Westminster City Council
City of Westminster Pension Fund

IAS19 Disclosures as at 31 March 2013

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Public Sector Consulting

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1. Introduction

We have been instructed by Westminster City Council, the Administering Authority to the City of Westminster Pension Fund ("the Fund"), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme ("the LGPS") to employees of Westminster City Council ("the Employer") as at 31 March 2013.

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

These figures are prepared in accordance with our understanding of International Accounting Standard 19 (IAS19). This advice complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS

The figures quoted will form the basis of the balance sheet and funding status disclosures to be made by the Employer as at 31 March 2013 in respect of its pension obligations under the LGPS. The projected pension expense calculations for the year to 31 March 2014 may be used for the purpose of any interim financial reporting during the year to 31 March 2014. However, it may subsequently be necessary to adjust these projections following the occurrence of any material events such as curtailments, settlements or the discontinuance of the Employer's participation in the Fund.

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.

Please note we have not made any allowance for IFRIC14 in our calculations. We would be happy to speak to the Employer or their Auditor if more information is required.

We have immediately recognised any actuarial gains and losses in the Statement of Recognised Income and Expense, although we'd be happy to discuss if the Employer or their Auditor would like us to adopt an alternative treatment.

2. Valuation Data

Data Sources

In completing our calculations for IAS19 purposes we have used the following items of data, which we received from Westminster City Council:

- The results of the IAS19 valuation as at 31 March 2012;
- 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 are based on assets used for the purpose of the IAS19 valuation as at 31 March 2012, actual fund returns for the period to 28 February 2013 and then market returns (estimated where necessary) for the period to 31 March 2013;
- Estimated Fund income and expenditure in respect of the Employer for the period to 28 February 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 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, 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.

Employer Membership Statistics

The table below summarises the membership data as at 31 March 2010.

Member Data Summary	Number	Salaries/Pensions £000's
Actives	3,085	93,713
Deferred Pensioners	4,701	11,615
Pensioners	4,376	23,764

The service cost for the year ending 31 March 2013 is calculated using an estimate of the average total pensionable payroll during the year. From the contribution information provided by the employer, the estimated average total pensionable payroll during the year is £74,288,000. The projected service cost for the year ending 31 March 2014 is calculated from an estimated payroll of £74,288,000.

Early Retirements

We requested data on any early retirements in respect of the Employer from the Administering Authority for the year ending 31 March 2013.

We have been notified of 17 new early retirements during the year which were not allowed for in the IAS19 assumptions. The total annual pension that came into payment was £144,900.

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 14%. This is based on the estimated Fund value 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 Westminster City Council as at 31 March 2013 is as follows:

Employer Asset Share - Bid Value	31 March 2013		31 March 2012	
	£000's	%	£000's	%
Equities	425,412	71.0%	387,687	71.1%
Gilts	35,950	6.0%	32,171	5.9%
Other Bonds	89,876	15.0%	75,247	13.8%
Property	23,967	4.0%	25,628	4.7%
Cash	23,967	4.0%	24,537	4.5%
Total	**599,172**	**100%**	**545,270**	**100%**

We have estimated the bid values where necessary. 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.

Based on the above, the Employer's share of the assets of the Fund is approximately 69%.

Unfunded Benefits

In the year to 31 March 2013 we estimate £400,000 of unfunded benefits were paid.

3. Actuarial Methods and Assumptions

Roll-Forward Approach

To assess the value of the Employer's liabilities as at 31 March 2013, we have rolled forward the value of the Employer's liabilities calculated for the IAS19 valuation as at 31 March 2012 allowing for the different financial assumptions required this year under IAS19. We believe a similar roll-forward approach was taken for the report as at 31 March 2012.

A full actuarial valuation involves 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 31 March 2012 IAS19 valuation data to 31 March 2013 should not introduce any material distortions in the results provided that the actual experience of the Employer and 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.

To calculate the asset share we have rolled forward the assets allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and its employees.

Valuation Method

As required under IAS19 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 2010. The post retirement mortality tables adopted were the S1NA tables with a 100% multiplier, making allowance for future improvement factors in line with the CMI 2009 projections, with a long term rate of 1.25% per annum.

The assumed life expectations from age 65 are:

Life Expectancy from age 65 (years)		31 March 2013	31 March 2012
Retiring today			
	Males	22.5	22.4
	Females	24.6	24.5
Retiring in 20 years			
	Males	24.3	24.2
	Females	26.6	26.5

We have also made the following assumptions:

- Each member will exchange 25% of the maximum amount permitted of their pre 1 April 2010 pension entitlements, for cash at retirement.
- Each member will exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements, for cash at retirement.

Financial Assumptions

The financial assumptions used for the purposes of the IAS19 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	3.3%	-	3.5%	-	3.7%	0.0%
CPI increases	2.5%	-0.8%	2.5%	-1.0%	2.8%	-0.9%
Salary Increases	4.7%	1.4%	5.0%	1.5%	5.2%	1.5%
Pension Increases	2.5%	-0.8%	2.5%	-1.0%	2.8%	-0.9%
Discount Rate	4.3%	1.0%	4.7%	1.2%	5.4%	1.6%

The assumptions used to value unfunded benefits as at 31 March 2012 can be found in section 2b of the 2012 report for Westminster City Council prepared by Aon Hewitt.

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

Our estimate of the duration of the Employer’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 Employer’s liabilities. This approach has been updated from previous disclosures where we understand the discount rate was based on the Aon Hewitt UK Corporate AA Curve – Swaps Extrapolation using the duration of the Employer's liabilities.

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 approach has been updated from previous disclosures where we understand the RPI increase assumption was based on the Aon Hewitt UK Government RPI Curve using the duration of the Employer'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 3.3%. 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. 2.5%. This has been changed from last year where it was assumed that CPI would be 1.0% below RPI but 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. This is a slightly lower long-term assumption than last year to reflect the continuing climate of low salary increases.

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.

For the year to 31 March 2013, the expected return was 6.9% per annum, which has been used to determine the profit and loss charge for the year ended 31 March 2013.

Past Service Costs/Gains

Past service costs can arise when the Employer awards additional discretionary benefits such as added years and other forms of augmentation of benefits. A change to benefits may result in either a past service cost or a past service gain.

We are not aware of any additional benefits which were granted over the year ended 31 March 2013.

Curtailments

We have calculated the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement. The Employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we have only calculated the cost of curtailments which affect the Employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, we understand that the Employer agreed to waive the pension reduction which would have otherwise applied to 17 former employees on early retirement.

The capitalised cost of the additional benefits relative to those reserved for under IAS19 is calculated at £703,000.

We have issued a separate spreadsheet to the Employer documenting the reason for leaving (whether it be on redundancy, efficiency or other grounds) and the capitalised cost for each member.

Settlements

As a result of some members transferring to / from another Employer over the year liabilities have been settled at a cost different to the IAS19 reserve. The capitalised gain of this settlement is £4,212,000.

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 £516,418,000.

In addition:

- Appendix 2 sets out the profit and loss account costs for the year ended 31 March 2013.
- Appendix 3 details a reconciliation of assets and liabilities during the year.
- Appendix 4 shows the sensitivity analysis to a change in discount rate.
- Appendix 5 shows the balance sheets for the previous 4 years (where available).
- Appendix 6 shows the Statement of Recognised Income and Expense.
- Appendix 7 contains our estimates of the projected profit and loss account costs for the year ending 31 March 2014. Please note that no allowance has been made for the costs of any early retirements or augmentations which may occur over the year and whose additional capitalised costs would be included in the liabilities. It is only an estimate so actual experience over the year is likely to differ. We have not provided balance sheet projections on the basis that they will depend upon market conditions and the asset value of the Scheme at the end of the following year.

The figures presented in this report are prepared only for the purposes of IAS19. 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.

Graeme Muir FFA
Partner

Roisin McGee FFA
Actuary

Appendix 1. Balance Sheet Disclosure as at 31 March 2013

Net Pension Asset as at	31 Mar 2013 £000's	31 Mar 2012 £000's	31 Mar 2011 £000's
Present Value of Funded Obligation	1,112,694	1,029,460	885,420
Fair Value of Scheme Assets (bid value)	599,172	545,270	541,280
Net Liability	**513,522**	**484,190**	**344,140**
Present Value of Unfunded Obligation	2,896	3,070	36,750
Unrecognised Past Service Cost	-	-	-
Net Liability in Balance Sheet	**516,418**	**487,260**	**380,890**

Appendix 2. Profit & Loss Account Costs for the year to 31 March 2013

The amounts recognised in the profit and loss statement are:	Year to 31 March 2013 £000's	Year to 31 March 2012 £000's
Current service cost	15,618	13,760
Interest on obligation	47,448	48,640
Expected return on Scheme assets	(36,778)	(39,720)
Past service cost	-	1,180
Losses (gains) on curtailments and settlements	(3,509)	-
Total	**22,779**	**23,860**
Actual return on Scheme assets	76,347	12,370

Revision to IAS19

The International Accounting Standards Board have published a final version of the revised IAS19 standard, which will apply for accounting periods beginning on or after 1 January 2013.

In summary, the main changes that affect the Profit and Loss Charge are:

- 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;
- Some labelling changes to the Profit and Loss charge e.g. “Service cost” now includes what was previously described as the “Current Service Cost” plus the “Past Service Cost” plus any “Curtailments” plus any “Settlements”.

Administration expenses are now accounted for within the Profit and Loss charge; previously we made a deduction to the actual and expected returns on assets.

The changes set out above are effective for accounting periods beginning on or after 1 January 2013 so do not affect the disclosures for 2012/13.

However, we have recently been advised by the Audit Commission that auditors will be expecting to see a disclosure of the impact of the revised IAS19 standard had it been applied in 2012/13.

Therefore, we have provided an additional table below showing the Profit and Loss figures had the revised standard applied for this period.

Please note that this report as a whole is not compliant with the revised IAS19 standard and if the Employer wishes to adopt the revised standard earlier we would be happy to prepare a compliant report.

The amounts recognised in the profit and loss statement (if the revised IAS19 standard was adopted) are:	**Year to 31 March 2013 £000's**
Service Cost	12,109
Net Interest on the defined liability (asset)	22,458
Administration expenses	490
Total	**35,057**
Actual return on Scheme assets	76,837

Appendix 3. 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	**1,032,530**	**922,170**
Service cost	15,618	13,760
Interest cost	47,448	48,640
Actuarial losses (gains)	60,620	71,060
Losses (gains) on curtailments	703	-
Liabilities extinguished on settlements	(7,160)	-
Liabilities assumed in a business combination	-	570
Estimated benefits paid net of transfers in	(39,003)	(28,950)
Past service cost	-	1,180
Contributions by Scheme participants	5,234	5,700
Unfunded pension payments	(400)	(1,600)
Closing Defined Benefit Obligation	**1,115,590**	**1,032,530**

Reconciliation of opening & closing balances of the fair value of Scheme assets	Year to 31 March 2013 £000's	Year to 31 March 2012 £000's
Opening fair value of Scheme assets	**545,270**	**541,280**
Expected return on Scheme assets	36,778	39,720
Actuarial gains (losses)	39,570	(27,350)
Contributions by employer including unfunded	14,671	14,870
Contributions by Scheme participants	5,234	5,700
Assets acquired in a business combination	-	-
Estimated benefits paid net of transfers in and including unfunded	(39,403)	(28,950)
Receipt / (Payment) of bulk transfer value	(2,948)	-
Fair value of Scheme assets at end of period	**599,172**	**545,270**

Reconciliation of opening & closing surplus	Year to 31 March 2013 £000's	Year to 31 March 2012 £000's
Surplus (Deficit) at beginning of the year	**(487,260)**	**(380,890)**
Current Service Cost	(15,618)	(13,760)
Employer Contributions	14,271	14,870
Unfunded pension payments	400	1,600
Past Service Costs	-	(1,180)
Other Finance Income	(10,670)	(9,490)
Settlements and Curtailments	3,509	-
Actuarial gains (losses)	(21,049)	(98,410)
Surplus (Deficit) at end of the year	**(516,417)**	**(487,260)**

Appendix 4. Sensitivity Analysis

The following table sets out the impact of a small change in the discount rates on the defined benefit obligation and projected service cost along with a +/- 1 year age rating adjustment to the mortality assumption.

Sensitivity Analysis	£000's	£000's	£000's
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present Value of Total Obligation	1,093,710	1,115,590	1,138,107
Projected Service Cost	16,231	16,889	17,569
Adjustment to mortality age rating assumption	+1 Year	None	- 1 Year
Present Value of Total Obligation	1,075,673	1,115,590	1,155,923
Projected Service Cost	16,122	16,889	17,663

Appendix 5. Amounts for the Current and Previous Periods

Amounts for the current and previous periods	Year to Mar 2013 £000's	Year to Mar 2012 £000's	Year to Mar 2011 £000's	Year to Mar 2010 £000's
Defined Benefit Obligation	(1,115,590)	(1,032,530)	(922,170)	(1,034,920)
Scheme assets	599,172	545,270	541,280	543,620
Surplus (Deficit)	(516,417)	(487,260)	(380,890)	(491,300)
Experience adjustments on Scheme liabilities	-	(7,890)	25,170	-
Percentage of liabilities	-	(0.8%)	2.7%	-
Experience adjustments on Scheme assets	39,570	(27,350)	(39,180)	-
Percentage of assets	6.6%	(5.0%)	(7.2%)	-
Cumulative Actuarial Gains and Losses	(111,139)	(90,090)	8,320	-

We do not have the full history of gains and losses so the cumulative gains and losses in the table above only start from 1 April 2011. The full history should be obtainable from previous reports and employer accounts.

Appendix 6. Statement of Recognised Income and Expense

Statement of Recognised Income and Expense	Year to 31 Mar 2013 £000's	Year to 31 Mar 2012 £000's
Actual Return less expected return on pension scheme assets	39,570	(27,350)
Experience gains and losses	-	(7,890)
Changes in assumptions underlying the present value of the scheme liabilities	(60,619)	(63,170)
Actuarial gains (losses) in pension scheme	**(21,049)**	**(98,410)**
Increase (decrease) in irrecoverable surplus	-	-
Actuarial gains (losses) recognised in SORIE	**(21,049)**	**(98,410)**

Appendix 7. Projected Pension Expense for the year to 31 March 2014

As discussed in Appendix 2, the International Accounting Standards Board have published a final version of the revised IAS19 standard, which will apply for accounting periods beginning on or after 1 January 2013.

We have provided the Projected Pension Expense for the year to 31 March 2014 below, in line with the revised standard.

Projections for the year to 31 March 2014	Year to 31 March 2014 £000's
Service Cost	16,889
Net Interest on the defined liability (asset)	21,902
Administration Expenses	515
Total	**39,306**
Employer Contributions	12,629

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 March 2013. These projections are based on the assumptions as at 31 March 2013, as described in the main body of this report.