# Navigator

Version 2.38

## Funding projection as at 30 June 2012
## Suffolk County Council Pension Fund

**Prepared by:**

**Linda Dudley**
**For and on behalf of Hymans Robertson LLP**

**5 July 2012**

**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.

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PUBLIC SECTOR

**Actuarial funding update**

## Contents:

## 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 30 June 2012, 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 30 June 2012, I estimate the funding level at that date to be **70.8%.** These results are outlined on Page 2 along with the relevant key assumptions. The funding level has decreased since 31 March 2010, principally for the following reasons:

Changes in bond yields and expected inflation have had a negative effect on the financial assumptions which has increased the value of the Fund's liabilities. In addition, the investment return achieved on the Fund's assets has been considerably lower than expected (approximately 7.7% for the period to 30 June 2012 versus +14.3% expected at the 2010 valuation). Please note this is based on actual returns to end March 2012 and estimated returns for the period 1 April 2012 to 30 June 2012.

The changes in bond yields and inflation have had a negative impact on the employer's share of the cost of future benefit accrual (i.e. the future service rate). In addition, the short-term salary freeze assumption of 1% p.a. ended on 31 March 2012. The average future service rate for the Fund has increased from 16.6% of payroll at 31 March 2010 to **21.3% of payroll** at 30 June 2012. 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 30 June 2012 imply that a further contribution of **11.5% of payroll** would be required over this period. Therefore, in theory, the appropriate contribution rate for the Fund at 30 June 2012 would be **32.8% of payroll** (comprised of a future service rate of 21.3% of payroll and deficit contributions of 11.5% of payroll).



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.**

Linda Dudley FIA

## Estimated projection of funding position as at 30 June 2012

### 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 £m | 31 Mar 2012 £m | 30 Jun 2012 £m |
|---|---|---|---|
| **Liabilities - Ongoing Basis** | | | |
| | | | |
| **Assets** | **1,415** | **1,631** | **1,622** |
| **Liabilities** | **1,721** | **2,264** | **2,290** |
| **Surplus/(deficit)** | **(306)** | **(633)** | **(668)** |
| **Funding level** | **82.2%** | **72.0%** | **70.8%** |

| Date | 31 Mar 2010 £m | 31 Mar 2012 £m | 30 Jun 2012 £m |
|---|---|---|---|
| **Liabilities - Gilts Basis** | | | |
| | | | |
| **Assets** | **1,415** | **1,631** | **1,633** |
| **Liabilities** | **2,377** | **3,121** | **3,181** |
| **Surplus/(deficit)** | **(963)** | **(1,490)** | **(1,548)** |
| **Funding level** | **59.5%** | **52.3%** | **51.3%** |

**Guide to Smiley Faces indicators:**

**Good** ☺ (green)
**Indifferent** (yellow)
**Bad** ☹ (red)

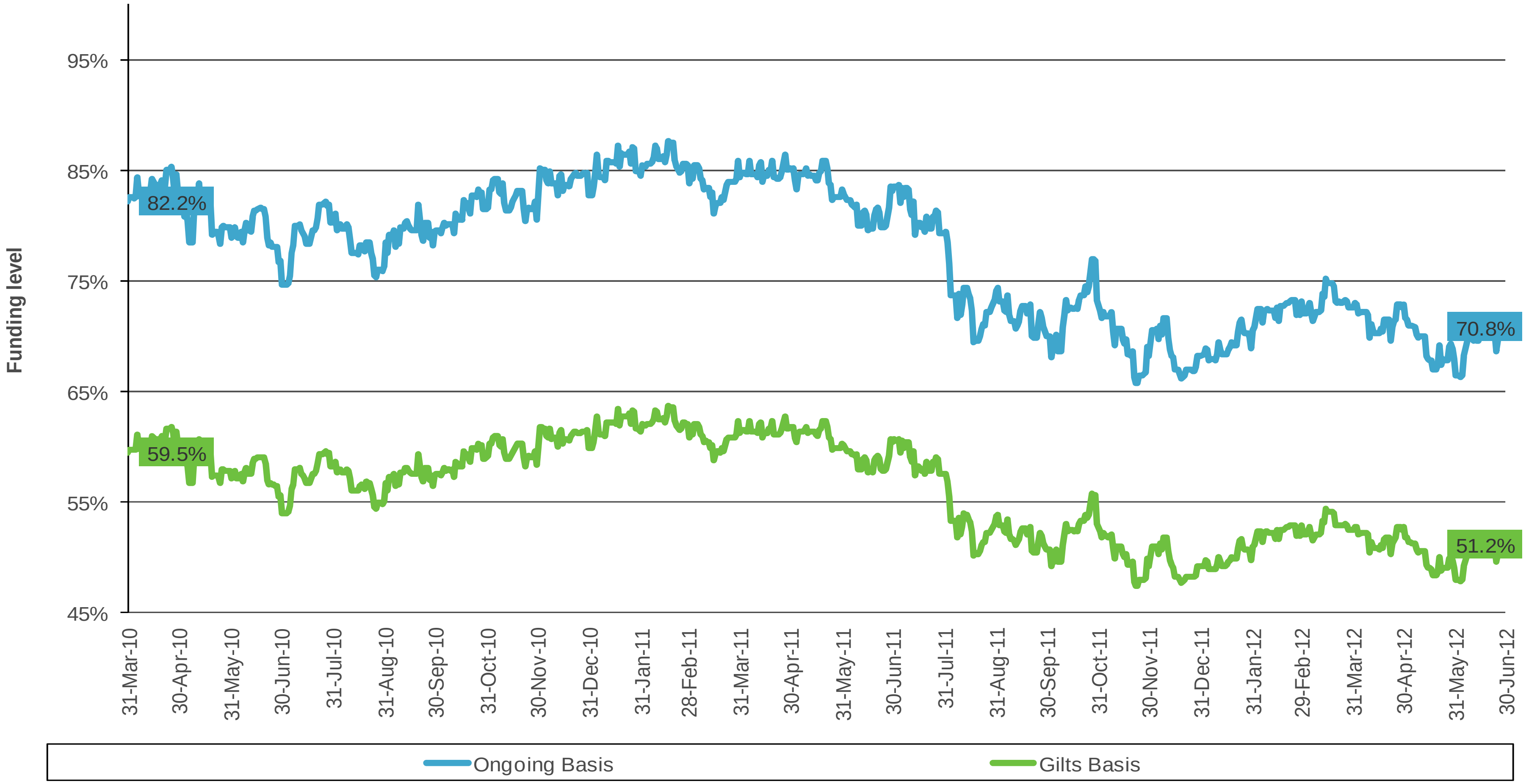
**Please note that the smiley face indicators beside each financial statistic analyse each financial indicator in isolation and hence do not take into account correlated effects.*

### Key assumptions and financial indicators:

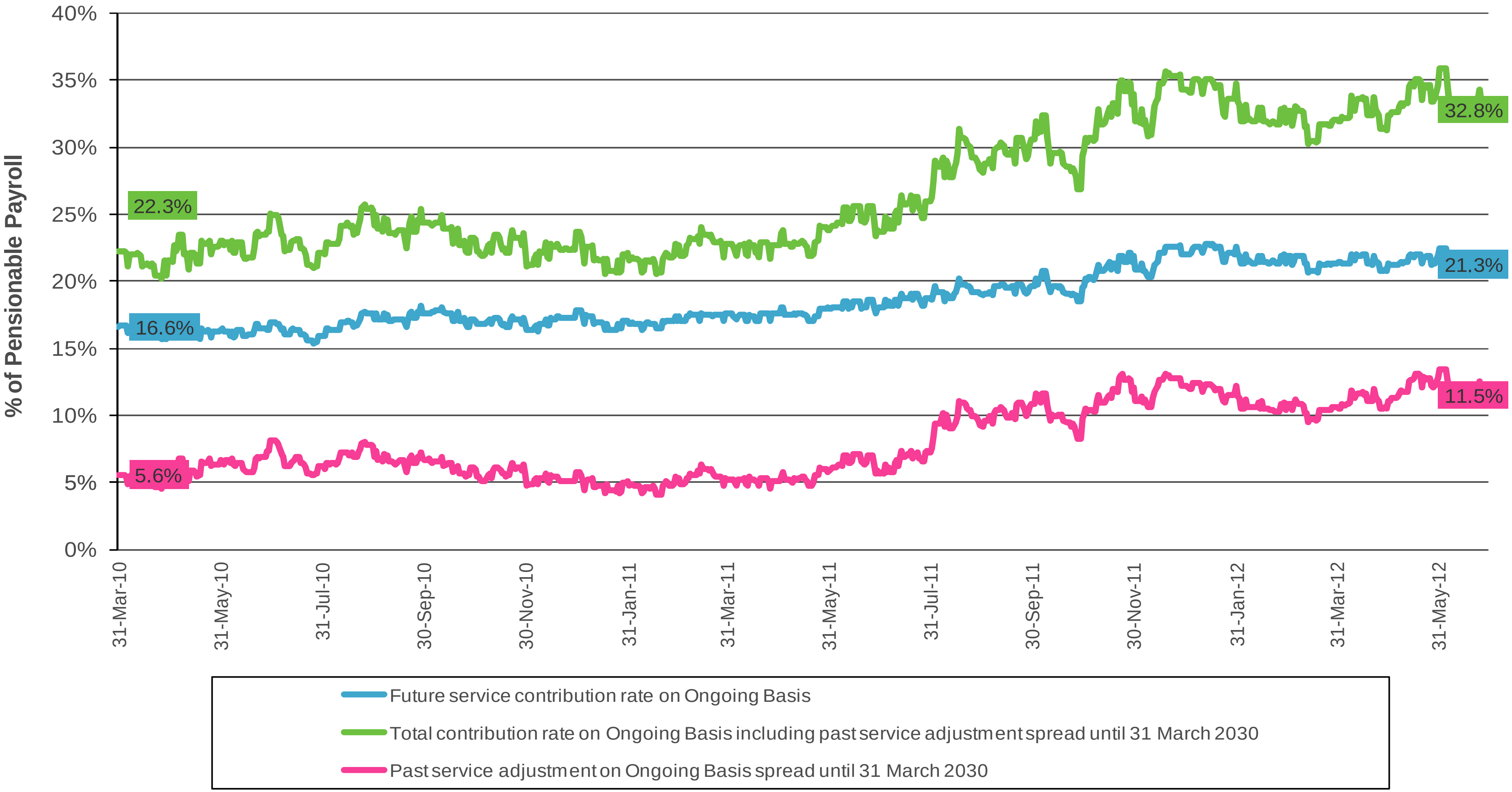
| Date<br>Discount rate | 31 Mar 2010<br>p.a. | 31 Mar 2012<br>p.a. | 30 Jun 2012<br>p.a. | |
|---|---|---|---|---|
| **- Pre-ret.** | | | | |
| Nominal | 6.10% | 4.90% | 4.50% | |
| Real | 2.27% | 1.60% | 1.57% | Bad |
| **- Post-ret.** | | | | |
| Nominal | 6.10% | 4.90% | 4.50% | |
| Real | 2.27% | 1.60% | 1.57% | Bad |
| | | | | |
| **Sal. escalation** | 5.30% | 4.80% | 4.40% | Good |
| | | | | |
| **(A): FIGs** | 4.51% | 3.29% | 2.94% | Bad |
| **(B): ILGs** | 0.68% | -0.01% | 0.01% | Bad |
| **(C): Inflation** | 3.83% | 3.30% | 2.93% | Good |
| **(D): AA corp.** | 5.49% | 4.62% | 4.24% | Bad |
| **(E): AA spread** | 0.98% | 1.33% | 1.30% | |
| **(F): AOA** | 1.59% | 1.59% | 1.59% | |
| | | | | |
| **FTSE All Share** | 2,910.2 | 3,002.8 | 2,891.5 | Bad |
| **FTSE 100** | 5,679.6 | 5,768.5 | 5,571.2 | Bad |

*(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)*
*(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 30 June 2012**



**Estimated progression of employer's contribution rate from 31 March 2010 to 30 June 2012**



## Attribution analysis

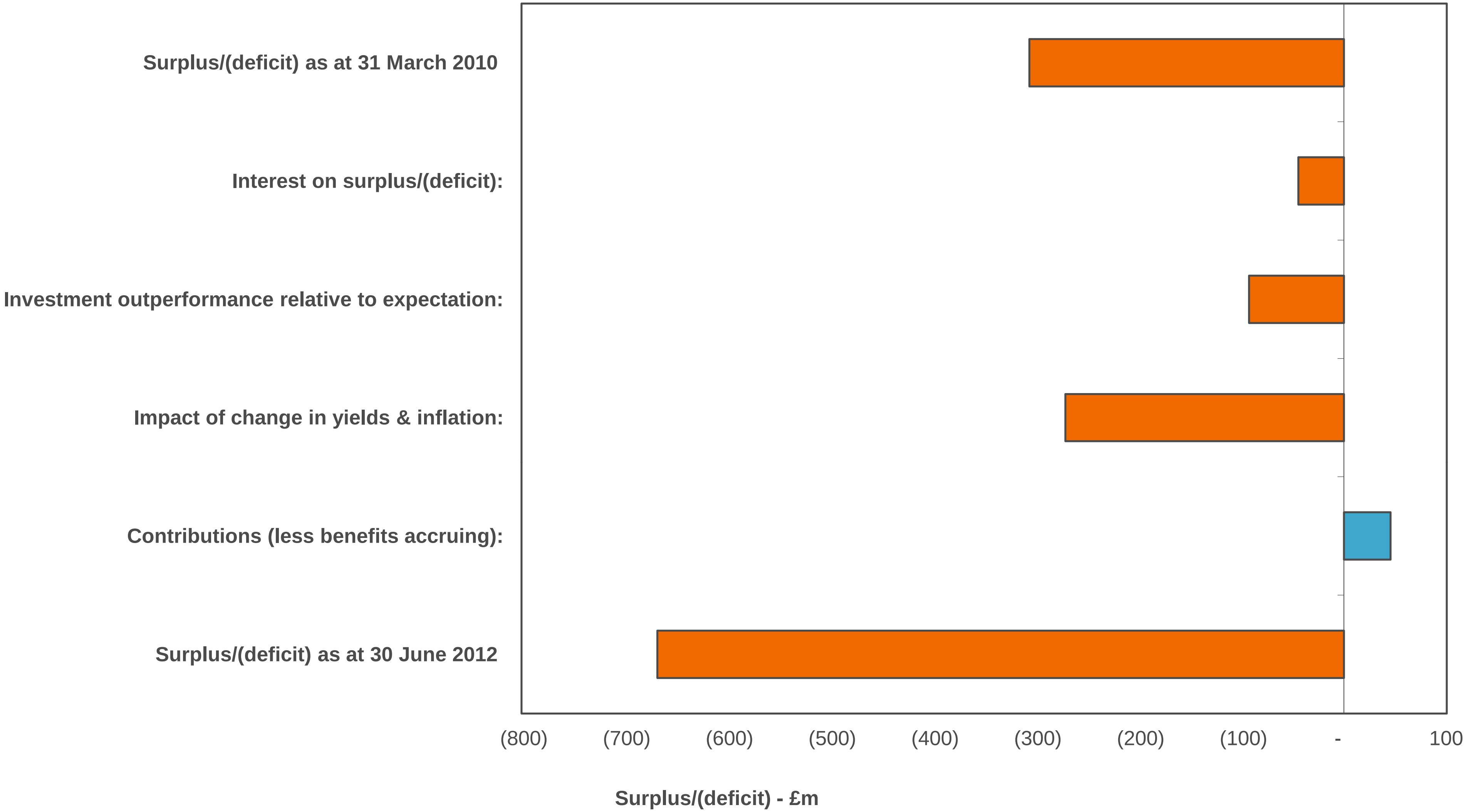
| | £m | |
|---|---|---|
| **Asset value as at 31 March 2010** | | **1,415** |
| Contributions paid in: | **210** | |
| Benefit payments: | **(115)** | |
| Investment return on benchmark index: | **174** | |
| Investment outperformance relative to benchmark: | **(61)** | |
| **Asset value as at 30 June 2012** | | **1,622** |

| | £m | |
|---|---|---|
| **Liability value as at 31 March 2010** | | **1,721** |
| Cost of benefits accruing: | **164** | |
| Interest on liabilities: | **249** | |
| Impact of change in yields & inflation: | **271** | |
| Benefit payments: | **(115)** | |
| **Liability value as at 30 June 2012** | | **2,290** |

| | £m | |
|---|---|---|
| **Surplus/(deficit) as at 31 March 2010** | | **(306)** |
| Interest on surplus/(deficit): | **(44)** | |
| Investment outperformance relative to expectation: | **(92)** | |
| Impact of change in yields & inflation: | **(271)** | |
| Contributions (less benefits accruing): | **45** | |
| **Surplus/(deficit) as at 30 June 2012** | | **(668)** |

*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.) | | | | | | | |
|---|---|---|---|---|---|---|---|
| 3.35 | 69% (655.8) | 71% (599.7) | 74% (543.6) | 76% (493.9) | 79% (431.3) | 82% (375.2) | 85% (319.1) |
| 3.20 | 67% (715.2) | 70% (659.1) | 72% (603.0) | 74% (553.4) | 77% (490.8) | 80% (434.7) | 83% (378.6) |
| 3.05 | 65% (776.0) | 68% (719.8) | 70% (663.7) | 72% (614.1) | 75% (551.5) | 78% (495.4) | 80% (439.3) |
| 2.92 | 64% (829.6) | 66% (773.5) | 69% (717.4) | 71% (667.8) | 74% (605.2) | 76% (549.1) | 78% (493.0) |
| 2.75 | 62% (901.3) | 64% (845.2) | 67% (789.1) | 69% (739.4) | 71% (676.8) | 74% (620.7) | 76% (564.6) |
| 2.60 | 60% (966.0) | 63% (909.8) | 65% (853.7) | 67% (804.1) | 70% (741.5) | 72% (685.4) | 74% (629.3) |
| 2.45 | 59% (1,032.0) | 61% (975.9) | 63% (919.8) | 65% (870.2) | 68% (807.6) | 70% (751.5) | 72% (695.3) |
| Equity – FTSE 100 price index (proxy) | 4,850 | 5,100 | 5,350 | 5,571 | 5,850 | 6,100 | 6,350 |

**30 June 2012 Projection**

71%
(667.8)

All amounts are in £m

The starting point for this sensitivity matrix is the projected results as at 30 June 2012 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 projectionof 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 to the shape of yield curves;
(4) changes in the salary roll of employee members;
(5) variations between actual and expected demographic experience (e.g. on withdrawals or mortality); and
(6) changes in the asset outperformance assumption.

### Membership data

My calculations are based on the membership data provided for the most recent actuarial valuation. Details on the quality of this data and a data summary can be found in the last 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 actual market value of invested assets have been updated at regular intervals. Changes in the market value of invested assets since the last known value are assumed to be in line with particular market indices. These are not necessarily the same indices that the managers have been asked to track or beat. Some asset classes are not easily tracked by these indices leading to potentially greater levels of approximation of asset returns.

### Compliance with professional standards

The method and assumptions used to calculate the updated funding position are consistent with those used in the latest formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. As such, the advice in this report is consistent with that contained in the latest formal valuation report.

This update therefore complies with the following Technical Actuarial Standards (TASs) issued by the Board for Actuarial Standards (BAS):

- Reporting (“TAS R”)
- Data (“TAS D”)
- Modelling (“TAS M”)
- Pensions (“TAS P”)

## 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)