

London Borough of Haringey Pension Fund

2010 actuarial valuation

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- › 20 December 2010

Real people. Real skills. Real results.

PUBLIC  SECTOR

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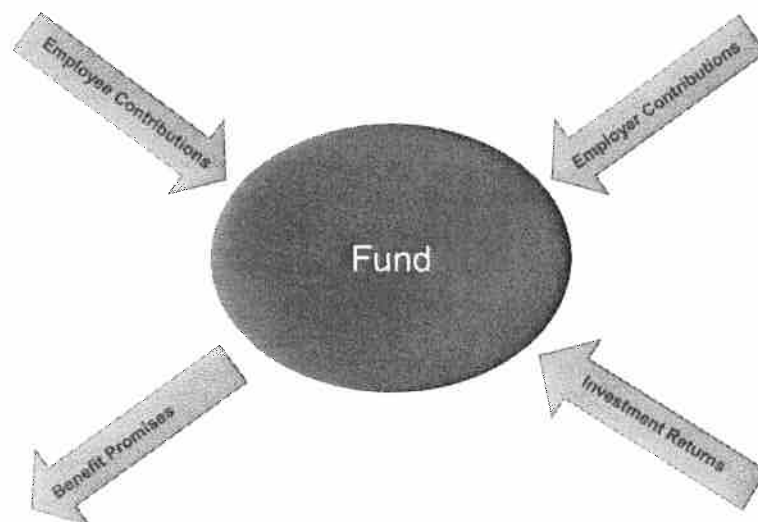
What we'll cover today

- › Why do we do a valuation?
- › How do we do a valuation?
- › The initial whole fund results
- › Managing the impact of the 2010 valuation
- › The future of the LGPS?

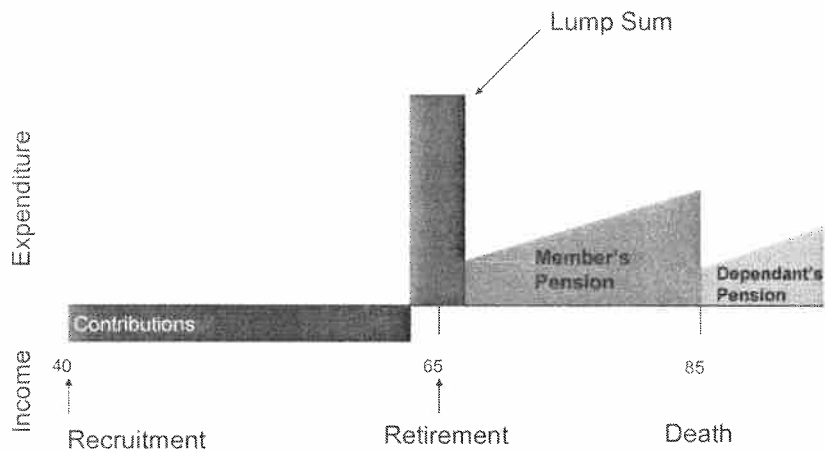
Why do we do a valuation?

- We have to!
- Recommend employer contribution rates
- Assess how well pension promises are covered
- Monitor experience vs. assumptions

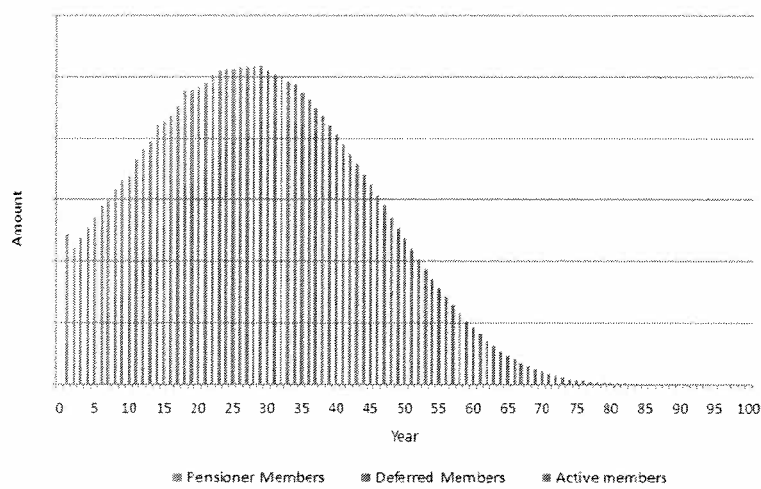
What is a pension fund?



Promise now, pay later



Future benefit payments



Simplifying the “cashflows”

- Actual cost of a Scheme will depend on the pensions actually paid
- A valuation estimates how much money will be needed to pay the pensions
- Estimate is based on
 - projected amounts of benefit payments
 - projected probability of benefits being paid
 - discounted to a “present value”

Valuation Assumptions

Financial Assumptions

- Investment return/ Discount rate
- Inflation
- Pay increases
- Pension increases

Consider:

- Economic outlook
- Actual Scheme assets
- Historical real pay growth

Demographic Assumptions

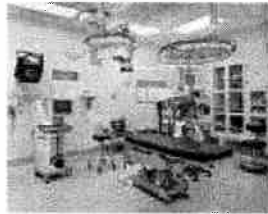
- Life expectancy
- Member Options
- Withdrawals
- Marriage statistics

Consider:

- Population trends
- Members' social status
- Past Scheme experience

We are living longer but what does the future hold?

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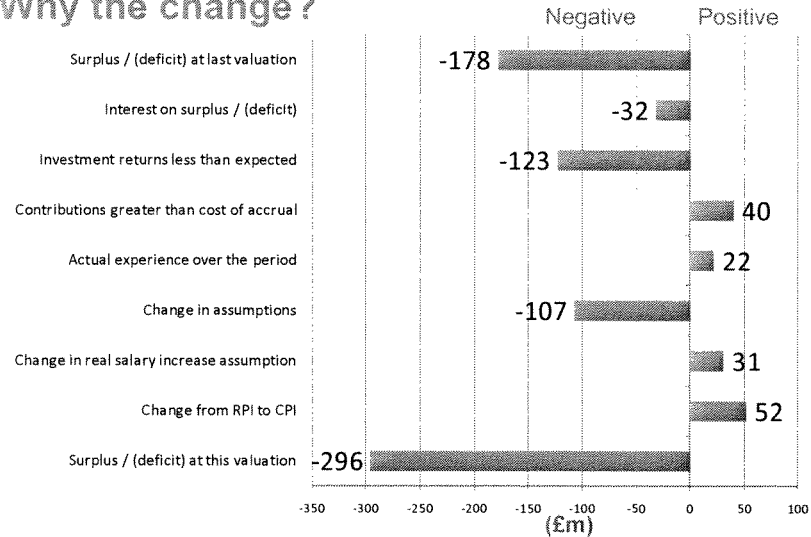


2010 Draft Whole Fund Valuation Results

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Valuation Date	31 March 2007	31 March 2010
Past Service Position	(£m)	(£m)
Total Liabilities	798	960
Market Value of Assets	620	664
Surplus / (Deficit)	(178)	(296)
Funding Level	77.7%	69.2%

Why the change?



Net effect? Upwards pressure on contribution rates

Risk assessments

- employer covenant
- constraining contribution rate increases
- maturing profile
- longevity
- ill health insurance

Hutton commission

- Aims
 - dispel myths
 - reform public sector pensions
- Short-term
 - Employee contribution rates?
 - Setting boundaries for part 2 – final call for evidence by 17 December 2010
- Long-term
 - CARE?
 - Raise retirement age?
- Full recommendations in part 2 of review
 - What does it mean for the valuation?

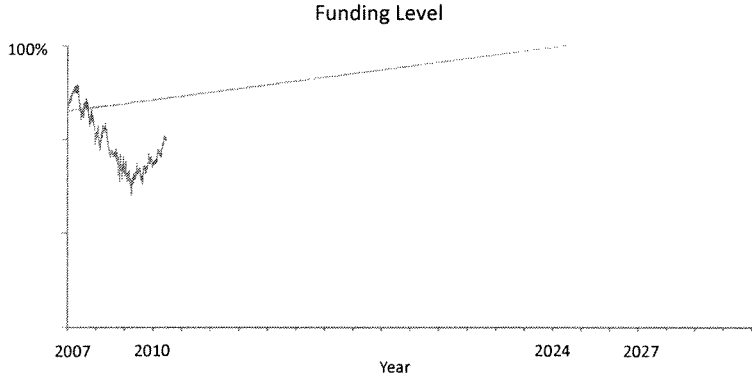
Next steps

- Agree assumptions
- Finalise contribution rates
 - Agree stabilisation approach for secure employers
 - Risk assessment of less secure employers
 - Based on evidence of security
- Funding Strategy consultation

Appendix



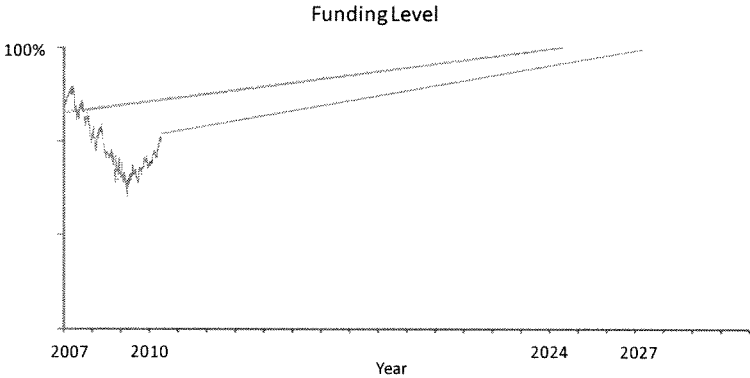
Recovering deficits



Actual position different from anticipated position



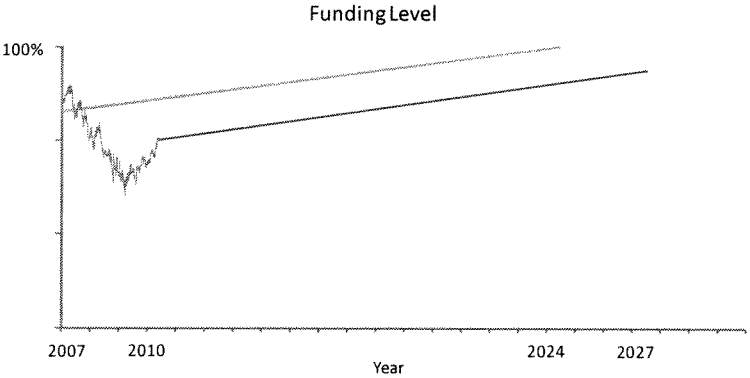
Recovering deficits



Employers could pay more



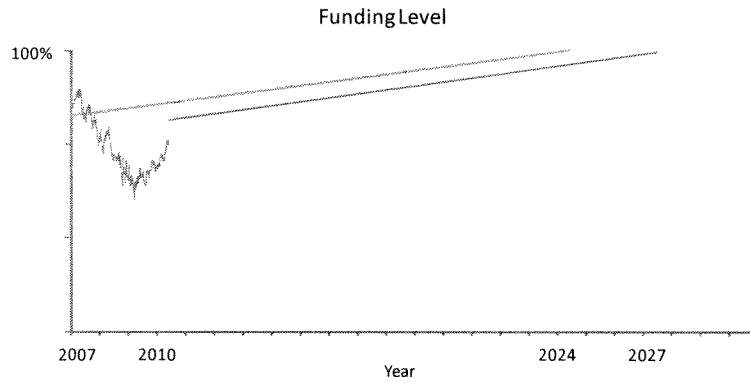
Recovering deficits



Could lengthen deficit recovery period



Recovering deficits

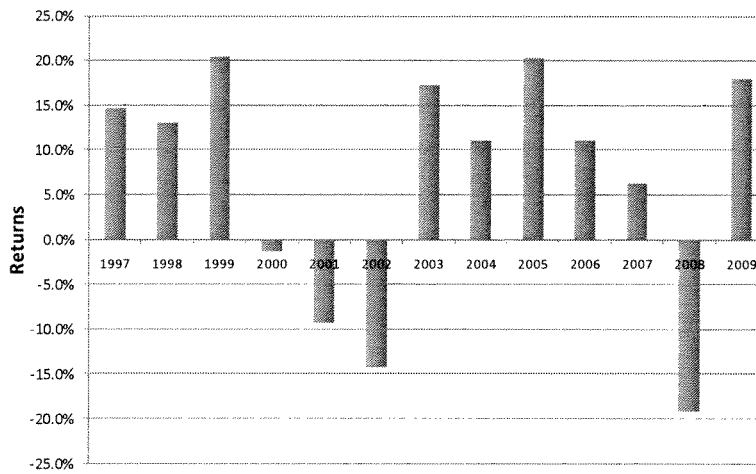


Could change assumptions to make funding position appear better

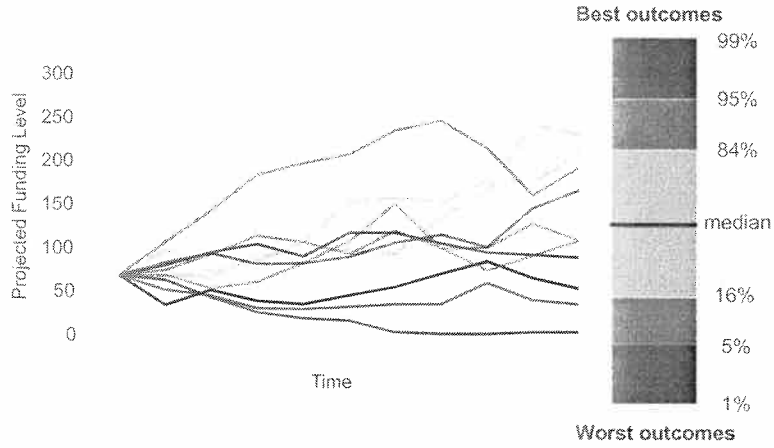


Allowing for future returns

WM Local Authority returns 1997-2009



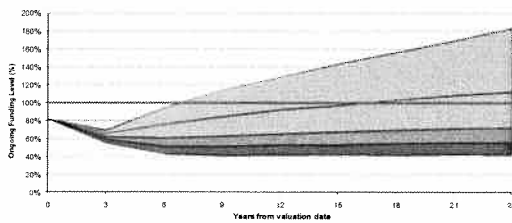
A range of potential long term outcomes



- 5,000 simulations of the future
- Rank from worst to best outcome to give distribution of possible outcomes

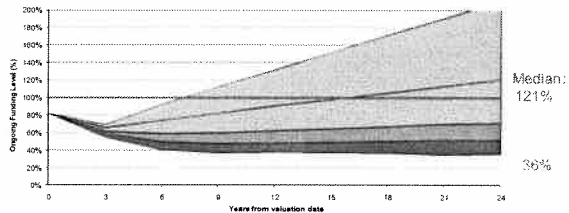


Can we rely on investment returns if we have long term secure covenant?



Scenario 2: Fixed at 21.5% until 2011, stabilised thereafter (maximum of 1% increase/ 1% decrease p.a.)

AOA = gilts +1.6%.
20 year deficit recovery period



Benefits of risk based valuation

- Understand fund dynamic
- Early warning system
- Better governance/more transparency
- Employer specific analysis
- Support for change

Assessing employer covenant

- Issues
 - What is risk of employer leaving Fund?
 - What is risk to Fund if employer leaves?
- Employer risk
 - Tax-raising powers
 - Type of body (Scheduled, TAB, CAB)
 - Open or closed to new entrants
 - Guarantor in place?
 - Funding position/ size of liabilities
 - Political/local decision