The Lazard London Directors' Scheme ("the Scheme")

This report is addressed to the Trustees of the Scheme and is the first actuarial report since the actuarial valuation as at 31 December 2019.

Its purpose is to provide an estimate of the ongoing funding position as at 31 December 2020 and an indication of how the funding position has developed from 31 December 2019 to 31 December 2020.

The Trustees are required to share this report with the employer within seven days of receiving it. Some of the information in this report also needs to be included in the next summary funding statement for members.

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Appointed Scheme Actuary

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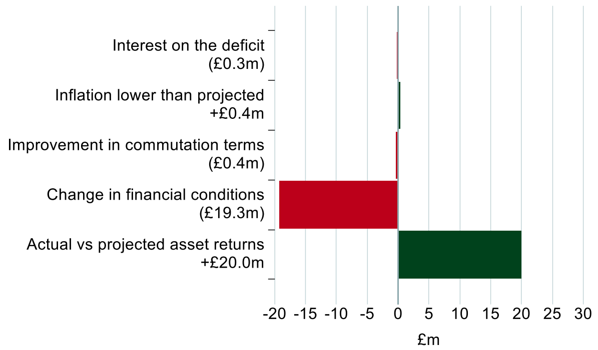
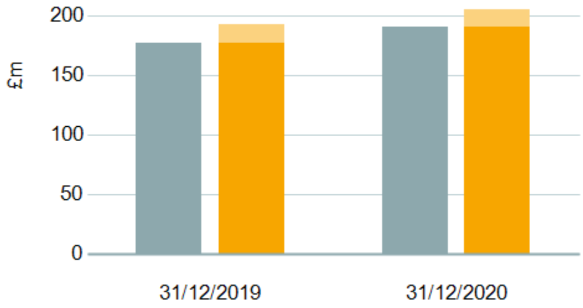
Why has the funding position changed from 31 December 2019 to 31 December 2020



The figures may not sum due to rounding

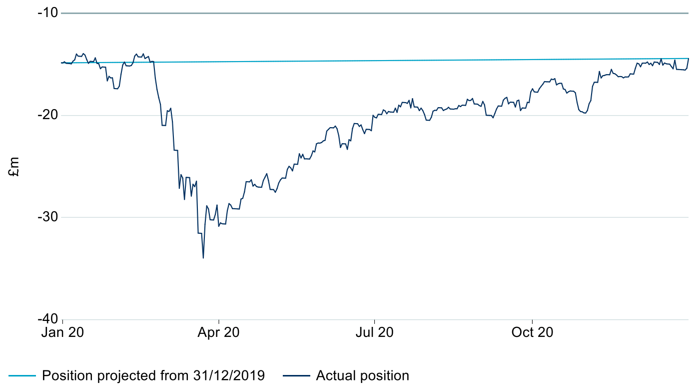
The deficit reduced by £0.5m over the period, and the main reasons for this are shown in the chart. The change in financial conditions is primarily driven by a fall in gilt yields.

Estimate of funding position at 31 December 2020



	31/12/2019	31/12/2020
Asset value	£177.4m	£190.6m
Technical provisions	£192.3m	£205.0m
(Deficit) / Surplus	(£14.9m)	(£14.4m)

How are we doing compared to what was expected



- The deficit has varied between about £14m and £34m over the period. However, as at 31 December 2020 the Scheme was broadly on track with the recovery plan agreed as part of the valuation.
- The chart illustrates how sensitive the funding position is to market movements, even over short time periods.

Professional Standards

This report is part of the work in connection with the valuation of the Scheme. The report has been produced for the information of interested readers and not with the intention that it should support any decision that they may make. Our work in preparing this document complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work.

Scope

We have prepared the calculations in this report in accordance with the requirements of the Pensions Act 2004 and the Occupational Pension Schemes (Scheme Funding) Regulations 2005.

We have undertaken this work assuming that there are no specific decisions for you to take as a result of this report. Please contact me if you do intend to take some specific actions on receiving this report, as it may then be appropriate for me to provide additional advice.

The next actuarial report is due with an effective date as at 31 December 2021 and the next full actuarial valuation is due as at 31 December 2022.

Method

We have estimated the technical provisions as at 31 December 2020 by projecting forward the technical provisions as at 31 December 2019. Our projection allows for:

- changes in the financial conditions;
- interest on the technical provisions;
- increases to pensions in payment and revaluation of deferred benefits since 31 December 2019;
- increases to the commutation factors with effect from 1 July 2020;
- net payments out of the Scheme.

We have assumed that all other experience over the period was in line with the assumptions used in calculating the technical provisions, as set out in the Scheme's Statement of Funding Principles. If the Scheme's experience was significantly different from these assumptions or if there were significant events of which we are not aware, then the technical provisions based on a full actuarial valuation could be significantly different from those we have estimated.

I note that under the existing Statement of Funding Principles, agreed as part of the 2019 valuation, the technical provisions are calculated with an allowance for the broad cost of buying out the remaining benefits in 2030 (in excess of valuing the benefits on a gilts basis). This additional cost was £13m for the purpose of the 31 December 2019 valuation, to be reviewed at future valuations. We have not carried out any analysis as part of this report to check whether that allowance remains reasonable based on current insurer pricing.

In November 2020, the Government and UK Statistics Authority confirmed that the RPI formula will be replaced by the CPIH formula from 2030, with no compensation for holders of index-linked gilts. From 2030, when RPI will be calculated in line with CPIH, we might expect a reduction in the gap between RPI and CPI expectations to around 0.1% pa. Given this update has not yet been reflected in the Statement of Funding Principles, it is not reflected in this report. Were we to better reflect the latest expectations with regard to CPI post-2030, we anticipate that there would be an increase of c£3m in the technical provisions (the asset impact is more subtle and may already be priced in to market values).

Data

We have used the following data:

- the membership data provided for the actuarial valuation of the Scheme as at 31 December 2019 and summarised in our valuation report dated 21 April 2021;
- an estimated figure of £9.9m in respect of net benefit cash flow out of the Scheme for the year to 31 December 2020, from data provided by the Scheme's administrators; and,
- We have based the asset figure on the unaudited accounts as at 31 December 2020 that have been provided by the investment managers, showing a total asset figure (excluding AVCs and insured annuities) of £185.1m. To this we have added the estimated value of the insured annuities (£5.5m), calculated using the same assumptions as those detailed below.

  It is possible that the final asset figure shown in the audited accounts could be different. This would affect the funding position at 31 December 2020 disclosed in this report.

Projections between 31 December 2019 and 31 December 2020

The above sections describe the data and assumptions we have used to estimate the funding position as at 31 December 2020.

We have produced the figures calculated at other dates between 31 December 2019 and 31 December 2020 (as shown in Section 1 of this paper) using a more approximate method as they are for illustration only. In producing these figures, we have projected the technical provisions and asset figures as at 31 December 2019 on a daily basis to allow approximately for:

- investment performance, using certain index returns as a broad proxy for this;
- interest on the technical provisions;
- increases to the commutation factors with effect from 1 July 2020;
- changes in the technical provisions due to changes in gilt yields; and
- an estimate of other net payments into and out of the Scheme.

Special events

We understand that there were no material changes to the Scheme during the period.

Assumptions as at 31 December 2020

The key financial assumptions used have been set in line with the approach set out in the Trustees' Statement of Funding Principles dated 30 March 2021. All non-financial assumptions are as set out in the Statement of Funding Principles.

Key financial assumptions	31 December 2019	31 December 2020
Rate of return from gilts	1.2% pa	0.6% pa
Retail Price Inflation (RPI)	3.3% pa	3.2% pa
Consumer Price Inflation (CPI)	2.3% pa	2.2% pa
Overall assumed return in excess of gilt yields		
Up to 31 May 2020	1.4% pa	1.4% pa
01/06/2020 – 31/05/2030	1.1% pa	1.1% pa
From 01/06/2030	0.0% pa	0.0% pa
Additional cost of buying out benefits in 2030	£13m in 2030	£13m in 2030
Rate of pension increases		
CPI min 3%, max 5% pa	3.3% pa	3.3% pa

All financial assumptions are term-dependent and calculated by reference to the relevant gilt yield curves. The rates above are approximate single-equivalent rates, weighted by reference to the Scheme's projected benefit cashflows.