

# **London Borough of Hammersmith and Fulham Pension Fund**

IAS26 Disclosures as at 31 March 2014

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23 May 2014

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## 1. Introduction

We have been instructed by the London Borough of Hammersmith and Fulham, the Administering Authority to the London Borough of Hammersmith and Fulham Pension Fund (“the Fund”), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (“the LGPS”) to members of the Fund at 31 March 2014.

This report is addressed to the Fund and its advisers; in particular, this report is likely to be of relevance to the Fund’s auditor.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013. It is contracted out of the State Second Pension.

## 2. Valuation Data

### Data Sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from the London Borough of Hammersmith and Fulham.

- The results of the valuation as at 31 March 2013 which was carried out for funding purposes;
- Estimated whole fund income and expenditure items for the period to 31 March 2014.
- Estimated Fund returns based on assets used for the purpose of the funding valuation as at 31 March 2013, and a Fund asset statement as at 31 March 2014
- Details of any new early retirements for the period to 31 March 2014 that have been paid out on an unreduced basis, which are not anticipated in the normal service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data.

### Membership Statistics

The table below summarises the membership data, as at 31 March 2013 for members receiving funded benefits.

Member Data Summary	Number	Salaries/Pensions £000's	Average Age
Actives	3,834	93,822	47
Deferred Pensioners	6,805	14,143	47
Pensioners	4,384	27,167	70
Unfunded Pensioners	n/a	n/a	n/a

The service cost for the year ending 31 March 2014 is calculated using an estimate of the average total pensionable payroll during the year, which from the contribution information supplied by the administering authority we estimate to be £90,324,000.

### Early Retirements

We requested data on any early retirements in respect of the Fund from the Administering Authority for the year ending 31 March 2014.

We have been notified of 19 new early retirements during the year which were not allowed for in the IAS19 assumptions. The total annual pension that came into payment was £230,300.

### Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2014 is estimated to be 6%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for London Borough of Hammersmith and Fulham Pension Fund as at 31 March 2014 is as follows:

Employer Asset Share - Bid Value	31 March 2014		31 March 2013	
	£000's	%	£000's	%
UK Index-Linked Gilts	13,889	1.8%	14,398	2.0%
Overseas Index-Linked Gilts	12,397	1.6%	9,357	1.3%
UK Listed Equities	193,359	25.3%	165,649	22.8%
Overseas Listed Equities - North America	119,418	15.7%	111,823	15.4%
Overseas Unlisted Equities - North America	1,058	0.1%	6,714	0.9%
Overseas Listed Equities - Europe	70,299	9.2%	57,533	7.9%
Overseas Listed Equities - Japan	14,768	1.9%	14,695	2.0%
Overseas Listed - Asia	11,258	1.5%	11,260	1.6%
Overseas Listed - Emerging Markets	12,167	1.6%	13,106	1.8%
Private Equity	11,184	1.5%	5,973	0.8%
Listed Absolute Return Funds	118,361	15.5%	120,448	16.6%
Unlisted Absolute Return Funds	10,018	1.3%	10,222	1.4%
Listed Absolute Return Bond Funds	57,402	7.5%	57,528	7.9%
Unlisted Absolute Return Bond Funds	7,828	1.0%	7,844	1.1%
Listed LDI Fund	92,584	12.1%	101,396	14.0%
Commodities	2,843	0.4%	3,585	0.5%
Forward Foreign Exchange Contracts	164	0.0%	-	-
Cash	15,119	2.0%	12,909	1.8%
Net Current Assets - Debtors	2,108	0.3%	1,984	0.3%
Net Current Assets - Creditors	-3,333	-0.4%	-750	-0.1%
<b>Total</b>	<b>762,891</b>	<b>100%</b>	<b>725,674</b>	<b>100%</b>

We do not have any further detail on the current asset allocation of the Fund; we suggest that if further information is required the administering authority is contacted in the first instance.

## 3. Actuarial Methods and Assumptions

### Valuation Approach

To assess the value of the Fund's liabilities at 31 March 2014, we have rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Scheme as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2014 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2014 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

### Valuation Method

We have used the projected unit method of valuation to calculate the service cost.

### Demographic/Statistical Assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the funding valuation as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables. These base tables are then projected using the CMI 2012 Model, allowing for a long term rate of improvement of 1.5% per annum.

The assumed life expectations from age 65 are;

Life Expectancy from age 65 (years)	31 March 2014	31 March 2013
Retiring today		
Males	22.7	20.1
Females	25.1	24.1
Retiring in 20 years		
Males	24.9	22.1
Females	27.4	26.0

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement;

- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age;
- 5% of active members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits.

## Financial Assumptions

The financial assumptions used for the purposes of the calculations are as follows:

Assumptions as at	31 March 2014		31 March 2013		31 March 2012	
	% p.a.	Real	% p.a.	Real	% p.a.	Real
RPI Increases	3.6%	-	3.4%	-	3.3%	-
CPI increases	2.8%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Salary Increases	4.6%	1.0%	4.8%	1.4%	4.7%	1.4%
Pension Increases	2.8%	-0.8%	2.6%	-0.8%	2.5%	-0.8%
Discount Rate	4.5%	0.9%	4.5%	1.1%	4.6%	1.3%

These assumptions are set with reference to market conditions at 31 March 2014.

Our estimate of the duration of the Fund's liabilities is 19 years.

The discount rate is the annualised yield at the 19 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 19 year point on the BoE spot inflation curve. This is consistent with the approach used at the last accounting date.

This measure has historically overestimated future increases in the RPI and so, in the past, we have made a deduction of 0.25% to get the RPI assumption. However, the evidence for this in more recent periods is weaker and so we have made no such deduction at 31 March 2014. The RPI assumption is therefore 3.6%. As future pension increases are expected to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.8% below RPI i.e. 2.8%. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salary increases are then assumed to increase at 1.8% per annum above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2013 to 31 March 2015 for salaries to rise in line with CPI.

## Expected Return on assets

Under IAS19, for accounting years beginning on or after 1 January 2013, the expected return and the interest cost has been replaced with a single net interest cost, which effectively sets the expected return equal to the discount rate.



## 4. Results and Disclosures

We estimate that the net liability as at 31 March 2014 is a liability of £408,860,000.

The results of our calculations for the year ended 31 March 2014 are set out in Appendix 1. In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures presented in this report are prepared only for the purposes of IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.



**Mark Norquay FFA  
Associate**

## Appendix 1 Balance Sheet Disclosure as at 31 March 2014

Net Pension Asset as at	31 Mar 2014	31 Mar 2013	31 Mar 2012
	£000's	£000's	£000's
Present Value of Funded Obligation	1,171,751	1,171,217	1,079,048
Fair Value of Scheme Assets (bid value)	762,891	725,674	639,113
<b>Net Liability</b>	<b>408,860</b>	<b>445,543</b>	<b>439,935</b>
Present Value of Unfunded Obligation	-	-	-
Unrecognised Past Service Cost	-	-	-
Impact of asset ceiling	-	-	-
<b>Net Liability in Balance Sheet</b>	<b>408,860</b>	<b>445,543</b>	<b>439,935</b>

Present Value of Funded Obligation consists of £1,124,662,000 in respect of Vested Obligation and £47,089,000 in respect of Non-Vested Obligation

## Appendix 2 Asset and Benefit Obligation Reconciliation for the year to 31 March 2014

We have used methods and assumptions consistent with IAS19 to produce these disclosures. A revised IAS19 standard applies for accounting periods beginning on or after 1 January 2013.

The main changes are the removal of the expected return on assets to be replaced by a net interest cost comprising interest income on the assets and interest expense on the liabilities, which are both calculated with reference to the discount rate, and some labelling changes to items within the reconciliation below. In addition, administration expense are now accounted for as a separate item, previously we made a deduction to actual and expected return on assets.

We have shown the figures below under the new standard for the year to 31 March 2014, the figures as they would have been under the new standard for the year to 31 March 2013, and the disclosed figures for the year to 31 March 2013.

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to	Year to	Year to
	31 Mar 2014	31 Mar 2013	31 Mar 2013
	£000's	£000's	£000's
		(had the revised IAS19 standard applied)	disclosed
<b>Opening Defined Benefit Obligation</b>	<b>1,171,217</b>	<b>1,079,048</b>	<b>1,079,048</b>
Current Service cost	23,225	22,541	22,541
Interest cost	52,156	48,996	48,996
Change in financial assumptions	24,874	49,070	combined below
Change in demographic assumptions	49,880	-	combined below
Experience loss/(gain) on defined benefit obligation	(125,407)	-	combined below
Total Actuarial losses (gains)	separated above	separated above	49,070
Losses (gains) on curtailments	combined below	combined below	1,196
Liabilities assumed / (extinguished) on settlements	-	-	-
Estimated benefits paid net of transfers in	(31,685)	(36,041)	(36,041)
Past service cost	combined below	combined below	-
Past service costs, including curtailments	1,184	1,196	separated above
Contributions by Scheme participants	6,307	6,407	6,407
Unfunded pension payments	-	-	-
<b>Closing Defined Benefit Obligation</b>	<b>1,171,751</b>	<b>1,171,217</b>	<b>1,171,217</b>

Reconciliation of opening & closing balances of the fair value of Scheme assets	Year to	Year to	Year to
	31 Mar 2014	31 Mar 2013	31 Mar 2013
	£000's	£000's	£000's
		(had the revised IAS19 standard applied)	disclosed
<b>Opening fair value of Scheme assets</b>	<b>725,674</b>	<b>639,113</b>	<b>639,113</b>
Expected return on scheme assets	n/a	n/a	39,467
Interest on assets	32,596	29,248	n/a
Return on assets less interest	9,882	64,598	n/a
Other actuarial gains/(losses)	(1,926)	-	n/a
Total Actuarial gains/(losses)	n/a	n/a	53,734
Administration expenses	(651)	(644)	n/a
Contributions by employer including unfunded	22,694	22,994	22,994
Contributions by Scheme participants	6,307	6,407	6,407
Estimated benefits paid plus unfunded net of transfers in	(31,685)	(36,041)	(36,041)
Settlement prices received / (paid)	-	-	-
<b>Closing Fair value of Scheme assets</b>	<b>762,891</b>	<b>725,674</b>	<b>725,674</b>