

# City of Westminster Pension Fund

Funding update report as at 31 March 2016

Barnett Waddingham LLP

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## Introduction

We have carried out a quarterly monitoring assessment of the City of Westminster Pension Fund (the Fund) as at 31 March 2016. The purpose of this assessment is to provide an update on the funding position.

We assess the funding position on a smoothed basis which is an estimate of the average position over a six month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until three months after the reporting date. The smoothed results are indicative of the underlying trend.

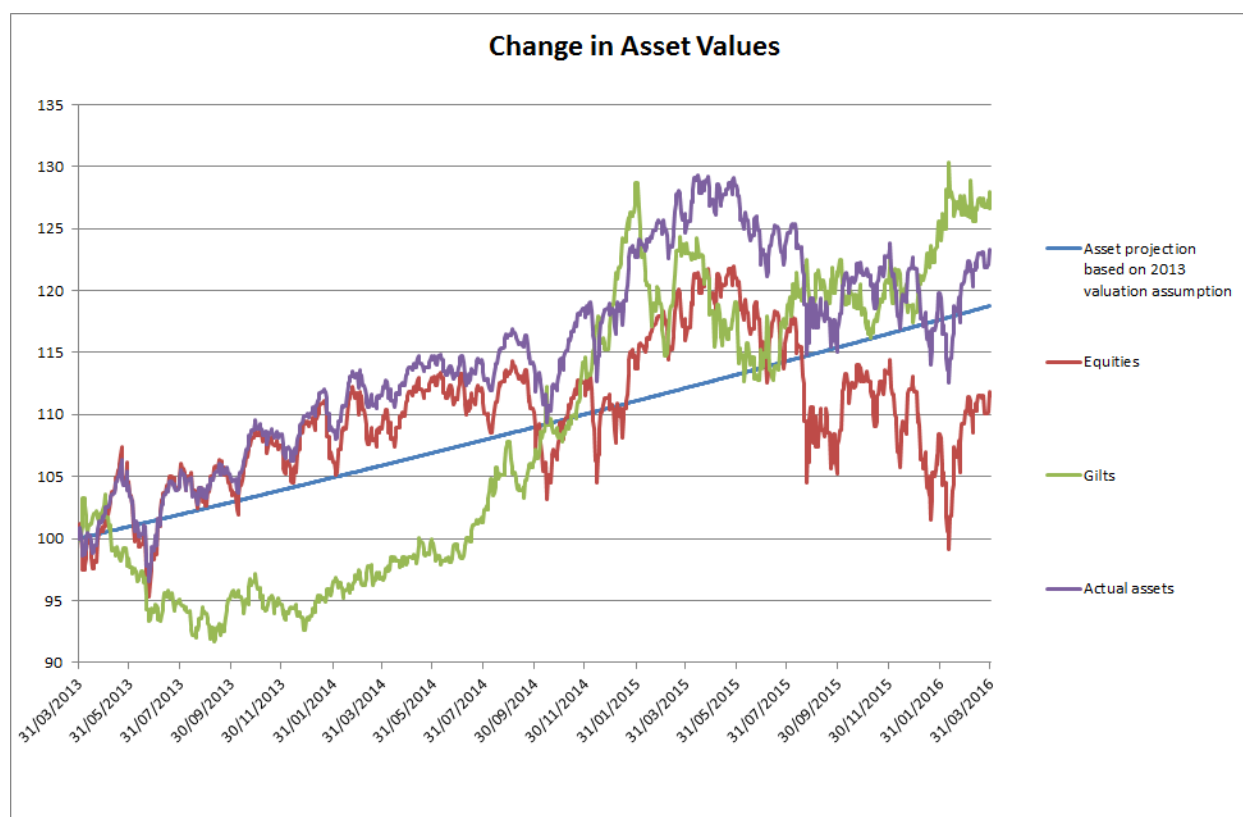
## Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 31 March 2016 is as follows:

Assets (Market Value)	31 March 2016		31 December 2015		31 March 2013	
	£000's	%	£000's	%	£000's	%
UK and Overseas Equities	773,617	73.1%	769,808	72.7%	643,179	73.6%
Bonds	146,427	13.8%	137,443	13.0%	111,092	12.7%
Property	105,810	10.0%	104,783	9.9%	35,787	4.1%
Gilts	26,732	2.5%	26,706	2.5%	49,821	5.7%
Cash and Accruals	5,349	0.5%	20,868	2.0%	34,303	3.9%
<b>Total Assets</b>	<b>1,057,934</b>	<b>100%</b>	<b>1,059,608</b>	<b>100%</b>	<b>874,182</b>	<b>100%</b>

The investment return achieved by the Fund's assets in market value terms for the quarter to 31 March 2016 is estimated to be 0.3%. The return achieved since the previous valuation is estimated to be 22.1% (which is equivalent to 6.9% p.a.).

The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares them with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



As we can see the asset value as at 31 March 2016 in market value terms is slightly more than where it was projected to be at the previous valuation.

## Changes in market conditions – market yields and discount rates

The actual investment returns earned by the Fund will affect the value of the Fund’s assets. The value of the Fund’s liabilities, however, is dependent on the assumptions used to value the future benefits payable. The following table show how these assumptions have changed since the last triennial valuation:

Assumptions (Smoothed)	31 March 2016		31 December 2015		31 March 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	%p.a.		%p.a.		%p.a.	
Pension Increases	2.53%	-	2.61%	-	2.74%	-
Salary Increases	4.33%	1.80%	4.41%	1.80%	4.54%	1.80%
Discount Rate						
<i>Scheduled Bodies</i>	5.78%	3.25%	5.81%	3.20%	5.90%	3.16%
<i>Admission Bodies (in service)</i>	4.53%	1.99%	4.59%	1.98%	4.90%	2.16%
<i>Admission Bodies (left service)</i>	2.77%	0.24%	2.88%	0.27%	3.50%	0.76%

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. The main real discount rate is broadly similar as at the 2013 valuation, maintaining the value of liabilities used for funding purposes.

## Summary of results

The results of our assessment indicate that:

- the current projection of the smoothed funding level as at 31 March 2016 is 78% and the average required employer contribution would be 31.2% of payroll assuming the deficit is to be paid by 2038;
- this compares with the reported (smoothed) funding level of 74% and average required employer contribution of 29.8% of payroll at the City of Westminster Pension Fund funding valuation.

The discount rate underlying the smoothed funding level as at 31 March 2016 is 5.8% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 6.9% p.a.

### SAB comparison model

For illustrative purposes, we have also assessed the funding position using the LGPS Scheme Advisory Board's (SAB) standardised financial assumptions. As part of the 2016 actuarial valuation, we will be required to calculate this funding level and submit it to the SAB so that LGPS Funds can be easily compared with each other. For the purposes of our calculation, we have adopted a 3% real discount rate based on a CPI assumption of 2% p.a.

As at 31 March 2013, we estimate the funding level of the Fund to be 78% on the SAB basis. As at 31 March 2016, this is estimated to have increased to 85%.

Recent announcements have suggested that the SAB real discount rate could move to 2.8%. Based on this, the funding level as at 31 March 2013 would be around 75% and as at 31 March 2016 would be around 82%.

The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

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



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## Appendix 1 Financial position since previous valuation

Below we show the financial position on a smoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures for the previous three months are projected numbers and likely to change up until three months after the reporting date.

Smoothed Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing (% of Payroll)	CARE Ongoing Cost	Past Service Ctbn	Total Ctbn (% of payroll)	Main Discount Rate	Return required to restore funding level (pa)
March 2013	866,938	1,164,198	(297,260)	74%	14.3%	13.3%	16.5%	29.8%	5.9%	7.1%
April 2013	878,910	1,165,568	(286,658)	75%	14.3%	13.8%	13.1%	26.8%	5.9%	7.1%
May 2013	888,642	1,169,568	(280,926)	76%	14.2%	13.7%	12.9%	26.6%	5.9%	7.1%
June 2013	895,688	1,170,718	(275,030)	77%	14.1%	13.5%	12.7%	26.2%	6.0%	7.1%
July 2013	904,339	1,173,403	(269,063)	77%	14.0%	13.4%	12.5%	25.9%	6.0%	7.0%
August 2013	909,690	1,175,518	(265,828)	77%	13.9%	13.3%	12.4%	25.7%	6.0%	7.1%
September 2013	918,777	1,183,051	(264,274)	78%	13.9%	13.3%	12.3%	25.7%	6.0%	7.1%
October 2013	929,362	1,191,805	(262,443)	78%	13.9%	13.4%	12.3%	25.7%	6.0%	7.0%
November 2013	938,213	1,201,055	(262,842)	78%	13.9%	13.4%	12.3%	25.7%	6.0%	7.0%
December 2013	946,872	1,211,047	(264,176)	78%	14.0%	13.4%	12.4%	25.8%	6.0%	7.0%
January 2014	954,969	1,220,108	(265,139)	78%	13.9%	13.4%	14.1%	27.5%	6.0%	7.0%
February 2014	962,658	1,228,794	(266,137)	78%	13.9%	13.4%	14.3%	27.7%	6.0%	7.0%
March 2014	1,004,578	1,236,829	(232,251)	81%	13.9%	13.4%	14.4%	27.8%	6.0%	6.9%
April 2014	1,005,726	1,247,749	(242,023)	81%	-	13.4%	15.8%	29.2%	6.0%	6.9%
May 2014	1,007,188	1,258,014	(250,825)	80%	-	13.4%	16.3%	29.7%	5.9%	6.9%
June 2014	1,009,896	1,238,977	(229,081)	82%	-	12.8%	15.5%	28.3%	6.1%	7.0%
July 2014	1,009,337	1,256,980	(247,642)	80%	-	13.0%	15.2%	28.2%	6.1%	7.0%
August 2014	1,009,990	1,267,542	(257,552)	80%	-	13.0%	15.8%	28.8%	6.0%	7.0%
September 2014	1,009,471	1,277,558	(268,087)	79%	-	13.0%	16.4%	29.4%	6.0%	7.0%
October 2014	1,023,980	1,302,309	(278,329)	79%	-	13.2%	17.1%	30.4%	5.9%	7.0%
November 2014	1,034,712	1,316,533	(281,820)	79%	-	13.3%	17.7%	31.0%	5.9%	6.9%
December 2014	1,040,341	1,330,754	(290,413)	78%	-	13.4%	18.4%	31.8%	5.9%	6.9%
January 2015	1,078,282	1,357,915	(279,633)	79%	-	13.7%	17.5%	31.2%	5.8%	6.8%
February 2015	1,091,181	1,371,376	(280,195)	80%	-	13.8%	17.9%	31.7%	5.8%	6.7%
March 2015	1,104,985	1,374,723	(269,739)	80%	-	13.7%	17.6%	31.3%	5.8%	6.8%
April 2015	1,106,355	1,376,996	(270,640)	80%	-	13.6%	17.4%	31.0%	5.9%	6.9%
May 2015	1,105,768	1,385,201	(279,433)	80%	-	13.5%	17.8%	31.4%	6.0%	7.0%
June 2015	1,103,539	1,409,858	(306,319)	78%	-	13.9%	19.0%	32.8%	5.9%	7.0%
July 2015	1,075,550	1,399,015	(323,464)	77%	-	13.4%	19.9%	33.3%	6.0%	7.2%
August 2015	1,065,910	1,403,042	(337,132)	76%	-	13.3%	20.5%	33.8%	6.1%	7.3%
September 2015	1,054,032	1,415,081	(361,048)	74%	-	13.3%	21.6%	34.9%	6.1%	7.4%
October 2015	1,045,333	1,393,777	(348,444)	75%	-	14.1%	20.9%	35.0%	6.1%	7.4%
November 2015	1,037,905	1,376,532	(338,627)	75%	-	13.9%	20.2%	34.0%	5.9%	7.1%
December 2015	1,044,745	1,374,665	(329,920)	76%	-	14.0%	19.4%	33.4%	5.8%	7.0%
January 2016	1,044,640	1,365,542	(320,902)	77%	-	14.0%	18.7%	32.7%	5.8%	7.0%
February 2016	1,039,867	1,350,476	(310,610)	77%	-	13.9%	18.0%	31.9%	5.8%	7.0%
March 2016	1,036,023	1,320,585	(284,562)	78%	-	13.8%	17.3%	31.2%	5.8%	6.9%