London South Bank
University

	PAPER NO: AC.47(12)	
Board/Committee:	Audit Committee	
Date:	27 September 2012	
Paper title:	Briefing note on assumptions used for the LSBU FRS17 report at 31/7/12	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommend that the committee approves the assumptions made by the LPFA scheme actuaries, Barnet Waddington, for FRS17 disclosures	
Aspect of the Corporate Plan to which this will help deliver?		
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	The University's auditors, Grant Thornton	

Summary

1. As part of the University's year end process, Audit Committee is required to approve the assumptions made by the LPFA scheme actuaries for the University's FRS17 report at 31/7/12.

Key LSBU Financial assumptions are as follows:

	31/7/12	31/7/11
RPI increases	2.6%	3.5%
CPI increases	1.8%	2.7%
Salary increases	3.5%	4.5%
Pension increases	1.8%	2.7%
Discount rate	3.9%	5.3%

Rate of inflation

2. The inflation rate assumed by Barnett Waddingham is derived from the difference between conventional gilt yields and the yields on index-linked gilts using data published by the Bank of England. As this measure has tended to overestimate future increases the implicit rate has been reduced by the actuaries by 0.25% to produce an RP rate of 2.6%.

   As future pension increases are expected to be based on CPI rather than RPI, the actuaries have made a further assumption that CPI will be 0.8% below RPI, i.e. 1.8%

Discounting rate

3 The Discount rate is the yield on the iBoxx AA rated over 15 year corporate bond index at the 31/7/12, which has been chosen by the actuaries to meet the requirements of FRS17.

Although the average time to payment of the 15 year bond index is shorter than the average time to payment of pension benefits, the actuaries have chosen to use this index rather than a single longer term bond as the reference point in order to average out characteristics of specific bonds. This is consistent with the approach in 2011.

The actuaries have included further analysis and explanation on p7 of the FRS 17 report at 31 July 2012.

Salary increases

4 For 2012 the base for salary increases is as per the 2010 triennial funding valuation – 4.5% equal to RPI +1%. In addition, they have made an allowance for Government plans to cap public sector pay up to 2015 and have recommended that employers in the LPFA fund assume pay increases will be 0.9% above RPI – i.e. 3.5%. Future financial forecasts currently assume 1% pay award to 2014/15 which seems prudent given the current financial uncertainty. However, it also seems reasonable to assume over the medium to long term that salary increases will at least keep pace with inflation and hence the assumption of 3.5% is agreed and considered prudent.

Mortality

5 The mortality assumption is that the life expectancy from age 65 for members retiring today is 20.8 years for males and 23.8 years for females and for members retiring in 20 years time 22.8 years (males) and 25.7 years (females). This is based on Club Vita analysis which provides for a rate of improvement of 1% per annum and is consistent with previous year.

Recommendation

6 Audit Committee is requested to note the assumptions made by the scheme actuaries. This matter will be considered further by the University's auditors, Grant Thornton, in their management letter at November Audit Committee.