London Pensions Fund Authority Pension Fund

London Borough of Bromley
Cessation Valuation as at 8 April 2013

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Public Sector Consulting

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1 Introduction

We have been instructed by London Pensions Fund Authority, the administering authority for the London Pensions Fund Authority Pension Fund (“the Fund”), to undertake a valuation of the assets and liabilities within the Fund attributable to London Borough of Bromley following their participation within the Fund which ceased on 8 April 2013.

This report is provided for use by London Pensions Fund Authority as Administering Authority to the Fund; it may be shared with London Borough of Bromley or other interested parties but it does not constitute advice to them.

The London Pensions Fund Authority Pension Fund participates within the Local Government Pension Scheme (“the LGPS”). The LGPS is a defined benefit statutory scheme, administered in accordance with the Local Government Pension Scheme (Administration) Regulations 2008, as amended; this actuarial valuation of the funding position has been carried out as required under Regulation 38(1).

This advice complies with all Generic Technical Actuarial Standards and the Pensions TAS issued by the Financial Reporting Council.

A previous version of this report was issued on 11 June 2013 and the only update is to add in the Appendix, which sets out post-cessation payment options.

2 Valuation Data

Membership Information

Membership data has been supplied by the Administering Authority as at 8 April 2013 and is summarised as follows:

Pensioner Members	Number	Pension £000's	Average Age
Male	7	110	79
Female	6	54	72
Total	13	165	76

Fund Assets

The assets are held in respect of the London Pensions Fund Authority Pension Fund and not separately identifiable for any employer within the Fund. Assets are apportioned at each actuarial valuation according to each employer's own experience and payments to and from the Fund.

We have based our calculations assuming that the assets attributable to London Borough of Bromley as at 8 April 2013 are £1,591k – this is the value of the assets calculated as at 31 March 2010 as part of the formal actuarial valuation and rolled forward allowing for cashflows to and from the Fund and investment returns earned by the Fund (estimated where necessary) in the period to 8 April 2013.

3 Valuation Process

The purpose of this valuation is to assess the deficit, or surplus, attributable to London Borough of Bromley as at 8 April 2013.

All members have left service and the valuation approach will depend on whether there is a guarantor who will take on responsibility for the pension obligations, as outlined in the two scenarios below.

Employer Ceasing – Full Cessation

Under this scenario London Borough of Bromley will no longer participate in the Fund and no other employer in the Fund is willing to take on, or underwrite, any of the residual liabilities of London Borough of Bromley in future.

Under this scenario it is necessary to establish the funding position of the residual liabilities on a “minimum risk” basis. This is similar to adopting a basis that would be used to secure the liabilities from an insurance company.In practice there is no scope for the liabilities to be bought out via such an arrangement but it represents one measure of the cost of funding the liabilities,which reduces the risk of further costs having to be met by other employers in the Fund in future.

Guarantor

If there is a guarantor in place, then the guarantor will become responsible for the future funding of the pension obligations. Under this scenario, the long-term funding assumptions can be used.

4 Actuarial Assumptions

Future Price Inflation

The base assumption is the future level of price inflation. This is derived by considering the difference in yields from conventional and index linked gilts. This measure has historically overestimated future increases in RPI and so we have made a deduction of 0.25% to reach the RPI assumption of 3.3%. As future pension increases are to be based on CPI rather than RPI, we have made a further assumption about CPI which is that it will be 0.5% per annum below RPI, i.e. 2.8%.

Accrued Benefit Increases

As of 8 April 2013 there are no active members. Accrued benefits will increase in line with inflationary pension increases.

Future Investment Returns/Discount Rate

To determine the value of accrued liabilities we have to discount future payments to and from the Fund. There are a number of different approaches that can be adopted in deriving the discount rate to be used. FRS 17, for example, requires that the discount rate is related to yields from corporate bonds.

In our view the discount rate that is adopted should depend on the purpose of the valuation and the overall funding objectives.

Where the employer is ceasing to exist and no other employer is available to underwrite any shortfall in actual equity returns compared to what was anticipated, an appropriate approach to determine the value of liabilities on a "minimum risk" basis would be to use gilt yields as the discount rate.

Where the employer is continuing as with an ongoing valuation then the Regulations require the actuary to adopt methods and assumptions that "produce as stable employer contributions as possible". In our view therefore to help achieve this objective the discount rate used in an ongoing valuation should reflect the expected investment return to be achieved from the underlying investment strategy with some allowance for the expected outperformance of equities over bonds.

In determining the assumption to be made in relation to future investment returns it is necessary to consider the investment strategy of the Fund and the resulting expected future return earned by the assets. The investment strategy of the Fund is to invest the assets in a mix of equities, bonds and property.

Redemption yields from bonds (gilts, index-linked gilts and corporate bonds) give an indication of the future rates of return from these asset classes. There is, however, no comparable market indicator to derive the markets expected future return from investing in equities or property at any particular point in time. We have adopted a discount rate that is consistent with the approach used for the 2010 valuation.

The yields, although derived the same way, may be smoothed around the valuation date rather than being on the exact cessation date i.e. ongoing cessation scenario. Where the liabilities are measured on smoothed assumptions we need to adjust them so that they are consistent with the market value of assets in order to calculate any deficit. The relevant adjustment factor at the cessation date was 99%.

The financial assumptions as at 8 April 2013 used for the various scenarios are as follows:

	Full Cessation 08 April 2013	Employer Merger / Ongoing Cessation 08 April 2013
Inflation	2.8%	2.8%
Discount Rate		
Active members	2.9%	6.4%
Non active members	2.9%	6.4%
Accrued Benefit Increases		
Active members	2.8%	4.3%
Non active members	2.8%	2.8%

For a full cessation we use spot yields rather than smoothed values.

Demographic/Statistical Assumptions

For the purpose of this valuation exercise it is appropriate to use the method and assumptions consistent with the 2010 actuarial valuation, updated where necessary to reflect market conditions. The financial assumptions used for calculations on an ongoing basis are consistent with the 2010 actuarial valuation.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in our 2010 actuarial valuation report

5 Results

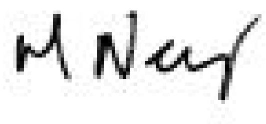
The following table sets out the valuation results for the section of the Fund attributable to London Borough of Bromley as at 8 April 2013 using the data and scenarios described above.

	Full Cessation £000's	Cessation with Guarantor £000's
Active Members	-	-
Deferred Members	-	-
Pensioners	2,961	2,016
Total	**2,961**	**2,016**
Assets	**1,591**	**1,591**
Surplus/Deficit	**(1,370)**	**(425)**
Funding Level	**54%**	**79%**

As we see there is a deficit under the Full Cessation scenario. If this scenario is applicable, a payment of £1,370k would be required from London Borough of Bromley to the Fund.

Finally, please note that we have not included any allowance for unfunded benefits which may have been awarded by London Borough of Bromley in the past. If there are unfunded pensions currently in payment we would expect the London Borough of Bromley to be charged for these whilst they continue to participate in the fund, and the members are still alive. On a cessation event, if there are no other arrangements put in place (e.g. a substitute employer who is willing to continue the payments), then we would expect the payments to the members to stop.

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



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Appendix 1 Payment Options

We understand that the London Borough of Bromley may be given the option to stay in the Fund, allowing the deficit calculated in the body of this report to be funded over a number of years and we have considered two main scenarios. In both cases, a legal agreement setting out the payment plan would be required to allow the London Borough of Bromley to continue to pay contributions to the Fund.

Payment plan with no set exit date

If the London Borough of Bromley agree to remain liable for all liabilities and the deficit in the London Borough of Bromley section of the Fund until all liabilities have been extinguished, then it is appropriate to fund for these on an ongoing basis.

This approach would essentially put London Borough of Bromley in a similar position to the other London Boroughs in the LPFA Pension Fund, and the standard deficit recovery period of 17 years would be adopted. If experience is as expected, then Bromley would be 100% funded on an ongoing basis in 17 years' time but they would continue in the Fund beyond this date and be responsible for any future deficit.

The table below shows the contributions that would be required over the next 3 years. These would be expected to increase at 4.5% per annum but subsequent contributions will be set following each triennial valuation of the Fund. It's worth reiterating that even when the London Borough of Bromley section of the Fund reaches a funding level of 100%, a deficit may arise in the future that London Borough of Bromley would be responsible for funding. Continuing employers would be set contributions that increase at 4.5% per annum but the below shows both this option and level payments. The payments would be set until the end of the next valuation cycle and then reviewed at each actuarial valuation.

Deficit recovery period	17 years	
Payment type	Flat	Increasing
Year	£000's	£000's
2013/14	40	29
2014/15	40	30
2015/16	40	32
2016/17	40	33
2017/18	*40*	*35*
2018/19	*40*	*36*
2019/20	*40*	*38*
2020/21	*40*	*39*
2021/22	*40*	*41*
2022/23	*40*	*43*
2023/24	*40*	*45*
2024/25	*40*	*47*
2025/26	*40*	*49*
2026/27	*40*	*51*
2027/28	*40*	*54*
2028/29	*40*	*56*
2029/30	*40*	*59*

Payment plan with an expected end date

Another option would be for the employer to pay the cessation deficit over time so that at the end of the payment plan, the London Borough of Bromley section is fully funded on a minimum risk basis. These payments would also be reviewed at each triennial valuation of the Fund, however, once the deficit has been funded for in full, London Borough of Bromley will have no further obligation to the Fund.

The table below sets out the payments that would be required. We have considered a number of alternative deficit recovery periods in addition to setting a flat rate contribution, or one that increases by 4.5% each year.

Please note that the rates shown from 2017/18 onwards are indicative only and will be revised as part of future Fund valuations.

Deficit recovery period	5 years		10 years		15 years		17 years	
Payment type	Flat	Increasing	Flat	Increasing	Flat	Increasing	Flat	Increasing
Year	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
2013/14	294	264	157	127	112	81	102	70
2014/15	294	275	157	132	112	85	102	74
2015/16	294	288	157	138	112	89	102	77
2016/17	294	301	157	145	112	93	102	80
2017/18	*294*	*314*	*157*	*151*	*112*	*97*	*102*	*84*
2018/19			*157*	*158*	*112*	*101*	*102*	*88*
2019/20			*157*	*165*	*112*	*106*	*102*	*92*
2020/21			*157*	*172*	*112*	*110*	*102*	*96*
2021/22			*157*	*180*	*112*	*115*	*102*	*100*
2022/23			*157*	*188*	*112*	*121*	*102*	*105*
2023/24					*112*	*126*	*102*	*109*
2024/25					*112*	*132*	*102*	*114*
2025/26					*112*	*138*	*102*	*119*
2026/27					*112*	*144*	*102*	*125*
2027/28					*112*	*150*	*102*	*130*
2028/29							*102*	*136*
2029/30							*102*	*142*