

London Borough of Hammersmith and Fulham Pension Fund

Early Retirements Report 2012-13

Introduction

We have been requested by the London Borough of Hammersmith and Fulham (“the Administering Authority”) to undertake a review of early retirements over the year to 31 March 2013 within the London Borough of Hammersmith and Fulham Pension Fund (“the Fund”), and advise whether certified contribution rates for any of the Fund’s participating employers should be revised as a result.

This report complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

Data

We have been provided with data from Capita (as administrators to the Fund) of early retirements within the year to 31 March 2013 in order to carry out the review. We have not carried out any data validation checks on this data. The data categorised by type of retirement is summarised below.

Type of Retirement	Number	Total Pension in Payment
Deferred to Pensioner	102	345,394
Ill Health Retirement	13	98,691
Age Retirement	1	1,534
Voluntary Retirement	36	215,022
With Employer Consent	3	12,321
Flexible Retirement	6	76,150
Redundancy Retirement	42	424,090
Late Retirement	23	139,688
Total	226	1,312,889

In reviewing whether the certified contribution rate for any of the employers within the Fund should change in light of these early retirements, we have only considered ill-health retirements.

When an employee or deferred member retires through normal age retirement, the Fund does not incur a cost in excess of what has been allowed for in the actuarial valuation.

When an employee retires early on voluntary grounds or via flexible retirement, the pension is actuarially reduced and so is expected to be close to cost neutral on the funding basis. Similarly, when the employee retires later than 65 then their pension is actuarially increased and so is also expected to be close to cost neutral on the funding basis.

When an employee retires on redundancy or efficiency grounds, or where the employer has given their consent for the actuarial reduction to be waived, admitted bodies are required to immediately fund the additional cost separately and so these retirements can also be ignored within this review.

When an employee retires on ill health grounds there are three tiers of benefit based on how likely the member is to be capable of obtaining gainful employment after they leave service of the employer. Dependent on tier, the member

may receive an enhancement to their pension and although some allowance is made in the employer's contribution rate set at triennial valuations, these allowances may not be sufficient if there are more ill health retirements than expected and the Fund can enact a change to the contribution rate if the Fund actuary considers it necessary.

Therefore we have only considered ill-health retirements in our analysis.

Assumptions

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

Financial Assumptions	% per annum
Discount Rate	6.7%
Rate of Pay Increases	5.0%
Rate of Pension Increases	3.0%

These assumptions are in line with the 2010 actuarial valuation of the Fund. The derivation method can be found in the formal valuation report. Demographic assumptions are also in line with the 2010 actuarial valuation of the Fund.

Review of Retirements

Calculation of Allowance

For each employer within the Hammersmith and Fulham Pension Fund, we allow for the expected ill health retirement experience in each year as part of the future service cost.

Where there are more retirements than expected, it may be prudent to ask for additional funding. The Regulations require that local authorities should monitor the number of ill-health retirements arising over each Fund year and refer the position to the Actuary if numbers exceed the allowed levels.

It is more relevant to the funding position to consider the expected amount of pension (and the value of that expected pension) that would come into payment as a result of ill-health retirement, rather than just the number of retirements.

We have compared the funding cost of the total ill-health pension coming into payment with the value of the expected pension allowance already made through the future service cost, for each employer. If this is breached, we may consider seeking payment from the Employer through a revised rates and adjustments certificate, rather than allowing the cost to be picked up at the next funding valuation.

Review of Retirements

The table below summarises the ill-health retirement pensions that have come into payment in the year from 1 April 2012 to 31 March 2013.

Employer Code	Employer	Number of IH retirements in 2012/13	Pension in payment
80	London Borough of Hammersmith and Fulham	11	90,028
92	Hammersmith and Fulham Homes	1	6,463
835	Turners Cleaning	1	2,199
Total		13	98,691

For each of these members, we have estimated the cost of the ill health retirement to be the value of post ill-health pension and lump sum **less** the value of pre ill health accrued pension and lump sum, calculated on the assumptions stated above.

We have then summed these for each employer and allowed for the value of the expected ill-health pension being recovered through the future service cost. We can then decide whether this excess cost is large enough to consider revising the employers' contribution rates, based on the recovery period remaining as at 31 March 2013.

We have shown the current contribution rates, and suggested new contribution rates as a result of the excess ill-health costs below.

Employer Code	Employer	Current Rate 13/14	Suggested New Rate 13/14
80	London Borough of Hammersmith and Fulham	23.3%	no change
92	Hammersmith and Fulham Homes	23.3%	no change
835	Turners Cleaning	19.0%	no change

London Borough of Hammersmith and Fulham and Hammersmith and Fulham Homes

Hammersmith and Fulham Homes are pooled with the London Borough of Hammersmith and Fulham and so for the purposes of this exercise we can treat them as one employer.

Although, more ill-health pension has come into payment than allowed for in the contribution rates, the increase required is very small and therefore not material. The impact of the ill-health retirements will be taken into consideration as part of the actuarial valuation as at 31 March 2013.

Turners Cleaning

Our estimate of the excess cost of the ill health retirement for Turners Cleaning, measured as an addition to the contribution rate as a percentage of payroll is 0.9% per annum, which takes into consideration the length of recovery period discussed below.

The Fund's admission agreement with Turners Cleaning is due to cease on 30 September 2013 with the active members transferring to a new employer within the Fund. The responsibility for funding the deferred and pensioner members will return to the London Borough of Hammersmith and Fulham although extra funding will be required from Turners Cleaning on exit if the section is found to be less than 100% funded on the ongoing basis.

We produced an indicative cessation valuation for Turners Cleaning as at 31 March 2013 which revealed an estimated ongoing funding level of 101%, although various data estimates were made in order to produce that valuation. Turners

Cleaning are currently paying a contribution rate of 19% of payroll and this amount includes an allowance of approximately 3% per annum for the deficit measured at the 2010 funding valuation.

Therefore, although the ill health retirement may have reduced the funding level slightly, we believe there is sufficient margin within the current contribution rate that it is likely that the contract will be fully funded at exit on 30 September 2013.

Conclusion

As a result of this review, we don't recommend any changes to the current contribution rates.

We would be happy to answer any questions in relation to this report.

The image shows two handwritten signatures in blue ink. The signature on the left is 'A Short' and the signature on the right is 'R McGee'.

Anna Short FFA
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Barnett Waddingham LLP

Roisin McGee FFA
Actuary