS. These could have far-reaching effects on the Fund. However, at this point in time the possibilities are so wide-ranging that it would be inappropriate to make any allowance for this in the results of this particular valuation.

**"Cap and Share"**

The LGPS is committed to introducing the sharing of certain future costs between employers and employees from the 2010 valuation. In practical terms, the outcome of the cost sharing analysis (which will be undertaken by the Government Actuary's Department) will result in either:

- A change to employee contribution rates; or
- A further change to the benefit structure of the LGPS.

No allowance for cost sharing has been made in respect of the figures presented in this report. Our understanding is that the result of the cost sharing exercise will be available by the end of November 2010. Once these results are available, we will feed them into the valuation figures and assess the contribution rates payable by non-stabilised employers from 2011/12.

We cannot be certain of the outcome of this exercise but our belief at present is that the impact of cost sharing is likely to be relatively insignificant in comparison to the much greater impact of financial conditions.

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## Summary and conclusion

We are in the process of carrying out the formal valuation of the Fund as at 31 March 2010. This document contains the initial valuation results, for the Fund as a whole.

### Results

The tables below summarise the financial position of the Fund at 31 March 2010.

Past Service Position	(£m)
Past Service Liabilities	960
Market Value of Assets	664
Surplus / (Deficit)	(296)
<b>Funding Level</b>	<b>69.2%</b>

We would be happy to discuss any aspect of these initial results at our scheduled meeting.



Bryan T Chalmers FFA

For and on behalf of Hymans Robertson LLP

8 December 2010



## Appendix – Glossary

**Accrued benefits:** - the benefits for service up to a given point in time.

**Active member:** - a member who is at present accruing benefits.

**Actuarial liability (Past service liability):** - the value placed on the accrued benefits of the fund using actuarial methods and assumptions for outgoings, including expenses, expected to fall on the fund after the valuation date based on benefits accrued for service up to the valuation date. It includes the present value of future instalments of pensions in payment and related contingent benefits, the present value of future payments in respect of deferred pensioners and a provision for all other members.

**Attained Age Funding Method:** - estimates the cost of benefits accruing to existing employee members over their expected future working life allowing for all expected future pay and pension increases. This amount is expressed as a percentage of the members' pensionable salaries over their expected future working life and is known as the 'future service contribution rate'. This method is used for closed employers.

**Bulk transfer:** - The transfer of liabilities (and usually assets), relating to a group of members, from one scheme or employer to another.

**Closed employer:** - an employer who does not permit new entrants, the contribution rate is calculated using the Attained Age Method.

**Commutation:** - the giving up of a part or all of the pension payable from retirement for an immediate lump sum.

**Deferred member:** - a member no longer accruing benefits but who has accrued benefits that will be payable at a future date.

**Deficit :-** the amount of shortfall between assets held by the scheme and the value placed on the liabilities.

**Deficit spread period:** - the period over which a deficit is repaid; it can be up to 20 years depending on the type of employer.

**Discount rate:** - in order to place a current value on the liabilities of the Fund, the future cashflows are 'discounted' at a suitable rate. For the purpose of the formal valuation, the discount rate takes account of the Fund's current and expected future investment strategy and assumed asset outperformance assumption of 1.6% p.a.

**Early leaver:** - a person who ceases to be an active member of a scheme, other than on death, without being granted an immediate retirement benefit.

**Future service contribution rate:** - The total 'future service contribution rate' is then the sum of either the 'Projected Unit Method' rate or the 'Attained Age Method' rate, plus the lump sum death benefit cost. It is the rate at which the Fund employers, together with the employee members, should contribute to the Fund to meet the cost of members' benefits expected to arise from service after the valuation date (i.e. it does not include deficit repayment contributions in respect of benefits). For the period from 1 April 2008 to 31 March 2010, employee members will continue to contribute at fixed rates (albeit with various tiers). Therefore the Fund employers' future service contribution rate is the total future service contribution rate less the member contribution rate. An addition is made to cover the expected future expenses of administering the Fund.

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**Guaranteed minimum pension (GMP) :-** the minimum pension which an occupational pension scheme must provide as one of the conditions of contracting out for pre 6 April 1997 service (unless it was contracted out through the provision of protected rights). For an employee contracted out under any occupational or personal pension scheme an amount equal to the GMP is deducted from his/her benefits under the state scheme.

**HMRC:-** Her Majesty's Revenue and Customs.

**LGPS:-** Local Government Pension Scheme.

**Longevity: -** how long we expect members to live.

**Lump sum death cost: -** the cost of the lump sum death in service benefit is assessed as the amount which is likely to be paid out in an average year, based on the membership structure at the valuation date.

**Market value of assets: -** The Fund's assets are invested by the Administering Authority. The market value of assets at the valuation date (excluding money purchase AVC funds) was shown in the audited accounts for the Fund for the period ending on 31 March 2007.

**Member: -** a person who has been admitted to membership of a pension scheme and is entitled to benefit under the scheme.

**Past service funding position: -** I compare the value of the assets with the value placed on the liabilities. The ratio of the asset value to the estimated cost of members' past service benefits is known as the 'funding level'. If the funding level is more than 100% there is a 'surplus'; if it is less than 100% there is a 'shortfall'.

**Past service adjustment: -** adjustment to the future service rate to return the funding level to 100% over the agreed deficit spread period.

**Past service liabilities:-** the present value of future benefit cashflows payable from the Fund in respect of benefits earned to the valuation date. The present value of the cashflows is calculated using the discount rate.

**Pay increase: -** assumed to be 1% p.a. for the next two years and then 1.5% p.a. more than price inflation thereafter.

**Pensioner member: -** a member currently in receipt of pension benefits.

**Price inflation: -** market expectation of long term future inflation as measured by the difference between the yield on fixed interest and index linked government bonds.

**Projected Unit Funding Method: -** calculates the estimated cost of benefits accruing to existing employee members over the year following the valuation date allowing for all expected future pay and pension increases. This amount is expressed as a percentage of the members' pensionable pay over the year following the valuation date and is known as the 'future service contribution rate'. This method is used for open employers.

**Rule of 85:-** The LGPS normal retirement age is 65. The Rule of 85 allows members to retire on unreduced benefits from age 60 if the sum of their age and past service is at least 85. Under the rule of 85, the average retirement age was around 62. This rule has been removed although some existing members will be protected.

**Salary scale: -** an index of salaries, by age or service, for a group of employees.

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**Total contribution rate:** - the total of the future service rate and the past service adjustment.

**Transfer club:** - a group of employers and occupational pension schemes which have agreed to a common basis of transfer payments.

**Transfer value:** - the amount of the transfer payment which is made to another pension arrangement.

**Withdrawal benefit :-** a benefit payable when an employee leaves employment.