

## Navigator

Version 2.37

### Funding projection as at 31 March 2011 Suffolk County Council Pension Fund

Prepared by:

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for and on behalf of Hymans Robertson LLP

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#### Important note

##### Accuracy of funding projections

The projections presented in this report reflect, on an approximate basis, movements in market conditions from time to time. Where market movements, in particular market yields and future inflation expectations, have diverged materially (i.e. by over 1% per annum) from the opening figures or where investment market conditions are particularly volatile, the results presented in this report might diverge 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.

# Suffolk County Council Pension Fund

## Executive summary

This Navigator report illustrates the development of the funding position from 31 March 2010 (the date of the most recent triennial valuation) to 31 March 2011, for the Suffolk County Council Pension Fund ("the Fund"). It is addressed to Suffolk County Council in its capacity as the Administering Authority of the fund. It has been prepared in my capacity as your actuarial adviser.

The funding level (i.e. the ratio of assets to liabilities) at 31 March 2010, on the ongoing basis, was **82.2%**.

Updating this ongoing valuation basis to reflect market conditions at 31 March 2011, I estimate the funding level at that date to be **83.9%**. These results are outlined on Page 2 along with the relevant key assumptions. The funding level has increased since 31 March 2010, principally for the following reasons:

Changes in bond yields and expected inflation have had a neutral effect on the financial assumptions (the real discount rate, net of inflation, remains at roughly 2.7% pa). This has had a neutral effect on the value on the Fund's liabilities. However, the investment return achieved on the Fund's assets has been slightly higher than expected (+7.3% for the year to 31 March 2011 versus +6.1% expected at the 2010 triennial valuation).

The changes in bond yields and inflation has had a slight impact on the employer's share of the cost of future benefit accrual (i.e. the future service rate). The average future service rate for the Fund has fallen from 16.6% of payroll at 31 March 2010 to 16.5% of payroll at 31 March 2011. This is in addition to contributions paid by members.

If we assume that the Fund intends to repay the current deficit by 31 March 2030 (i.e. over a 20 year period from 31 March 2010) then the funding position and market conditions at 31 March 2011 imply that a further contribution of **5.4% of payroll** would be required over this period. Therefore, in theory, the appropriate contribution rate for the Fund at 31 March 2011 would be **21.9% of payroll** (comprised of a future service rate of 16.5% of payroll and deficit contributions of 5.4% of payroll). From a quarterly point of view, the beneficial change in market conditions has slightly outweighed the lower than expected investment returns in the fund since 31 December 2010, leading to an improvement in the navigator results since 31 December 2010.

This report has been produced exclusively for the Administering Authority. It must not be copied to any third party without our prior written consent.

This report looks at the whole fund position and does not allow for the circumstances of individual employers. Individual employers come in different shapes and sizes and the experience of each employer's share of the Fund, including their funding positions and theoretical contribution rates, can at any time be markedly different to those of the whole fund.

**The figures in this report are based on the membership data and other information provided to us by the Administering Authority for the purposes of the triennial valuation of the Fund at 31 March 2010. We have adopted the same demographic assumptions as those used at the triennial valuation. The methodology for deriving the financial assumptions has also remained the same, although the assumptions themselves have been updated to reflect prevailing market conditions.**

Peter Summers FFA

# Suffolk County Council Pension Fund

## Estimated projection of funding position as at 31 March 2011

### Summary of funding position:

The projection of the funding level since the latest formal actuarial valuation as at 31 March 2010 is shown below.

Date	31 Mar 2010	31 Dec 2010	31 Mar 2011
	£m	£m	£m
<b>Liabilities - Ongoing basis</b>			
Assets	1,415	1,518	1,542
Liabilities	1,721	1,859	1,838
Surplus/(deficit)	(306)	(341)	(296)
Funding level	82.2%	81.6%	83.9%
Date	31 Mar 2010	31 Dec 2010	31 Mar 2011
	£m	£m	£m
<b>Liabilities - Minimum risk basis</b>			
Assets	1,415	1,518	1,542
Liabilities	2,377	2,565	2,532
Surplus/(deficit)	(963)	(1,047)	(990)
Funding level	59.5%	59.2%	60.9%

### Guide to Smiley Faces indicators:

Good   
 Indifferent   
 Bad 

\*Please note that the smiley face indicators beside each financial statistic analyse each financial indicator in isolation and hence do not take into account correlated effects.

### Key assumptions and financial indicators:

Date	31 Mar 2010	31 Dec 2010	31 Mar 2011
Discount rate	p.a.	p.a.	p.a.
<b>- Pre-ret.</b>			
Nominal	6.10%	5.77%	5.93%
Real	2.77%	2.65%	2.79%
<b>- Post-ret.</b>			
Nominal	6.10%	5.77%	5.93%
Real	2.77%	2.65%	2.79%
Sal. escalation	5.30%	5.10%	5.11%
(A): FIGs	4.51%	4.18%	4.35%
(B): ILGs	0.68%	0.56%	0.71%
(C): Inflation	3.33%	3.12%	3.14%
(D): AA corp.	5.49%	5.42%	5.53%
(E): AA spread	0.98%	1.24%	1.18%
(F): AOA	1.6%	1.6%	1.6%
FTSE All Share	2,910.2	3,062.9	3,067.7
FTSE 100	5,679.6	5,899.9	5,908.8

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

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

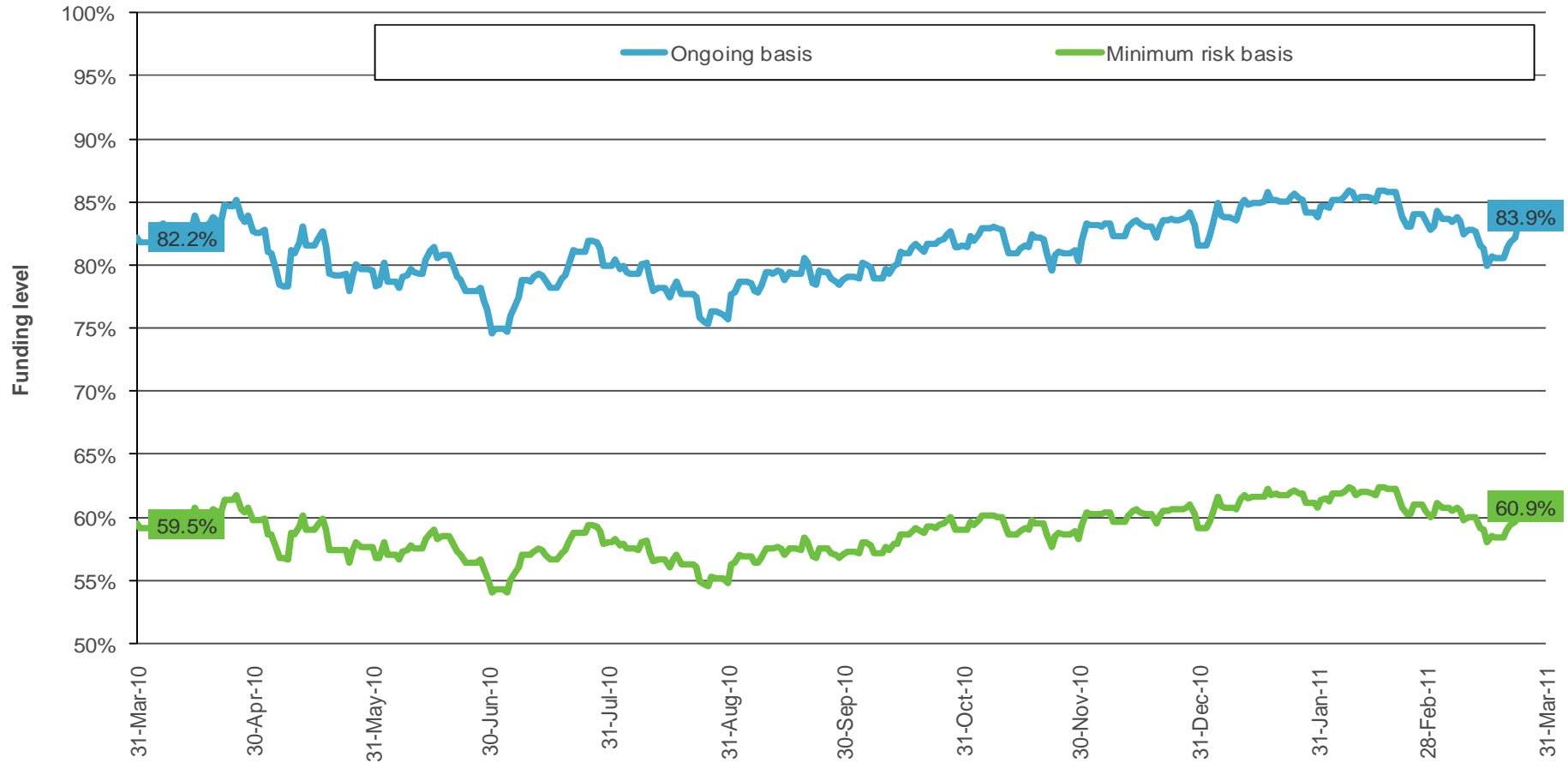
(C) : Implied inflation derived from (A) - (B). Note that we deduct 0.5% from this figure to allow for the change from RPI to CPI

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

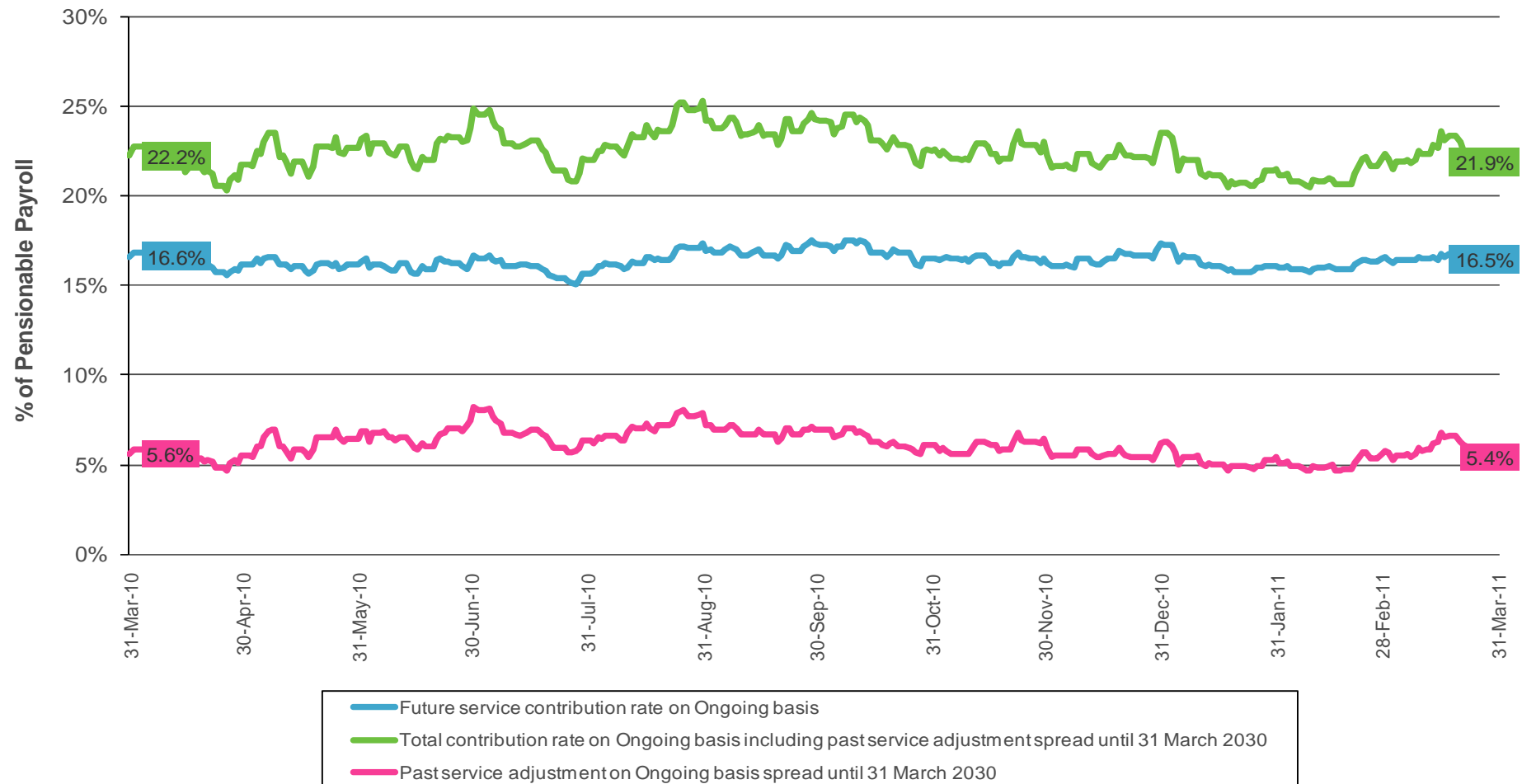
(E) : Credit risk spreads derived from (D) - (A)

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

Estimated progression of funding level from 31 March 2010 to 31 March 2011



Estimated progression of employer's contribution rate from 31 March 2010 to 31 March 2011



# Suffolk County Council Pension Fund

## Attribution analysis

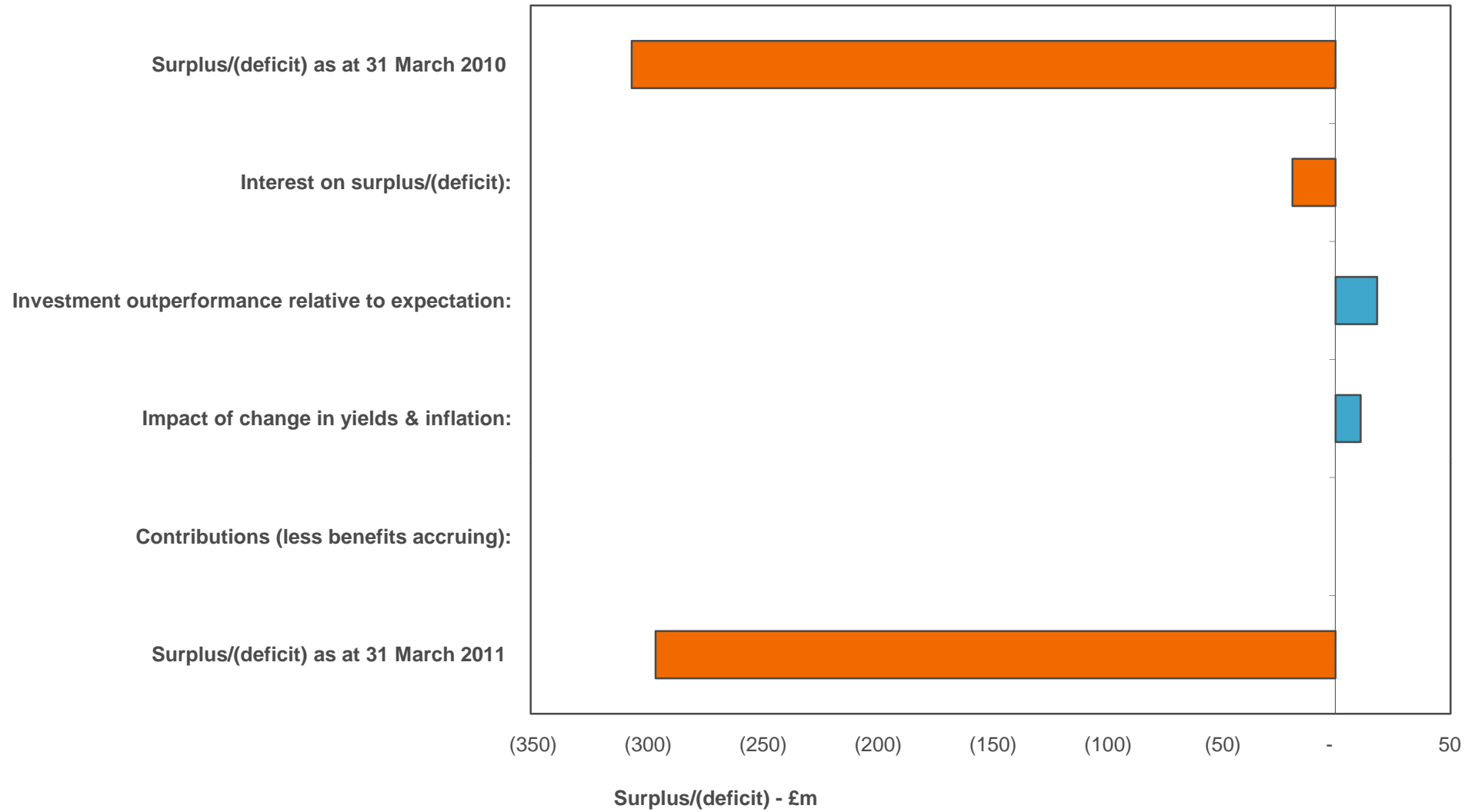
	£m
<b>Asset value as at 31 March 2010</b>	<b>1,415</b>
Contributions paid in:	72
Benefit payments:	(50)
Investment return on benchmark index:	119
Investment outperformance relative to benchmark:	(14)
<b>Asset value as at 31 March 2011</b>	<b>1,542</b>

	£m
<b>Liability value as at 31 March 2010</b>	<b>1,721</b>
Cost of benefits accruing:	72
Interest on liabilities:	106
Impact of change in yields & inflation:	(11)
Benefit payments:	(50)
<b>Liability value as at 31 March 2011</b>	<b>1,838</b>

	£m
<b>Surplus/(deficit) as at 31 March 2010</b>	<b>(306)</b>
Interest on surplus/(deficit):	(19)
Investment outperformance relative to expectation:	18
Impact of change in yields & inflation:	11
Contributions (less benefits accruing):	-
<b>Surplus/(deficit) as at 31 March 2011</b>	<b>(296)</b>

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

Attribution analysis



# Suffolk County Council Pension Fund

## Sensitivity matrix

Fixed Interest Gilt, semi-annual yield (% p.a.)	4.75	82% (310.6)	85% (259.9)	88% (209.2)	91% (156.7)	94% (107.8)	97% (57.1)	100% (6.4)
	4.60	79% (356.0)	82% (305.3)	85% (254.6)	88% (202.1)	91% (153.2)	94% (102.5)	97% (51.8)
	4.45	77% (402.3)	80% (351.6)	83% (300.9)	86% (248.5)	89% (199.5)	92% (148.8)	95% (98.1)
	4.30	76% (449.6)	78% (398.9)	81% (348.2)	84% (295.7)	87% (246.8)	89% (196.1)	92% (145.4)
	4.15	74% (497.8)	76% (447.1)	79% (396.3)	82% (343.9)	84% (294.9)	87% (244.2)	90% (193.5)
	4.00	72% (546.9)	74% (496.2)	77% (445.5)	80% (393.0)	82% (344.1)	85% (293.4)	88% (242.7)
	3.85	70% (597.0)	73% (546.3)	75% (495.6)	78% (443.1)	80% (394.2)	83% (343.5)	85% (292.8)
		5,150	5,400	5,650	5,909	6,150	6,400	6,650
Equity – FTSE 100 price index (proxy)								

31 March 2011  
Projection

83.9%
(295.7)

All amounts are  
in £m

The starting point for this sensitivity matrix is the projected results as at 31 March 2011 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.



# Suffolk County Council Pension Fund

## 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 of the funding level 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.

#### Other model limitations include:

- (1) Annualised cashflows which have been aggregated across homogenous groups are used when calculating this funding update. This is likely to produce less accurate results than a model which uses individual member monthly cashflows. The extent of the differences will depend on individual benefit structures and membership profile.
- (2) Yield curves may not be available at the funding update date. In this case we will use approximate yield curves based on the movement in long-term gilt yields since the date of the last available yield curves.

(3) Liability calculations are performed on the valuation date, the funding update date, anniversaries of the valuation date and each month-end in between. Linear interpolation of liabilities and contribution rates is used for other dates. This is less accurate than performing a full calculation daily.

(4) Future service liability is calculated by blending the liabilities at each available control period using weighting factors based on the salary roll. When annual control periods are not available the calculation of future service liabilities becomes more

### Data

My calculations are based on the data provided for the most recent actuarial valuation. Further details regarding the quality of the data and a summary of the data can be found in the formal actuarial valuation report.

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 indices that will closely 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 assumption 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 report also complies with the Technical Actuarial Standards on Reporting (TAS R), Data (TAS D), Modelling (TAS M) and the Pensions TAS. It forms an aggregate report when combined with the report on the latest formal funding valuation of the scheme.

# Suffolk County Council Pension Fund

## 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)
- 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 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 differences than the +/-2% per year from the true underlying position stated in Appendix 1.

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 (Over 15 Years)
- FTSE Actuaries UK Government Fixed Interest Gilts Yield (Over 15 Years)