

Royal Borough of Kensington and Chelsea Pension Fund

IAS26 Disclosures as at 31 March 2013

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Public Sector Consulting

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1. Introduction

We have been instructed by Royal Borough of Kensington and Chelsea, the Administering Authority to the Royal Borough of Kensington and Chelsea Pension Fund (“the Fund”), to provide pension disclosures in respect of pension benefits provided by the Local Government Pension Scheme (“the LGPS”) to members of Royal Borough of Kensington and Chelsea Pension Fund (“the Fund”) as at 31 March 2013.

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 have been prepared in accordance with 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 2007/08, as amended. It is contracted out of the State Second Pension.

2. Valuation Data

Data Sources

In completing our calculations for IAS26 purposes we have used the following items of data, which we received from Royal Borough of Kensington and Chelsea:

- The results of the Triennial Actuarial Valuation as at 31 March 2010 which was carried out for funding purposes;
- Estimated whole fund income and expenditure items for the period to 31 March 2013;
- Estimated whole fund returns for the period to 31 March 2013 based on assets used for the purpose of the IAS26 valuation as at 31 March 2012, actual fund returns for the period to 31 March 2013 and then market returns (estimated where necessary) for the balance of the period to 31 March 2013;
- Details of any new early retirements for the period to 31 March 2013 that have been paid out on an unreduced basis, which are not anticipated in the normal service cost for the Fund.

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, especially in the context of the roll-forward approach we have taken (as described in the next section). 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 2010.

Member Data Summary	Number	Salaries/Pensions £000's	Average Age
Actives	3,416	97,043	44
Deferred Pensioners	3,296	7,393	45
Pensioners	2,220	14,529	70

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2013 is estimated to be 15%. This is based on the estimated Fund value used at the previous accounting date and the estimated Fund value used at this accounting date. 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 2013 is as follows:

Employer Asset Share - Bid Value	31 March 2013		31 March 2012	
	£000's	%	£000's	%
Equities	424,244	67%	347,267	64%
Gilts	6,332	1%	5,426	1%
Other Bonds	0	0%	0	0%
Property	18,996	3%	21,704	4%
Cash	6,332	1%	5,426	1%
Alternative Assets	177,296	28%	162,781	30%
Total	633,200	100%	542,604	100%

The final asset allocation of the Fund assets as at 31 March 2013 is likely to be different from that shown due to estimation techniques.

3. Actuarial Methods and Assumptions

Roll-Forward Approach

To assess the value of the Fund's liabilities as at 31 March 2013, we have rolled forward the value of the Fund's liabilities calculated for the Triennial valuation as 31 March 2010 allowing for the different financial assumptions required under 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 2013 without completing a full valuation. However we are satisfied that the approach of rolling forward the previous valuation results to 31 March 2013 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 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 formal funding valuation as at 31 March 2010. The post retirement mortality is based on S1PA Heavy tables allowing for medium cohort projection, with a minimum 1% improvement for future life expectancies.

The assumed life expectations from age 65 are:

Life Expectancy from age 65 (years)	31 March 2013	31 March 2012
Retiring today		
Males	19.2	19.0
Females	23.2	23.1
Retiring in 20 years		
Males	21.1	21.0
Females	25.1	25.0

We have also made the following assumptions:

- Members will exchange half of their commutable pension for cash at retirement
- Active members will retire one year later than they are first able to do so without reduction

Financial Assumptions

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

Assumptions as at	31 March 2013		31 March 2012		31 March 2011	
	%p.a.	Real	%p.a.	Real	%p.a.	Real
RPI Increases	3.4%	-	3.3%	-	3.5%	-
CPI increases	2.6%	-0.8%	2.5%	-0.8%	2.7%	-0.8%
Salary Increases	4.8%	1.4%	4.7%	1.4%	5.0%	1.5%
Pension Increases	2.6%	-0.8%	2.5%	-0.8%	2.7%	-0.8%
Discount Rate	4.6%	1.2%	4.6%	1.3%	5.5%	1.9%

These assumptions are set with reference to market conditions at 31 March 2013.

Our estimate of the duration of the Fund's liabilities is 23 years.

The discount rate is the annualised yield at the 23 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 approach has been updated from previous disclosures when the yield on the iBoxx AA rated over 15 year corporate bond index was used as a standard assumption.

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 23 year point on the BoE spot inflation curve. Previously the 20 year point was used and so this has been updated to better reflect the duration of the Fund's liabilities

This measure has historically overestimated future increases in the RPI and so we have made a deduction of 0.25% to get the RPI assumption of 3.4%. 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. 2.6%. 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 be 1.4% above RPI in addition to a promotional scale.

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 IAS19 discount rate.

Therefore we are not required to disclose an expected return assumption for the year to 31 March 2014.

4. Results and Disclosures

The results of our calculations for the year ended 31 March 2013 are set out in Appendix 1. We estimate that the net liability as at 31 March 2013 is a liability of £263,850,000.

In addition, Appendix 2 details a reconciliation of assets and liabilities during the year.

The figures in this report are presented only for the purposes of IAS 19. 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.



Roisin McGee FFA
Actuary

Appendix 1. Balance Sheet Disclosure as at 31 March 2013

Net Pension Asset as at	31 Mar 2013	31 Mar 2012	31 Mar 2011
	£000's	£000's	£000's
Present Value of Funded Obligation	897,050	832,832	664,742
Fair Value of Scheme Assets (bid value)	633,200	542,604	515,352
Net Liability	263,850	290,228	149,390

*Present Value of Funded Obligation consists of £699,410,000 in respect of Vested Obligation and £197,640,000 in respect of Non-Vested Obligation.

Appendix 2. Asset and Benefit Obligation Reconciliation for the Year to 31 March 2013

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 March 2013 £000's	Year to 31 March 2012 £000's
Opening Defined Benefit Obligation	832,832	664,742
Service cost	21,173	18,212
Interest cost	37,917	37,441
Actuarial losses (gains)	21,275	113,644
Losses (gains) on curtailments	1,135	1,557
Liabilities extinguished on settlements	-	-
Liabilities assumed in a business combination	-	16,576
Estimated benefits paid net of transfers in	(22,940)	(25,654)
Past service cost	-	-
Contributions by Scheme participants	5,658	6,314
Unfunded pension payments	-	-
Closing Defined Benefit Obligation	897,050	832,832

Unfunded liabilities are normally excluded as these are liabilities of employers rather than the Pension Fund. However, all employers with unfunded pension liabilities opted to capitalise these benefits as at 31 March 2011; these new funded liabilities appear as "Liabilities assumed in a business combination" in the table above for the year to 31 March 2012.

Reconciliation of opening & closing balances of the fair value of Scheme assets	Year to	Year to
	31 March 2013	31 March 2012
	£000's	£000's
Opening fair value of Scheme assets	542,604	515,352
Expected return on Scheme assets	28,553	31,230
Actuarial gains (losses)	52,527	(4,327)
Contributions by employer including unfunded	26,798	19,689
Contributions by Scheme participants	5,658	6,314
Assets acquired in a business combination	-	-
Estimated benefits paid net of transfers in and including unfunded	(22,940)	(25,654)
Receipt / (Payment) of bulk transfer value	-	-
Fair value of Scheme assets at end of period	633,200	542,604

Reconciliation of opening & closing surplus	Year to	Year to
	31 March 2013	31 March 2012
	£000's	£000's
Surplus (Deficit) at beginning of the year	(290,228)	(149,390)
Current Service Cost	(21,173)	(18,212)
Employer Contributions	26,798	19,689
Unfunded pension payments	-	-
Past Service Costs	-	-
Other Finance Income	(9,364)	(6,211)
Settlements and Curtailments	(1,135)	(18,133)
Actuarial gains (losses)	31,252	(117,971)
Surplus (Deficit) at end of the year	(263,850)	(290,228)