HYMANS ROBERTSON
The Spirit of Independence

London Borough of Lewisham Pension Fund

2013 Actuarial Valuation – An introduction

- Geoffrey Nathan

- 12 June 2013

Agenda

1. Background to 2013 valuation
2. Valuation assumptions
3. Inter-valuation experience
4. Stabilising contribution rates

1. Background to 2013 valuation

Why do we do a valuation?

- Compliance with legislation
- Recommend contribution rates
  - Common rate
  - Individual employer rates
- Determine money needed to meet accrued liabilities
- Calculate solvency ("funding level")
- Monitor experience vs. assumptions
- Manage risks to Fund

Review the Funding Strategy Statement (FSS)

Summary of the valuation process

Data

Benefits

FSS

Assumptions

Value Assets &
Value Liabilities

Past service
surplus or deficit?

Agree employer
contribution rate

Valuation
Report

Rates and
Adjustments Certificate

Valuation timetable

31 March 2013 | **31 December 2013** | **31 March 2014**

2012/Q1 2013
- Preparation for valuation

Q2 2013
- Data for actuary

Q3 2013
- Actuary does his sums

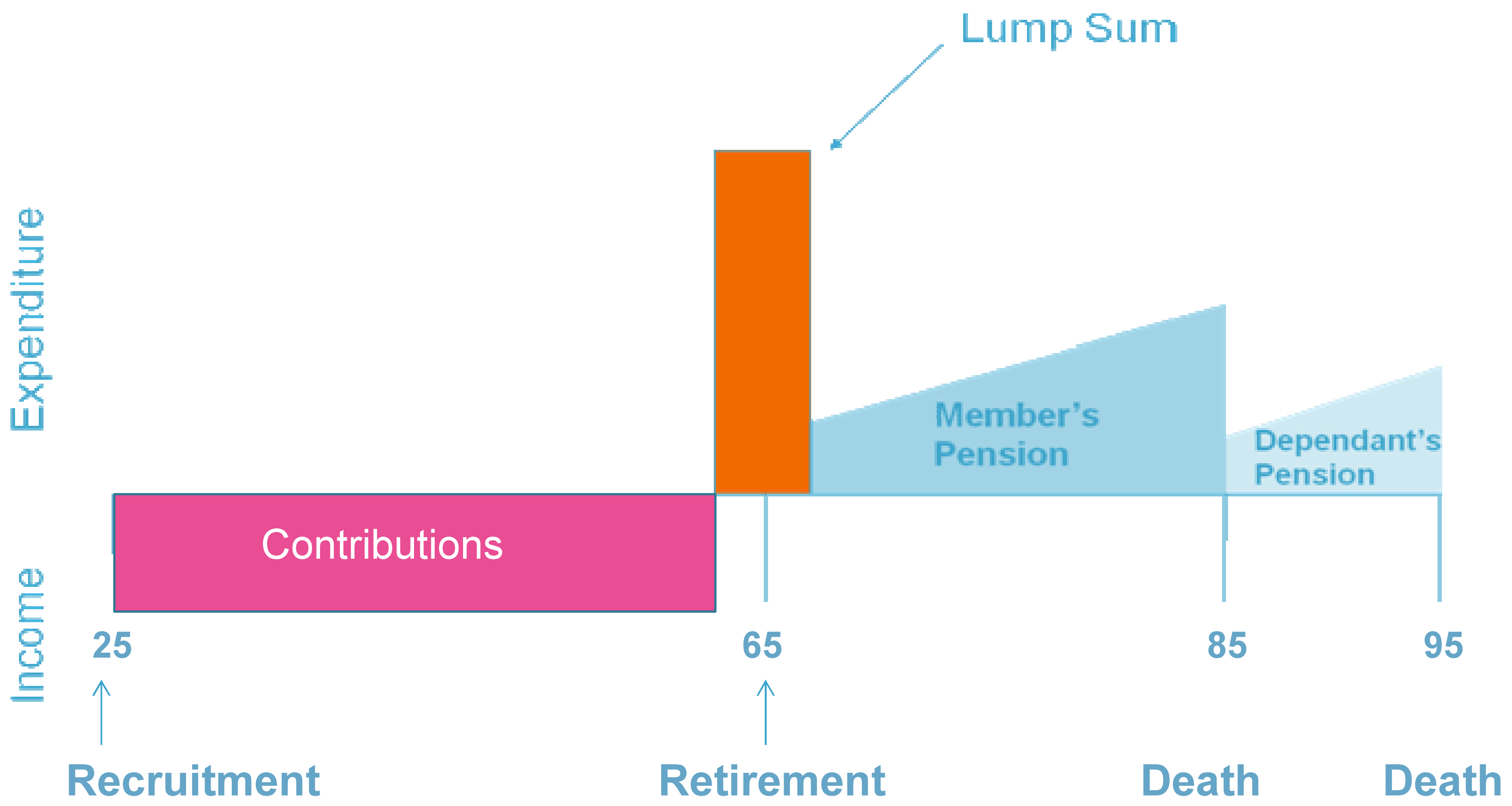
Q4 2013
- Valuation results
- Update FSS

Q1 2014
- Finalise employer contributions

New Rates Payable

2. Valuation assumptions

The pensions promise



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Fund valuation - assumptions

Amounts paid and probability of payment

Financial Assumptions

- Inflation
- Pay increases
- Pension increases
- Investment return

Consider:

- Economic outlook
- Actual Fund assets
- Historical pay growth

Demographic Assumptions

- Life expectancy
- Retirement age and cause
- Withdrawals
- Marriage statistics

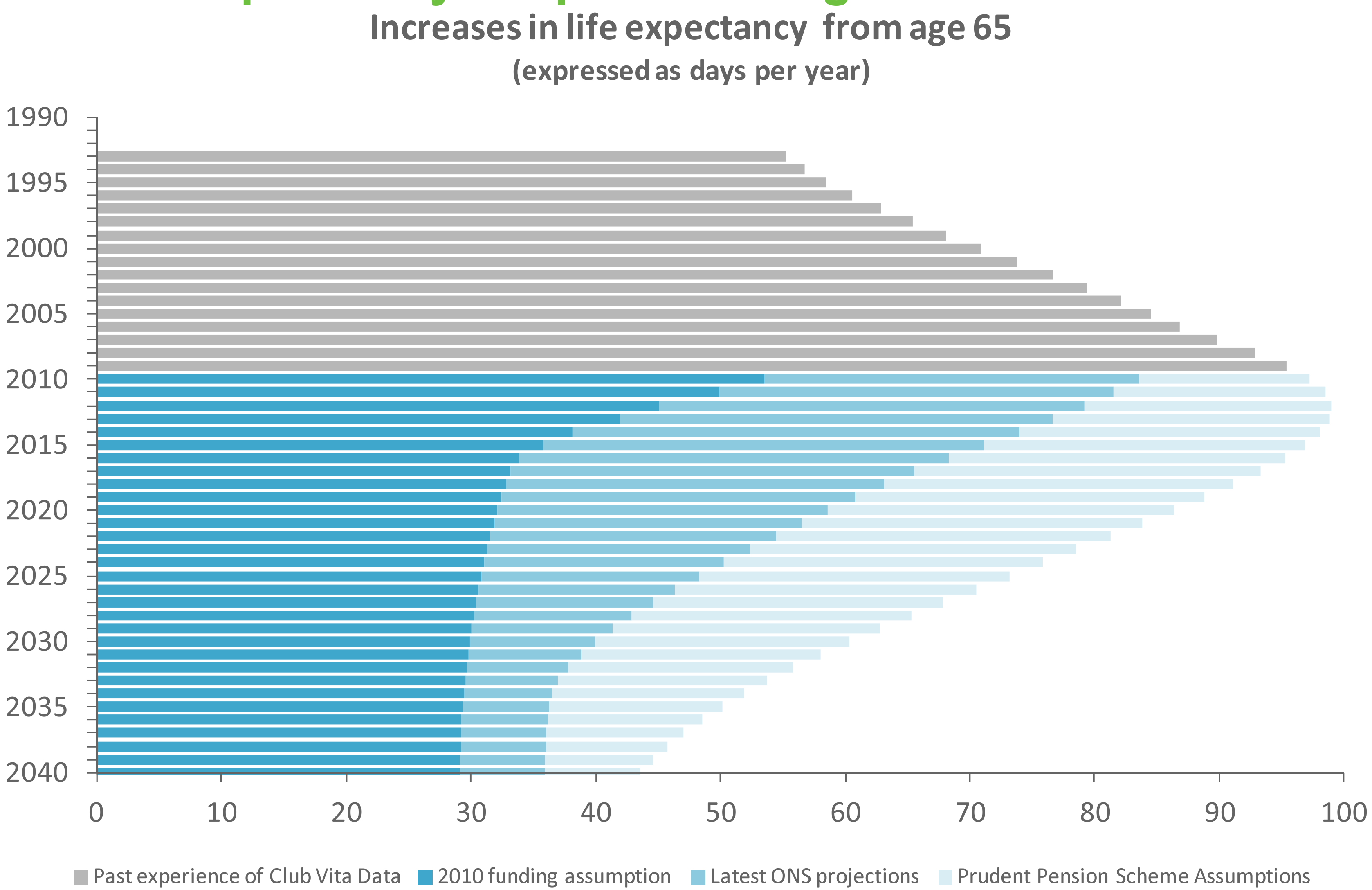
Consider:

- Population trends
- Members' lifestyle factors
- Past Fund experience

Likely impact of key drivers since 2010

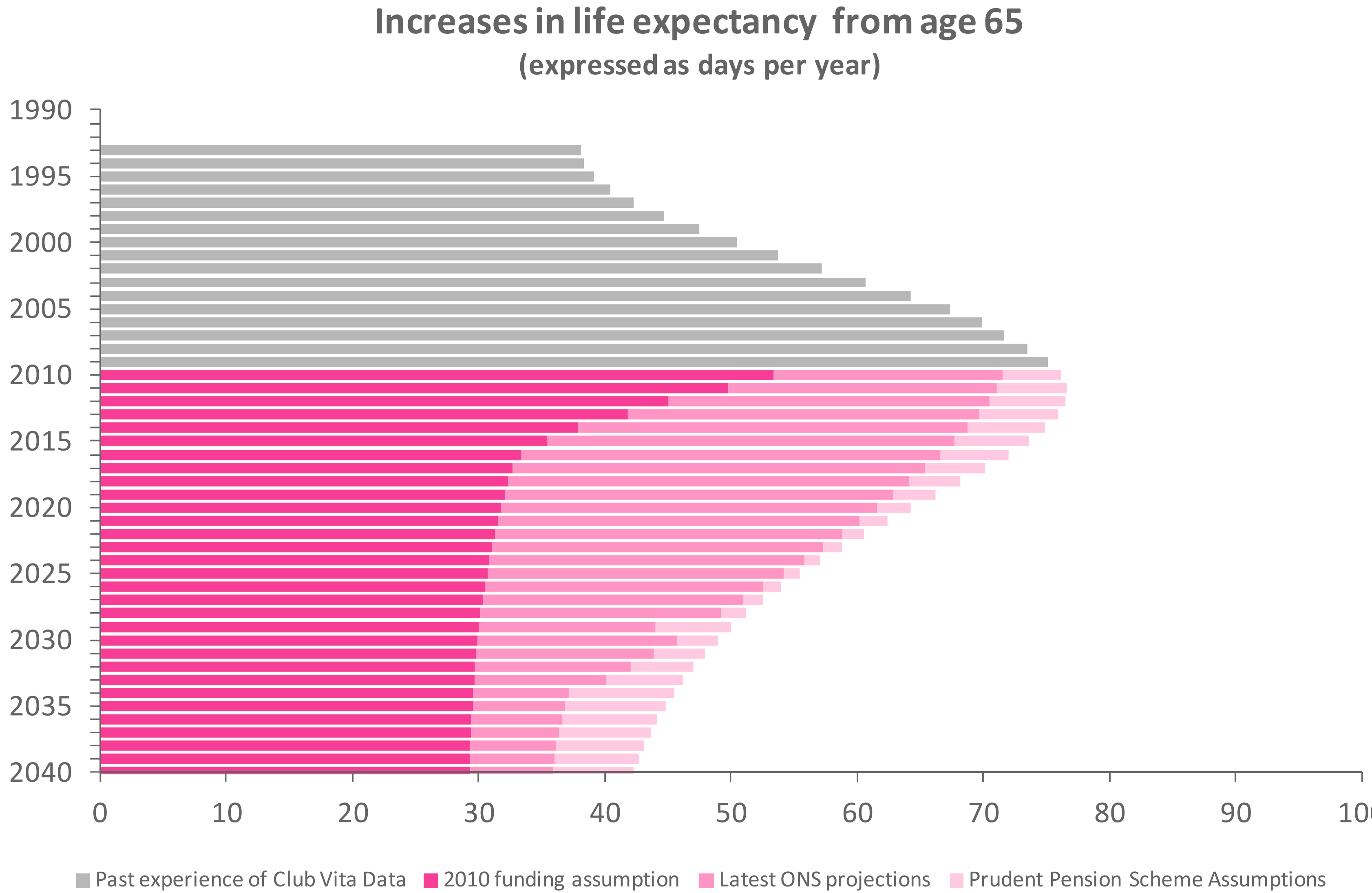
Key driver	Deficit	Contribution rate	
Market conditions	↑	↑	☹
Investment returns	↓	↔	☺
Life expectancy	↑	↑	☹
LGPS 2014	↔	↓	☺
Overall Impact	↑	↑	☹

Male life expectancy keeps marching on...



Source: Own calculations based upon Club Vita data and CMI projections library. Prudent pension scheme assumptions reflects the assumptions of **private sector** pension scheme trustees who are concerned that improvements have yet to peak and so are allowing for a few more years of strong improvements before year-on-year improvements slow down.

...and also for women (but a little slower)



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3. Inter-valuation experience

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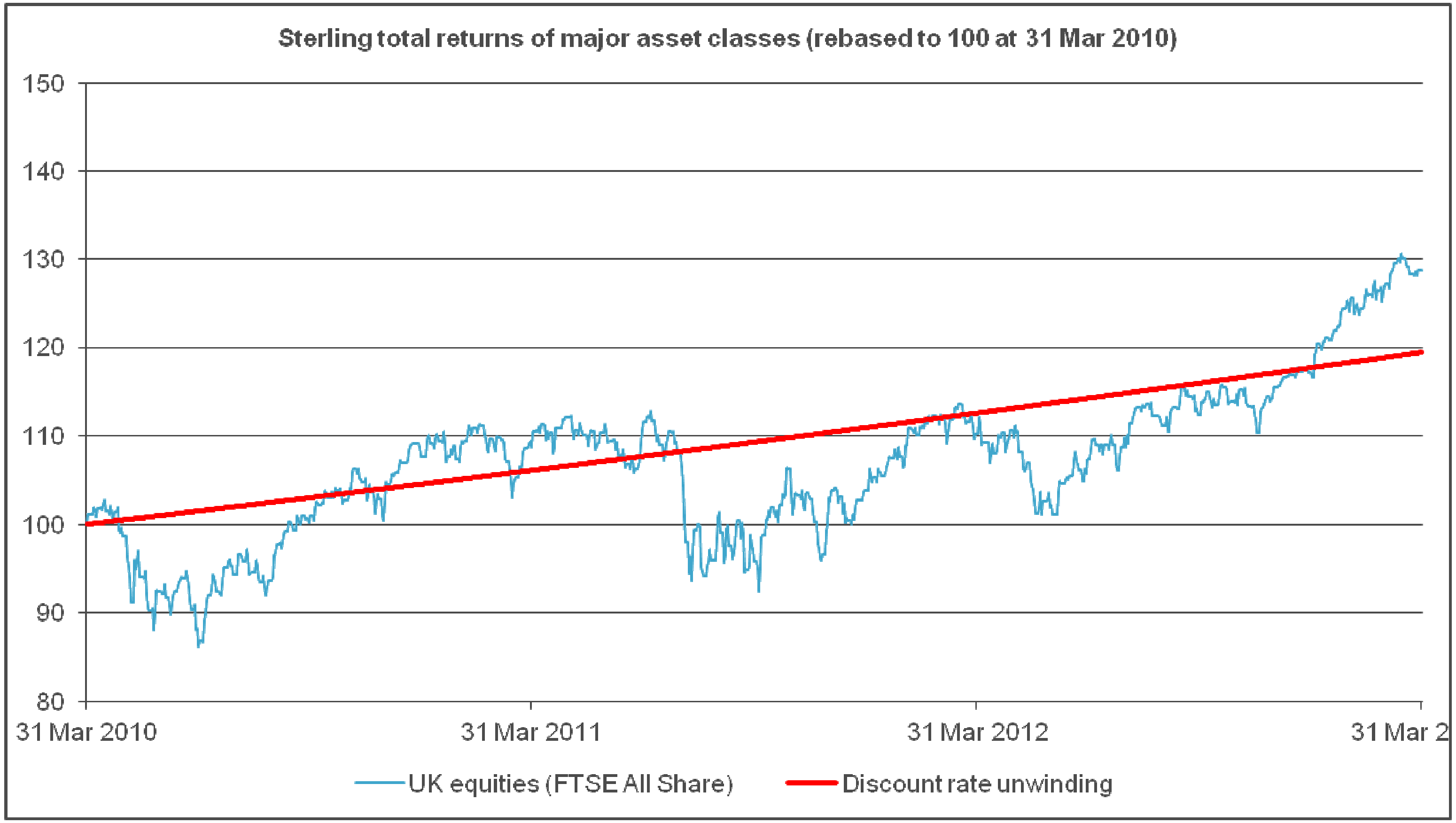
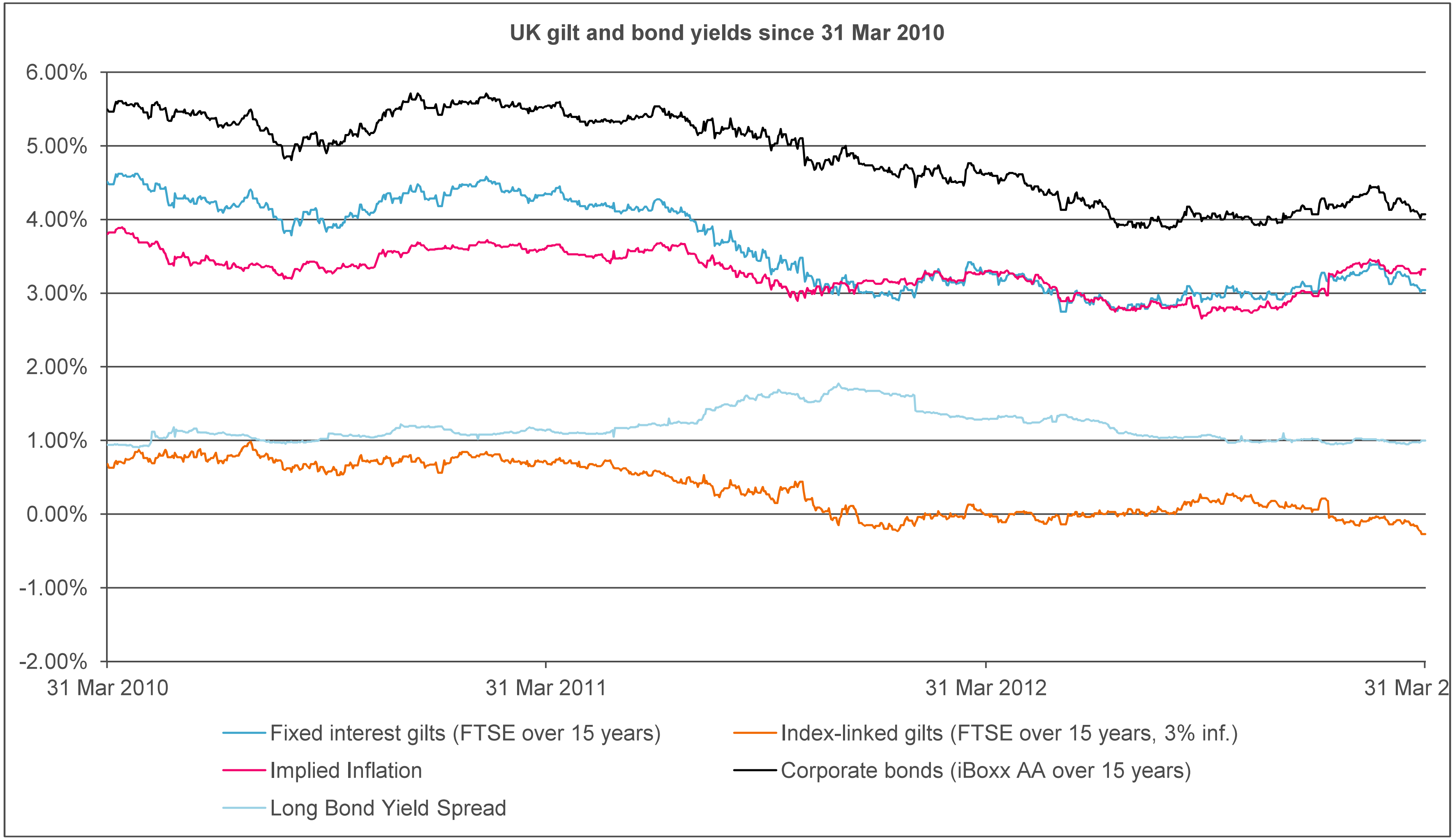
Post 2010 valuation events

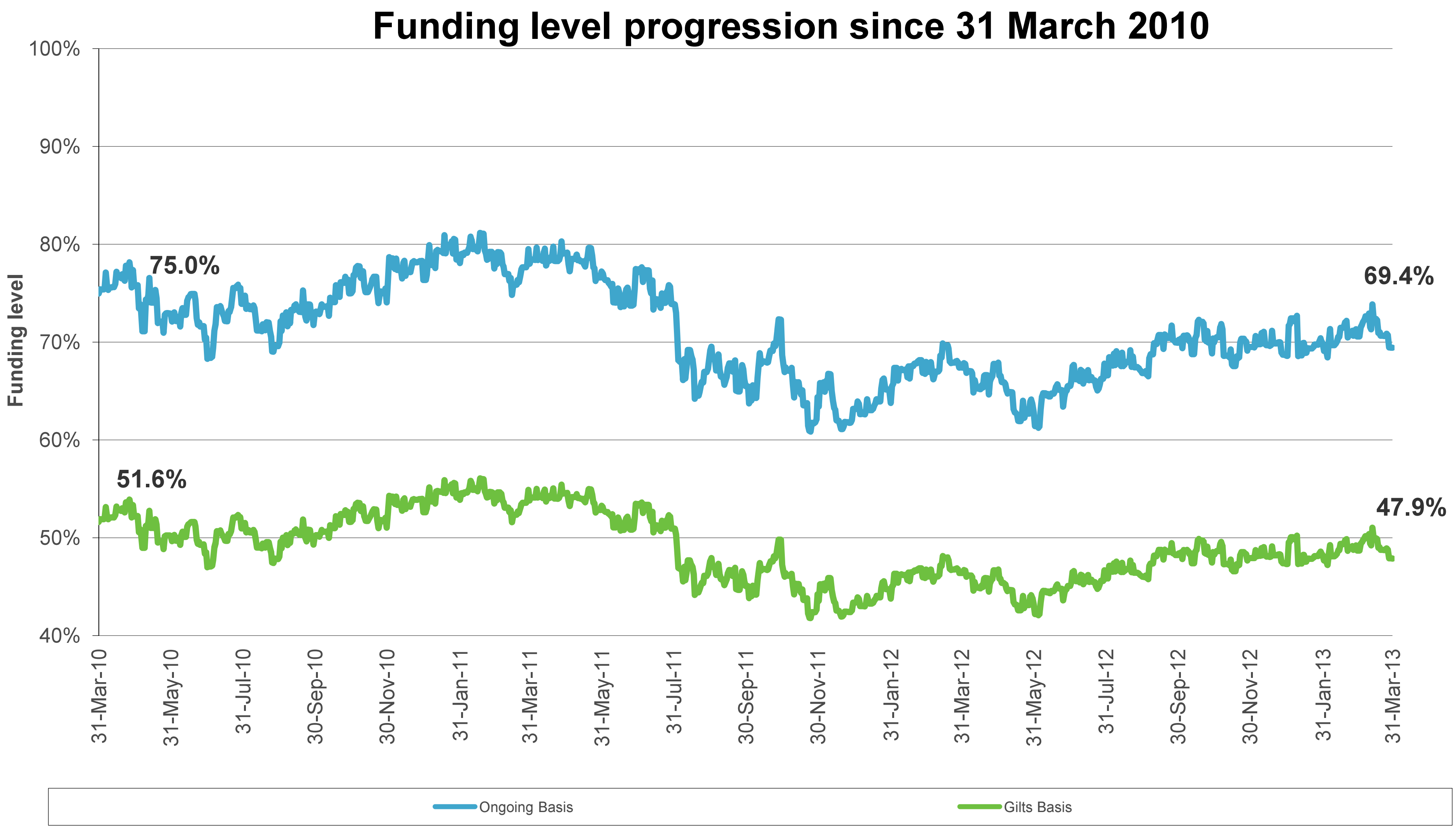


Recovery on the horizon?

Movement in bond yields / implied inflation

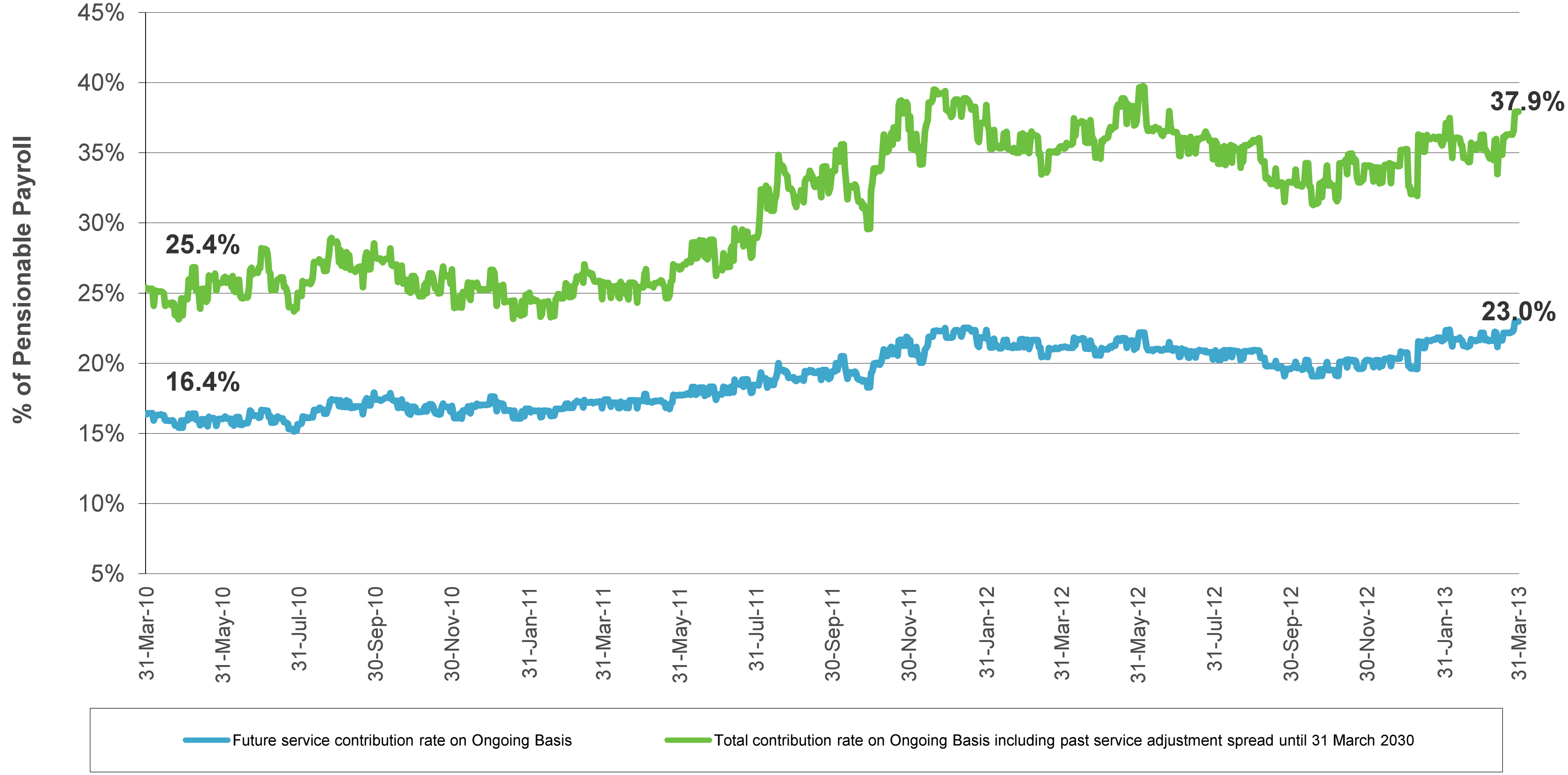


... falling funding level....



Source: Own calculations based on median LGPS Fund

... rising common contribution rate



Source: Own calculations based on median LGPS Fund

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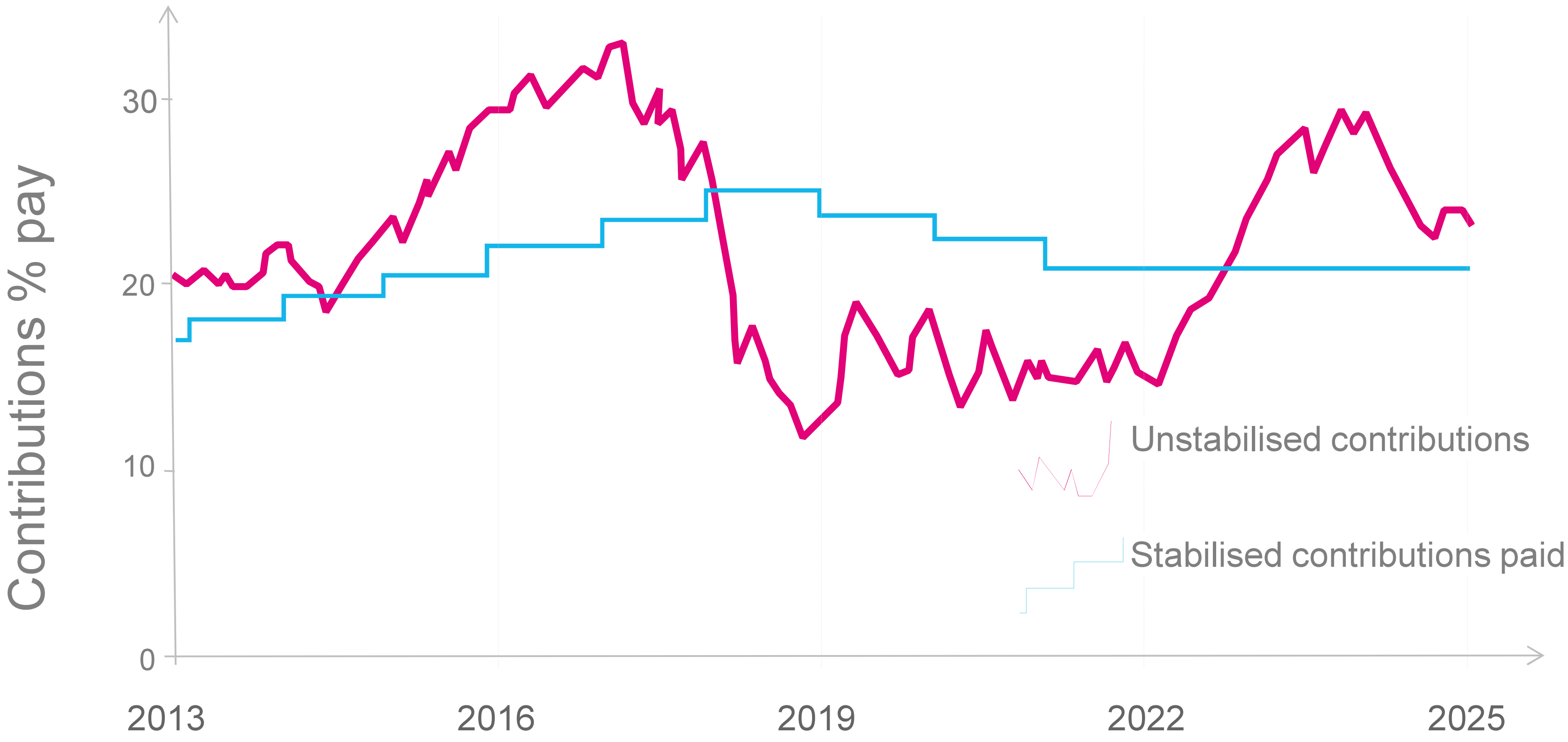
Outlook for 2013

Compared against 2010 valuation:

- Funding levels *likely* to be lower
- Deficits *likely* to be bigger
- (Theoretical) contribution rates *likely* to be higher

4. Stabilising contribution rates

Contribution Stability Mechanism



Stabilise contributions for long term secure employers

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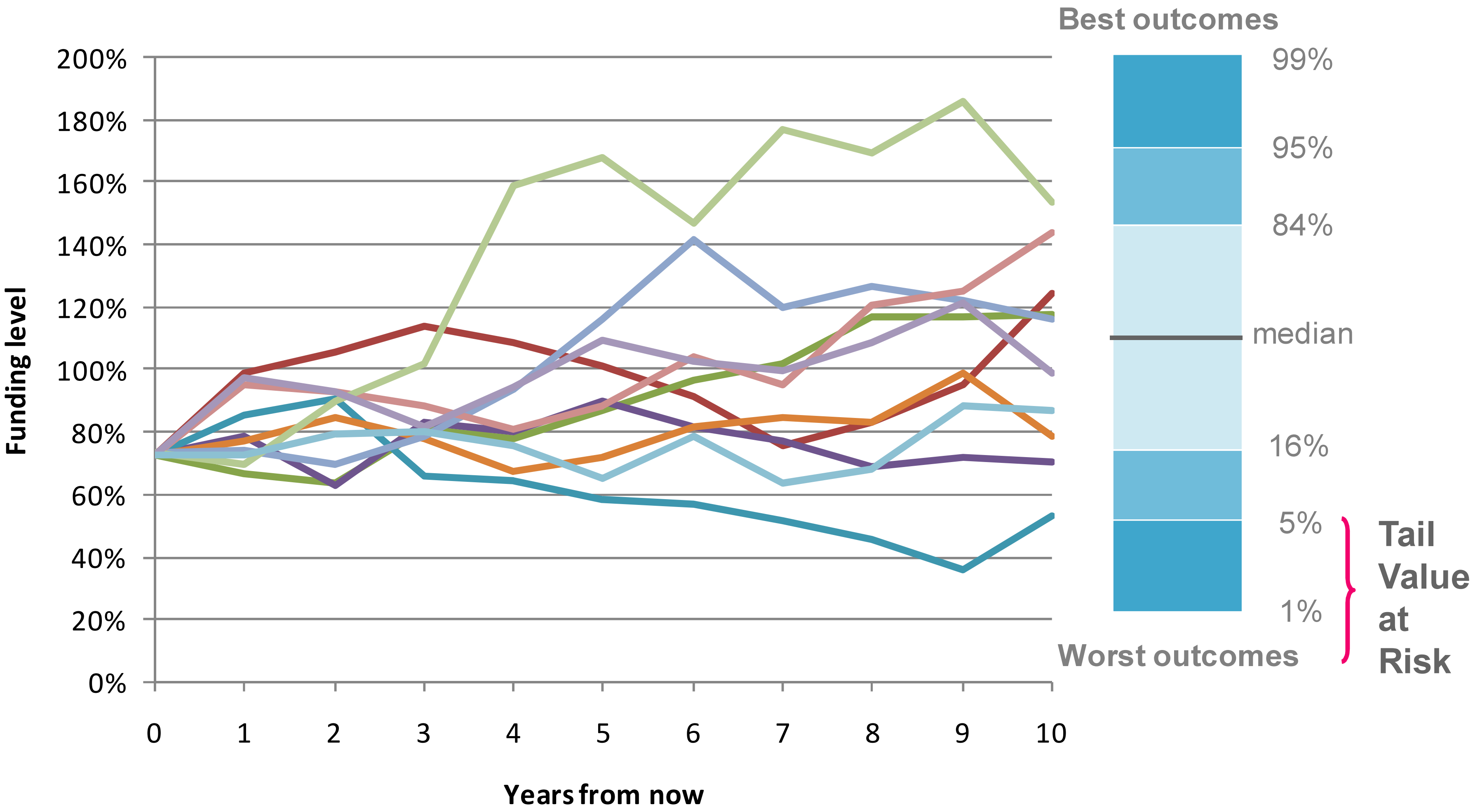
Stabilising contributions

- Model inputs:
  - Contribution level that may be affordable
  - Investment strategy
  - Different future interest rates, investment returns, inflation
  - Best estimate returns, normalisation of interest rates
- Model outputs:
  - Projected funding level (distribution)
  - Likelihood of success
- Iterate:
  - get right balance between affordability and risk

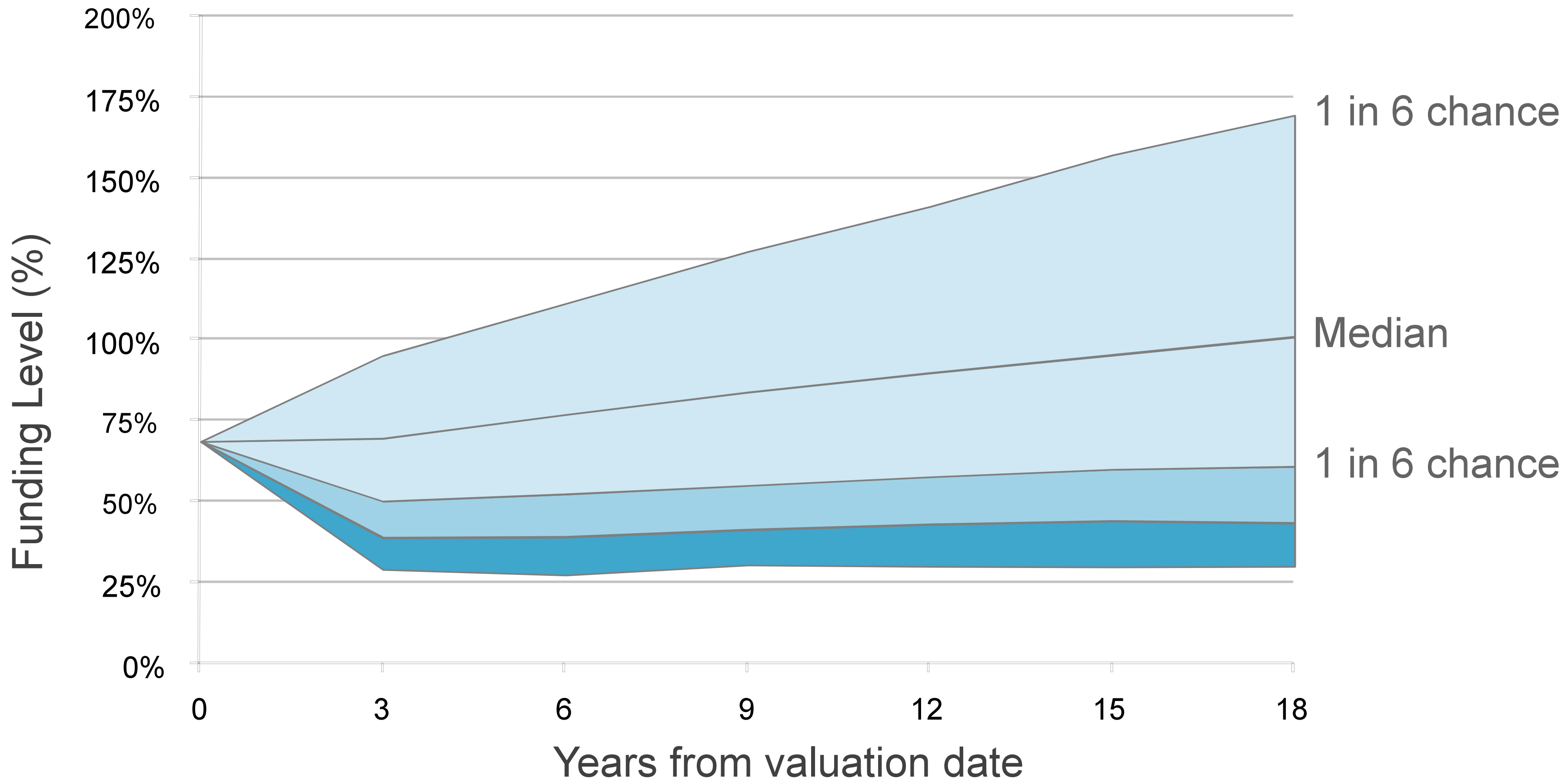
Risk based approach to setting contributions

Stabilisation recap



Assess the likelihood of different outcomes

5,000 scenarios gives a distribution of outcomes



More than 50% chance meet funding objective

Source: Hymans Robertson LLP, comPASS, sample fund

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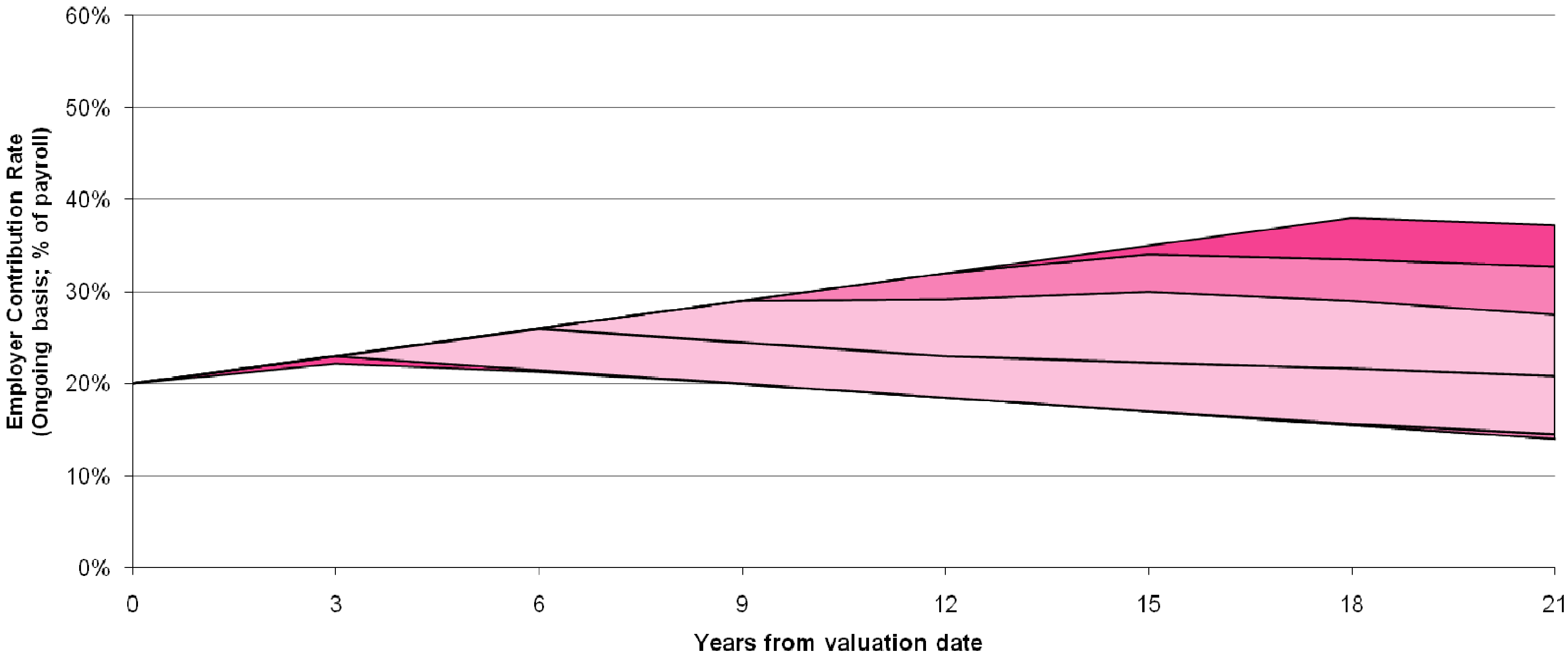
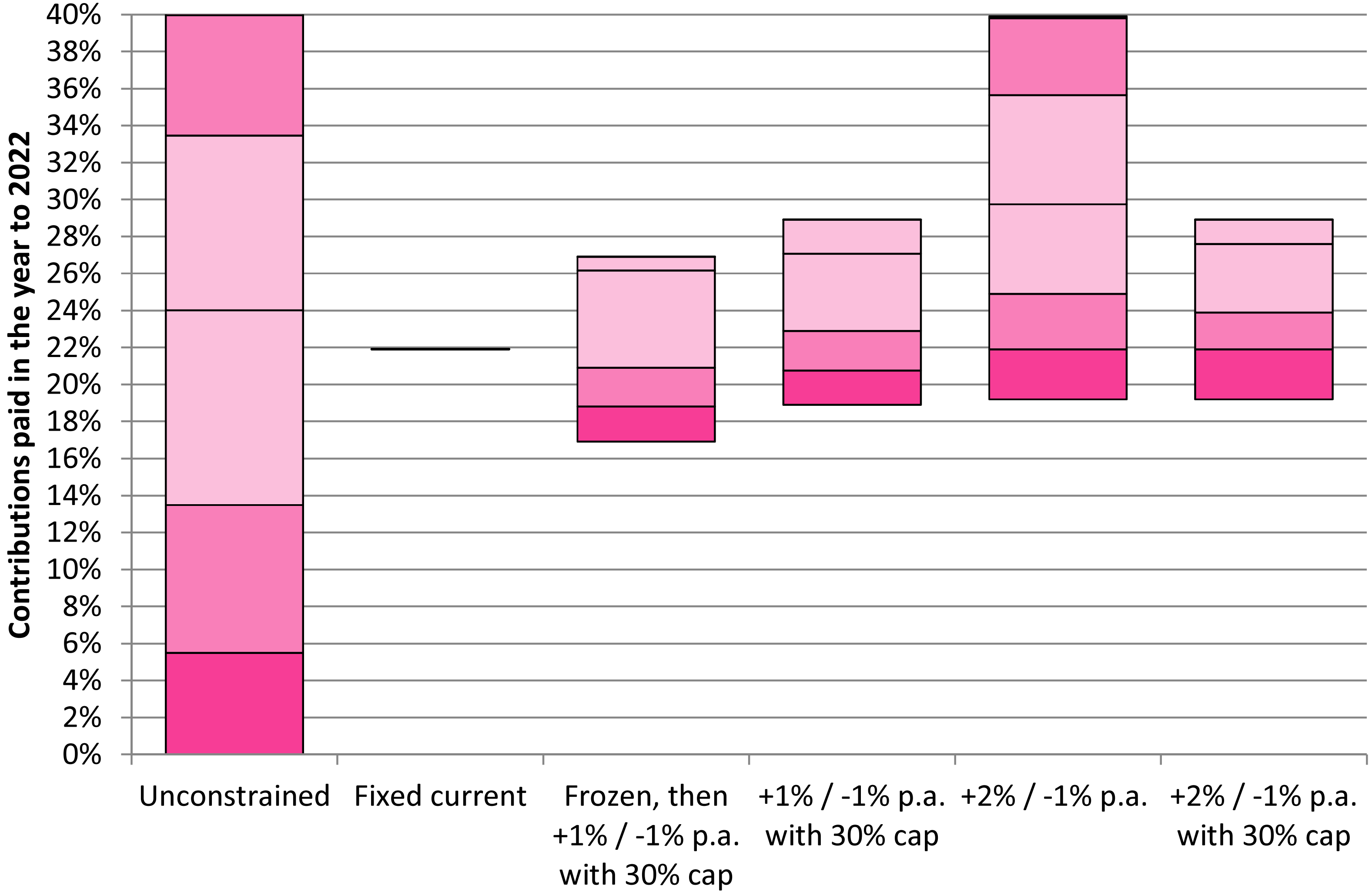
5,000 scenarios gives a distribution of outcomes



Range of likely contributions over long term

Source: Hymans Robertson LLP, comPASS, sample fund

Various contribution scenarios



Source: Hymans Robertson LLP, comPASS, sample fund

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Thank you

Any questions?