



The Pensions Trust
Social Housing Pension Scheme
30 September 2008 valuation results
Employer Forums – June 2009

Actuaries and Consultants

HSBC 

Agenda

- Recap on valuation results at 30/9/05 and update at 31/3/2007
- Market conditions at 30 September 2008
- Assumptions adopted for the valuation at 30 September 2008
- Results of the valuation
- What has happened since 30 September 2008 in financial markets
- Summary of key issues going forward

The 2005 Valuation - results

| | Technical Provisions basis | 'Buy-out' basis |
|--------------------|-------------------------------|--------------------|
| Assets £m | 1,278 | 1,278 |
| Liabilities £m | 1,561 | 3,352 |
| Funding level | 82% | 38% |
| Surplus/ (Deficit) | £(283)m | £(2,074)m |

Contribution requirements - three components:

- Future service rates depending on accrual chosen 60ths or 70ths Final Salary or 60ths CARE
- Deficit contributions of 4.4% of payroll until 2020 (15 years recovery plan)
- Surcharge of 3% if closed to new entrants

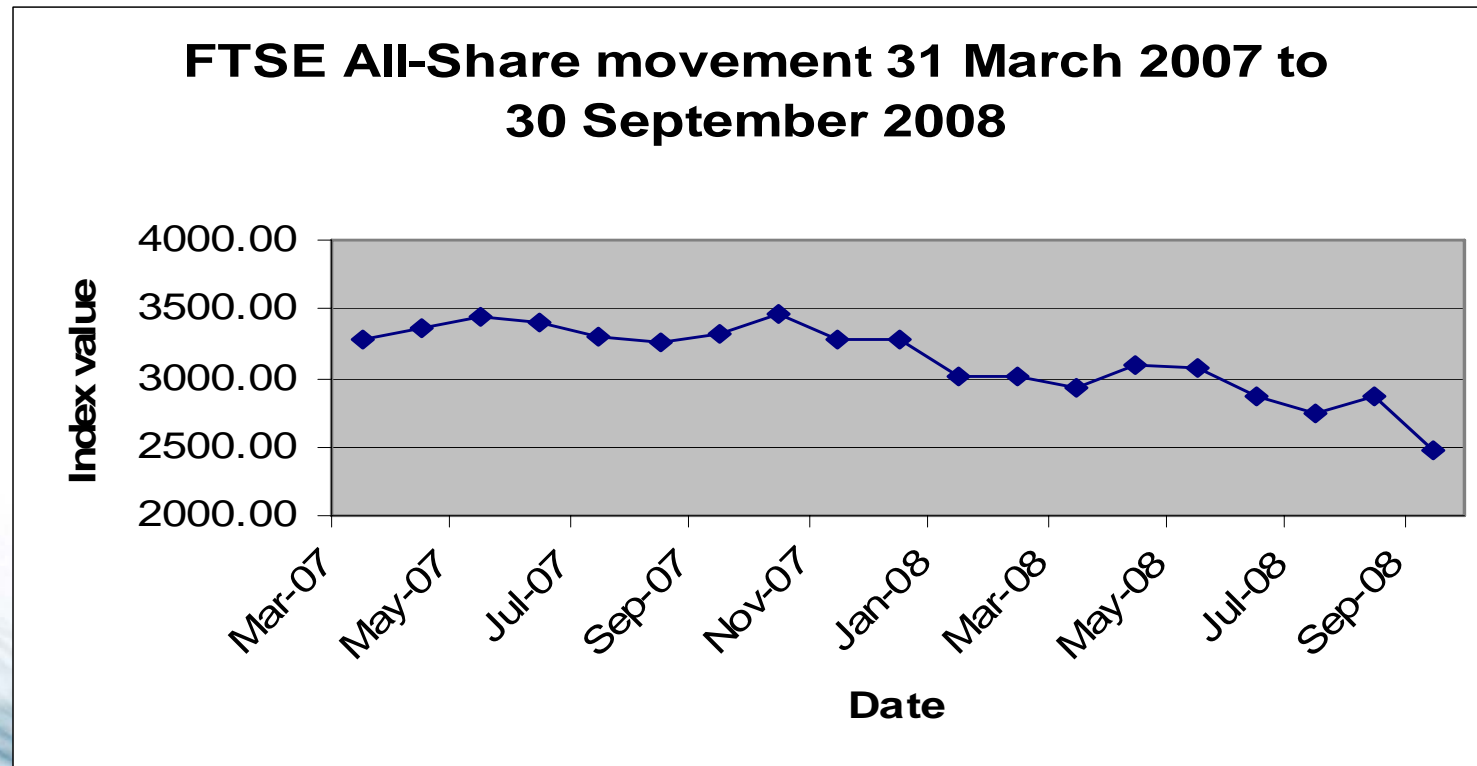
Update at 31/3/2007

| | Technical Provisions | | | Buyout valuation | |
|----------------------|----------------------|------------|--|------------------|------------|
| | 30/09/2005 | 31/03/2007 | | 30/09/2005 | 31/03/2007 |
| Assets | 1,278 | 1,650 | | 1,278 | 1,650 |
| Liabilities | 1,561 | 1,830 | | 3,352 | 3,468 |
| Deficit | 283 | 180 | | 2,074 | 1,818 |
| Funding level | 82% | 90% | | 38% | 48% |

Assumptions @ 31/3/2007 updated for financial conditions and mortality change

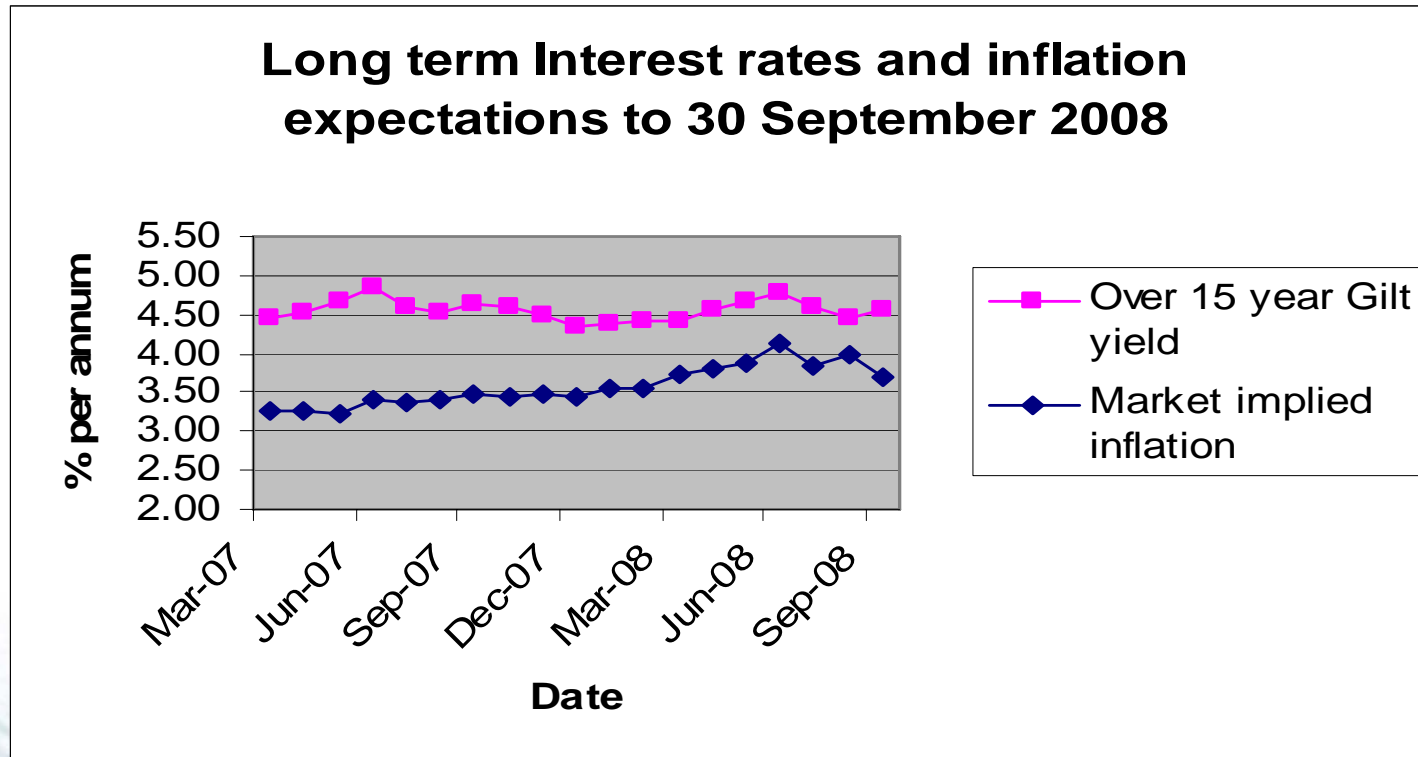
Summary - good progress to mid point , but illustrated volatility

Update at 30 September 2008 - what happened to equity markets?



Index falls by 25%, overseas less in £ terms

Update at 30 September 2008 - what happened to interest rates and inflationary expectations?



Interest rates and inflation expectations increased

2008 valuation - valuing liabilities - key assumptions

- Covenant assessment – STRONG
 - Multi-employer scheme – no reliance on a single entity
 - Generally, employers have ability to pay more if deficit increases, but potentially by cutting future accrual
 - Enabled committee to make more optimistic assumptions than other schemes
- Inflation – long term inflation of 3.2%, increase of 0.4% from the March 07 update
- Pay growth – 1.5% pa in excess of inflation – i.e. 4.7% per annum.
(March 07 allowed for 2.5% pa in excess of inflation for 3.5 years, then 1.5% pa)

2008 valuation - valuing liabilities - key assumptions

- Assumed investment strategy for pensioners
 - 60/40 split of corporate bond/gilt investment
 - Assumed a return of 1% in excess of gilts, i.e. 5.6% per annum
- Assumed investment strategy for non-pensioners
 - Equity investment until 5 years after retirement, then gilts/bonds (07 approach assumed equity return until retirement)
 - Equity returns:
 - 'Best estimate' for long term performance - 8.4% per annum
 - Margin for 'prudence' - assume 7.8% p.a.
 - Bonds - Gilts plus 0.6% per annum = 5.2% p.a.
 - For a 65 year old – the blended post retirement return is 6.2% per annum

2008 valuation - valuing liabilities - key assumptions

- Mortality reserves increased to reflect increased life expectancy
 - Results of major occupational study released in 2008 (SAPS)
 - Results compared with a SHPS specific mortality study – death rates lower than standard table would indicate
 - SAPS tables adopted for valuation, but adjusted to allow for lower number of deaths
 - Greater allowance for mortality improvements in the future
 - Outcome – increase in life expectancy (including future improvements)
 - Male and females reaching 65: +3 years compared to 2005
- Some allowance for cash commutation in the future

Future service contribution rates

| | 60ths Final Salary | 70ths Final Salary | 60ths CARE | 80ths Final Salary | 80ths CARE |
|------------|--------------------------|--------------------------|---------------|--------------------------|---------------|
| 2008 | 17.8 | 15.4 | 14.9 | 13.5 | 11.9 |
| Previously | 17.6 | 15.3 | 14.1 | - | - |

Surcharge – unchanged at 3% pa, subject to discounts

Valuation results – past service position

| | £m |
|--|--------------|
| Assets: | 1,527 |
| Technical Provisions: | |
| Active Members | 991 |
| Deferred Pensioners | 684 |
| Pensioners | 515 |
| Total technical provisions | 2,190 |
| Deficit | 663 |
| Funding Level (i.e. Assets ÷ Technical provisions) | 69.7% |

Explaining the results

| | <u>£m</u> |
|--|-------------|
| Deficit at 30 September 2005 | -283 |
| Interest on deficit | -61 |
| Return on assets (-0.3% pa compared with 6.8% pa expected) | -315 |
| Contribution history | 41 |
| Higher salary growth (5.85% pa compared with 5% pa expected) | -25 |
| Other factors | 2 |
| Deficit on 2005 assumptions at 30 September 2008 | -641 |
| Change in assumptions | -22 |
| - Financial = 171m | |
| - Mortality = -193m | |
| Surplus/(Deficit) on 2008 assumptions | -663 |

Deficit clearance contributions

- 2005 approach would lead to
 - 4.4% payroll payable to 2020 (from previous valuation)
 - In addition, 3.1% of payroll to 2023
 - i.e. 7.5% in total to 2020, then 3.1% until 2023
- BUT, increasingly employers are closing to new entrants, hence payroll would decline and we would not collect required deficit contributions
- Therefore new approach for deficit contributions payable from April 2010
 - For each employer calculate 7.5% of payroll as at September 2008
 - Increase it by 4.7% per annum for two years to take to mid point of 2010/2011
 - Express as a £ annual amount
 - This is payable in monthly instalments in 2010/11.
 - Future years are based on this amount, increased by 4.7% per annum

Example

- Employer has pensionable payroll of £1m at September 2008
- 7.5% of payroll is £75,000
- Two years of 4.7% increases = $75,000 * 1.047 * 1.047 = £82,215$
- Amount payable in 2010/11 = £82, 215 (payable in monthly instalments)
- Amount payable in 2011/12 = $£82,215 * 1.047 = £86, 079$
- etc
- In 2020 amount reduces to: 2019 amount * 1.047 * (3.1/7.5)

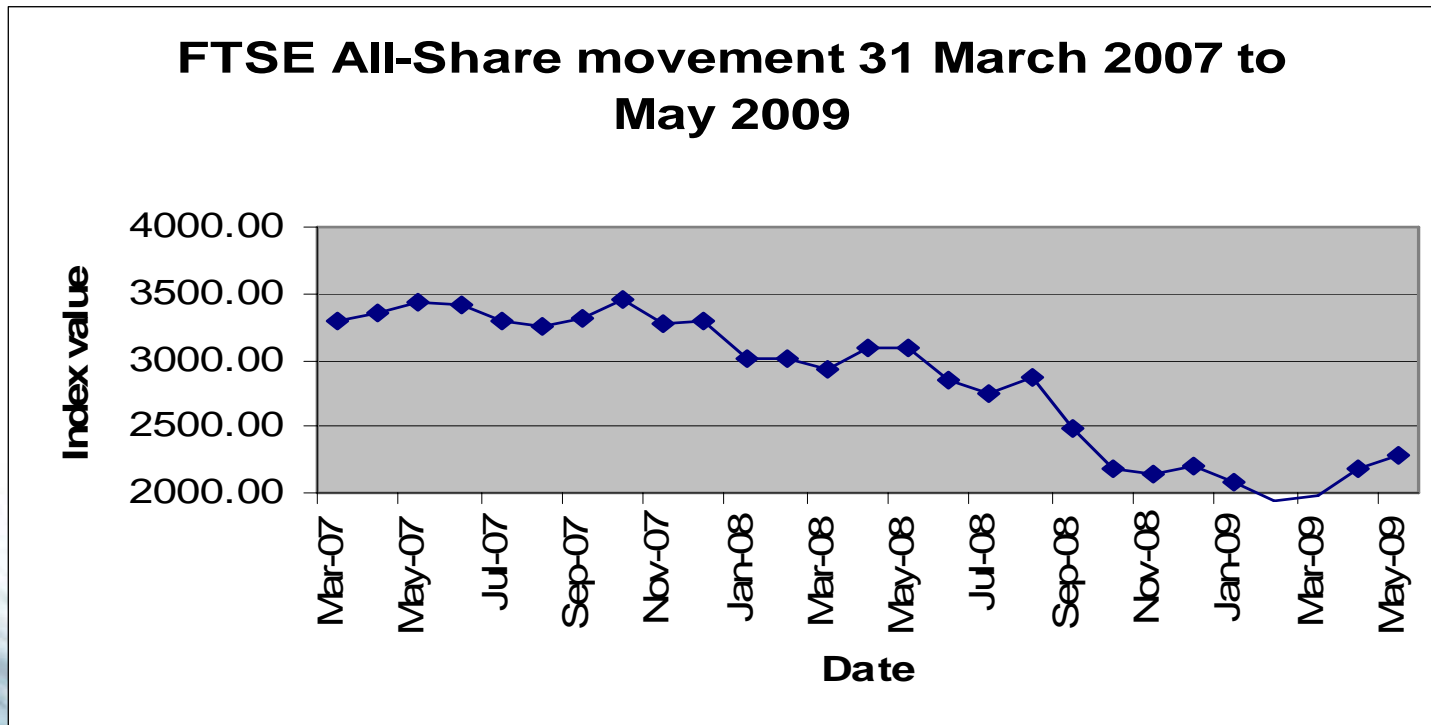
Summary of contribution structure from April 2010

3 elements:

- future service benefits - % of pay
- surcharge (where relevant) - % of pay
- deficit contributions - £ amount

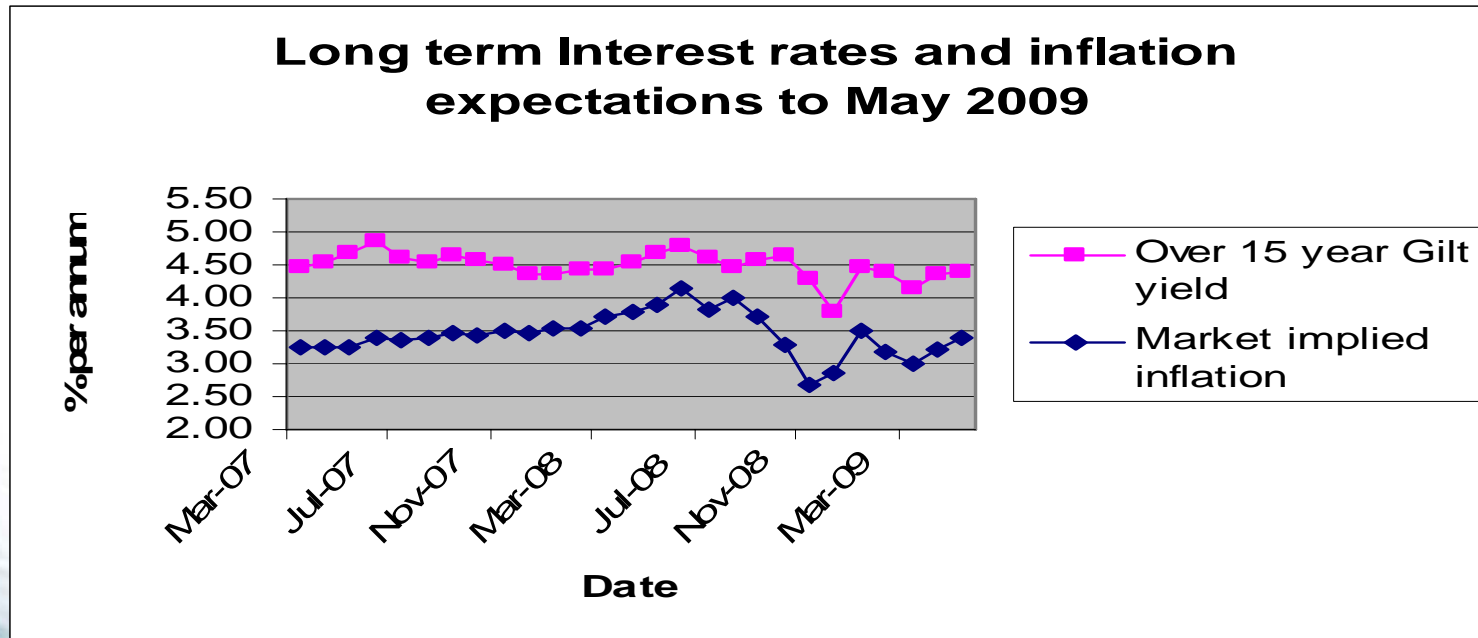
Financial markets since 30 September 2008

Extreme volatility in equity markets



Financial markets since 30 September 2008

Extreme volatility in interest rates and inflation expectations



Funding level likely to have fallen since
September 2008

Summary of Key Issues Going Forward

- Financial position depends on
 - Future long term interest and inflation rates
 - Equity market performance
- Expect a volatile funding level given high proportion of equity investment
- Investment strategy reviewed regularly
- Mortality - review new research comprehensively every 3 years