



18 March 2011

Avon Pension Fund Committee Meeting

2010 Actuarial Valuation and Funding Strategy

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2010 valuation – key issues

Affordability

- Comprehensive Spending Review
- Budget pressures
- Deficit contributions as £ amounts

Assumptions

- Inflation & Pay Restraint
- Demographic analyses and trends (Longevity, ill health retirements and proportions married)
- Expected investment returns (short and long term)

Risk Management

- Higher investment return assumption = higher reliance on investment returns
- Longer recovery period = higher repayment interest
- Accelerating maturity/terminations
- Employer engagement and covenant

Changes to the LGPS

- CPI
- Hutton Review?
 - Short term:* *Increased employee contributions*
 - Long term:* *Structural changes*
Accrued rights?

Life Expectancy Assumptions

Baseline and future improvements

There are two separate considerations when adopting a mortality assumption:

- The baseline table for the current rates of mortality; and*
- The allowance for future improvements.*

Baseline
Life Expectancy
Today

+

Future Changes
How things may
change

Can be measured

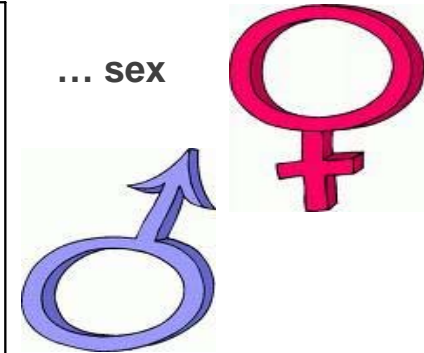
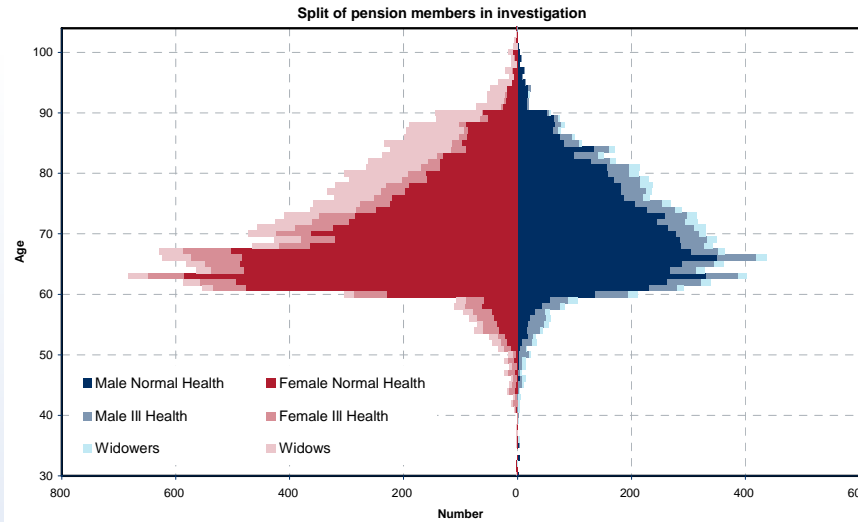
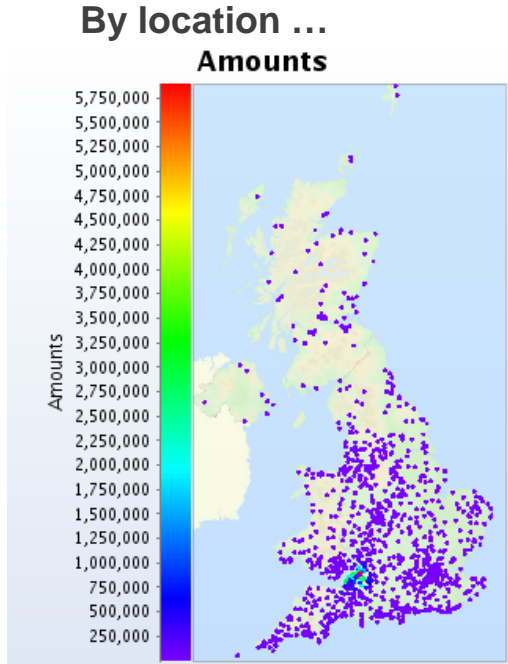
More uncertain and subjective
but can measure trend
evidence

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Prudence

Life Expectancy Assumptions

Scheme specific analysis: postcode profiling and Longevitas modelling

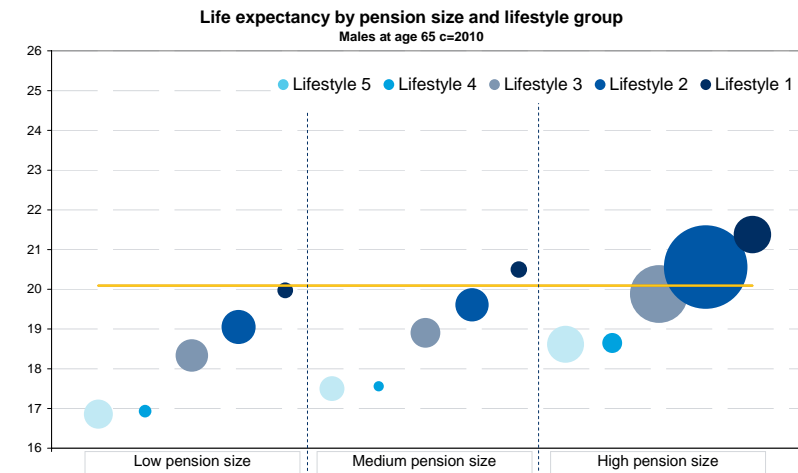


... age and membership type

... pension size and lifestyle group

Individual members' postcodes can be used to build up a demographic profile of a scheme, at a street by street level, weighted by individual member liabilities. An affordable and objective method of setting mortality assumptions for small and medium sized schemes.

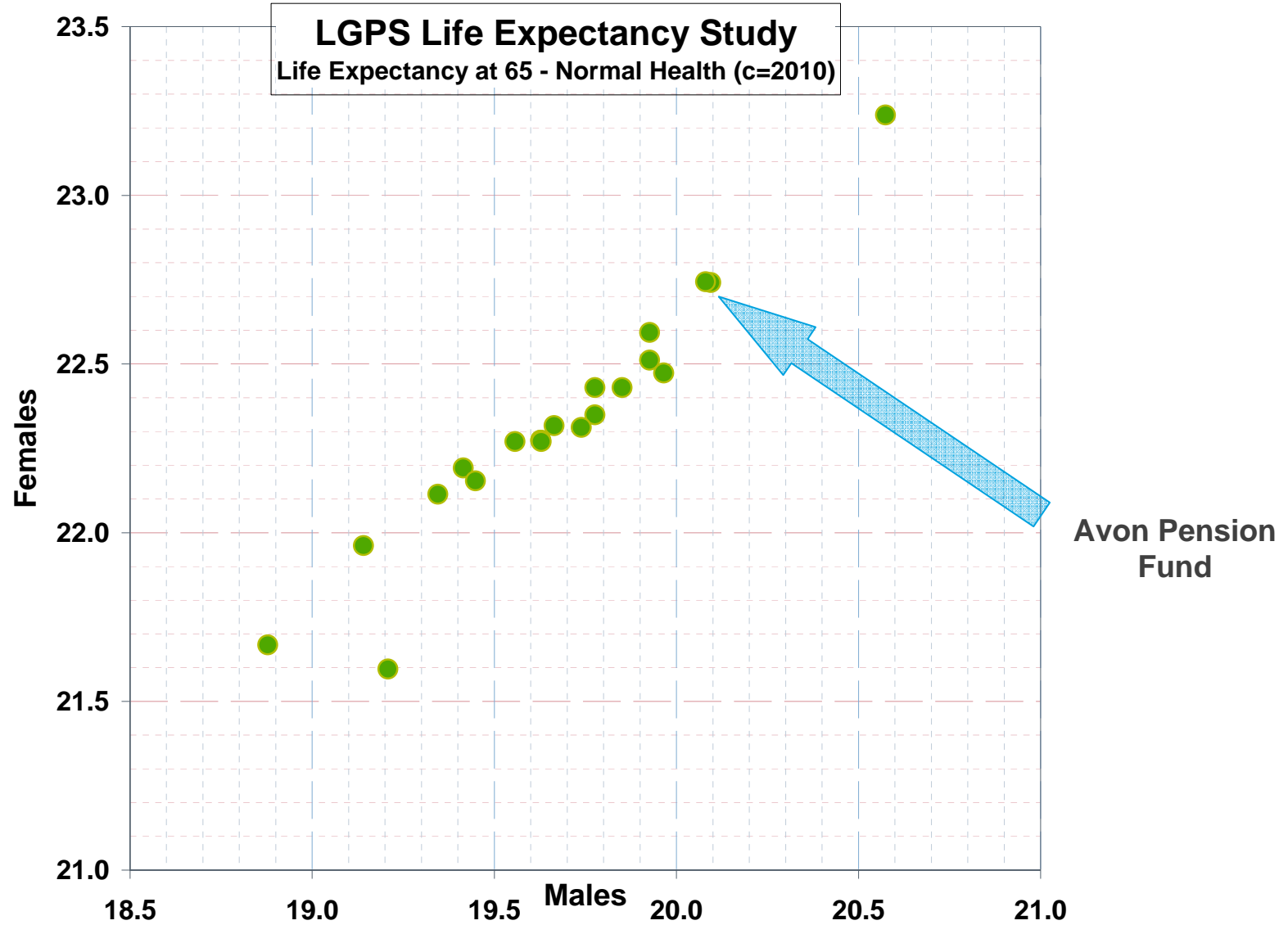
Longevitas, for larger schemes, uses a scheme's own membership data with statistical techniques to build a detailed and bespoke model of its mortality characteristics.



Sources include: Experian, Longevitas

Life Expectancy Assumptions

Mortality benchmarking results



2007 Actuarial valuation whole fund results

Recap

	31 March 2007
Assets	£2,184m
Liabilities	£2,643m
Deficit	£459m
Funding level	83%
Future service contribution rate	11.7%
Deficit recovery rate (over 20 years)	4.9%
Total average contribution rate	16.6%

2010 whole fund results

Includes inflation adjustment, short term pay freeze and revised demographic assumptions

	31 March 2010
Assets	£2,459m
Liabilities	£3,011m
Deficit	£552m
Funding level	82%
Future service contribution rate	11.8%
Deficit recovery rate (over 20 years)	5.4%* or £34m p.a. increasing
Total average contribution rate	17.2%*

*based on payroll which is assumed to increase at 4.5% pa

Past service funding position

Progression of the Fund's deficit since the 2007 valuation

	£m
Deficit at 31 March 2007	-459
Investment return vs. assumption	-303
Change in "real" yields	-97
Change to inflation	+161
Allowance for short term pay effects	+76
Demographic assumption changes	-32
Other factors (including deficit contributions)	+102
Deficit at 31 March 2010	-552

Different objectives for different employers

Scheduled bodies

Designating bodies

Admitted bodies

-Community of interest

-Transferee

Tax-raising authorities/public funded bodies/shareholder-owned companies/charities

Bodies with guarantors and/or other contingent security

Grouped Bodies

Employers have different characteristics

Funding Strategy Statement

Key Differences

- **Recovery Period**

- **Maximum Deficit Recovery Periods**
- **Shorter periods may apply at the discretion of the Administering Authority**

Proposed Deficit Recovery Periods		
Employer category	Underpin	Maximum
Scheduled and Designating bodies*	Period which gives parity	30 years
Community Admission Bodies (with guarantor)	Period which gives parity	30 years (subject to agreement with guarantor)
Community Admission Bodies (with no guarantor)	Individually determined	Individually determined
Transferee admission bodies	In line with periods agreed with relevant Scheme employer	

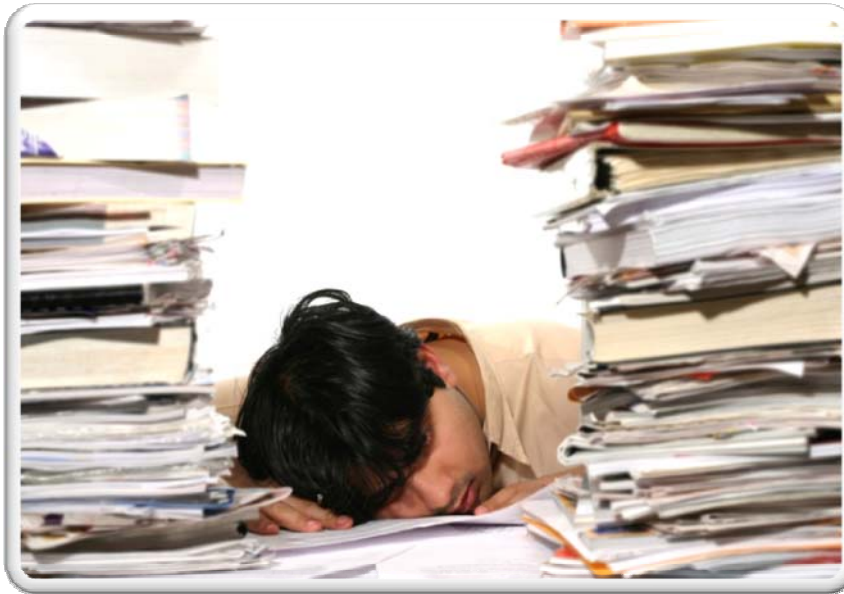
* with exceptions



Deficit Recovery Approach

- Historically, for most Fund employers, the Fund has expressed the additional contributions as an addition to the employer's contribution rate (as a percentage of pensionable pay which was expected to grow in the future at a fairly stable rate).
- Uncertainty exists in the short to medium term regarding staffing levels and total payroll growth.
- Intention is to collect deficit recovery contributions as indexed £s amounts.
- Provides more **certainty** and **stability** to the Fund and Employers over the deficit recovery plan
- Also provide greater **transparency** (regarding the ongoing cost of pension provision and therefore savings from any staff reductions).

Any questions?



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