

Royal Borough of Kensington and Chelsea Pension Fund

IAS26 Disclosures as at 31 March 2014

Barnett Waddingham
Public Sector Consulting

12 May 2014

Contents

1.	Introduction	3
2.	Valuation Data	4
	Data Sources	4
	Fund Membership Statistics	4
	Assets	5
3.	Actuarial Methods and Assumptions	6
	Valuation Approach	6
	Demographic/Statistical Assumptions	6
	Financial Assumptions	7
	Expected Return on Assets	8
4.	Results and Disclosures	9
Appendix 1	Balance Sheet Disclosure as at 31 March 2014.....	10
Appendix 2	Asset and Benefit Obligation Reconciliation for the year to 31 March 2014	11

1. Introduction

We have been instructed by the Royal Borough of Kensington and Chelsea, the Administering Authority to the Royal Borough of Kensington and Chelsea 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 as at 31 March 2014.

This report is addressed to the Administering Authority 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.

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 Royal Borough of Kensington and Chelsea.

- 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, a Fund asset statement as at 31 December 2013, and market returns (estimated where necessary) thereafter for the period to 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 Employer 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.

Fund 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	2,923	82,250	45
Deferred Pensioners	4,238	10,333	45
Pensioners	2,558	19,416	70

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 7%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Royal Borough of Kensington and Chelsea 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 Equities	33,964	5%	18,996	3%
Overseas Equities	135,855	20%	120,308	19%
Global Equities	264,916	39%	253,280	40%
Private Equity	33,964	5%	31,660	5%
Property	27,171	4%	18,996	3%
Absolute Return Portfolio	176,612	26%	177,296	28%
Cash	6,793	1%	6,332	1%
Gilts	n/a	n/a	6,332	1%
Total	679,275	100%	633,200	100%

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2014 is likely to be different from that shown due to estimation techniques.

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 Scheme 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.

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 with a multiplier of 105% for males and 95% for females. 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	22.3	19.2
Females	25.5	23.2
Retiring in 20 years		
Males	24.5	21.1
Females	27.9	25.1

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%	4.6%	1.2%	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 at 1.0% per annum.

Expected Return on Assets

For accounting years beginning on or after 1 January 2013, the expected return and the interest cost will be replaced with a single net interest cost, which will effectively set the expected return equal to the discount rate.

4. Results and Disclosures

The results of our calculations for the year ended 31 March 2014 are set out in Appendix 1. We estimate that the net liability as at 31 March 2014 is a liability of £208,012,000.

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.

A handwritten signature in black ink, appearing to read 'Graeme Muir', with a horizontal line extending to the right from the end of the signature.

**Graeme Muir FFA
Partner**

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	887,960	897,050	832,832
Fair value of Fund assets (bid value)	679,275	633,200	542,604
Net liability	208,685	263,850	290,228

*Present Value of Funded Obligation consists of £799,286,000 in respect of Vested Obligation and £88,674,000 in respect of Non-Vested Obligation.

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

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
Opening defined benefit obligation	897,050	832,832	832,832
Current service cost	21,633	20,702	20,702
Interest cost	40,778	37,917	37,917
Change in financial assumptions	28,881	21,275	combined below
Change in demographic assumptions	32,417	-	combined below
Experience loss/(gain) on defined benefit obligation	(111,445)	-	combined below
Total actuarial losses (gains)	separated above	separated above	21,275
Losses (gains) on curtailments	combined below	combined below	1,135
Liabilities assumed / (extinguished) on settlements	-	-	-
Estimated benefits paid net of transfers in	(27,559)	(22,940)	(22,940)
Past service cost	combined below	combined below	-
Past service costs, including curtailments	636	1,135	separated above
Contributions by Scheme participants	5,569	5,658	5,658
Unfunded pension payments	-	-	-
Closing defined benefit obligation	887,960	897,050	897,050

Reconciliation of opening & closing balances of the fair value of Fund 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
Opening fair value of Fund assets	633,200	542,604	542,604
Expected return on Fund assets	n/a	n/a	28,553
Interest on assets	29,176	25,176	n/a
Return on assets less interest	14,885	56,392	n/a
Other actuarial gains/(losses)	308	-	n/a
Total actuarial gains/(losses)	n/a	n/a	52,527
Administration expenses	(419)	(488)	n/a
Contributions by employer including unfunded	24,115	26,798	26,798
Contributions by Scheme participants	5,569	5,658	5,658
Estimated benefits paid plus unfunded net of transfers in	(27,559)	(22,940)	(22,940)
Settlement prices received / (paid)	-	-	-
Closing fair value of Fund assets	679,275	633,200	633,200