Accounting for Pension Costs under IAS 19 as at 31 March 2012

City of Westminster Pension Fund

Westminster City Council

10 July 2012

Prepared for

Westminster City Council

Prepared by

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1 Introduction

Addressee

This report sets out pension cost information required by Westminster City Council (the “Employer”) in order to meet their disclosure requirements in relation to their pension obligations as specified by the accounting standard, IAS 19.

We have carried out this work for the Employer in relation to benefits payable from the City of Westminster Pension Fund (the "Fund") and (where applicable) certain unfunded benefits provided by the Employer.

Please note that this document supercedes our previous document dated 15 May 2012, and allows for changes to the contribution data as advised to us by Catherine McKinley on 9 July 2012.

Related documents

The advice provided in this report is supported by advice contained in the following documents:

- Pensions Accounting 2012 Terms of Reference dated 10 February 2012 (the 'Terms of Reference').
- Advice in relation to the actuarial assumptions was provided by Aon Hewitt in a document dated 19 April 2012.

In addition, we refer to the following document:

- Actuarial Valuation at 31 March 2010 - City of Westminster Pension Fund dated 31 March 2011 (the '2010 Valuation').

Background

The accounting date to which this report relates is 31 March 2012.

The calculations contained in this report have been made on a basis consistent with our understanding of IAS 19. Figures required for other purposes should be calculated in accordance with the specific requirements of those purposes. It must not be assumed that figures produced for the purposes of IAS 19, which we present in this report, have any relevance beyond the scope of the International Financial Reporting Standards requirements.

The economic and demographic assumptions used to prepare the figures in this report are summarised as part of the enclosed draft disclosure note in Section 2.

I confirm that I am a Fellow of the Institute and Faculty of Actuaries.

This report is structured as follows:

- Section 1 summarises the scope and legal considerations regarding the work we have undertaken. Comments to be drawn to the attention of the Employer's auditor are also noted here;
- Section 2 sets out the information that is typically disclosed under IAS 19;
- Appendix A summarises the data used in our calculations;
- Appendix B sets out an explanation of the method we have used in preparing the figures (as described in more detail in our Terms of Reference);
- Appendix C answers some frequently asked questions ("FAQ") in relation to IAS 19.

Disclaimer

This report is prepared on the instructions of the Employer in relation to the preparation of IAS 19 figures for the Employer's financial reporting as at the accounting date. It has been prepared at this date, for the purpose and on the basis set out in this report and for the benefit and use of the Employer.

Where a Client Services Agreement is not yet in place with the Employer this report will have been sent to the Fund Administering Authority. In this instance we give permission for the Fund Administering Authority to pass this report to the Employer, who will not be regarded as a third party (see below).

This report should not be used or relied upon by any other person for any other purpose including, without limitation, other professional advisers to the Fund Administering Authority or the Employer.

All third parties are hereby notified that this report shall not be used as a substitute for any enquiries, procedures or advice which ought to be undertaken or sought by them. We do not accept any responsibility for any consequences arising from any third party seeking to rely on this report.

We neither warrant nor represent (either expressly or by implication) to any third party who receives this report that the information contained within is fair, accurate or complete, whether at the date of its preparation or at any other time.

Unless we provide express prior written consent, no part of this report should be reproduced, distributed or communicated to any other person other than to meet any statutory requirements (such as the audit of the Employer's accounts) and, in providing this report, we do not accept or assume any responsibility for any other purpose or to anyone other than the Employer. This report was based on data available to us at the effective date of our calculations and takes no account of developments after that date except where explicitly stated otherwise.

With respect to data on which we have relied in producing this report, whilst we have taken certain limited steps to satisfy ourselves that the data provided to us is of a quality sufficient for the purposes of our investigation, including carrying out certain basic tests for the purpose of detecting manifest inconsistencies, it is not possible for us to confirm the accuracy or completeness of the detailed information provided. Whilst the Employer may have relied on others for the maintenance of accurate data, it is their responsibility to ensure the adequacy of these arrangements and ultimately the Employer that bears the primary responsibility for the accuracy of such information provided. The information used is summarised in various sections of this report and Appendix A.

Comments on the data provided which may require discussion between the Employer and its auditor

Appendix A contains a summary of the membership data at the most recent full funding valuation, provided by the Fund Administering Authority, together with a description of the cashflow data provided for our calculations, which has been provided by the Fund Administering Authority and / or the Employer.

Due to tight timescales, it is sometimes necessary to make estimates of certain figures, in particular:

- The investment return used to roll forward the Employer’s notional share of assets from the last formal valuation of the Fund at 31 March 2010 to the Employer's accounting date has been calculated using returns provided by the Fund Administering Authority from 31 March 2010 to 31 December 2011. Where necessary, index returns appropriate to the mix of assets (provided by the Fund Administering Authority at a date close to the accounting date), have been used for any remaining period to obtain an estimate of the total return over the period to the accounting date.
- The investment return over the current accounting period is shown in Appendix A. Where appropriate, this figure includes an adjustment reflecting the difference between actual Fund returns and estimated index returns used over the last accounting period.
- Where the cashflow data provided covers a period that is less than the full accounting period, we have pro-rated these figures to estimate the full accounting period equivalent (allowing for changes in the Employer's contribution rate where appropriate).
- We show the annualised pensionable payroll over the accounting period that we have used in our calculations in Appendix A, along with the figure used for the previous accounting period. This figure has been derived from the contributions paid. The pensionable payroll figure is used to calculate the current service cost, so it is important that the figure is checked for reasonableness. Where this has changed from the figure from the previous accounting period, we have assumed that any change above or below the salary increase assumed at the start of the accounting period is due to general changes in the number of staff rather than salary increases/decreases for existing staff, and we have, in our calculations, assumed no profit or loss from these changes.

Special events

As at 1 October 2011 the Employer agreed to convert its unfunded CAY pensions into funded pensions paid from the Fund. Other unfunded pensions such as injury and teachers' pensions continue to be paid as they have been previously. There has therefore been a significant reduction in the unfunded liability from the previous year's figures, and a corresponding increase in funded liability. In the disclosure notes we have allowed for these changes in liability as 'business combinations', meaning that they do not impact on the Surplus or Deficit on the Provision of Services. However, we recommend that the Employer consults with their auditor to ensure that they are happy with the accounting treatment of this conversion of unfunded benefits.

In order to calculate these figures, we have used the total unfunded liability calculations used in the accounting disclosures as at 31 March 2011, and accurate calculations of the remaining unfunded liability using data provided as at 31 March 2012. Please note that we have been unable to completely reconcile the unfunded data used for these calculations with that used in our report on the conversion of unfunded pensions dated 12 July 2012. Any discrepancies will be resolved as part of the 2013 actuarial valuation of the Fund, but please let us know if you would like us to investigate further at this time.

The Employer's contribution rates certified in the 2010 valuation have been increased by 1.8% of pensionable pay from 1 October 2011 to pay for this conversion, and this increase has been allowed for in our calculations.

Methodology

Certain aspects of the methodology were set out in the related documents listed above. We summarise the main points below for completeness.

Recognition of gains and losses

Under IAS 19 there are currently two main approaches to recognising gains and losses. These are:

- To amortise gains and losses, to the extent that they fall outside a corridor, over a period not exceeding the average expected remaining future working life of the employees, through the Surplus or Deficit on the Provision of Services - Employers may use an alternative systematic method if this results in faster recognition; or
- To recognise gains and losses in full, immediately, during the period in which they arise, but outside of the Surplus or Deficit on the Provision of Services, through Other Comprehensive Income and Expenditure.

The first option will be removed for accounting periods commencing on or after 1 January 2013 and from that date the second option will need to be used. For Employers who report under CIPFA guidance, the first of these approaches is not permitted.

We have based our advice on the assumption that the Employer recognises gains and losses in full, immediately through Other Comprehensive Income and Expenditure.

Value of assets

We have used a bid value of the assets as required by International Financial Reporting Standards.

Treatment of risk benefits

To value the risk benefits (i.e. ill-health and death in service benefits) we have used the projected unit method. This is the same method as was used in the previous accounting period.

Interest on the current service cost

The interest on the current service cost is included within the interest cost item in the charges to Surplus or Deficit on the Provision of Services.

Expenses

Scheme administration expenses have been deducted from the expected return on assets. If the Employer wishes the administration expenses to be treated in a different way they should discuss this further with their auditor and their usual contact at Aon Hewitt.

Discretionary benefits

No allowance has been made in the financial statements for any future discretionary benefits that might be paid as we assume there is no policy on the payment of such benefits apart from areas such as redundancy.

Restriction of asset under paragraph 58 and IFRIC 14

IFRIC 14 is an interpretation of paragraph 58 of the IAS 19 accounting standard, published by the IASB, which addresses the recent emergence of diverging treatment by employers with defined benefit pension schemes of:

- The recognition of surplus; and
- Allowance for minimum funding (contribution) requirements.

IFRIC 14 could impact on accounting figures in different ways:

- Employers with an IAS 19 surplus may not be able to recognise that surplus in full, if at all, and / or
- Employers paying deficit contributions may have to recognise an additional liability on the Balance Sheet.

IFRIC 14 is compulsory for accounting periods beginning on or after 1 January 2008.

CIPFA has indicated that it does not believe that an asset restriction under paragraph 58 will apply to the bodies that it governs. We agree with this view, providing the Employer is expected to be a long term body within the Fund. Our view is that, unless a significant surplus exists on the balance sheet, these long term employers will be able to obtain economic benefit from a surplus in the form of reduced future service contributions. If the Employer reports under CIPFA guidance and believes its participation in the Fund is finite, the disclosure presented in this report may not be compliant with the IAS 19 accounting standard and should be reconsidered.

Disclosures for the Employer's accounts

The format and content of the enclosed draft disclosure note (Section 2) follows very closely the disclosure example set out in Appendix B of IAS 19 as amended in December 2004. If the Employer reports under CIPFA guidance, an example disclosure format is shown under paragraph 47 of the Example Financial Statements and Notes to the Accounts for Local Authorities guidance. This example disclosure presents the same content as shown in Section 2 but in a different format.

Also included in Section 2 are the comparative amounts under IAS 19. Furthermore, IAS 19 requires the disclosure of the amounts for the prior three periods of:

- The present value of the defined benefit obligation, the fair value of the plan assets, and the surplus / deficit in the plan, and
- The experience adjustments arising on:
  - The plan liabilities, expressed as either an amount or as a percentage of plan liabilities at the end of the accounting period, and
  - The plan assets, expressed as either an amount or as a percentage of plan assets at the end of the accounting period.

IAS 19 also requires the disclosure of the cumulative amount of actuarial gains and losses recognised in Other Comprehensive Income and Expenditure.

IAS 19 pension cost

IAS 19 is silent on which part of the Surplus or Deficit on the Provision of Services contains financing charges (i.e. the Expected Return on Assets and the Interest on the Liabilities). Under FRS17 these items are charged to Financing Income rather than to Costs of Services, but IAS 19 does not prescribe such a split.

Those employers following CIPFA guidance will charge these items to Financing Income. For the purposes of this reporting exercise, we assume all employers will record these charges to Financing Income rather than charging them to Costs of Services.

The pension cost is also affected by:

- Any past service costs that are incurred (e.g. benefit improvements, augmentations) — these will increase the charge to Costs of Services; and
- Any profits or losses on any curtailments or settlements that took place during the accounting period (such as from sales of businesses).
- The charge / credit due to the application of IFRIC 14 as this is required to be recognised immediately through the Surplus or Deficit on the Provision of Services.

Volatility of results

Our calculations involve placing present values on future benefit payments to individuals many years into the future. These benefits will be linked to pay increases whilst individuals are active members of the Fund and will be linked to statutory pension increase orders (inflation) in deferment and in retirement. Assumptions are made for the rates at which the benefits will increase in the future (inflation and salary increases) and the rate at which these future cashflows will be discounted to a present value at the accounting date to arrive at the present value of the defined benefit obligation. The resulting position will therefore be sensitive to the assumptions used.

The present value of defined benefit obligation is linked to yields on high quality corporate bonds whereas, for the LGPS funded arrangements, the majority of the assets of the Fund are usually invested in equities or other real assets. Fluctuations in investment markets in conjunction with discount rate volatility will lead to volatility in the funded status of the Fund and thus to volatility in the net pension asset on the Employer's Balance Sheet and in Other Comprehensive Income and Expenditure.

To a lesser extent this will also lead to volatility in the pension expense in the Employer's Surplus or Deficit on the Provision of Services.

If, at any time during the next accounting period, the Employer wants us to provide an update of the accounting position please let us know.

Sensitivity of the results to key assumptions

Auditors are increasingly asking to see information on the sensitivity of the results to the key assumptions in order to comply with IAS 1: Presentation of Financial Statements. Furthermore, the International Accounting Standards Board is currently consulting on changes to IAS 19 which proposes the disclosure of sensitivity information to each of the principal assumptions underlying the defined benefit obligation on the Balance Sheet. These changes are not expected before 2013.

If the Employer reports under CIPFA guidance, an example note is shown under paragraph 4 (Assumptions made about the future and other major sources of estimation uncertainty) of the Example Financial Statements and Notes to the Accounts for Local Authorities guidance. We reproduce the note below, presenting the calculation of the sensitivity.

The effects on the net pensions liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the pension liability of £78.05M.

However, the assumptions interact in complex ways. During 2011/2012, the Authority's actuaries advised that the net pensions liability for funded LGPS benefits had increased by £7.80M as a result of estimates being corrected as a result of experience and increased by £62.99M attributable to updating of the assumptions.

If the Employer would like additional sensitivities please let us know.

Deferred tax

For those employers who pay corporation tax, IAS 19 does not require an explicit adjustment for deferred tax in the pension results. However, the Employer may need to make an allowance in their wider deferred tax assets and liability. This report does not provide this tax advice.

IAS 19 pension cost for the next period

If the Employer has requested an estimate of the charges to Surplus or Deficit on the Provision of Services in future periods, this report contains a Section 3 which presents these results. The results are calculated using the assumptions as at 31 March 2012.

Materiality

The results have been rolled forward from the most recent full valuation of the Employer's liabilities, which was undertaken on 31 March 2010. The draft disclosure figures will differ from the results if a full actuarial valuation was performed at the accounting date, as they only allow for known material experience items that affect the financial position of the schemes such as:

- Investment returns;
- Changes in financial assumptions; and
- Pension increases.

There is no allowance for any other items that might affect the financial position (e.g. unexpected membership movements, unless we are notified otherwise). It is therefore difficult to precisely quantify the level of accuracy of the roll-forward method, however we believe the method we propose is appropriate and in accordance with the provisions of the relevant accounting standard, but do let us know if the Employer wishes to discuss carrying out a full valuation at a more recent date.

As a broad indication, we do not expect the defined benefit obligation to differ from a full valuation at the accounting date by more than 1% - 2% p.a. over the period of the roll-forward, assuming experience is broadly in line with our assumptions.

If the Employer has any concerns on materiality thresholds, please can they provide us with the amounts that would be deemed material in the context of:

- Any significant events that may have occurred during the financial year, such as a redundancy event (if not already provided);
- The Surplus or Deficit on the Provision of Services; and

- The Balance Sheet.

There will, however, be an additional charge for any work we undertake or discussions we have regarding materiality.

If the Employer believes that their materiality limits are compromised by the use of the roll-forward method then to improve the accuracy a full valuation will be required. In these circumstances we recommend that the Employer discuss this with their auditor and lets us know at the earliest opportunity if they require a full valuation to be undertaken at this period end. Employers should note, however, that a full valuation will result in additional fees and increased timescales to undertake these calculations.

Compliance with actuarial standards

This report is subject to, and complies with, the following Technical Actuarial Standards ('TAS') issued by the Board for Actuarial Standards:

- Pensions Technical Actuarial Standard
- TAS R: Reporting Actuarial Information
- TAS M: Modelling, and
- TAS D: Data

2a Draft disclosure under IAS 19 (LGPS funded benefits)

Introduction

The disclosures below relate to the funded liabilities within the City of Westminster Pension Fund (the “Fund”) which is part of the Local Government Pension Scheme (the "LGPS"). The funded nature of the LGPS requires Westminster City Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pensions liabilities with investment assets.

Westminster City Council recognises gains and losses in full, immediately through Other Comprehensive Income and Expenditure.

In accordance with International Financial Reporting Standards, disclosure of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

Contributions for the accounting period ending 31 March 2013

The Employer's regular contributions to the Fund for the accounting period 31 March 2013 are estimated to be £15.57M. In addition, Strain on Fund Contributions may be required.

Assumptions

The latest actuarial valuation of Westminster City Council's liabilities took place as at 31 March 2010. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS 19 purposes were:

Principal financial assumptions (% per annum)

	31 March 2012	31 March 2011	31 March 2010
Discount rate	4.7	5.4	5.5
RPI Inflation	3.5	3.7	3.9
CPI Inflation	2.5	2.8	N/A
Rate of increase to pensions in payment*	2.5	2.8	3.9
Rate of increase to deferred pensions	2.5	2.8	3.9
Rate of general increase in salaries **	5.0	5.2	5.4

** In excess of Guaranteed Minimum Pension increases in payment where appropriate*
*** In addition, we have allowed for the same age related promotional salary scales as used at the actuarial valuation of the Fund as at 31 March 2010.*

Mortality assumptions The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements.

Post retirement mortality (retirement in normal health)	31 March 2012	31 March 2011
Males		
Year of Birth base table	Standard SAPS Normal Health All Amounts	Standard SAPS Normal Health All Amounts
Rating to above base table * (years)	0	0
Scaling to above base table rates	100%	100%
Improvements to base table rates	CMI_2009 with a long term rate of improvement of 1.25% p.a.	CMI_2009 with a long term rate of improvement of 1.25% p.a.
Future lifetime from age 65 (aged 65 at accounting date)	22.4	22.2
Future lifetime from age 65 (aged 45 at accounting date)	24.2	24.1
Females		
Year of Birth base table	Standard SAPS Normal Health All Amounts	Standard SAPS Normal Health All Amounts
Rating to above base table * (years)	0	0
Scaling to above base table rates	100%	100%
Improvements to base table rates	CMI_2009 with a long term rate of improvement of 1.25% p.a.	CMI_2009 with a long term rate of improvement of 1.25% p.a.
Future lifetime from age 65 (aged 65 at accounting date)	24.5	24.4
Future lifetime from age 65 (aged 45 at accounting date)	26.5	26.4

* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

	31 March 2012	31 March 2011
Commutation	Each member assumed to exchange 25% of the maximum amount permitted of their pre 1 April 2010 pension entitlements, for additional lump sum. Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements, for additional lump sum.	Each member assumed to exchange 25% of the maximum amount permitted of their past service pension rights on retirement, for additional lump sum. Each member assumed to exchange 75% of the maximum amount permitted of their future service pension rights on retirement, for additional lump sum.

Expected return on assets

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below. Also shown are the assumed rates of return adopted by the Employer for the purposes of IAS 19.

	Long-term expected rate of return at 31 March 2012 (% pa) *	**Asset split at 31 March 2012 (%)**	**Long-term expected rate of return at 31 March 2011 (% pa) ***	**Asset split at 31 March 2011 (%)**	**Long-term expected rate of return at 31 March 2010 (% pa) ***	**Asset split at 31 March 2010 (%)**
Equities	8.1	71.1	8.4	78.3	8.0	72.2
Property	7.6	4.7	7.9	0.0	8.5	0.0
Government bonds	3.1	5.9	4.4	0.0	4.5	4.8
Corporate bonds	3.7	13.8	5.1	16.6	5.5	22.3
Cash	1.8	4.5	1.5	5.1	0.7	0.2
Other**	8.1	0.0	8.4	0.0	8.0	0.5
Total	6.9	100.0	7.5	100.0	7.3	100.0

** The overall expected rate of return on Fund assets is a weighted average of the individual expected rates of return on each asset class, and is shown in the bottom row of the above table.*

*** Other holdings include hedge funds, currency holdings, asset allocation futures and other. We have assumed these will get a return in line with equities.*

Narrative description of the basis used to determine expected return

The note below sets out a suggested narrative description of the basis used to determine the overall expected rate of return on assets.

"Westminster City Council employs a building block approach in determining the rate of return on Fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2012."

Reconciliation of funded status to Balance Sheet

	Value as at 31 March 2012 £M's	Value as at 31 March 2011 £M's	Value as at 31 March 2010 £M's
Fair value of assets	545.27	541.28	543.62
Present value of funded defined benefit obligation	1,029.46	885.42	992.87
Pension asset / (liability) before consideration of paragraph 58	(484.19)	(344.14)	(449.25)
Adjustment in respect of paragraph 58	0.00	0.00	0.00
Pension asset / (liability) recognised on the Balance Sheet *	(484.19)	(344.14)	(449.25)

** The extent of any deferred tax asset / (liability) should be discussed with your tax advisers.*

Charges to the Surplus or Deficit on the Provision of Services

	Period ending 31 March 2012 £M's	Period ending 31 March 2011 £M's
Current service cost	13.76	15.45
Past service cost	1.18	(109.13)
Interest cost	47.59	49.92
Expected return on assets	(39.72)	(38.74)
Curtailment cost	0.00	0.00
Settlement cost	0.00	0.00
Expense recognised	22.81	(82.50)

Changes to the present value of defined benefit obligation during the accounting period

	Period ending 31 March 2012 £M's	Period ending 31 March 2011 £M's
Opening defined benefit obligation	885.42	992.87
Current service cost	13.76	15.45
Interest cost	47.59	49.92
Contributions by participants	5.70	6.37
Actuarial (gains) / losses on liabilities *	70.79	(46.21)
Net benefits paid out #	(28.95)	(23.85)
Past service cost	1.18	(109.13)
Business combinations	33.97	0.00
Curtailments	0.00	0.00
Settlements	0.00	0.00
Closing defined benefit obligation	1,029.46	885.42

** Includes changes to the actuarial assumptions.*
 # Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

Changes to the fair value of assets during the accounting period

	Period ending 31 March 2012 £M's	Period ending 31 March 2011 £M's
Opening fair value of assets	541.28	543.62
Expected return on assets	39.72	38.74
Actuarial gains / (losses) on assets	(27.35)	(39.18)
Contributions by the employer	14.87	15.58
Contributions by participants	5.70	6.37
Net benefits paid out #	(28.95)	(23.85)
Business combinations	0.00	0.00
Settlements	0.00	0.00
Closing fair value of assets	545.27	541.28

 # Consists of net cash-flow out of the Fund in respect of the employer, excluding contributions and any death in service lump sums paid, and including an approximate allowance for the expected cost of death in service lump sums.

Actual return on assets

	Period ending 31 March 2012 £M's	Period ending 31 March 2011 £M's
Expected return on assets	39.72	38.74
Actuarial gain / (loss) on assets	(27.35)	(39.18)
Actual return on assets	12.37	(0.44)

Analysis of amounts recognised in Other Comprehensive Income and Expenditure

	Period ending 31 March 2012 £M's	Period ending 31 March 2011 £M's
Total actuarial gains / (losses)	(98.14)	7.03
Adjustment in respect of paragraph 58	0.00	0.00
Total gains / (losses)	(98.14)	7.03

History of asset values, present value of defined benefit obligation and surplus / deficit *

	As at 31 March 2012 £M's	As at 31 March 2011 £M's
Fair value of assets	545.27	541.28
Present value of defined benefit obligation	1,029.46	885.42
Surplus / (deficit)	(484.19)	(344.14)

**This history can be built up over time and need not be constructed retrospectively (and once complete will show the current period and previous four periods).*

History of experience gains and losses *

	Period ending 31 March 2012	Period ending 31 March 2011
Experience gains / (losses) on assets		
Amount (£M's)	(27.35)	(39.18)
Percentage of assets	-5.0%	-7.2%
Experience gains / (losses) on liabilities #		
Amount (£M's)	(7.80)	24.89
Percentage of the present value of the liabilities	-0.8%	2.8%

**This history can be built up over time and need not be constructed retrospectively (and once complete will show the current period and previous four periods).*

 # This item consists of gains / (losses) in respect of liability experience only and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

2b Draft disclosure under IAS 19 (unfunded benefits)

Introduction

The disclosures below relate to unfunded pension arrangements established by Westminster City Council. These are termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS.

Westminster City Council recognises gains and losses in full, immediately through Other Comprehensive Income and Expenditure.

In accordance with International Financial Reporting Standards disclosure of certain information concerning assets, liabilities, income and expenditure relating to pension schemes is required.

Contributions for the accounting period ending 31 March 2013

In the accounting period ending 31 March 2013 the Employer expects to pay £0.22M directly to beneficiaries.

Assumptions

The latest actuarial valuation of unfunded LGPS benefits took place as at 31 March 2012. Liabilities have been estimated by the independent qualified actuary on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS 19 purposes were:

Principal financial assumptions (% per annum)

	31 March 2012	31 March 2011	31 March 2010
Discount rate	4.6	5.5	5.5
RPI Inflation	3.4	3.6	3.8
CPI Inflation	2.4	2.7	N/A
Rate of increase to pensions in payment	2.4	2.7	3.8

Mortality assumptions The mortality assumptions are based on the recent actual mortality experience of members within the Fund and allow for expected future mortality improvements.

Post retirement mortality (retirement in normal health)	31 March 2012	31 March 2011
Males		
Year of Birth base table	Standard SAPS Normal Health All Amounts	Standard SAPS Normal Health All Amounts
Rating to above base table * (years)	0	0
Scaling to above base table rates	100%	100%
Improvements to base table rates	CMI_2009 with a long term rate of improvement of 1.25% p.a.	CMI_2009 with a long term rate of improvement of 1.25% p.a.
Future lifetime from age 65 (aged 65 at accounting date)	22.4	22.2
Females		
Year of Birth base table	Standard SAPS Normal Health All Amounts	Standard SAPS Normal Health All Amounts
Rating to above base table * (years)	0	0
Scaling to above base table rates	100%	100%
Improvements to base table rates	CMI_2009 with a long term rate of improvement of 1.25% p.a.	CMI_2009 with a long term rate of improvement of 1.25% p.a.
Future lifetime from age 65 (aged 65 at accounting date)	24.5	24.4

* A rating of x years means that members of the Fund are assumed to follow the mortality pattern of the base table for an individual x years older than them. The ratings shown apply to normal health retirements.

Reconciliation of Balance Sheet

	Value as at 31 March 2012 £M's	Value as at 31 March 2011 £M's	Value as at 31 March 2010 £M's
Present value of defined benefit obligation	3.07	36.75	42.05
Pension (liability) recognised on the Balance Sheet*	(3.07)	(36.75)	(42.05)

** The extent of any deferred tax asset / (liability) should be discussed with your tax advisers.*

Charges to the Surplus or Deficit on the Provision of Services

	Period ending 31 March 2012 £M's	Period ending 31 March 2011 £M's
Current service cost	0.00	0.00
Past service cost	0.00	(3.21)
Interest cost	1.05	2.10
Curtailment cost	0.00	0.00
Settlement cost	0.00	0.00
Expense recognised	1.05	(1.11)

Changes to the present value of unfunded defined benefit obligation during the accounting period

	Period ending 31 March 2012 £M's	Period ending 31 March 2011 £M's
Opening unfunded defined benefit obligation	36.75	42.05
Current service cost	0.00	0.00
Interest cost	1.05	2.10
Actuarial (gains) / losses on liabilities *	0.27	(1.29)
Net benefits paid out	(1.60)	(2.90)
Past service cost	0.00	(3.21)
Business combinations	(33.40)	0.00
Curtailments	0.00	0.00
Settlements	0.00	0.00
Closing unfunded defined benefit obligation	3.07	36.75

* Includes changes to the actuarial assumptions

Changes to the fair value of assets during the accounting period

	Period ending 31 March 2012 £M's	Period ending 31 March 2011 £M's
Opening fair value of assets	0.00	0.00
Expected return on assets	0.00	0.00
Actuarial gains / (losses) on assets	0.00	0.00
Contributions by the employer	1.60	2.90
Contributions by participants	0.00	0.00
Net benefits paid out #	(1.60)	(2.90)
Business combinations	0.00	0.00
Settlements	0.00	0.00
Closing fair value of assets	0.00	0.00

Analysis of amount recognised in Other Comprehensive Income and Expenditure

	Period ending 31 March 2012 £M's	Period ending 31 March 2011 £M's
Total actuarial gains / (losses)	(0.27)	1.29
Total gain (loss)	(0.27)	1.29

History of present value of defined benefit obligation and surplus / deficit*

	As at 31 March 2012 £M's	As at 31 March 2011 £M's
Present value of defined benefit obligation	3.07	36.75
Surplus / (deficit)	(3.07)	(36.75)

**This history can be built up over time and need not be constructed retrospectively (and once complete will show the current period and previous four periods).*

History of experience gains and losses *

	Period ending 31 March 2012	Period ending 31 March 2011
Experience gains / (losses) #		
Amount (£M's)	(0.09)	0.28
Percentage of the present value of the liabilities	-2.9%	0.8%

**This history can be built up over time and need not be constructed retrospectively (and once complete will show the current period and previous four periods).*

 # This item consists of gains / (losses) in respect of liability experience only - and excludes any change in liabilities in respect of changes to the actuarial assumptions used.

Appendix A – Data summary

Funded benefits

The following data was provided by the Fund Administering Authority and / or the Employer and has been used to produce the IAS 19 disclosures in this report. Details of the split of assets between the various asset classes were also provided by the Fund Administering Authority and are shown in Section 2. We have also shown some of the intermediate calculations used in evaluating the figures in this letter.

Active members as at 31 March 2010

	Number	Total Pay (£000s)
Total	3,085	93,712.9

Pensioner & deferred pensioner members as at 31 March 2010

Type	Number	Total pension (£000s)
Deferred members	4,701	11,614.5
Pensioners and dependants	4,250	23,541.5

Cash-flows – regular (£000s)

	Provided		Used
	Months	Amount	Amount
Employer – Normal contributions	12	13,691.0	
Employer – Additional capital contributions	12	0.0	
Employer – Early retirement strain on fund payments	12	1,177.1	
Contributions by the Employer			**14,868.1**
Employee – Normal contributions	12	5,538.0	
Employee – Added years contributions	12	165.7	
Contributions by participants			**5,703.7**
Transfers in	0	0.0	
Other income	0	0.0	
Transfers out	0	0.0	
Retirement lump sums	0	0.0	
Other outgo	0	0.0	
Net other benefits			0.0
Death in service lump sums	0	0.0	
Expected death in service lump sums			283.3
Benefits paid (i.e. pension paid)	12	28,665.0	28,665.0
Net benefits paid out			**28,948.3**

Where the period covered is less than the full accounting period, we have pro-rated these figures to estimate the full accounting period equivalent (allowing for changes in the Employer's contribution rate where appropriate).

Where no 'benefits paid' data has been provided by the Fund Administering Authority and / or the Employer, we have estimated the benefits paid by projecting data from the most recent triennial valuation of the Fund.

Annualised pensionable payroll over the accounting period (£000s)*

Period ending 31 March 2012	81,011.7
Period ending 31 March 2011	88,733.1

* *These figures have been derived from the contributions paid over the relevant accounting period*

Fund return

The overall Fund return over the accounting period has been calculated as 2.4%.

Capital cost

The capital cost of early retirement occurring in the accounting period is £1,177,100.

Unfunded benefits

A valuation of unfunded benefits may be carried out from first principles using individual member data or it may be approximated by rolling forward an earlier valuation, allowing for cash flow information and changes in assumptions, in the same manner as per a valuation of funded benefits.

A full valuation of unfunded benefits should be carried out at intervals not exceeding three years.

The last full valuation of the Employer's unfunded enhanced teachers' benefits was carried out as at 31 March 2012.

The information supplied for the purposes of preparing the Employer's IAS 19 disclosures in this report is as follows:

Summary of enhanced teachers' unfunded data as at 31 March 2012

Type	Number	Total pension (£000s)**
Pensioners	122	219.3
Dependants	4	3.6
Total	**126**	**222.9**

*** These figures include the April 2012 pension increase.*

Note that the calculation of unfunded pensions paid over the year has been complicated by the conversion of CAY pensions as at 1 October 2011. The unfunded pensions paid figure has been calculated as the total pension paid in respect of Teachers' pensions (£0.21M) plus allowance for 6 months of CAY pension payments (£1.39M). We understand that the pension paid in respect of funded benefits in the table on the previous page includes payments in respect of converted CAY pensions from 1 October 2011.

Appendix B – Explanation of methods and disclosed figures

Benefits valued

This work relates to benefits payable from the Fund (as currently set out in LGPS Regulations) and related arrangements. These benefits include retirement pensions and benefits on members' death and leaving service.

To value the risk benefits (i.e. ill-health and death in service benefits) we have used the projected unit method. This is the same method as was used in the previous accounting period, where figures were provided by us.

Where we have been asked to calculate an unfunded defined benefit obligation e.g. discretionary pensions benefits being paid under the Local Government (Early Termination of Employment) (Discretionary Compensation) Regulations (generally referred to as Compensatory Added Years), these have been valued separately and shown as a separate disclosure note.

We have allowed for only those settlement or curtailment events set out in Section 1. We have not been informed or are aware of any other events that should be taken into account, and so have made no allowance in our calculations. Please let us know if any events, judged to be material, have taken place. Examples of curtailments and settlements are significant redundancy exercises, bulk transfers or significant outsourcing exercises. IAS 19 states that curtailment gains/losses should be recognised when the entity is demonstrably committed to reduce the number of employees covered by the scheme. Settlements should be recognised when an entity enters into a legally binding agreement that eliminates all future legal or constructive obligations for part or all of the benefit.

Assumptions

IAS 19 sets out the following general requirements for the setting of assumptions:

- Actuarial assumptions shall be unbiased and mutually compatible; and
- Financial assumptions shall be based on market expectations, at the accounting date, for the period over which the obligations are to be settled.

Furthermore IAS 19 requires that the assumed discount rate is determined by reference to market yields at the accounting date on high quality corporate bonds and in countries where there is no deep market in such bonds, the market yield (at the accounting date) on government bonds shall be used.

Under IAS 19 the assumptions are ultimately the responsibility of the Employer. Any assumptions that are affected by economic conditions (financial assumptions) should reflect market expectations at the accounting date.

IAS 19 requires that the expected return on assets has to be based on assumptions about the expected long-term rate of return. These assumptions do not affect any of the figures in the disclosures for this accounting period, but they do affect the IAS 19 charges to Surplus or Deficit on the Provision of Services for the coming period, which will not be disclosed until the next accounting date.

The Employer has received advice in relation to the key financial and demographic assumptions in a document which is cited as a related document on page 1 of this report, and should be read in conjunction with the advice given in this report. The assumptions we have used are summarised in the draft disclosure in Section 2.

Method and calculations

Our calculations are based on the liabilities and notional assets determined for the Employer in the most recent actuarial valuation of the Fund on a going concern basis. The valuation results are then adjusted by:

- Allowing for the IAS 19 financial assumptions;
- Rolling forward the liabilities to the accounting date in an approximate manner using:
  - Contribution data for individual employers to determine the approximate pensionable pay over the accounting period which is, in turn, used to calculate the cost of benefits earned in that period (the current service cost); and
  - Other cash flows either deduced by estimation from the valuation data itself using the assumptions applicable to IAS 19 over that period or data for the individual employers supplied by the Fund Administering Authority.
- Rolling forward the notional assets attributed to the Employer in a manner consistent with that used for the liabilities, but in addition using the Fund's investment returns over the accounting period. These returns may be estimates - further information is set out in the introduction to this report.

As with all roll-forward methods, the results becomes less accurate the further in time the figures are rolled-forward.

Even though the assets and liabilities have been rolled forward since the previous valuation of the Fund in a consistent manner, the results shown in Section 2 may differ from the results if a full actuarial valuation was performed at the end of the accounting period, as they only allow for known material experience items that affect the financial position of the Fund such as:

- Investment returns (albeit this may be an estimate);
- Changes in financial assumptions; and
- Pension increases.

There is no allowance for any other items that might affect the financial position (e.g. unexpected membership movements or salary increases above those assumed), unless specified in the introduction to this report.

It is therefore difficult to precisely quantify the level of accuracy of the roll-forward method. As a broad indication, we do not expect the defined benefit obligation / liabilities to differ from a full valuation at the accounting date by more than 1% - 2% p.a. over the period of the roll-forward, assuming experience is broadly in line with our assumptions.

If not already allowed for, the accuracy of the figures calculated can be improved by using full cash flow information and by making allowance for curtailments, settlements and past service costs.

Further information on the approach is set out in the Terms of Reference.

Assets attributable to the Employer

The Fund is a multi-employer scheme. The assets of the Fund are not formally allocated to any employer within the Fund, and are not the legal property of any employer within the Fund. For the purpose of completing the calculations for each triennial valuation of the Fund, the actuary calculates a notional allocation of assets for each employer. This allocation is purely notional and does not confer ownership of any assets on any employer. Traditionally, these notionally allocated asset values have been used for the purposes of IAS 19 accounting, and this is the basis of the asset values included in this report.

Data provided for actuarial valuations does not always contain adequate cash flow data for notional asset shares to be rolled forward reliably from one valuation to the next. When this cashflow data is not available, an alternative method is used which examines the sources of profit and loss for each employer. For this reason, notional asset values for individual employers produced at successive triennial valuations may not agree with values calculated for the purposes of IAS 19 using a roll forward based on cash flows.

Employers who are grouped with other employers at triennial valuations for the purpose of setting contribution rates “share” experience with other employers in the group. It is not practical to take into account this sharing of experience with other employers in the IAS 19 figures. The notional assets for these grouped employers were determined at the last valuation by allocating a share of the notional assets of the group as a whole.

Appendix C – Frequently asked questions

Funding position

What are the assets?

The assets shown are an estimate of the Employer's notional share of the total Fund assets at the accounting date. The method of determining the assets is set out in Appendix B. The Employer's notional share of assets is assumed to be invested in the same proportion as the Fund as a whole within the different asset classes.

What is the defined benefit obligation?

The defined benefit obligation is the estimated present value (using the IAS 19 assumptions) of the benefit payments due from the Fund in respect of the Employer after the accounting date, valued using the projected unit method. Allowance is made for expected future increases in pay and pension. The liability value represents the amount of money that needs to be set aside now to meet the benefits that the Employer is committed to provide for service up to the accounting date on the basis of the assumptions used.

Where can I get the previous period's comparative figures from?

Employers can find prior period comparator figures alongside this period's figures, in Section 2 of this report. Asset figures are based on the notional current bid price of the assets.

What are unfunded benefits?

Unfunded benefits are pensions arising from additional service awarded on a discretionary basis e.g. Compensatory Added Years ("CAY") pensions. Such benefits are usually charged to the Employer as they are paid. Other unfunded benefits include gratuities and enhanced teachers' pensions recharged to the Employer, and pensions in respect of some other public sector pension schemes.

This is in contrast to funded pensions, which are paid for out of the assets of the Fund, and which the Employer has responsibility for funding by paying contributions to the Fund.

Do I need to include unfunded benefits in my IAS 19 figures?

IAS 19 states that all retirement benefits should be accounted for when the member earns the benefit and not when it is paid by an employer. Therefore when a member retires and is awarded an unfunded pension the value of all future payments must be taken into account at the point of retirement. Pension payments made by an employer are regarded for the purposes of IAS 19 as pension contributions. However, unfunded benefits may be allowed for elsewhere in the Employer's accounts, so they must make sure that these liabilities are not double counted. The new style IAS 19 disclosure requirements are not clear with regard to whether disclosure of unfunded benefits need to be separated from the funded benefits. We have, however, produced a separate disclosure of these benefits if applicable.

Pension cost recognised in Profit & Loss Account / Surplus or Deficit on Provision of Services

Why does the pension cost change from period to period?

This is made up of three main elements, the "current service cost" (the value of the standard benefits promised to members over the last accounting period, after offsetting the members' contributions, i.e. it is the Employer's share of the cost), "interest cost" less the "expected return on the assets".

However the pension cost is also affected by:

- Any past service costs that are incurred (e.g. benefit improvements, augmentations) - these will increase the charge to net services cost;
- Any profits or losses on any curtailments or settlements that took place during the period (e.g. bulk transfers or outsourcing exercises).

See the questions below for explanations of some of the items that make up the pension cost.

What is the current service cost?

The current service cost represents the actuarially calculated present value of the pension benefits earned by the active employees in the period, net of the contributions paid by employees in respect of those benefits. We use contribution information, where provided, to estimate the salary roll over the period which in turn is used to estimate the cost of benefits being earned over the period. Using contributions paid improves the accuracy of the current service cost figure compared to estimating the figure based on pensionable pay figures provided at the last formal actuarial valuation of the Fund.

It should be noted that, for employers which do not admit new employees to the Fund, use of the projected unit method to value liabilities will mean that the current service cost increases as a percentage of payroll as the members approach retirement.

Why is the current service cost different from the contributions paid by the Employer?

The assumptions used for IAS 19 are usually different to those used for the last actuarial valuation of the Fund and so the cost of benefits being earned will be different to that assessed as part of the actuarial valuation. In addition, the actual contributions paid normally include both the cost of future benefits being earned and an allowance to pay off any past service deficiency (or a reduction for any surplus). The current service cost just includes the cost of future benefits.

Contributions may be higher than the current service cost if deficiency is being paid off, or the IAS 19 assumptions are less conservative than the assumptions used for the last valuation. Contributions may be lower than the current service cost if IAS 19 assumptions are more conservative than the ongoing valuation assumptions, or if contributions have been reduced due to a surplus.

What is the past service cost?

This represents the value of additional benefits granted which vest over the accounting period. This includes items such as provision of enhanced benefits on retirement or any discretionary benefits granted.

If the Employer awarded benefit augmentations in respect of funded benefits during the period and paid additional contributions (i.e. strain on fund special contributions) into the Fund to fund these awards then, unless we have been directed to undertake a valuation of the benefits arising, the cost of the benefit augmentations has been calculated as the sum of all of these additional contributions.

Under IAS 19 the cost should be taken as the full cost when the retirement occurs. Some of the contributions paid, however, may relate to retirements in previous periods, or costs in relation to the current period may not yet have been paid. Therefore the contributions made may not relate to the cost incurred for the current accounting period. However, where these payments are only a small part of the total cost of benefits, we believe that this method is accurate enough for the purposes required. Employers may, however, want to provide us with more accurate information if they and their auditor consider it necessary.

Where the value of unfunded benefits has been disclosed, the capital cost of benefits awarded in the accounting period has been allowed for in the past service cost figure.

In the previous accounting period the past service cost also comprises a negative amount reflecting the gain as a result of the change in the measure of pension increases in payment and in deferment from RPI to CPI following the government's announcement on 22 June 2010. The gain arose as a result of CPI increases being expected to be lower than RPI increases over the long term, and consequently the value of the benefits earned to date has been reduced.

What is the expected return on assets?

This is the investment return expected to be earned on the notional share of assets at the start of the accounting period, based on the assumptions set at the start of the period less the expected level of administration expenses due over the period. For an employer where the net cash-flow over the period is small relative to the assets the figure will approximate to the product of the 'Expected return on assets at the start of the period' and 'the assets at the start of the period'.

What is the interest cost?

This represents the unwinding of the discounting on the value placed on the benefits over the period, as they become closer to being paid. For an employer where the net cash-flow over the period is small relative to the defined benefit obligation the figure will approximate to the product of the 'discount rate at the start of the period' and 'the defined benefit obligation at the start of the period'.

Other Comprehensive Income and Expenditure

What is the experience gain / loss on the liabilities?

This shows the impact of actual experience differing from the accounting assumptions, such as pension increases and salary increases differing from those assumed, and unexpected membership movements.

Between valuations, when the roll forward method is used, this item will be small as we assume that most experience items are in line with the assumptions. Every three years the Fund will undertake a formal actuarial valuation which will take into account experience over the previous three years. IAS 19 figures will be updated to reflect the most recent actuarial valuation and, as a consequence, most experience gains and losses appear in the accounting period following completion of the formal valuation.

What is the change in assumptions?

This shows the impact on the liabilities of any changes in the financial and demographic assumptions since the previous accounting date.

The financial assumptions are updated at each accounting date to allow for changes in market conditions.

Demographic assumptions are generally updated once every three years during the triennial valuations of the Fund although some changes may be allowed for annually if it is considered material.

What is included in contributions paid?

Contributions paid should equal actual Employer contributions paid in respect of funded liabilities, including any strain on fund contributions made, plus payments in respect of unfunded liabilities.

Payments in respect of unfunded liabilities may be estimated from the unfunded pension payroll as at the accounting date, depending on the format of the data provided.

Please see Appendix A for a breakdown of how the contributions paid figure is made up.

What should I do if the contributions paid on the disclosure provided are not the same as the actual contributions I have paid?

The discrepancy may be because cash-flows for less than the full 12 months were provided in order to enable us to produce figures in the timescales required (or, possibly, because no cash-flows were provided). This discrepancy could potentially affect almost every figure in the disclosure.

We can revise the disclosure to take account of the actual contributions paid but we recommend that the Employer agrees with their auditor that this is necessary on the grounds of materiality. Generally, we would only expect the auditor to require this where the difference is relatively large or is because of significant strain on fund contributions being paid.