NAVIGATOR

Version 2.34

Funding projection as at 30 September 2009
Leicestershire County Council Pension Fund

Prepared by:

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for and on behalf of Hymans Robertson LLP

4 November 2009

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Important note!
Accuracy of funding projections

In the current extreme market conditions, the results presented in this report may have diverged 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. You should therefore be aware that there may be a significant difference between the results presented here and those that would be obtained from a full actuarial valuation.

Furthermore, the projected funding position may be particularly volatile at present, reflecting current circumstances.

PUBLIC SECTOR

ACTUARIAL FUNDING UPDATE

Contents:

EXECUTIVE SUMMARY

I have been instructed to undertake regular funding updates for the Leicestershire County Council Pension Fund ("the Fund"). The starting point for this update is the most recent formal valuation of the Fund. This report is addressed to Leicestershire County Council in its capacity as the Administering Authority of the Fund. It has been prepared in my capacity as your actuarial adviser.

Since the last Navigator report as at 30 June 2009, investment growth has been significantly higher than expected, increasing the value of Fund assets. However the reduction in real bond yields has increased the value placed on Fund liabilities. As the rise in asset values outweighs the increase in the value placed on liabilities the funding level has improved.

The funding level at 30 September 2009, on the ongoing basis, is estimated to be 59%. The deficit is £1,322m. These results are outlined on page 2 along with the key assumptions underpinning the results.

This can be compared with the funding level of 55% and deficit of £1,365m at 30 June 2009.

The estimated employers' average cost of future service benefits (i.e. ignoring any past service deficit) as at 30 September 2009 is 16.9% of pay. This is up from 15.8% of pay at 30 June 2009, as a result of the reduction in the real discount rate.

Assuming that a funding level of 100% is to be targeted over a period of 17 years starting in April 2008 (if our assumptions are borne out in practice) the theoretical common employers' contribution rate is 33.2% of pay as at 30 September 2009. This is up from 32.8% of pay at 30 June 2009.

In the period since the previous formal valuation as at 31 March 2007, falling asset values and real bond yields have been the main reasons for changes in the funding level and contribution rates.

The theoretical employers' contribution rate based on market conditions as at 30 September 2009 is substantially higher than that currently being paid to the Fund. This does not mean that, if we were carrying out a valuation as at 30 September 2009, we would recommend that your employers pay this rate. We would note the following:

- The regulations and your funding strategy statement require us to take into account stability in setting employer contribution rates.

- Members' benefits are assumed to be guaranteed by statute.

It is therefore reasonable for us to limit contribution rate increases for longer-term, secure employers, taking into account the very long term nature of the scheme and the nature of those employers, as long as it can be demonstrated that this remains a prudent, longer-term approach to funding.

Having said that, unless market conditions improve considerably before the next valuation, employers should expect some upwards pressure on contribution rates. This pressure will be greatest for short-term, less financially secure employers. Further, contribution rates for any employers whose admission agreement is coming to an end over the next few years should be reviewed before the next valuation. We recommend that you consider how best to manage employers' expectations.

The method and assumptions used for the roll forward of the funding position are consistent with those used for the actuarial valuation as at 31 March 2007. However, the financial assumptions have been updated to reflect changes in financial conditions since the valuation.

The advice in this report is consistent with that contained in the formal valuation report for the 31 March 2007 valuation. However, this is an approximate funding update and does not fully comply with the requirements of GN9.

This report also shows a summary of the reasons for the change in funding level and an illustration of the sensitivity of the Fund's funding level to changes in general market conditions.

This report looks at the whole fund position, with a schedule included for four individual employers. The results for individual employers can be quite different to the fund as a whole depending on their own experience and the profile of their liabilities. Differences in the relationship between the ratio of accrued liabilities and the payroll can have a large influence on changes in contributions.

ESTIMATED PROJECTION OF FUNDING POSITION AS AT 30 SEPTEMBER 2009

Summary of funding position:

I have set out in this report the projection of the funding level since the last formal actuarial valuation as at 31 March 2007. The method and assumptions used in this funding update are consistent with those used in the latest formal actuarial valuation carried out as at 31 March 2007. However, the financial assumptions have been updated to reflect changes in financial conditions since the valuation. As such, the advice in this report is consistent with that which was set out in the formal valuation report on the 2007 valuation.

This report does not constitute funding advice under Part 3 of the Pensions Act 2004, and thus complies only with the requirements of the guidelines 'GN9: Funding Defined Benefits – Presentation of Actuarial Advice' adopted by the Board for Actuarial Standards, which are relevant in the circumstances.

Date	31 Mar 2007 £m	30 Jun 2009 £m	30 Sep 2009 £m
Liabilities - Ongoing Basis			
Assets	2,182	1,656	1,893
Liabilities	2,343	3,022	3,214
Surplus/(Deficit)	(161)	(1,366)	(1,322)
Funding Level	93.1%	54.8%	58.9%

Key assumptions and financial indicators:

Date Discount Rate	31 Mar 2007 p.a.	30 Jun 2009 p.a.	30 Sep 2009 p.a.	
- Pre ret				
Nominal	6.1%	6.0%	5.6%	
Real	2.9%	2.5%	2.2%	Bad
- Post ret				
Nominal	6.1%	6.0%	5.6%	
Real	2.9%	2.5%	2.2%	Bad
Sal. escalation	4.7%	5.0%	4.9%	Bad
(A): FIGs	4.5%	4.4%	4.1%	Bad
(B): ILGs	1.2%	0.8%	0.6%	Bad
(C): Inflation	3.2%	3.6%	3.4%	Bad
(D): AA Corp.	5.4%	6.2%	5.5%	Indifferent
(E): AA Spread	0.9%	1.8%	1.4%	
(F): AOA	1.6%	1.6%	1.6%	
FTSE All Share	3283.2	2172.1	2634.8	Bad
FTSE100	6308.0	4249.2	5133.9	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 (1+A) / (1+B) -1
(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

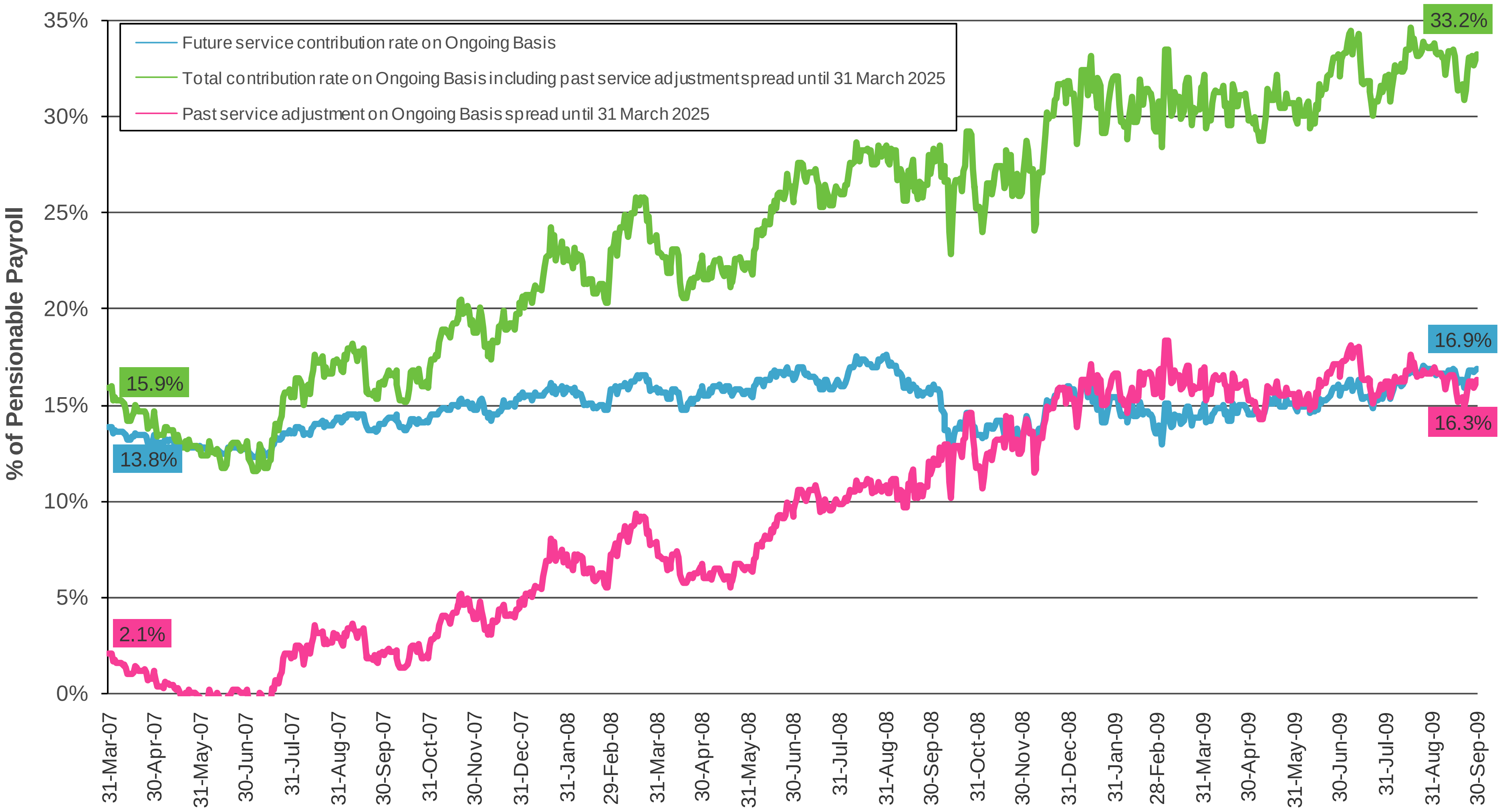
"Guide to Smiley Faces indicators:"

Good
Indifferent
Bad

*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.

ESTIMATED PROJECTION OF FUNDING LEVEL FROM 31 MARCH 2007 TO 30 SEPTEMBER 2009

ESTIMATED PROGRESSION OF EMPLOYER'S CONTRIBUTION RATE FROM 31 MARCH 2007 TO 30 SEPTEMBER 2009



ATTRIBUTION ANALYSIS

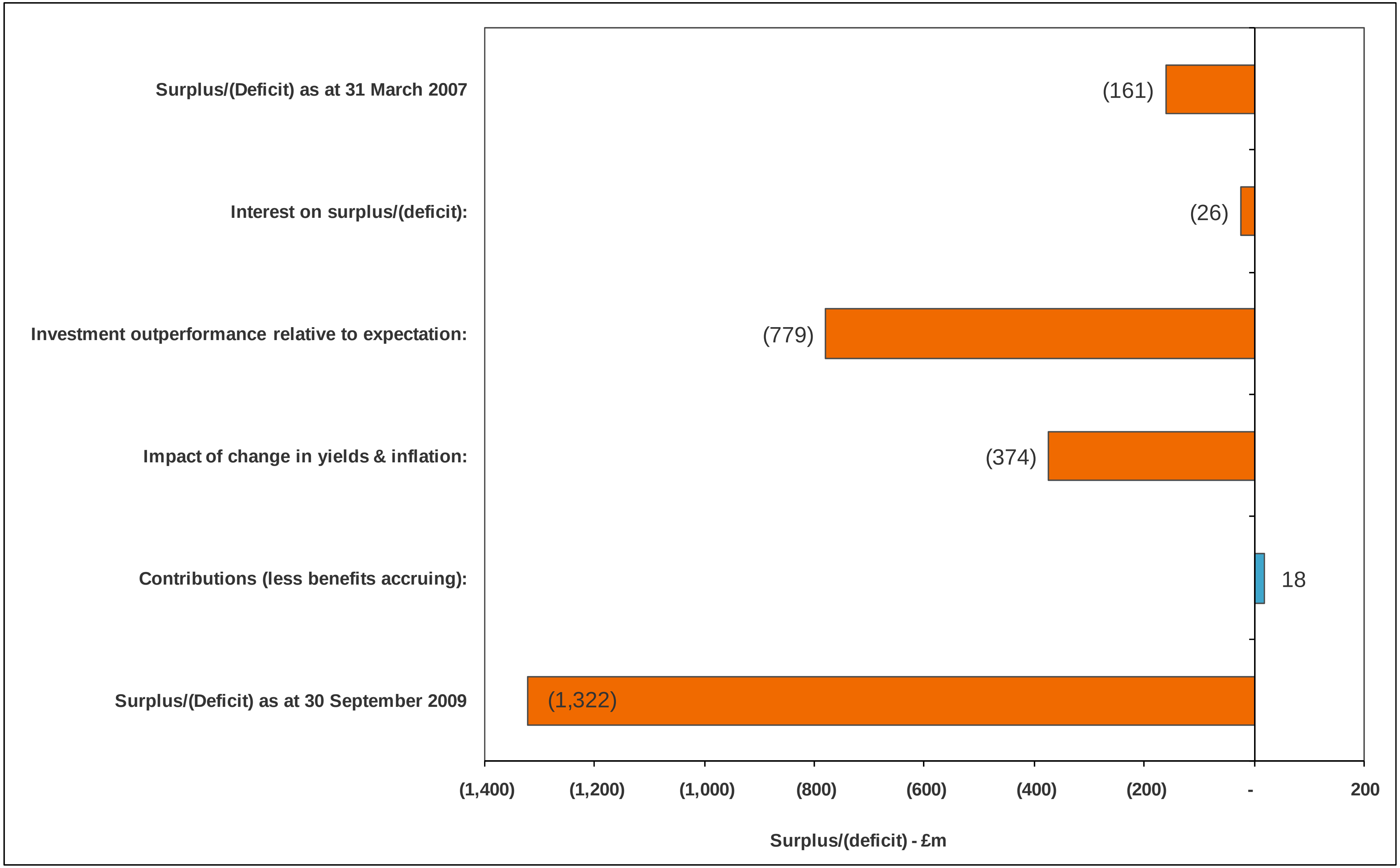
	£m	
Asset value as at 31 March 2007		2,182
Contributions paid in:	279	
Benefit payments:	(144)	
Investment return on benchmark index:	(70)	
Investment outperformance relative to benchmark:	(354)	
Asset value as at 30 September 2009		1,893

	£m	
Liability value as at 31 March 2007		2,343
Cost of benefits accruing:	260	
Interest on liabilities:	380	
Impact of change in yields & inflation:	374	
Benefit payments:	(144)	
Liability value as at 30 September 2009		3,214

	£m	
Surplus/(deficit) as at 31 March 2007		(161)
Interest on surplus/(deficit):	(26)	
Investment outperformance relative to expectation:	(779)	
Impact of change in yields & inflation:	(374)	
Contributions (less benefits accruing):	18	
Surplus/(deficit) as at 30 September 2009		(1,322)

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.)	4,350	4,600	4,850	5,134	5,350	5,600	5,850
4.50	56% (1,276.0)	59% (1,195.0)	62% (1,113.9)	65% (1,021.9)	67% (951.9)	70% (870.8)	73% (789.8)
4.35	54% (1,371.4)	57% (1,290.4)	60% (1,209.3)	63% (1,117.3)	65% (1,047.3)	68% (966.2)	71% (885.2)
4.20	53% (1,469.1)	55% (1,388.0)	58% (1,307.0)	61% (1,215.0)	63% (1,144.9)	66% (1,063.9)	68% (982.9)
4.04	51% (1,575.9)	53% (1,494.8)	56% (1,413.8)	59% (1,321.8)	61% (1,251.7)	64% (1,170.7)	66% (1,089.7)
3.90	50% (1,671.6)	52% (1,590.5)	54% (1,509.5)	57% (1,417.5)	59% (1,347.4)	62% (1,266.4)	64% (1,185.4)
3.75	48% (1,776.5)	50% (1,695.4)	53% (1,614.4)	55% (1,522.4)	58% (1,452.3)	60% (1,371.3)	62% (1,290.3)
3.60	47% (1,883.9)	49% (1,802.9)	51% (1,721.8)	54% (1,629.8)	56% (1,559.8)	58% (1,478.8)	60% (1,397.7)

Equity - FTSE 100 Price Index (proxy)

30 September 2009 Projection

59%
(1,321.8)

All amounts are in £ms

The starting point for this sensitivity matrix is the projected results as at 30 September 2009 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 projection 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 in the salary roll of employee members;

(4) variations between actual and expected demographic experience (e.g. on withdrawals or mortality); and

(5) changes in the asset outperformance assumption.

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 assets of the scheme are projected using benchmark indices which to the best of our understanding, are the indices that best replicate the performance of the scheme's assets. The performance of the scheme's assets will, at times, be different from our projections and the difference may be material to our projections. Where the investment data is available, we have allowed for investment manager under/out-performance.

Compliance with professional standards

The method and assumptions used to project the updated funding position are consistent with those used in the latest formal actuarial valuation, although the financial assumptions have been updated to reflect changes in financial conditions since the valuation. As such, the advice in this report is consistent with that contained in the latest formal valuation report. This update therefore complies with guidance note GN9 issued by the Institute and Faculty of Actuaries and maintained by the Board for Actuarial Standards, only to the extent required by paragraph 1.4 of GN9.

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)
- JP Morgan Government Bond Unhedged US (£)
- JP Morgan Government Bond Unhedged Euro (£)
- JP Morgan Government Bond Unhedged Japanese (£)
- JP Morgan Government Bond Unhedged Australian (£)
- JP Morgan Global Government Bond Ex UK (£)
- 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 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 Series (Over 15 Years)
- FTSE Actuaries UK Government Fixed Interest Gilts Yield Series (Over 15 Years)

MFR only:

- FTSE All Share Net Dividend Yield
- FTSE Actuaries Index-Linked Gilts (5% Inflation) Yield Series (Over 5 Years)
- FTSE Actuaries UK Government Fixed Interest Gilts 15 Year Yield

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 errors than the +/-2% per year from the true underlying position stated in Appendix 1.

Asset allocation as at 30 June 2009	
UK Equities	31.6%
UK Corporate Bonds	9.0%
UK Index Linked Gilts	0.0%
Overseas Equities	34.2%
Property	9.9%
Cash	1.1%
Targeted Return Funds	12.2%
Unrealised Currency Profits	2.0%

Asset returns for quarter ended	
June 2007	4.0%
September 2007	-0.2%
December 2007	-1.1%
March 2008	-7.7%
June 2008	-0.9%
September 2008	-9.8%
December 2008	-13.4%
March 2009	-7.6%
June 2009	8.7%
September 2009	13.9%

APPENDIX 3: ESTIMATED RESULTS FOR SAMPLE INDIVIDUAL EMPLOYERS

Employer/Employer Group	Funding Level 31 Mar 2007 (1)	Funding Level 30 Sep 2009 (2)	Change in Funding Level (3) = (2)-(1)	Proposed Max. Deficit Recovery Period (yrs) (4)	31 Mar 2007 Min Target Conts (% of pay) (5)	30 Sep 2009 Future Service Rate (% of payroll) (6)	30 Sep 2009 Min Target Conts (% of pay) (7)	Change in Cont Rate (% of pay) (8) = (7)-(5)
Leicestershire County Council	91%	60%	-31%	17 years	17.2%	17.3%	34.4%	17.2%
Leicester City Council	93%	61%	-32%	17 years	16.0%	17.2%	31.9%	15.9%
North West Leicestershire District Council	93%	60%	-33%	17 years	16.3%	16.9%	35.9%	19.6%
De Montfort University	96%	61%	-35%	17 years	14.0%	16.1%	30.9%	16.9%

*These projections include the transfer payment of £3,505,000 paid to Bedfordshire Pension Fund on 18 July 2008.

APPENDIX 3: ESTIMATED RESULTS FOR SAMPLE INDIVIDUAL EMPLOYERS

Employer/Employer Group	Surplus/ (Deficit) as at 31 Mar 2007 (£000) (9)	Interest on Surplus/ (Deficit) (£000) (10)	Investment Returns (less expected interest on assets) (£000) (11)	Impact of change in yields and inflation (£000) (12)	Contributions (less benefits accruing) (£000) (13)	Surplus/ (Deficit) as at 30 Sep 2009 (£000) (14)
Leicestershire County Council	(76,800)	(12,400)	(253,400)	(133,400)	6,300	(469,600)
Leicester City Council	(47,900)	(7,900)	(212,200)	(121,900)	6,100	(383,900)
North West Leicestershire District Council	(3,600)	(600)	(16,400)	(8,600)	500	(28,600)
De Montfort University*	(3,700)	(600)	(31,700)	(17,500)	(1,200)	(54,600)

*These projections include the transfer payment of £3,505,000 paid to Bedfordshire Pension Fund on 18 July 2008.