



HHG Staff Pension Scheme

# ACTUARIAL VALUATION

Report on the Actuarial Valuation as at 31 December 2003

Welcome to the HHG Staff Pension Scheme Actuarial Valuation Report. This report contains a summary of the Actuarial Valuation carried out by Watson Wyatt LLP as at 31 December 2003.



## Inside we explain:

- The purpose of a valuation
- The membership and demographic information used
- The Scheme benefits, which were valued
- The financial assumptions used
- The conclusions of the valuation

# The purpose of the Actuarial Valuation

All occupational pension schemes must by law appoint a Scheme Actuary, whose main role is to advise the Trustee on the financial position of the Scheme. The Scheme Trustee appoints the Actuary and his duty is to report to the Board of Trustees. But in practice the successful operation of the Pension Scheme depends on cooperation between the Trustee and the Company and both are involved with the Actuary in matters affecting the HHG Staff Pension Scheme.

The Actuary carries out a regular valuation of the Scheme to determine its ability to pay the members' benefits and to advise on the appropriate level of future Company contributions.

## During the valuation, the Actuary:

- investigates the financial condition of the Scheme and works out how much contribution the employer should make;
- makes sure that the assets of the Scheme would satisfy the statutory minimum funding requirement (MFR), set by the Government;
- checks that the Scheme would have enough money to provide benefits if it were discontinued;
- makes sure that any surplus is not big enough to affect the Scheme's tax relief.

## Developments since the last valuation in 2001

HHG plc was formed in July 2003 as a result of the demerger of the UK businesses of AMP. There has also been a significant restructuring of the workforce and so there has been a reduction in the number of active members since the last valuation date.

Since the last valuation, it has been agreed that changes will be made to the Scheme's long-term investment strategy. In summary, a strategy has been put in place to move assets from equities to index-linked bonds, with the timing of the switches dependent on the level of the equity market.

### Changes to the value of the Scheme

The audited accounts show that the total market value of the assets of the Scheme fell from £1,875 million at 31 December 2001 to £1,705 million at 31 December 2003.

## Final salary AVCs

Some final salary members invest their AVCs in the main fund. It is important that these members consider the impact of the changes to the Scheme's investment strategy on their AVCs.

In previous communications we have told members about changes to our investment strategy. As a result, the fund now has 50% of its assets in equities compared with 70% at the end of 2002. Further sales of equities are planned over the coming years. These changes are desirable because the Scheme has fewer members in active employment and more deferred and pensioner members. This means that the Scheme's liabilities are better matched by other investments, which might be expected to achieve lower returns but

reduce the Scheme's investment risk. Whilst these lower risk investments help to protect the fund against future stock market falls, they mean that the fund will not benefit as much from any future rise in the stock market.

If your AVCs are invested in the final salary AVC arrangement, these changes affect your investments by reducing investment risk but increasing the risk that they will not keep pace with expected salary inflation. Whilst this strategy is appropriate for the whole Scheme, it may not be right for individual members and you may wish to review your AVC investment choice. Your AVC booklet explains in more detail the types of risk and the alternative AVC investments that are available. You can obtain a copy from the Staff Pensions Administration office.



# Membership information

The Actuary takes into account the membership at the valuation date. He considers their ages and their salaries or pensions. Some of the data used for this valuation is shown below.

Actives members	Number	Annual pensionable salary £ million
Money Purchase section	1,479	45.5
Pearl Final Salary section	982	26.1
London Life Final Salary section	61	1.4
Henderson Final Salary section	165	10.1
NPI Final Salary section	288	7.8
Towry Law Final Salary section	82	3.5
<b>Total</b>	<b>3,057</b>	<b>94.4</b>

Deferred pensioners	Number	Annual deferred pension £ million
Male	9,909	28.0
Female	6,326	10.5
<b>Total</b>	<b>16,235</b>	<b>38.5</b>

Pensioners	Number	Annual Pension £ million
Male	5,112	48.5
Female	1,706	5.2
Dependants	1,992	8.8
<b>Total</b>	<b>8,810</b>	<b>62.5</b>

## Notes:

- 1 177 hybrid active members are included in the Final Salary sections with pensionable salaries of £5.2 million.
- 2 The deferred pensioner details exclude members entitled to money purchase benefits only, but there are 843 of these.
- 3 Deferred pensions are as at date of leaving service.
- 4 A number of pensioners and dependants in the Towry Law section have part of their pension insured. The total pensions insured is £0.4 million.

# Scheme demographics

Demographic assumptions concern the likelihood of events such as death, retirement and leaving service taking place at different ages. At each valuation the experience over the period since the previous valuation is reviewed to assess if the assumptions adopted previously remain appropriate. The results of the analysis on this occasion were as follows:

## Pensioner mortality

The improvements in mortality rates anticipated in the 2001 valuation have proved true, so again the assumptions used have been adjusted to allow for these. Further improvements have been allowed for in the future.

## Withdrawals

The withdrawal rates were significantly higher than expected due to the redundancy exercise over the period. However, this pattern of withdrawals is not expected to

apply in the future and so the rates used for the previous valuation have been retained.

## Salary scale

Increases over the last two years have been lower than anticipated at the last valuation. However, bearing in mind future prospects, the current rates have been retained.

## Ill-health retirement

Ill-health retirement rates were slightly lower than expected. The previous assumptions have been retained for the time being, but this will be reviewed at the next valuation.

## Early retirement

There was a higher incidence of early retirements than expected. However much of this was due to the redundancy exercise and so the previous assumptions have been retained.

# Scheme benefits



The Pension Scheme has six sections with different benefit structures, and the Actuary took these into account when valuing the Scheme benefits.

	SECTION					
	Money Purchase	Pearl	NPI	Henderson	London Life	Towry Law
<b>Normal retirement age</b>	60	60	60	60	60	65
<b>Pensionable earnings</b> (data provided by HHG)	Basic pay, plus commission and STI. Extra credits for hybrid members based on final salary definition	Generally basic pay plus three-year average of variable earnings	Scheme salary plus three-year average of any other pensionable non-basic earnings	Basic pay over preceding 12 months	Highest pensionable salary in five-year period. Pensionable salary is basic salary plus other pensionable non-basic earnings	Highest three-year average over 10 years of basic pay at 1 October
<b>Pensionable service</b>	Years and complete months of service of the member					
<b>Pension fraction</b>	N/A Members receive credits of 10.5% of salary, increasing to 11.5% at age 45. Hybrid members receive extra credits on a sliding scale.	60ths although some executives accrue benefits on 30ths	60ths	Either 45ths, 52.5ths or 60ths, depending on category	60ths	60ths
<b>Commutation of member's pension</b>	Part of the member's pension may be commuted to provide a cash lump sum					
<b>Spouse's fraction on death after retirement</b>	Depends on annuity purchased	1\2	2\3	2\3	2\3	1\2
<b>Spouse's fraction on death in service</b>	Depends on annuity purchased	1\2 based on potential service	2\3 based on potential service	2\3 based on potential service	1\3 of salary irrespective of service	1\2 based on potential service
<b>Lump sum on death in service</b> (proportion of earnings)	4 x	4 x	4 x	4 x	4 x	4 x plus refund of member contributions
<b>Increase to pensions in payment in excess of GMP</b>	LPI	5% per annum or RPI if lower (LPI)	LPI	LPI on post-30 September 2000 benefits, 5% fixed on pre-1 October 2000 benefits and all benefits for ex-Touche Remnant members	LPI	LPI on post - 6 April 1997 benefits, 0% pre-1997
<b>Member contributions</b>	Nil	Nil	Nil	Nil	Nil	5% of pensionable earnings
<b>Integration with State benefits</b>	Contracted out of Second State Pension (S2P)	Contracted out of S2P	Contracted out of S2P. Allowance is made for basic State Pension by reducing the pension payable from State Pensionable Age	Contracted out of S2P	Contracted out of S2P	None

# Financial assumptions

The Actuary takes into account the current distribution of assets and makes assumptions about what will happen to investments, salaries and pensions in the future. He uses an assumed rate of price inflation and from that makes relative assumptions about other important financial data.

Basis	Assumptions used at 31 December 2003	
	Real (relative to price inflation) % per annum	Absolute % per annum
<b>Long-term rate of:</b>		
Price inflation	0.0	2.7
Salary increases	1.5	4.2
Basic State Pension increases	0.0	2.7
Pension increases	0.0	2.7
<b>Pre-retirement discount rate</b>	4.0	6.7
<b>Post-retirement discount rate</b>	2.6	5.3

## Past service liabilities

### Results of Actuarial Valuation for 31 December 2003

Value of past service liabilities in respect of:	£ million
Final Salary sections	
- Pensioners	955
- Deferred pensioners	564
- Active members	135
AVCs	14
Money Purchase section	28
<b>Total past service liabilities</b>	<b>1,696</b>
<b>Market value of assets</b>	<b>1,705</b>
<b>Excess of assets over liabilities</b>	<b>9</b>

## Investment returns

**Equity returns:** 6.7% (4.0% relative to price inflation)

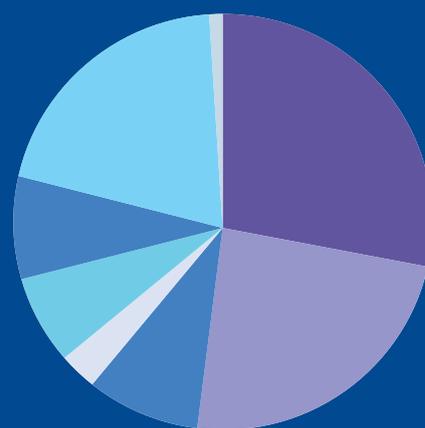
**Bond returns:** 5.2% (2.5% relative to price inflation)

### Expenses

An allowance of 1.5% of active members' pensionable salaries has been made for running the Scheme.

## Assets

Distribution of assets at the valuation date



UK equities	27.6%
Overseas equities	23.6%
UK fixed interest stocks	9.3%
Overseas fixed interest stocks	2.7%
Unit trusts	7%
Property	8.2%
UK index-linked stocks	20.4%
Cash/net current assets	1.2%



# Conclusions

- 1 At 31 December 2003, on the assumptions stated and assuming that the Scheme continues, the accumulated assets of the Scheme were 101% of the amount needed to cover the cost of the benefits earned to 31 December 2003.
- 2 The cost of the accrual of future service benefits, allowing for contributions to be paid annually in December, is:
  - 27.0% of pensionable earnings for Final Salary section members
  - 20.8% of pensionable earnings for hybrid members
  - 13.8% of pensionable earnings for pure Money Purchase members
- 3 The Company has agreed to pay contributions at these rates with effect from 1 January 2005, with contributions at 19.9% of pensionable earnings for all members during 2004.
- 4 At the valuation date the Scheme's funding level under the Minimum Funding Requirement test, which is required by the Government, was over 120%.
- 5 If the Scheme had been discontinued at 31 December 2003 and members' benefits had been secured by purchasing annuities with an insurance company, there would have been sufficient assets to provide around 75% of the accrued benefits on the basis described in the report.
- 6 There is not an excessive surplus on the valuation basis prescribed under the Income and Corporation Taxes Act 1988.



## Next review

The financial position of the Scheme and the level of contributions required will be reviewed at the next actuarial valuation, which is expected to be carried out no later than 31 December 2006.

The Actuarial Valuation was carried out on behalf of the HHG Staff Pension Scheme by:

**AFM Watson**

**Fellow of the Faculty of Actuaries**

**Partner in the firm of Watson Wyatt LLP**

## Get in touch

If members have any queries concerning their benefits or the valuation, they should contact the Scheme's administration office:

**HHG Staff Pension Scheme**

**The Pearl Centre**

**Lynch Wood**

**Peterborough**

**PE2 6FY**

**Telephone** 01733 474980

**Email** [HHG\\_Staff\\_Pensions@ukls.net](mailto:HHG_Staff_Pensions@ukls.net)

This report contains a summary of all the significant information from the Actuarial Valuation. If, however, you still wish to receive a copy of the full valuation, please contact us at the address above.

## Trustee Board

**Standing from left to right:** Graham Felston, James Darkins, Hamid Nawaz-Khan, Max Mauchline **and sitting from left to right:** Jane Marshall-Robb, Keith Jones (chairman), Malcolm Jones. (Not present: Robin Holland-Martin).

