



# Advocates Pension Fund (“APF”) Actuarial Funding Valuation & Design Review

*February 2021*

Prepared by Aon  
Consulting | Retirement and Investment

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## About this material

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- Aon was commissioned to conduct a full actuarial funding valuation of the APF as at 31 December 2020, based on the revised benefit structure, recent census data and latest financial statements.
- The main funding valuation results relate to (a) the scheme's technical provisions / funding level at the valuation date, (b) the future service contribution rates resulting from the funding objectives, method and assumptions, and (c) the past service deficit contributions for the purposes of the recovery plan.
- We understand that the Administrative Committee of the APF is considering to introduce some reforms, given the current deficit levels and the need to improve the funding position of the scheme over a reasonable time horizon.
- Based on the above, Aon's terms of reference relate to the introduction of a new Defined Contribution Provident Fund under a range of possible scenarios, and to the estimation of the impact on the main actuarial funding valuation results under each scenario tested.
- The main findings of our analysis are included within this material.
- We would be delighted to discuss any aspect of this report with you.



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**Section 1:  
Executive Summary**



# Introduction

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- Given the pressures on the long-term financial sustainability of the Fund, the Trustees need to take **decisive measures** to reform the pension scheme.
- Securing the financial sustainability of pension schemes is a very **complex task**. Although there are endless variations of reforms that can ensure the long term viability of the scheme, the associated risks and the impact on members can be quite different depending on the chosen reform action plan. For example trebling the contributions or halving the benefits may both ensure the viability of a pension system, however their impact is substantially different in terms of both financial risks and impact to members.
- Reforms are best implemented **early** so that abrupt adjustments to design parameters are avoided. Gradual adjustments have the advantage of making reform more equitable as the burden of adjustment can be spread across many generations of members who will also have more time to adjust their work and savings decisions to the new parameter levels.
- Reform options include:
  - ✓ **Parametric Reforms** that keep the system as it is but change system parameters, such as contribution rates, retirement ages, vesting periods, early retirement rules and retirement benefits. It is widely clear that the parametric reforms to improve sustainability for pension schemes can be addressed in 3 ways:
    - Revenue measures (higher contributions/income), or
    - Benefit measures (lower benefits), or
    - Working Longer (later retirement), or
    - Combination of all the above.
  - ✓ **Structural Reforms** such as transition to a hybrid scheme or pure defined contribution plan that changes the structure of benefits.



## Introduction (cont.)

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- If APF **delays** reforms, then the scale of adjustment to benefits needed in the medium or long term will be more sudden and painful. Such sudden changes make it very difficult for individuals to change their work, retirement and savings decisions to reflect the new financial realities.
- **Implementation** is key to the reform of pension schemes. Reform will only be successful if the planned reforms are capable of being implemented in a timely and efficient manner with a smooth transitional period.
- As part of the previous studies performed by Aon, we analyzed various design reforms, including **parametric changes** to the existing benefits structure as well as **structural reforms**, and estimated the impact on the financial position of the Fund and on the funding plan for the future.
- The introduction of a **Defined Contribution** plan for the future is a key feature of all **structural reforms** that were examined. The manner in which a Defined Contribution plan (DC) is introduced is a matter of policy and objectives that will be determined by the Board of the APF.
- In a reform where a DC plan is introduced for future new entrants only, all risks related with the current defined benefit design remain for past service benefits and future service of existing members. These will still need to be mitigated over the longer term, as the current financing arrangements are not sufficient to ensure funding of the associated liabilities.

# Scope of Work

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In addition to the work already performed, Aon has been engaged to perform an updated actuarial valuation and examine some design reform scenarios.

The scope of work is outlined below:

## **Phase 1 – Actuarial Funding Valuation as at 31 December 2020**

- Calculation of **(a)** the scheme's technical provisions / funding level at the valuation date, **(b)** the future service contribution rates resulting from the funding objectives, method and assumptions, and **(c)** the past service deficit contributions for the purposes of the recovery plan.
- All calculations have been based on the updated membership data, assumptions basis and benefit structure, using current census data and financial statements.

## **Phase 2 – Scenario Modelling / Design Review**

- Introduction of a new Defined Contribution Provident Fund, under a range of scenarios:
  - Using a Hybrid Scheme whereby members will be able to accrue/accumulate both Defined Benefit (DB) as well as Defined Contribution (DC) benefits during the transition period.
  - Defined Contribution Provident Fund offered only to new entrants.
  - Defined Contribution Provident Fund offered to new entrants & to benefit accrual for future service of the current active members.
- For each scenario, we have calculated the main actuarial funding valuation results (i.e. technical provisions / funding level, future service contribution rates, past service deficit contributions / recovery plan).

# Design Scenarios Examined

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The following design scenarios have been examined:

- **Sc.1 / Status Quo** – Existing benefits structure without any amendments.
- **Sc.2 / Removal of 30% loading** – The 30% loading on annual pension has been removed for the future beneficiaries only (i.e. actives/in-actives). This implies that no change has been applied on the members who are currently receiving a benefit from the Fund (i.e. pensioners/dependents).
- **Sc.3 / Closure to new entrants & Removal of 30% loading** – The Fund is closed for new entrants and there is an immediate removal of the 30% loading on annual pension for the future beneficiaries only (i.e. actives/in-actives). This implies that no change has been applied on the members who are currently receiving a benefit from the Fund (i.e. pensioners/dependents).
- **Sc.4 / Closure to new entrants and future service & Removal of 30% loading** – The Fund is closed for new entrants, existing active members do not accrue any benefit for service after 31/12/2020, and there is an immediate removal of the 30% loading on annual pension for the future beneficiaries only (i.e. actives/in-actives). This implies that no change has been applied on the members who are currently receiving a benefit from the Fund (i.e. pensioners/dependents).
- **Sc.5 / Hybrid Scheme** – Members will be able to accrue/accumulate both Defined Benefit (DB) as well as Defined Contribution (DC) benefits during a 30-year transition period. At the outset, there will be two different plans: the existing DB plan and a new DC Provident Fund. Benefit accrual from the DB plan will gradually run down during a 30-year period (in a linear approach), after which members will only accumulate benefits under the DC Provident Fund.



# Actuarial Funding Valuation Results as at 31 December 2020

- **Past service position / Funding Level:**

Technical Provisions (in EUR)	Sc.1	Sc.2	Sc.3	Sc.4	Sc.5
Funding Target	(270.301.021)	(222.322.489)	(222.322.489)	(220.438.725)	(135.712.664)
Market Value of Assets	78.981.654	78.981.654	78.981.654	78.981.654	78.981.654
<b>Funding Surplus / (Deficit)</b>	<b>(191.319.367)</b>	<b>(143.340.835)</b>	<b>(143.340.835)</b>	<b>(141.457.071)</b>	<b>(56.731.010)</b>
<b>Funding Level</b>	<b>29,2%</b>	<b>35,5%</b>	<b>35,5%</b>	<b>35,8%</b>	<b>58,2%</b>

- **Recovery Plan:**

Additional Annual Deficit Contribution (in EUR millions)	Sc.1	Sc.2	Sc.3	Sc.4	Sc.5
15-year Recover Plan	21,2	14,7	13,7	3,9	n/a
30-year Recover Plan	15,6	10,6	8,7	Nil *	Nil **

\* Currently, the total annual contributions are EUR 6,5m. Under the 30-year recovery period, the current contributions can be **decreased by 10%**. The “extra” contributions can be **diverted** to the new DC scheme.

\*\* Currently, the total annual contributions are EUR 6,5m. Under the 30-year recovery period, the current contributions can be **decreased by 45%**. The “extra” contributions can be **diverted** to the new DC section of the hybrid arrangement.

## Evolution of Funding Level – Status Quo

Year End	Technical Provisions	Benefit Payments + Expenses	Expected Cbns (Member + Stamp)	Additional Contributions	Assets	Funding Level
2020	270,3	-	-	-	79,0	29%
2021	277,2	12,3	6,6	15,6	91,4	33%
2022	289,7	7,1	6,6	15,6	109,4	38%
2023	302,7	7,2	6,6	15,6	127,8	42%
2024	315,6	7,7	6,6	15,6	146,3	46%
2025	328,3	8,3	6,6	15,6	164,7	50%
2026	341,4	8,4	6,6	15,6	183,5	54%
2027	354,9	8,6	6,6	15,6	202,7	57%
2028	368,7	8,7	6,6	15,6	222,3	60%
2029	382,6	9,1	6,6	15,6	242,1	63%
2030	397,3	9,0	6,6	15,6	262,5	66%
2031	412,1	9,3	6,6	15,6	283,3	69%
2032	427,7	9,2	6,6	15,6	304,8	71%
2033	443,1	10,0	6,6	15,6	326,1	74%
2034	459,2	9,8	6,6	15,6	348,2	76%
2035	475,5	10,2	6,6	15,6	370,6	78%
2036	492,1	10,4	6,6	15,6	393,4	80%
2037	509,1	10,6	6,6	15,6	416,6	82%
2038	526,8	10,6	6,6	15,6	440,5	84%
2039	544,8	10,9	6,6	15,6	464,8	85%
2040	563,3	11,0	6,6	15,6	489,7	87%
2041	581,4	12,0	6,6	15,6	514,3	88%
2042	599,3	12,7	6,6	15,6	538,9	90%
2043	617,4	13,1	6,6	15,6	563,8	91%
2044	634,9	14,3	6,6	15,6	588,2	93%
2045	653,0	14,2	6,6	15,6	613,4	94%
2046	669,4	16,4	6,6	15,6	637,2	95%
2047	686,0	16,6	6,6	15,6	661,4	96%
2048	701,6	18,1	6,6	15,6	684,9	98%
2049	716,7	19,0	6,6	15,6	708,1	99%
2050	730,5	20,5	6,6	15,6	730,5	100%

## Evolution of Funding Level – Hybrid Scheme

Year End	Technical Provisions	Benefit Payments + Expenses	Expected Cbns (Member + Stamp)	Additional Contributions	Assets	Funding Level
2020	135,7	-	-	-	79,0	58%
2021	129,5	11,6	6,6	-3,0	73,3	57%
2022	128,5	6,3	6,6	-3,0	72,7	57%
2023	127,4	6,3	6,6	-3,0	72,2	57%
2024	125,8	6,7	6,6	-3,0	71,3	57%
2025	123,7	7,1	6,6	-3,0	70,0	57%
2026	121,4	7,0	6,6	-3,0	68,7	57%
2027	119,0	7,1	6,6	-3,0	67,3	57%
2028	116,5	7,0	6,6	-3,0	65,9	57%
2029	113,6	7,2	6,6	-3,0	64,3	57%
2030	110,8	7,0	6,6	-3,0	62,9	57%
2031	107,8	7,1	6,6	-3,0	61,3	57%
2032	104,9	6,9	6,6	-3,0	59,9	57%
2033	101,6	7,2	6,6	-3,0	58,1	57%
2034	98,3	6,9	6,6	-3,0	56,6	58%
2035	94,9	7,0	6,6	-3,0	54,9	58%
2036	91,3	6,9	6,6	-3,0	53,3	58%
2037	87,8	6,8	6,6	-3,0	51,7	59%
2038	84,3	6,6	6,6	-3,0	50,3	60%
2039	80,7	6,5	6,6	-3,0	48,9	61%
2040	77,2	6,3	6,6	-3,0	47,7	62%
2041	73,4	6,4	6,6	-3,0	46,3	63%
2042	69,5	6,4	6,6	-3,0	45,0	65%
2043	65,7	6,2	6,6	-3,0	43,8	67%
2044	61,6	6,2	6,6	-3,0	42,5	69%
2045	57,8	5,9	6,6	-3,0	41,6	72%
2046	53,8	5,9	6,6	-3,0	40,6	75%
2047	49,9	5,6	6,6	-3,0	39,8	80%
2048	46,0	5,4	6,6	-3,0	39,3	85%
2049	42,4	5,2	6,6	-3,0	38,9	92%
2050	38,9	4,9	6,6	-3,0	38,9	100%

## Recommended Strategy

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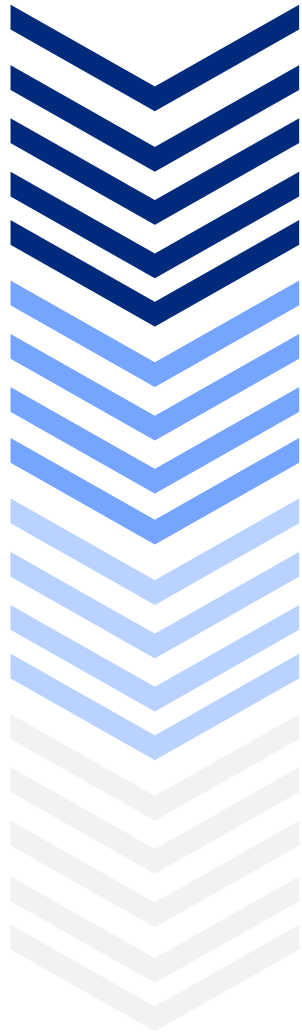
- Having examined a number of parametric and structural reforms, and on the basis that a full recovery of the existing plan would be highly unlikely via parametric only reforms, and assuming the APF Board's preference to avoid sudden significant changes to the design of the Plan, we concluded that the introduction of a **hybrid scheme** would be the best solution in terms of:
  - managing the large funding deficit over a long transition recovery period,
  - spreading out the impact of reform in a smoother way across many generations over an extended transition period, and
  - ensuring long-term financial sustainability of the plan.
- Based on the analysis conducted, it was estimated that only a portion of the total contributions (employee contributions + δικηγορόσημα) currently paid into the Fund would be needed to finance the cost of the DB section of the hybrid plan. The "excess" contributions could be diverted into the DC section.
- The hybrid arrangement (both DB and DC benefits) will be applicable to members who joined until 31 December 2020. New members who join from 1 January 2021 onwards will be enrolled in the DC section only.

## Section 2: Actuarial Valuation Results



# Funding Valuation Process

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Establish objectives (*including funding target and principles*)

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Financial assumptions

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Longevity assumptions

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Other assumptions

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Propose assumptions to sponsor

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Gather membership data and perform valuation

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Present [proposed assumptions and] results to sponsor

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Discuss results

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Propose contributions and alternative financing strategies

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Discussions / negotiation with sponsor to reach agreement

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Formalise paperwork (*statement of funding principles, valuation report, recovery plan and schedule of contributions*)

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# Principles of Funding

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- Summary of main pension terms as introduced by **Law 10(I)/2020** and relevant **European Directives**:

## Technical Provisions

The target level of assets that the Trustees following consultation with the Sponsor decide is appropriate to meet promised benefits.

## Funding Objective

To hold sufficient and appropriate assets to meet the **Technical Provisions**.

## Funding Principles

A set of principles for meeting the **Funding Objective**.

## Recovery Plan

A document summarising a plan of action for correcting a **shortfall** over an agreed period.

## Schedule of Contributions

A schedule setting out what contributions are payable, and when.

## Membership Data

- Collection of raw data was carried out under the responsibility of the APF, by its administrative staff.
- The personal data of insured individuals were delivered to Aon in electronic form.
- The individual data was received as at **31 December 2020**.
- All figures are in denominated **EUR**.

Data item	31/12/2020
<b>Number of active members</b>	<b>4.228</b>
- Average Age (years)	39,4
- Average Pensionable Service (years)	11,7
<b>Number of inactive members</b>	<b>2.837</b>
- Average Age (years)	39,9
- Average Pensionable Service (years)	4,9
<b>Number of pensioners</b>	<b>242</b>
- Average monthly pension	€847
- Average Age (years)	73,5
<b>Number of dependents/beneficiaries</b>	<b>94</b>
- Average annual pension	€367
- Average Age (years)	68,5

## Plan Assets / Cashflows

- APF provided details of the Fund Assets as at **31 December 2020**.
- APF has also informed us of the cashflows which occurred during **FY2020**.
- All figures are in denominated **EUR**.

Year ending	31/12/2020
Market Value of Assets	78.981.654

Cash flow	1/1/2020 – 31/12/2020
Member Contributions	1.923.800
Stamp Contributions	4.614.800
Pension and Lump Sum benefits paid	3.374.278

Latest FS (unaudited)	31/12/2019
Investment gains/(losses)	1.448.519
Expenses	278.912

**Member contribution = EUR 480 per annum**

**Stamp contributions = Δικηγορόσημα + Ένσημο Εφάπαξ**

# Assumptions

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- The table below summarises the assumptions adopted as at 31 December 2020

<b>Assumptions</b>	<b>31/12/2020</b>
Discount Rate	2,20%
Expected Return on Assets	2,90%
Inflation	2,00%
Pension Increases	0,00%
Contribution Increases (member + stamp)	0,00%
Mortality	BVG2015
Normal Retirement	Service –related
Other pre-retirement exits	None

## Valuation Methodology – Projected Unit Method

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- Different methods affect the **pace of funding**, but every method should end up with sufficient assets to meet the liabilities as they fall due (provided the assumptions prove to be right and recommended contributions are paid).
- For schemes open to **new entrants**, the **Projected Unit** method can be used. This is one of the common methods used by actuaries to calculate a recommended contribution rate to the Fund. The method calculates the present value of the benefits expected to accrue to members over a period (often one year) following the valuation date. The present value is usually expressed as a % of the members' pensionable pay. It allows for projected future increases to pay through to retirement or date of leaving service (if applicable). **Provided that the distribution of members remains stable, with new members joining to take the place of older leavers, the contribution rate calculated can be expected to remain stable**, if all the other assumptions are borne out. If there are **no new members**, however, the **average age will increase and the cost of benefits accruing will rise**.
- The method used for this valuation is the **Projected Unit method**.

# Summary of Plan Provisions

Provision	Description
<b>Εισαγωγικά</b>	Το Ταμείο Συντάξεως Δικηγόρων καλύπτει όλους τους δικηγόρους, οι οποίοι ασκούν το επάγγελμα, περιλαμβανομένου των Νομικών Λειτουργών. Το Ταμείο χρηματοδοτείται μέσω εισφορών των μελών του, και παρέχει ωφελήματα σε περίπτωση αφυπηρέτησης, θανάτου ή ανικανότητας για εργασία.
<b>Υπαγωγή</b>	<p>Το Ταμείο Συντάξεως Δικηγόρων καλύπτει κάθε Δικηγόρο που ασκεί το επάγγελμά του (εγγεγραμμένος στο Μητρώο Δικηγόρων), και κάθε Νομικό Λειτουργό ο οποίος διορίστηκε στη Νομική Υπηρεσία κατά την περίοδο από την 14η Σεπτεμβρίου 1966 μέχρι την 18η Μαρτίου 2005 και κατέβαλε εισφορές στο Ταμείο προτού διαγραφεί από αυτό. Σε περίπτωση διορισμού σε δικαστικό ή δημόσιο λειτούργημα (εξαιρουμένου του Νομικού Λειτουργού), το Μέλος παύει να είναι εισφορέας και θεωρείται ότι απεσύρθη από το επάγγελμά του.</p> <p>Το Ταμείο καλύπτει Δικηγόρους και Εισαγγελείς, ενώ δεν καλύπτει Δικαστές, το Γενικό Εισαγγελέα και το Βοηθό Γενικό Εισαγγελέα.</p>
<b>Εισφορές</b>	<p>Εισφορέας καθίσταται κάθε δικηγόρος που ασκεί το επάγγελμά του και είναι εγγεγραμμένος στο Μητρώο Δικηγόρων. Σε περίπτωση διορισμού σε δικαστικό ή δημόσιο λειτούργημα (εξαιρουμένου του Νομικού Λειτουργού) ή σε περίπτωση διαγραφής από το Μητρώο Δικηγόρων, το Μέλος παύει να είναι εισφορέας και θεωρείται ότι απεσύρθη της ασκήσεως του επαγγέλματός του.</p> <p>Το ποσό της μηνιαίας εισφοράς ανέρχεται:</p> <ul style="list-style-type: none"> <li>▪ στα σαράντα ευρώ (€40) για εισφορείς που είναι είδη εγγεγραμμένοι στο Μητρώο Δικηγόρων, ή</li> <li>▪ στα πενήντα ευρώ (€50) για εισφορείς που δεν είναι εγγεγραμμένοι στο Μητρώο Δικηγόρων (για σκοπούς εγγραφής στο Μητρώο Δικηγόρων και εξασφάλιση της άδειας εξασκήσεως επαγγέλματος).</li> </ul>
<b>Συντάξιμες Αποδοχές</b>	Οι παροχές δεν σχετίζονται με τις απολαβές των Μελών.
<b>Συντάξιμη Υπηρεσία</b>	Οι συμπληρωμένοι μήνες ασκήσεως του δικηγορικού επαγγέλματος μετ'εισφορών.



## Summary of Plan Provisions (cont.)

Provision	Description
<p><b>Σύνταξη Αφυπηρέτησης</b></p>	<p>Εισφορέας, ο οποίος παύει να ασκεί το επάγγελμά του, δικαιούται να λάβει πλήρη σύνταξη αφυπηρέτησης, νοουμένου τηρεί μίαν από τις ακόλουθες προϋποθέσεις:</p> <ul style="list-style-type: none"> <li>▪ Συμπλήρωση σαρανταετούς ασκήσεως του επαγγέλματός του, ανεξαρτήτως της ηλικίας του.</li> <li>▪ Συμπλήρωση τριακοπενταετούς ασκήσεως του επαγγέλματός του και συμπλήρωση της ηλικίας των εξήντα πέντε ετών. Εισφορέας, ο οποίος συμπλήρωσε τριακοπενταετή άσκηση του επαγγέλματός του, αλλά δεν έχει συμπληρώσει το εξηκοστό πέμπτο (65<sup>ο</sup>) έτος της ηλικίας του, δικαιούται να συνταξιοδοτηθεί, με μειωμένη όμως σύνταξη της άλλως πως υπολογισθείσας, ως ακολούθως:             <ul style="list-style-type: none"> <li>– κατά 30% της υπολογισθείσας, αν συμπλήρωσε το εξηκοστό (60<sup>ο</sup>) έτος της ηλικίας του,</li> <li>– κατά 24% της υπολογισθείσας, αν συμπλήρωσε το εξηκοστό πρώτο (61<sup>ο</sup>) έτος της ηλικίας του,</li> <li>– κατά 18% της υπολογισθείσας, αν συμπλήρωσε το εξηκοστό δεύτερο (62<sup>ο</sup>) έτος της ηλικίας του,</li> <li>– κατά 12% της υπολογισθείσας, αν συμπλήρωσε το εξηκοστό τρίτο (63<sup>ο</sup>) έτος της ηλικίας του, και</li> <li>– κατά 6% της υπολογισθείσας, αν συμπλήρωσε το εξηκοστό τέταρτο (64<sup>ο</sup>) έτος της ηλικίας του.</li> </ul> </li> <li>▪ Συμπλήρωση εικοσιπενταετούς ασκήσεως του επαγγέλματός του και συμπλήρωση της ηλικίας των εβδομήντα ετών. Εισφορέας, ο οποίος έχει συμπληρώσει εικοσιπενταετή άσκηση του επαγγέλματός του, αλλά δεν έχει συμπληρώσει το εβδομηκοστό (70<sup>ο</sup>) έτος της ηλικίας του, δικαιούται να συνταξιοδοτηθεί, με μειωμένη όμως σύνταξη της άλλως πως κανονικά υπολογισθείσας, ως ακολούθως:             <ul style="list-style-type: none"> <li>– κατά 30% της υπολογισθείσας, αν συμπλήρωσε το εξηκοστό πέμπτο (65<sup>ο</sup>) έτος της ηλικίας του,</li> <li>– κατά 24% της υπολογισθείσας, αν συμπλήρωσε το εξηκοστό έκτο (66<sup>ο</sup>) έτος της ηλικίας του,</li> <li>– κατά 18% της υπολογισθείσας, αν συμπλήρωσε το εξηκοστό έβδομο (67<sup>ο</sup>) έτος της ηλικίας του,</li> <li>– κατά 12% της υπολογισθείσας, αν συμπλήρωσε το εξηκοστό όγδοο (68<sup>ο</sup>) έτος της ηλικίας του, και</li> <li>– κατά 6% της υπολογισθείσας, αν συμπλήρωσε το εξηκοστό ένατο (69<sup>ο</sup>) έτος της ηλικίας του.</li> </ul> </li> </ul> <p>Η καταβλητέα σύνταξη υπολογίζεται προς ένα τετρακοσιοστό ογδοηκοστό (1/480) των εννέα χιλιάδων τριακοσίων πενήντα ευρώ (€9.350) για κάθε συμπληρωμένο μήνα ασκήσεως του επαγγέλματος μετ' εισφορών.</p>

## Summary of Plan Provisions (cont.)

Provision	Description
<b>Σύνταξη Αφυπηρέτησης</b> (πρόσφατες αποφάσεις)	<ul style="list-style-type: none"> <li>▪ Μείωση του επιπλέον χορηγήματος επί της βασικής μηνιαίας σύνταξης από το 60% στο <b>30%</b>.</li> <li>▪ Αποκοπή της δέκατης τρίτης και δέκατης τέταρτης μηνιαίας σύνταξης.</li> </ul>
<b>Εφάπαξ Αφυπηρέτησης</b>	<p>Σε περίπτωση που εισφορέας αποσύρεται από την άσκηση του επαγγέλματός του και πληροί τις προϋποθέσεις που ισχύουν για τη σύνταξη αφυπηρέτησης, δικαιούται να λάβει εφάπαξ ποσό ίσον με εξακόσια ευρώ (€600) ανά έτος άσκησης του επαγγέλματος με εισφορές.</p> <p>Το εφάπαξ ποσό είναι μειωμένο κατ' ανάλογα αντίστοιχο ποσοστό εκείνου της υπολογισθείσας καταβλητέας μηνιαίας σύνταξης αφυπηρέτησης.</p>
<b>Σύνταξη Αναπηρίας</b>	<p>Εισφορέας δικαιούται να λάβει σύνταξη αναπηρίας, νοουμένου έχει συμπληρώσει δεκαπενταετή υπηρεσία ως δικηγόρος και έχει καταστεί ανίκανος να συνεχίσει την άσκηση του επαγγέλματός του λόγω ανιάτου ασθενείας ή οποιασδήποτε πνευματικής ή σωματικής αναπηρίας.</p> <p>Η καταβλητέα σύνταξη υπολογίζεται προς ένα τετρακοσιοστό ογδοηκοστό (1/480) των εννέα χιλιάδων τριακοσίων πενήντα ευρώ (€9.350) για κάθε συμπληρωμένο μήνα ασκήσεως του επαγγέλματος μετ' εισφορών.</p> <p>Εισφορέας ηλικίας άνω των εβδομήντα ετών, ο οποίος έχει συμπληρώσει δεκαπέντε αλλά όχι είκοσι πέντε έτη ασκήσεως του επαγγέλματος μετ' εισφορών, δεν δικαιούται σύνταξη αναπηρίας.</p> <p><b>Πρόσφατες αποφάσεις</b></p> <ul style="list-style-type: none"> <li>▪ Μείωση του επιπλέον χορηγήματος επί της βασικής μηνιαίας σύνταξης από το 60% στο <b>30%</b>.</li> <li>▪ Αποκοπή της δέκατης τρίτης και δέκατης τέταρτης μηνιαίας σύνταξης.</li> </ul>

## Summary of Plan Provisions (cont.)

Provision	Description
<b>Εφάπαξ Αναπηρίας</b>	<p>Σε περίπτωση που εισφορέας αποσύρεται από την άσκηση του επαγγέλματός του και πληροί τις προϋποθέσεις που ισχύουν για τη σύνταξη αναπηρίας, δικαιούται να λάβει εφάπαξ ποσό ίσον με εξακόσια ευρώ (€600) ανά έτος άσκησης του επαγγέλματος με εισφορές.</p> <p>Σε περίπτωση που ο εισφορέας δεν έχει συμπληρώσει δεκαπενταετή υπηρεσία μετ' εισφορών και καθίσταται ανίκανος να συνεχίσει την άσκηση του δικηγορικού επαγγέλματος λόγω ανιάτου ασθενείας ή οποιασδήποτε πνευματικής ή σωματικής αναπηρίας, η Διαχειριστική Επιτροπή δύναται να καταβάλει στον εισφορέα εφάπαξ χορήγημα μη υπερβαίνον το διπλάσιο του ποσού των υπ' αυτού καταβληθεισών εισφορών στο Ταμείο.</p>
<b>Σύνταξη σε περίπτωση Θανάτου</b>	<p>Σε περίπτωση θανάτου εισφορέα με δεκαπενταετή τουλάχιστο άσκηση του δικηγορικού επαγγέλματος μετ' εισφορών, πληρώνεται σύνταξη χηρείας/ορφάνιας, ανάλογα της περίπτωσης.</p> <p>Η καταβλητέα σύνταξη υπολογίζεται προς ένα τετρακοσιοστό ογδοηκοστό (1/480) των εννέα χιλιάδων τριακοσίων πενήντα ευρώ (€9.350) για κάθε συμπληρωμένο μήνα ασκήσεως του επαγγέλματος μετ' εισφορών.</p> <p>Καταβάλλεται 50% σύνταξης εάν υπάρχει μόνο ένας δικαιούχος. Το ποσοστό αυξάνεται ανάλογα με αριθμό δικαιούχων.</p> <p><b><u>Πρόσφατες αποφάσεις</u></b></p> <ul style="list-style-type: none"> <li>▪ Μείωση του επιπλέον χορηγήματος επί της βασικής μηνιαίας σύνταξης από το 60% στο <b>30%</b>.</li> <li>▪ Αποκοπή της δέκατης τρίτης και δέκατης τέταρτης μηνιαίας σύνταξης.</li> </ul>
<b>Εφάπαξ σε περίπτωση Θανάτου</b>	<p>Σε περίπτωση θανάτου εισφορέα που πληροί τις προϋποθέσεις που ισχύουν για τη σύνταξη χηρείας/ορφάνιας, πληρώνεται εφάπαξ ποσό ίσον με εξακόσια ευρώ (€600) ανά έτος άσκησης του επαγγέλματος με εισφορές, στη(ο) χήρα(ο) και τα τέκνα του αποβιώσαντος εισφορέα.</p> <p>Σε περίπτωση θανάτου εισφορέα που δεν έχει συμπληρώσει δεκαπενταετή υπηρεσία μετ' εισφορών, η Διαχειριστική Επιτροπή δύναται να καταβάλει στη(ο) χήρα(ο) και τα τέκνα εφάπαξ χορήγημα μη υπερβαίνον το διπλάσιο του ποσού των προσωπικών εισφορών του αποβιώσαντος στο Ταμείο.</p>

## Results – Past Service Position as at 31 December 2020

- The funding objective is to hold assets **equal** to the funding target. Therefore, we compare the market value of assets with the value of past-service ongoing liabilities.
- The table below summarizes the **past-service results**, under the chosen assumptions and methodology.
- All amounts in €.

Technical Provisions	31/12/2020
Actives	(196.582.048)
In-actives	(36.530.528)
Pensioners	(31.586.486)
Dependents / Beneficiaries	(5.601.959)
<b>Total Funding Target / Technical Provisions</b>	<b>(270.301.021)</b>
<b>Market Value of Assets</b>	<b>78.981.654</b>
<b>Funding Surplus / (Deficit)</b>	<b>(191.319.367)</b>
<b>Funding Level</b>	<b>29,2%</b>

- If we were to allow for (a) a 60% loading on pensions and (b) a 13<sup>th</sup> and 14<sup>th</sup> pension payment each year, then the Technical Provisions would have been **EUR 378 million**.

*i.e. the reduction of the loading to 30% and the removal of the 13<sup>th</sup> and 14<sup>th</sup> pension, has lead to an improvement in the funding position of **EUR 108 million**.*

# Recovery Plan

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- Where a valuation shows a **funding shortfall** against the **technical provisions**, trustees must prepare a **recovery plan** setting out how they plan to meet the **funding objective**.
- A recovery plan must be prepared by the trustees to satisfy the requirements of **Law 10(I) 2020**, after obtaining the advice of the Scheme Actuary and after consultation with the sponsor.
- The recovery plan follows the actuarial valuation of the scheme as at 31 December 2020 which has revealed a funding shortfall (technical provisions minus value of assets) of **€191.319.367**.
- To **eliminate the funding shortfall**, the trustees need to agree the **level** and **type** of additional contributions that will be paid into the Scheme.
- The trustees together with the sponsor also need to agree the **period** over which the funding objective should be met. Under the agreed recovery plan, if the assumptions made are borne out in practice and future scheme experience is as expected, then the funding shortfall must be eliminated within the chosen period.
- According to global practice, it is very common for pension schemes (similar to that of APF) to consider the **best estimate** asset returns for the purposes of drafting the recovery plan.

## Financing Plan (15-year period)

Year End	Technical Provisions	Expected Benefit Payments + Expenses	Expected Contributions (Member + Stamp)	Additional Contributions	Assets	Funding Level
2020	270,3	-	-	-	79,0	29%
2021	277,2	12,3	6,6	21,2	97,0	35%
2022	289,7	7,1	6,6	21,2	120,9	42%
2023	302,7	7,2	6,6	21,2	145,3	48%
2024	315,6	7,7	6,6	21,2	170,0	54%
2025	328,3	8,3	6,6	21,2	194,8	59%
2026	341,4	8,4	6,6	21,2	220,1	64%
2027	354,9	8,6	6,6	21,2	246,1	69%
2028	368,7	8,7	6,6	21,2	272,6	74%
2029	382,6	9,1	6,6	21,2	299,5	78%
2030	397,3	9,0	6,6	21,2	327,4	82%
2031	412,1	9,3	6,6	21,2	355,7	86%
2032	427,7	9,2	6,6	21,2	385,0	90%
2033	443,1	10,0	6,6	21,2	414,3	94%
2034	459,2	9,8	6,6	21,2	444,6	97%
2035	475,5	10,2	6,6	21,2	475,5	100%



# Financing Plan (30-year period)

Year End	Technical Provisions	Benefit Payments + Expenses	Expected Cbns (Member + Stamp)	Additional Contributions	Assets	Funding Level
2020	270,3	-	-	-	79,0	29%
2021	277,2	12,3	6,6	15,6	91,4	33%
2022	289,7	7,1	6,6	15,6	109,4	38%
2023	302,7	7,2	6,6	15,6	127,8	42%
2024	315,6	7,7	6,6	15,6	146,3	46%
2025	328,3	8,3	6,6	15,6	164,7	50%
2026	341,4	8,4	6,6	15,6	183,5	54%
2027	354,9	8,6	6,6	15,6	202,7	57%
2028	368,7	8,7	6,6	15,6	222,3	60%
2029	382,6	9,1	6,6	15,6	242,1	63%
2030	397,3	9,0	6,6	15,6	262,5	66%
2031	412,1	9,3	6,6	15,6	283,3	69%
2032	427,7	9,2	6,6	15,6	304,8	71%
2033	443,1	10,0	6,6	15,6	326,1	74%
2034	459,2	9,8	6,6	15,6	348,2	76%
2035	475,5	10,2	6,6	15,6	370,6	78%
2036	492,1	10,4	6,6	15,6	393,4	80%
2037	509,1	10,6	6,6	15,6	416,6	82%
2038	526,8	10,6	6,6	15,6	440,5	84%
2039	544,8	10,9	6,6	15,6	464,8	85%
2040	563,3	11,0	6,6	15,6	489,7	87%
2041	581,4	12,0	6,6	15,6	514,3	88%
2042	599,3	12,7	6,6	15,6	538,9	90%
2043	617,4	13,1	6,6	15,6	563,8	91%
2044	634,9	14,3	6,6	15,6	588,2	93%
2045	653,0	14,2	6,6	15,6	613,4	94%
2046	669,4	16,4	6,6	15,6	637,2	95%
2047	686,0	16,6	6,6	15,6	661,4	96%
2048	701,6	18,1	6,6	15,6	684,9	98%
2049	716,7	19,0	6,6	15,6	708,1	99%
2050	730,5	20,5	6,6	15,6	730,5	100%

**Section 3:  
Design Review**



## Risks relevant to Defined Benefit (DB) schemes

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- **Investment risk:** The impact of this risk is mainly driven by (a) the extent to which the liabilities and assets are “matched” and (b) the returns and volatility of the asset classes invested in. A relatively high level of cash exposure and unmatched strategy is likely to expose the Fund to significant levels of investment risk. Proper Asset-Liability Management and Implementation could reduce this risk.
- **Interest rate risk:** The impact of this risk is driven by changes in interest rates and to the level of matching between assets and liabilities. Interest rates impact both the accounting valuation and typically the funding valuation of a defined benefit plan. As interest rates rise/fall, the valuation of the defined benefit pension liabilities will decrease/increase, unless offset by similar decreases/increases in the value of the assets.
- **Inflation risk:** The impact of this risk is driven by the annual level of inflation, changes to the long-term expectations for inflation rates and the level of matching between the assets and liabilities. In general, annual levels of inflation drive on year-on-year increases in benefits payable and accrual/revaluation. Pension increases are linked to inflation, sometimes subject to a cap. Also, salary increases are directly influenced by the levels of inflation. The assumptions for both pension increases and salary increases are derived with reference to expected inflation. The APF is not exposed to such risks, since the benefit is not linked to salary and no increases are granted to pensions.
- **Salary increase risk:** In a Defined Benefit pension plan the scheme carries the risk of high salary increases in respect of the liabilities for active members. Annual levels of salary increases drive year-on-year increases in benefit accrual under a final salary pension scheme. As expected long-term future salary increases rise, the valuation of the defined benefit pension liabilities will increase, unless offset by similar increases in assets. The APF is not exposed to such risks, since the benefit is not linked to salary.
- **Risk of changes in funding regulations:** In a Defined Benefit pension plan the scheme carries the risk that funding regulations change. Changes in funding regulations could impact the level of technical provisions and the levels/timing of contributions required.

# Design Scenarios Examined

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The following design scenarios have been examined:

- **Sc.1 / Status Quo** – Existing benefits structure without any amendments.
- **Sc.2 / Removal of 30% loading** – The 30% loading on annual pension has been removed for the future beneficiaries only (i.e. actives/in-actives). This implies that no change has been applied on the members who are currently receiving a benefit from the Fund (i.e. pensioners/dependents).
- **Sc.3 / Closure to new entrants & Removal of 30% loading** – The Fund is closed for new entrants and there is an immediate removal of the 30% loading on annual pension for the future beneficiaries only (i.e. actives/in-actives). This implies that no change has been applied on the members who are currently receiving a benefit from the Fund (i.e. pensioners/dependents).
- **Sc.4 / Closure to new entrants and future service & Removal of 30% loading** – The Fund is closed for new entrants, existing active members do not accrue any benefit for service after 31/12/2020, and there is an immediate removal of the 30% loading on annual pension for the future beneficiaries only (i.e. actives/in-actives). This implies that no change has been applied on the members who are currently receiving a benefit from the Fund (i.e. pensioners/dependents).
- **Sc.5 / Hybrid Scheme** – Members will be able to accrue/accumulate both Defined Benefit (DB) as well as Defined Contribution (DC) benefits during a 30-year transition period. At the outset, there will be two different plans: the existing DB plan and a new DC Provident Fund. Benefit accrual from the DB plan will gradually run down during a 30-year period (in a linear approach), after which members will only accumulate benefits under the DC Provident Fund.

## Sc.1 / Status Quo

- **Past service position / Funding Level:**

Technical Provisions	31/12/2020
Total Funding Target / Technical Provisions	(270.301.021)
Market Value of Assets	78.981.654
<b>Funding Surplus / (Deficit)</b>	<b>(191.319.367)</b>
<b>Funding Level</b>	<b>29,2%</b>

- **Recovery Plan:**

Additional Deficit Contributions	15-year Recover Plan	30-year Recovery Plan
Amount per annum	€21,2 million	€15,6 million

- Under this scenario, all related **risks** with the Defined Benefit design **remain**. In case the Defined Benefit design is maintained, we recommend the introduction of a mechanism that would **monitor** the funding plan and **trigger** the necessary design reforms to restore funding to required levels, if necessary.

## Sc.2 / Removal of 30% loading

- As per the APF Rules, the Trustees may offer (on a discretionary basis) a 60% loading on the annual pension, in case the financial position of the Fund allows such benefit enhancement. Currently, the Fund allows for a loading of 30%, i.e. the annual pension has been increased from EUR 9.350 to EUR 12.155.
- Under this scenario, the 30% loading on annual pension has been **removed** for the future beneficiaries only (i.e. actives/in-actives). This implies that **no** change has been applied on the members who are currently receiving a benefit from the Fund (i.e. pensioners/dependents).

- Past service position / Funding Level:**

Technical Provisions	31/12/2020
Total Funding Target / Technical Provisions	(222.322.489)
Market Value of Assets	78.981.654
<b>Funding Surplus / (Deficit)</b>	<b>(143.340.835)</b>
<b>Funding Level</b>	<b>35,5%</b>

- Recovery Plan:**

Additional Deficit Contributions	15-year Recover Plan	30-year Recovery Plan
Amount per annum	€14,7 million	€10,6 million

- Under this scenario, all related **risks** with the Defined Benefit design **remain**. In case the Defined Benefit design is maintained, we recommend the introduction of a mechanism that would **monitor** the funding plan and **trigger** the necessary design reforms to restore funding to required levels, if necessary.

## Sc.3 / Closure to new entrants & Removal of 30% loading

- Under this scenario, the Fund is **closed for new entrants** and there is an immediate **removal** of the 30% loading on annual pension for the future beneficiaries only (i.e. actives/in-actives). This implies that **no** change has been applied on the members who are currently receiving a benefit from the Fund (i.e. pensioners/dependents).

- Past service position / Funding Level:**

Technical Provisions	31/12/2020
Total Funding Target / Technical Provisions	(222.322.489)
Market Value of Assets	78.981.654
<b>Funding Surplus / (Deficit)</b>	<b>(143.340.835)</b>
<b>Funding Level</b>	<b>35,5%</b>

- Recovery Plan:**

Additional Deficit Contributions	15-year Recover Plan	30-year Recovery Plan
Amount per annum	€13,7 million	€8,7 million

- For new entrants, we recommend the introduction of a **Defined Contribution** scheme. The exact parameters of such a DC scheme are not examined as part of this report.
- Under this scenario, all related risks with the Defined Benefit design **remain**. These will be **mitigated** over the longer terms, once the current population of the Fund retires and stops receiving benefits.

## Sc.4 / Closure to new entrants and future service & Removal of 30% loading

- Under this scenario, the Fund is **closed for new entrants**, existing active members do **not accrue** any benefit for service after 31/12/2020, and there is an immediate **removal** of the 30% loading on annual pension for the future beneficiaries only (i.e. actives/in-actives). This implies that **no** change has been applied on the members who are currently receiving a benefit from the Fund (i.e. pensioners/dependents).

- Past service position / Funding Level:**

Technical Provisions	31/12/2020
Total Funding Target / Technical Provisions	(220.438.725)
Market Value of Assets	78.981.654
<b>Funding Surplus / (Deficit)</b>	<b>(141.457.071)</b>
<b>Funding Level</b>	<b>35,8%</b>

- Recovery Plan:**

Additional Deficit Contributions	15-year Recover Plan	30-year Recovery Plan
Amount per annum	€3,9 million	Nil *

\* Currently, the total annual contributions are EUR 6,5m. Under the 30-year recovery period, the current contributions can be **decreased by 10%**. The “extra” contributions can be **diverted** to the new DC scheme.

- For future service and new entrants, we recommend the introduction of a **Defined Contribution** scheme. The exact parameters of such a DC scheme are not examined as part of this report.
- Under this scenario, all related risks with the DB design **remain** for past service benefits. These will be **mitigated** over the longer terms, once the current population of the Fund retires and stops receiving benefits.



## Sc.5 / Hybrid Scheme

- Under this scenario, members will be able to accrue/accumulate both **Defined Benefit (DB)** as well as **Defined Contribution (DC)** benefits during a 30-year transition period. At the outset, there will be two different plans: the existing DB plan and a new DC Provident Fund. Benefit accrual from the DB plan will gradually run down during a 30-year period (in a linear approach), after which members will only accumulate benefits under the DC Provident Fund.
- The following table presents the pension and lump sum benefits payable from the DB plan, for an individual retiring in each of the next 30 years having completed 40 years of service.

Time (in years)	Reduction Factor (RF)	Annual Pension (in EUR)	Lump sum (in EUR)	Time (in years)	Reduction Factor (RF)	Annual Pension (in EUR)	Lump sum (in EUR)
0	0%	9.350	24.000	16	53%	4.395	11.280
1	3%	9.070	23.280	17	57%	4.021	10.320
2	7%	8.696	22.320	18	60%	3.740	9.600
3	10%	8.415	21.600	19	63%	3.460	8.880
4	13%	8.135	20.880	20	67%	3.086	7.920
5	17%	7.761	19.920	21	70%	2.805	7.200
6	20%	7.480	19.200	22	73%	2.525	6.480
7	23%	7.200	18.480	23	77%	2.151	5.520
8	27%	6.826	17.520	24	80%	1.870	4.800
9	30%	6.545	16.800	25	83%	1.590	4.080
10	33%	6.265	16.080	26	87%	1.216	3.120
11	37%	5.891	15.120	27	90%	935	2.400
12	40%	5.610	14.400	28	93%	655	1.680
13	43%	5.330	13.680	29	97%	281	720
14	47%	4.956	12.720	30	100%	-	-
15	50%	4.675	12.000				

## Sc.5 / Hybrid Scheme (cont.)

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- The hybrid arrangement (both DB and DC benefits) will be applicable to members who joined until 31 December 2020. New members who join from 1 January 2021 onwards will be enrolled in the DC section only.
- A sample calculation is presented below. In particular, the benefits payable to an individual who retires after 25 years having completed 40 years of service (i.e. 480 months) are as follows:
  - Annual pension from the DB plan  
$$= (1/480) \times 9.350 \times 480 \text{ months} \times (1-\text{RF})$$
$$= (1/480) \times 9.350 \times 480 \times (1-83\%)$$
$$= \text{EUR } 1.590$$
  - Lump sum from the DB plan  
$$= 600 \times 40 \text{ years} \times (1-\text{RF})$$
$$= 600 \times 40 \times (1-83\%)$$
$$= \text{EUR } 4.080$$
  - Accumulated balance from the DC Provident Fund (function of contributions and investment returns during a 25-year period). The exact parameters of such a DC scheme are not examined as part of this report.

## Sc.5 / Hybrid Scheme (cont.)

- **Past service position / Funding Level:**

Technical Provisions	31/12/2020
Total Funding Target / Technical Provisions	(135.712.664)
Market Value of Assets	78.981.654
<b>Funding Surplus / (Deficit)</b>	<b>(56.731.010)</b>
<b>Funding Level</b>	<b>58,2%</b>

- **Recovery Plan:**

Additional Deficit Contributions	15-year Recover Plan	30-year Recovery Plan
Amount per annum	n/a	Nil *

\* *Currently, the total annual contributions are EUR 6,5m. Under the 30-year recovery period, the current contributions can be **decreased by 45%**. The “extra” contributions can be **diverted** to the new DC section of the hybrid arrangement.*

- Under this scenario, all related risks with the Defined Benefit design **remain**. These will be **mitigated** over the longer terms, once the current population of the Fund retires and stops receiving DB benefits.

**Section 4:  
Conclusions &  
Recommendations**



## Recommended Strategy

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- Having examined a number of parametric and structural reforms, and on the basis that a full recovery of the existing plan would be highly unlikely via parametric only reforms, and assuming the APF Board's preference to avoid sudden significant changes to the design of the Plan, we concluded that the introduction of a **hybrid scheme** would be the best solution in terms of:
  - managing the large funding deficit over a long transition recovery period,
  - spreading out the impact of reform in a smoother way across many generations over an extended transition period, and
  - ensuring long-term financial sustainability of the plan.
- Based on the analysis conducted, it was estimated that only a portion of the total contributions (employee contributions + δικηγορόσημα) currently paid into the Fund would be needed to finance the cost of the DB section of the hybrid plan. The "excess" contributions could be diverted into the DC section.
- The hybrid arrangement (both DB and DC benefits) will be applicable to members who joined until 31 December 2020. New members who join from 1 January 2021 onwards will be enrolled in the DC section only.

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