EXAMINATION

2 November 2010 (am)

Subject F204 — Pension and Other Benefits

Specialist Applications

EXAMINERS' REPORT

QUESTION 1

The question required candidates to calculate projected defined benefit and defined contribution pension values as is typically done for conversions. Candidates were asked to analyse the possible reasons for the change in the original conversions values when compared to more recent benefit statement values for a specific member.

The better candidates largely got the calculations in parts (i) and (ii) correct.

In part (iii) most candidates covered the initial communication aspect well but failed to mention the communication post conversion. Few candidates covered the formal complaint procedures that a fund would follow (bookwork)

Part (iv) was generally poorly answered with most candidates repeating points made in part (iii).

In part (v) most candidates missed the option of moving back to a DB scheme.

(i) Estimate the following values, both in nominal terms and as a percentage of salary, that would have appeared on the member's 1999 conversion statement:

- **projected salary at retirement**
- **projected DB pension at retirement**
- **projected DC pension at retirement**

Estimate the applicable corresponding values that would have appeared on the member's 2009 benefit statement.

State any extra assumptions you make and briefly comment on the results.

<u>Assumptions</u>

- Assume salary increases occur at the end of each year and that the salaries provided include the salary increase due on that date.
- Assume all future contributions are paid at the end of each year and that returns are earned at the end of the year.
- Assume the final salary at retirement is used to determine the DB benefit at retirement (no averaging).

<u>1999 conversion statement:</u>

- Projected salary at retirement: 200 000 x 1.115 ^ (65-40) = 3 040 197
- Projected DB pension at retirement: 2% x (10+65-40) x 3 040 197 = 2 128 138 p.a.
- Which equals 70% of salary at retirement
- Projected DC value at statement date: 570 000 + 0.15 x 200 000 x Annuity
  {Annuity = present value of 1 payable annually in arrears for term of (65-40)
  at an interest rate of (1.13 / 1.115) -1 = 21.111}
  = 570 000 + 30 000 x 21.111 = 1 203 330

Projected DC pension at retirement: 1 203 330 x 1.13 ^ (65-40) / 11.4
= 2 240 995 p.a.

- or 74% of the projected salary

2009 benefit statement:

- Projected salary at retirement: 520 000 x 1.08 ^ (65-50) = 1 649 528
- Projected DC value at statement date: 2 300 000 + 0.15 x 520 000 x Annuity
  {Annuity = present value of 1 payable annually in arrears for term of (65-50)
  at an interest rate of (1.09 / 1.08) -1}
  = 2 300 000 + 78 000 x 13.945 = 3 387 710
  Projected DC pension at retirement: 3 387 710 x 1.09 ^ (65-50) / 13.6
  = 907 329 p.a.
- or 55% of the projected salary.

Comments:

- The conversion statement shows that the projected DC pension at that stage was slightly higher than the projected DB pension (74% compared to 70% of salary).
- The 2009 statement shows that:
  - The projected DC pension decreased to R907 329 (by 59%) from the conversion projections
  - the projected DC pension decreased to 55% of salary compared to 74% of salary according to the conversion statement. This is less than the projected DB pension of 70% of salary.

(ii) Analyse the impact of the various changes in the projection assumptions on the value of the projected DC pension at retirement. Set out any other factors that affected the change in the value of the projected DC pension from the conversion statement to the 2009 benefit statement

Impact of changes in projection assumptions on the projected DC pension

- Value of projected pension, using 2009 benefit statement data and 1999 assumptions:
- Projected DC value at statement date: 2 300 000 + 0.15 x 520 000 x Annuity
  {Annuity = present value of 1 payable annually in arrears for term of (65-50)
  at an interest rate of (1.13 / 1.115) -1}
  = 2 300 000 + 78 000 x 13.501 = 3 353 078
  Projected DC pension at retirement: 3 353 078 x 1.13 ^ (65-50) / 11.4
  = 1 839 566 p.a.
- Compared to value on 2009 assumptions of R907 329. Changes in projection assumptions have therefore reduced the projected DC pension by R932 237

Impact due to change in net investment return pre-retirement:

- 1999 projection = 1.13 /1.115 – 1 or 1.3%
- 2009 projection = 1.09/1.08 – 1 or 0.93%
- Projected DC pension at retirement using 2009 net investment return:

= (2 300 000 + 78 000 x 13.945) x 1.09 ^ 15 / 11.4 = 1 082 428

- Decrease in projected pension due to change in net investment return
  = 1 082 428 – 1 839 566 = 757 138

Impact due to change in annuity rate:

- From 11.4 to 13.6, increase of 19% due to change in post-retirement rate:
  1999 projection's post-retirement rate = 1.13 / (1+75% x 9%) – 1 = 5.8%
  2009 projection's post-retirement rate = 1.09 / (1+75% x 6%) – 1 = 4.3%
- Thus a change in post-retirement rate of 1.5%. Using rule of thumb of 8% change in annuity (at age 65) for 1% change in discount rate, this explains a 12% increase in the annuity rate. Balance of 7% would be mainly due to lighter mortality being used.

- Decrease in projected pension due to change in annuity rate:
  1 082 428 x (1- 11.4/13.6) = 175 099
- Of which approximately 63% is due to change in net post-retirement interest rate and the balance due to the lighter mortality.

Unexplained change in projected DC pension:

- 2009 value of R907 329 to 1999 value of R2 240 995 a difference of 1 333 666
  less explained value of 757 138 + 175 099 = 932 237
  leaves unexplained amount of 401 429

Other factors to explain this:

- Actual salary increase from 1999 to 2009 compared to expected salary increase of 11.5%, affecting contributions received
- Actual increase was (520 000 / 200 000) ^ (1/10) - 1 or 10% p.a., hence lower contributions than expected. The impact of this would not be significant due to the relatively small difference
- Actual investment returns from 1999 to 2009 compared to assumed returns of 13% in 1999 projections
- This would explain the bulk of the unexplained amount of R401 429

(iii) The member lodged a formal complaint with the trustees alleging that he had been misled by the projections in the 1999 conversion statement. Discuss the actions that the trustees should take in this regard.

- Follow the complaints procedure set out in the Act (Section 30A):
  - Consider the complaint
  - Respond to within required time (30 days of receipt)
  - Should the member not be satisfied with the reply or the response was not received timeously, the member can lodge a complaint with the Adjudicator
- Review all the relevant member communication at conversion:
  - Specific conversion statement and illustrations for this member
  - Any other general communication or presentations done at the time

- Explaining risks in DC fund and investment options available
- Risks include investment returns relative to future salary increases
- Possibility that the 2.5% cost of risk benefits and admin will increase
- Annuity rates may go up (mortality, insurer expenses and loadings)
- Were members advised to get independent / professional advice?

- Review member communication since conversion
  - Annual benefit statements and fund information
  - Any general member communication related to falling returns or improving longevity
- Review investment options offered to members since conversion and whether these were appropriate
- Request actuarial advice on the merits of the member's case
- Request legal advice
- Further steps will depend on the outcome of the above investigations and expert advice.
  - If the original communication was reasonable, explain to / remind the member that:
    - Projections are based on assumptions since it is not possible to predict the future
    - In a DC Fund the member carries the risk (and reward) of investment returns nor performing according to expectations,
    - These issues were communicated to the member at the time
    - Markets may well recover, in which case his final position at retirement may be better than the projections currently show
    - Although the projected DC pension decreased significantly, the decrease as a percentage of salary is not that significant
  - If not, consider what remedial action is available to the trustees and the possible financial implications thereof, bearing in mind that many others may be equally affected.
  - This should also be discussed with the employer.

(iv) The trustees have asked for your opinion regarding the member's complaint. Set out the additional issues that you would consider in your investigation

- The member appears worse off at retirement than he would have been had he stayed in the DB fund (projected pension of 55% of projected salary compared to 70%)
- Projected pension (55%) is now much lower than the conversion statement (74%), although as a percentage of projected salary, the decrease is less significant
- From copies of the member communication from 1999, confirm that the member was properly informed of the risks (mentioned above) in a DC fund.

  - Investment risk (relative to future salary increases)
  - Risk related to annuity terms at retirement (longevity, insurer loadings)
  - Expense risk (in relation to net retirement contributions)
  - Was the member encouraged to obtain independent advice?
  - Did the member receive alternative values to explain the variability of outcomes and the sensitivity of the projections to the principal assumptions?

  - Were the projected pensions expressed in values that the member could relate to (in real terms or as a percentage of salary)?
  - Were the benefits arising from the transfer value and future contributions identified separately?
- Did the projections at the point of conversion comply with GN34?
- How did the member's other benefits compare between the DB and DC sections at the time? It is possible that the withdrawal, death in service or disability benefits were significantly better in the DC section and this motivated him to transfer.
- Were the assumptions for the 1999 conversion statement realistic? If these were too optimistic, the member may have a point:
  - Review the difference between investment returns and salary increases (higher net rate would make DC fund look better relative to the DB fund) in light of the economic data available at the time
  - Annuity terms (pension increase and mortality rates)
  - Future expenses (that would be deducted from contributions)
- The main reason for the decrease in these values is the change in the projection assumptions. When were they changed; are the new assumptions realistic and can the change in assumptions since 1999 be justified?
- What investment portfolio/s has the member chosen? He may have chosen investments that are too risky or too conservative.
- What is his switching history? He may have tried to time the market and prejudiced himself as a result.
- What communication has taken place with members during the past 10 years and has that alerted the member to the changing economic outlook, increased longevity and the need to obtain advice on investment options?
- Were sufficient investment portfolios available for the member to manage his investment risk properly?
- Have there been changes to the DB section that should affect the comparison?

(v) Discuss the wider implications of this case for the sponsoring employer.

- If this member's complaint is an isolated case and can be dealt with satisfactorily, there is no problem
- However, if staff retire with insufficient benefits, there will be moral pressure on the employer to enhance their benefits
- Does the DC section benefit structure still meet its objectives?
- If not, consider ways of enhancing benefits:
  - Additional employer contributions
  - Possibly matched by additional member contributions
  - Once-off enhancement of existing benefits
- If many members are involved, this can have more serious implications:
  - Dissatisfied staff, feeling they were coerced into a decision that was to the benefit of the employer
  - May lead to labour unrest

    - And valued staff leaving employment
- Employer should review the practice of competitors
- There may be pressure to transfer staff back to the DB section
    - If reinstating past service in the DB section, this will likely lead to a deficit in this section and significant financial implications for the employer
    - If only future service accrue in the DB section, it is unlikely that the current contribution rate of 15% will be sufficient to cover future benefit accrual for these members
    - Will lead to the uncertain pension costs that the employer presumably tried to get rid of with the initial conversion
    - Pressure from other staff (who joined since 1999) to also go to the DB section (that may now be perceived as better value)
    - And anti-selection by members; they may want to return to the DC section in future if the tide turns again
    - In summary: significant additional expense and risk that the employer will want to avoid
- If the DC section is still competitive, the employer should ensure that the Fund provides sufficient member communication to highlight the advantages of the fund and manage member expectations

QUESTION 2

Most candidates covered all the main investment strategy issues raised below but often in not enough detail to score full points.

Most candidates were side tracked by the employer's wish to convert to a DC structure. Few candidates covered the cashflow implications and the employer covenant.

A new chairman has been elected by the board of trustees and has requested you to comment on the current investment strategy. Outline the points you would make.

- The investment strategy is the sole responsibility of the trustees
- And should be evaluated against their investment objectives
- Which is generally to meet future liabilities as they fall due, taking account of the likely contributions to be received in future and the trustees and employer's attitude to risk.
- The investment strategy is a medium to long-term policy that shouldn't be affected by short-term market movements
- Employer's intention to convert should not directly drive trustees' strategy

Regulatory issues:

- Current strategy not regulation 28 compliant
- since equity exposure is limited to 75% of assets in the regulations
- What is the current asset allocation?
- It is likely to have changed as a result of recent market movements, especially since 85% was invested in equities
- But the strategy should not change dramatically after a market crash. The Fund would lose possible asset recovery opportunities.
- Important to ensure that the actual asset allocation is regulation 28 compliant at all times and the investment strategy should be consistent with this as soon as possible.
- Are there any provisions in the Fund rules related to investments?

Single asset manager:

- Concentrating risk by appointing a single manager and being exposed to a single investment view is a concern, given that no asset manager gets it right all the time
- Especially a small manager that may not have the resources to research the entire market
- Have there been regular performance reviews?
- How did the investment manager perform relative to its benchmark and peers?
- Given size of assets, it is unlikely to split them on a segregated basis, since most managers have minimums for segregated management
- For diversification and cost, consider a multi-manager or pooled portfolios instead
- What investment management fees are being paid? Are they reasonable / competitive?
- Exposure to one or two key staff at the asset manager leaving

Cashflow:

- Since there are only active members (from: “On exit, members have to take their benefits in cash or transfer the benefit to another fund or purchase a pension”) the Fund is likely to be cashflow positive
- Hence liquidity is unlikely to be a limiting factor in setting investment policy
- especially since the employer is contributing additional amounts
- However, with all benefits being paid out at exit, cash may be required for imminent retirements or should the company have to retrench staff
- Discuss any company actions and check cashflow projection
- Set cash proportion accordingly (5% may well be appropriate)

Nature and term of liability:

- All liabilities are for actives, which are mostly inflation linked (being based on salaries)
- and longer term, although full payment of benefits on exit shortens the duration
- On balance a significant equity component is reasonable, since it provides real returns in the long term
- Especially in light of the stated objective of increasing the funding level
- However, equity returns are volatile, which can affect the funding level in the short to medium term

Funding level:

- The additional employer contributions amount to R1.8 million p.a. (3% x 120 000 x 500) or around 2% of assets each year. Hence, given recent market movements and the exposure of the Fund to equities, the funding level is likely to have deteriorated.
- The Fund will therefore still not be able to have excess funding to convert to a defined contribution fund
- Which is likely to require a funding level of 110% to 120% to place members in a similar position as before and to provide an incentive for converting
- the employer may well be required to increase contributions further

Employer covenant:

- The employer appears willing and able to pay additional contributions to the Fund
- Although being concerned about pension costs
- Has the employer’s financial position been affected by recent economic events?
- What is the size of the Fund relative to the employer’s assets and the required contributions relative to the employer’s net income
- Is the employer still able to pay additional contributions and happy to accept the risk posed by an aggressive investment strategy?
- If not, may have to consider a more conservative investment strategy with a smaller equity component

Diversification

- Consider foreign assets for exposure to different markets, types of assets and currencies
- Also consider investing in other asset classes (property, derivative based assets, corporate bonds, index-linked gilts, socially responsible investments)
- Change in investment strategy may affect valuation assumptions and in turn affect the financial position of the Fund
- Final investment strategy should be properly documented in an investment policy statement.

QUESTION 3

Parts (i), (ii) and (iii) were generally well answered by most candidates.

In part (i) poorer candidates missed the point that different investment strategies lead to different valuation assumptions. Different approaches to the funding of risk benefits was a point also missed by most candidates.

In part (ii), few candidates considered the purchase and sale agreement and its impact on the transfer. Few candidates also considered the impact of the merger on the valuation assumptions to be used in the combined fund.

In part (iii), few candidates discussed the PMBs, employer debt and the fact that if the deferred pensioner benefits are written down, they would be better off transferring to Fund A as the employer would need to make good the shortfall.

i) Set out the points you would raise in answer to this comment, indicating whether or not you agree with the trustee.

There are many factors that could mask this conclusion:

- Fund A members may be contributing less thus requiring Company A to contribute more for the same value of benefits.
- The lower member contributions are a benefit from the members' perspective.
- Different valuation dates (although close) can still produce quite different assumptions three months apart. There has been considerable volatility in government yields which drive the pre- and post-retirement net rates.
- Best-estimate (B-E) bases don't necessarily produce the same assumptions. Actuaries have different views of B-E. There might be small differences in each assumption that accumulate to make a material difference overall.
- A "B-E" basis may not be accurate (e.g. one fund may use a common mortality table which doesn't accurately reflect its underlying mortality or Fund A's valuator might be making a more conservative allowance for mortality improvements)
- Contingency reserves – the funds may have different philosophies. Funding bigger reserves – such as solvency, data, risk, would push up the rate.
- Deficits and surpluses – does the rate which the trustee is comparing include the effects of spreading these?
- Surpluses: surpluses could be used to enhance benefits
- Member age profile – a young in-service membership would produce lower retirement contributions
- But possibly higher risk contributions, if it offered generous death-in-service pensions

- Similar comments could be made for differences in gender and marital status profiles. They affect the employer's contribution rate.
- Do both accrue future benefits over the same period? The PUM could be looking 1 or 3 years ahead – this could have a small impact on the rate
- Risk and admin costs – if these services are outsourced to an insurer, a less competitive insurer could be pushing up the total contribution rate required
- The treatment of the death and disability benefits may differ (current cost or full accrual of expected benefits)
- Investment strategies may differ. If one fund invests entirely in gilts (for argument's sake) its B-E discount rate would be lower and would push up its required contribution rate.
- Whether I agree? If all else remained the same then yes, but given all the variables above impacting on the comparison, one would need a more detailed actuarial investigation to be able to compare.

ii) Discuss the issues that need to be considered before a merger of the two funds can be implemented.

- Merge into Fund A or Fund B?
- Which fund has more members?
- Easier if larger fund is left unchanged – fewer disgruntled members and less communication
- One fund's members may have more difficult issues in terms of section 197 of the Labour Relations Act
- Which is better funded?
- Easier to move to the better funded one – transferees enjoy greater security but existing members' of that Fund may have to accept some dilution of security
- The merger mustn't render the receiving fund financially unsound, or unable to become sound timeously
- Which fund has better trustee/admin arrangements (both in terms of service delivery and cost)?
- Rules? Does one fund make merging easier than the other?
- Purchase and Sale Agreement – consider any wording relating to the funds and transfer of assets and liabilities
- Although the trustees aren't bound by this – it is an agreement between the companies
- The Agreement may need to be revised or adjustment payments made
- To ensure that members' past service rights and reasonable benefit expectations are protected
- Member surplus and possibly shares of employer surplus and contingency reserves must be transferred
- How will these be applied in the combined fund?
- Minimum benefits must be complied with

- It might be harder to communicate with pensioners and deferred pensioners and thus their benefits are often left unchanged / pensioner benefits are vested and more difficult to change
- Or their pensions might be outsourced to an insurer
- Both actuaries will need to be satisfied that any assets and liabilities transferred are appropriate in terms of Section 14.
- The Financial Services Board 's approval will be needed
- Should two benefit categories be established, mimicking the two benefit designs?
- This might be easier than trying to force everyone into the same benefit design:
- Equivalence calculations / actuarial advice
- Negotiations and consent; unhappiness
- Legal advice
- But it would be easier from an admin point of view to have one set of benefits (especially if some employees are transferred to Company A).
- Transferees would receive additional service determined by equating the actuarial value of benefits.
- It would be easier for transferees' future service to be based on the existing benefit scale – though it would still require negotiation and consent
- Amendments to the rules will be required
- All new employees could receive the same benefit so as to ultimately standardize benefits
- Employer's financial situation: they may not be able to afford the more expensive benefit design for future service and new members
- Financial position and required contribution rate after transfer – is the transfer significant enough to affect the valuation assumptions of the merged fund?
- Especially if the membership profile is significantly different (more pensioners, older, lower paid)
- How to deal with discretionary benefits (which may have been granted by one fund and not the other)?
- How to merge the assets of the two funds – the investment strategies may be quite different and some of the assets may not be easy to disinvest (e.g. guaranteed funds, policies)?
- If fund merged values of liabilities and assets of both Fund A and Fund B would need to be valued at a consistent basis

iii) Outline the issues that the trustees of Fund B should consider in response to the deferred pensioners and the factors that they should take into account in establishing an appropriate transfer value basis for those who opt to transfer their benefits to this alternative arrangement.

- Rules regarding individual transfers, deferred pensioners and deficit situations
- Legislation, in particular the Pension Funds Act
- Professional guidance (GN11)

- Ideally the trustees should want to transfer the value of accrued benefits
- These must reflect members' rights and reasonable benefit expectations
- But reduced values might be paid due to the deficit position
- The deficit is an employer debt. Trustees must consult them to gauge whether they are willing to inject capital to enable these exits to get fully funded benefit values.
- The Sale and Purchase Agreement should say how this is to be dealt with
- Although pension fund issues are often an afterthought
- The strength of Company A's covenant is important
- Transfer values could thus be anything between a scaled down actuarial reserve and the full actuarial reserve,
- But subject to the prescribed minimum benefits (PMBs)
- PMBs imply that the pension increase policy be reflected in the transfer since deferred pensioners are entitled to the same increases as other pensioners
- If their benefit is scaled down due to the deficit, the deferred pensioners may be better off transferring to Fund A, where Company A would need to ultimately fund the deficit
- The trustees should inform them accordingly, as they should be acting in the best interests of the members
- even though this may be to the employer's detriment
- The assumptions should be agreed by the trustees on the advice of the valuator
- If the assumptions have changed since the last statutory valuation, the FSB will want to know why
- The basis should reflect the underlying investment strategy. However, it would be unfair to add a large equity risk premium to the discount rate, thus reducing the transfer value, since this ignores the associated risk
- Appropriate allowance should be made for mortality pre- and post-retirement, expenses, marital status and the existence of dependants
- The trustees should advise transferees of the importance of independent professional advice

QUESTION 4

Most candidates did not consider the additional increase recommended by the valuator as being a statutory minimum increase. Despite this, the better candidates described the calculations in part (i) well.

In part (ii), few candidates considered the ownership of the surplus and few mentioned that the employer could decide to grant a higher increase.

In part (iii), most candidates did not comment on the longer term implications on pensioners, members and the employer of granting unaffordable pension increases.

(i) Describe the calculations that the valuator would have had to make in order to arrive at the recommended additional pensioner increase.

- the determination of the minimum pensioner increase is set out in section 14B of the Pension Funds Act
- the increases granted to date (i.e. 75% of inflation over the last three years) cannot be reduced
- the extra increase is the lesser of
- a pension that has enjoyed real CPI increases since date of retirement; AND
- that afforded by a notional pensioners' account (NPA), i.e. the pensioner-related assets
- NPA = actuarial reserves at retirement adjusted to fair value (mentioned below) plus fund interest (after expenses) less pensions and related expenses for those alive plus the value of any special pension increases not based on investment returns
- divide the NPA by the pensioners' current actuarial liability (allowing for discounting, increases, expenses, longevity, contingent pensions, etc.) to assess the increase that it can afford
- adjust to an equivalent fair value of assets, where applicable
- a simpler more practical approach, preserving the intention, may be used
- dependants of deceased members and deferred pensioners are to be included in the definition of pensioner for this purpose

(ii) Discuss the additional considerations that the valuator would have taken into account before drafting her proposal.

- history of increases and the expectations it raises
- past inflation and thus pensioners' needs
- the valuation basis, which identifies the provision made for pension increases
- the (4 week) lag in the CPI index's publication; if the proposal is made before the index is published, consider anecdotal inflation information to date
- the surplus available after contingency reserves, especially the solvency reserve, and after allowing for the effect of the minimum pension increase
- to whom does the surplus belong?

- if it is part member/pensioner-owned, then pensioners would have a claim to a further increase (i.e. in excess of the above calculation)
- if it is employer owned, then the increase might be limited to that calculated in above or any additional amounts that the employer trustees may decide to allocate to the pensioners
- pro rata increases for those that retired during the year

A year later, in the midst of the economic crisis, and despite the pensioners' objection, the trustees approved the valuator's proposal of a 0% pension increase as at 1 February 2009.

Six months later, once markets had partly recovered, the pensioners asked the trustees to consider an interim pension increase.

(iii) Comment on the pensioners' request.

- understandable, given that inflation has eroded their purchasing power
- the valuator's calculations would have shown that the fund could not afford an increase in February 2009
- Check whether markets have recovered their losses yet. If not, the answer is still the same as in Feb 2009.
- Check whether the fund rules allow for an interim increase and whether there is a past practice of granting interim increases
- the fund is unlikely to be able to afford an increase 6 months later [it is possible that asset values could have improved sufficiently, but the issue is also that asset values are quite volatile in an economic crisis and the improvement may only be temporary]
- need to consider change in the value of the liabilities (if expected future returns have fallen, higher asset values may not lead to an improvement in the funding position)
- The trustees have to consider the interests of all the stakeholders - should a special increase be granted now and the fund become financially unsound, it will not be in the interest of active members or the employer.
- In addition the security of future pensioner benefits is also affected (not only members). Ultimately if there is a deficit and the employer is liquidated, all fund beneficiaries will receive reduced benefits.
- the employer could be asked to fund the increase (either by increased contributions or a cash injection), but they may be struggling financially themselves. If this was a possibility, it would have been considered at the actual pension increase date.
- perhaps best to wait for the Feb 2010 assessment and pension increase
- pensioners may have to wait a while (could be longer depending on the financial soundness issue) until the Feb 2011 statutory valuation before getting back to real (or 75% policy increase levels) pension levels
- granting unaffordable enhanced pensions would further prejudice the fund's financial position, and the employer's commitment to the DB fund
- Not only pensioners have been affected - there have been long-term implications for in-service members by way of reduced salary increases and hence reduced pensions