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Schedule of Results - Contribution Rate

The advice in this schedule is intended for London Borough of Tower Hamlets as the Administering Authority to London Borough of Tower Hamlets Pension Fund (the 'Fund'). The Administering Authority may share this report with the ceding employer and the Scheduled Body. The report has been prepared in my capacity as an Actuary to the Fund and is solely for the purpose outlined below. It has not been prepared for any other purpose and should not be so used. It must not be shared with any third party without our prior written consent. This document should be read in conjunction with the report entitled "Contribution Rate Assessment for an Academy – Method, Assumptions & Limitations".

The calculations of the results summarised in this paper are valid only for the calculation date shown. If the date of financial assumptions shown below is prior to the transfer date, the calculations will need to be reviewed and updated to reflect market conditions and confirmed transferring membership data on the date the Academy joins the Fund. In particular, the initial asset allocation will need to be updated to reflect market conditions and the funding level of the ceding employer at the transfer date.

Contribution rates exclude any further sums required to meet the cost of non-ill-health early retirements, which will be assessed individually by the Administering Authority using methods and assumptions specified by us from time to time. As there is an allowance for ill-health retirements in the regular employer contribution rate, ill-health early retirements may be monitored and the Academy may be asked to pay additional contributions if it has worse than anticipated experience.

London Borough of Tower Hamlets Pension Fund	
Fund	
Administering Authority	London Borough of Tower Hamlets
Ceding Employer	London Borough of Tower Hamlets
Name of Employer	Old Ford/Culloden Schools Academy Trust
Type of Employer within Fund	Scheduled Body
Calculation Date	1 April 2013
Results Included:	
Contribution Rate for Employer	Yes
Value of Initial Asset Allocation for Employer	Yes
Assessment of Potential Redundancy Bond Amount	No
Assessment of Additional Risks for Bond Amount	No
Estimate or Final Assessment	Estimate

The following tables summarise the results of our calculations and note some main assumptions. Please refer to the summary of assumptions in this paper and in the accompanying document, "Contribution Rate Assessment for an Academy – Method, Assumptions & Limitations" for full details.

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Contribution Rate

Assumptions used for the Assessment of the Contribution Rate	
Date of Financial Assumptions	14 January 2013
Pre-retirement Discount Rate	4.60% p.a.
Post-retirement Discount Rate	4.60% p.a.
Expected Future Salary Increases	4.70% p.a.
Expected Future Pension Increases	2.70% p.a.
Calculation Date	1 April 2013
Assumed Future Life Expectancy	2010 Valuation Assumptions
Assumed Age at Retirement for any Past Service at Date of Commencement	Rule of 85 for those born prior to 31 March 1960 and protected under current regulations, 65 for all other members.
Assumed Proportion of Members Giving Up Pension to Take Maximum Tax-Free Cash	50% Pre April 08 and 75% Post April 08
Other Demographic Assumptions	2010 Valuation Assumptions
Scheme Benefits for Future Benefit Accrual	2008 Scheme
Deficit spread period	14 years
Expenses	0.6% of Payroll

For further details of the Fund's funding approach, please see the report on the actuarial valuation as at 31 March 2010 and the Funding Strategy Statement.

Employer contribution rates exclude employee contributions, but include an allowance of 0.6% of payroll for expenses.

Open rates are applicable if the Employer permits new entrants to join the Fund. Contribution rates exclude employee contributions. The average open employee contribution rate is 6.5%.

Open Contribution Rate (Ceding Employer's Deferreds and Pensioners Left Fully Funded)	
Funding Method	Projected Unit Method
Funding Basis at Commencement	Share of Ceding Employer's Deficit Once Ceding Employer's Deferreds and Pensioners are Fully Funded
Employer Initial Future Service Rate	20.0%
Past Service Adjustment	12.9%
Total Initial Contribution Rate	32.9%

The past service adjustment may be expressed as a monetary amount of £65,067 p.a. This assumes a 14 year deficit spread period. The employer would therefore pay 20.0% of payroll plus £65,067 p.a. with the monetary amount increasing by 4.7% each year.

The contribution rate will apply until 31 March 2014 and will be reassessed at the next formal valuation of the Fund as at 31 March 2013.

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Initial Asset Allocation for New Employer

Details of the calculation of the initial funding level and subsequent asset allocation are set out in the accompanying document, "Contribution Rate Assessment for an Academy – Method, Assumptions & Limitations".

Assumptions used for the Assessment of Initial Asset Allocation	
Date of Financial Assumptions	14 January 2013
Pre-retirement Discount Rate	4.60% p.a.
Post-retirement Discount Rate	4.60% p.a.
Expected Future Salary Increases	4.70% p.a.
Expected Future Pension Increases	2.70% p.a.
Assumed Date of Commencement of New Employer	1 April 2013
Assumed Future Life Expectancy	2010 Valuation Assumptions
Assumed Age at Retirement for any Past Service at Date of Commencement	Rule of 85 for those born prior to 31 March 1960 and protected under current regulations, 65 for all other members.
Assumed Proportion of Members Giving Up Pension to Take Maximum Tax-Free Cash	50% Pre April 08 and 75% Post April 08
Other Demographic Assumptions	2010 Valuation Assumptions
Scheme Benefits for Future Benefit Accrual	2008 Scheme
Expenses	0.6% of Payroll

Note: The figures below are based on financial assumptions as at "Date of Financial Assumptions" given above. Where the "Date of Financial Assumptions" is prior to the transfer date the final assessment of the actual initial allocation of assets will depend on the final transferring membership at the date of transfer and on financial assumptions at that date.

Initial Asset Allocation for New Employer (Ceding Employer's Deferreds and Pensioners Left Fully Funded)	
Funding Basis at Commencement	Share of Ceding Employer's Deficit Once Ceding Employer's Deferreds and Pensioners are Fully Funded
Estimated Initial Funding Level of New Employer	7%
Estimated Amount of Liability in Respect of LGPS Past Service of Transferring Members at Commencement Date if All Members Transferred	£986,000
Estimated Amount of Assets Notionally Allocated to the New Employer at Commencement	£69,000
Estimated Surplus/ (Deficit) at Commencement Transferring Membership	(£917,000)
	All members summarised in data below

The liability shown above is for funding purposes only. The initial liability assessed for accounting purposes may be different from that shown above.

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Effect on the Ceding Employer

We have not been asked to undertake an assessment of the effect of the creation of the Academy on the ceding employer. However, given the small number of members transferring relative to the membership of the ceding employer it is not expected that this transfer will materially affect the funding position of the ceding employer.

If the number of members transferring to Academies becomes significant, we would recommend that the Administering Authority considers the potential implications of the transfers on the ceding employer.

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Data

Data and Information Provided	
Individual Membership Data	Provided on 14 January 2013, see summary below
Eligible Retirement Date	Estimated from entitlement service
Deficit Spread Period (Years)	14

Data used to calculate future service rate and initial liabilities

Summary of Active Membership Data as at Calculation Date							
Category	Number	Actual Pensionable Pay	Full Time Equivalent Pensionable Pay	Average Full Time Equivalent Pay	Average Age ¹	Weighted Average 80ths Service ²	Weighted Average 60ths Service ²
Male	5	£69,315	£109,782	£21,956	42.3	4.0	2.3
Female	38	£435,790	£757,917	£19,945	42.2	1.8	2.1
Total	43	£505,105	£867,699	£20,179	42.2	2.1	2.1

¹ These average ages are unweighted. The total average age weighted by liability is 51.5 and the total average age weighted by salary is 40.4

² Service is weighted by full-time equivalent salary

Data used to calculate funding level of ceding employer

Summary of Membership Data as at 31 March 2010				
	Number	Average Age	Actual Pay /	Average Pay /
	31 Mar 2010	31 Mar 2010	(£000)	(£)
			31 Mar 2010	31 Mar 2010
Actives	5,107	50.8	125,570	24,588
Deferred Pensioners	5,637	50.2	13,214	2,344
Pensioners	4,742	66.2	28,729	6,058

	FTE Pay (£000)		Average Service	
	31 Mar 2010		80ths 31 Mar 2010	60ths 31 Mar 2010
Active Males	48,751		14.3	1.7
Active Females	99,453		9.4	1.4
Total	148,204		11.0	1.5

Cashflows from 1 April 2010 to 14 January 2013 used to determine funding level of ceding employer (£000s)

Estimated employer contributions	£83,000
Estimated employee contributions	£24,000
Estimated benefits paid	£106,000

Investment returns

Actual investment return from 31 March 2010 to 30 June 2010	-7.8%
Actual investment return from 30 June 2010 to 30 September 2010	8.1%
Actual investment return from 30 September 2010 to 31 December 2010	5.9%
Actual investment return from 31 December 2010 to 31 March 2011	1.3%
Actual investment return from 31 March 2011 to 30 June 2011	1.5%
Actual investment return from 30 June 2011 to 30 September 2011	-9.2%
Actual investment return from 30 September 2011 to 31 December 2011	5.1%
Actual investment return from 31 December 2011 to 31 March 2012	4.7%
Actual investment return from 31 March 2012 to 30 June 2012	-2.6%
Index return from 30 June 2012 to 14 January 2013	8.9%
Total return from 31 March 2010 to 14 January 2013	15.0%

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Risk Assessment

Post calculation events

Since the calculations were carried out, there have been no events that would materially affect the calculations.

Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate (the discount rate net of inflation) adopted and the assumptions made for future longevity.

If the real discount rate used to value the transferred accrued liabilities decreases then the value placed on those liabilities will increase. If the real discount rate reduced by 0.1% per annum the value of the non-pensioner liabilities would increase by around 2-3%. This would serve to increase the overall value of transferred accrued liabilities by around 2-3%. The initial assets to be allocated to the new academy would also change. The change in the assets would depend on the revised funding level of the ceding employer. The future service part of the contribution rate would also increase by around 0.7% of payroll.

In addition, the results are also sensitive to unexpected changes in the rate of future mortality improvements. If longevity improves at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the transferred accrued liabilities. An increase in life expectancy of 1 year would increase the transferred accrued liabilities by around 3%. The initial assets to be allocated to the new academy would also change. The change in the assets would depend on the revised funding level of the ceding employer. The future service part of the contribution rate would also increase by around 0.8%.

If you have any queries relating to this schedule, please contact Mark Samuels in the first instance.



Barry McKay FFA

25 January 2013

For and on behalf of Hymans Robertson LLP

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Appendix - 2010 Valuation Assumptions

Mortality assumptions

The standard mortality tables used for the previous formal valuation were the "SAPS" tables. These tables were published by the actuarial profession and are based on the longevity experience of occupational pension funds.

The table below summarises our longevity assumptions for the Fund as at 31 March 2010.

Longevity Assumptions	
Longevity – Baseline	S1NMA / S1NFA
Longevity – Improvements	Medium Cohort with 1% p.a. minimum improvements from 2007

Further details about these assumptions are available on request.

Other demographic valuation assumptions	
Retirement in ill-health	Allowance has been made for ill-health retirements before Normal Pension Age (see table below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
Commutation	Future retirements are assumed to commute pension into tax-free cash up to 50% of HMRC limits for service to 31 March 2008 and 75% for service thereafter.
Age Retirements	It is assumed that actives and deferred pensioners will retire at age 60 or when they satisfy the <i>Rule of 85</i> if later, subject to no later than age 65, with the exception of those who reach age 60 after 31 March 2020 who will take all of their benefits at age 65.

The tables below show details of the assumptions actually used for specimen ages. The promotional pay scale is an annual average for all employees at each age. It is in addition to the allowance for general pay inflation described above. For membership movements, the percentages represent the probability that an individual at each age leaves service within the following twelve months.

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Death in service

Age	Incidence per 1000 active members per annum			
	Male Officers & Post 98	Male Manuals	Female Officers & Post 98	Female Manuals
	Death	Death	Death	Death
20	0.30	0.38	0.16	0.20
25	0.30	0.38	0.16	0.20
30	0.36	0.45	0.24	0.30
35	0.42	0.53	0.40	0.50
40	0.72	0.90	0.64	0.80
45	1.20	1.50	1.04	1.30
50	1.92	2.40	1.52	1.90
55	3.00	3.75	2.00	2.50
60	5.40	6.75	2.56	3.20

Promotional Salary Scales

Age	Promotional Salary Scales							
	Male Officers & Post 98 Males		Male Manuals		Female Officers & Post 98 Females		Female Manuals	
	FT	PT	FT	PT	FT	PT	FT	PT
20	100	100	100	100	100	100	100	100
25	135	116	100	100	118	105	100	100
30	169	134	100	100	137	111	100	100
35	192	146	100	100	151	116	100	100
40	208	153	100	100	163	121	100	100
45	222	154	100	100	166	122	100	100
50	236	154	100	100	166	122	100	100
55	239	154	100	100	166	122	100	100
60	239	154	100	100	166	122	100	100

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III health

Tier 1

Age	Incidence per 1000 active members per annum							
	Male Officers & Post 98		Male Manuals		Female Officers & Post 98		Female Manuals	
	III Health		III Health		III Health		III Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.34	0.27	0.06	0.05	0.39	0.31
30	0.06	0.05	0.55	0.44	0.11	0.08	0.54	0.43
35	0.08	0.07	0.82	0.66	0.21	0.17	0.78	0.62
40	0.15	0.12	1.13	0.91	0.27	0.22	1.08	0.86
45	0.34	0.27	1.64	1.31	0.44	0.35	1.38	1.10
50	0.92	0.74	2.39	1.92	0.86	0.69	2.04	1.63
55	5.10	4.08	10.43	8.35	6.12	4.90	10.37	8.29
60	20.92	16.73	40.67	32.54	24.18	19.35	40.67	32.54

Tier 2

Age	Incidence per 1000 active members per annum							
	Male Officers & Post 98		Male Manuals		Female Officers & Post		Female Manuals	
	III Health		III Health		III Health		III Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	1.43	1.14	0.27	0.21	1.66	1.33
30	0.27	0.21	2.32	1.86	0.45	0.36	2.30	1.84
35	0.36	0.29	3.48	2.78	0.89	0.71	3.32	2.65
40	0.62	0.50	4.82	3.86	1.16	0.93	4.59	3.67
45	1.43	1.14	6.96	5.57	1.87	1.50	5.87	4.69
50	4.97	3.98	12.89	10.31	4.64	3.71	10.98	8.79
55	7.12	5.70	14.56	11.65	8.55	6.84	14.47	11.58
60	4.07	3.26	7.91	6.33	4.71	3.76	7.91	6.33

Tier 3

Age	Incidence per 1000 active members per annum							
	Male Officers & Post 98		Male Manuals		Female Officers & Post		Female Manuals	
	III Health		III Health		III Health		III Health	
	FT	PT	FT	PT	FT	PT	FT	PT
20	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
25	0.00	0.00	0.48	0.38	0.09	0.07	0.55	0.44
30	0.09	0.05	0.77	0.62	0.15	0.12	0.77	0.61
35	0.12	0.07	1.16	0.93	0.30	0.24	1.11	0.88
40	0.21	0.12	1.61	1.29	0.39	0.31	1.53	1.22
45	0.48	0.29	2.32	1.86	0.62	0.50	1.96	1.56
50	0.26	0.16	0.68	0.54	0.24	0.20	0.58	0.46
55	0.37	0.22	0.77	0.61	0.45	0.36	0.76	0.61
60	0.21	0.13	0.42	0.33	0.25	0.20	0.42	0.33

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Withdrawals

Members with less than 2 years service

Age	Incidence for 1000 active members per annum											
	Male Officers		Male Manuals		Female Officers		Female Manuals		Post 98 Males		Post 98 Females	
	Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	202.69	337.82	202.69	337.82	192.26	267.03	192.26	267.03	371.61	743.21	256.35	427.25
25	133.89	223.15	133.89	223.15	129.33	179.63	129.33	179.63	245.46	490.92	172.44	287.41
30	94.97	158.29	94.97	158.29	108.39	150.54	108.39	150.54	174.11	348.23	144.51	240.86
35	74.19	123.65	74.19	123.65	93.48	129.84	93.48	129.84	136.01	272.03	124.64	207.74
40	59.70	99.50	59.70	99.50	77.75	107.99	77.75	107.99	109.45	218.90	103.67	172.78
45	48.85	81.42	48.85	81.42	64.00	88.90	64.00	88.90	89.56	179.12	85.34	142.23
50	37.84	63.07	37.84	63.07	48.77	67.74	48.77	67.74	69.37	138.75	65.03	108.38
55	32.79	54.65	32.79	54.65	37.59	52.21	37.59	52.21	60.11	120.23	50.12	83.54
60	19.87	33.12	19.87	33.12	17.47	24.27	17.47	24.27	36.43	72.86	23.29	38.82

Members with more than 2 years service

Age	Incidence for 1000 active members per annum											
	Male Officers		Male Manuals		Female Officers		Female Manuals		Post 98 Males		Post 98 Females	
	Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals		Withdrawals	
	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT	FT	PT
20	149.82	249.70	149.82	249.70	142.11	197.37	142.11	197.37	274.67	549.33	189.48	315.79
25	98.96	164.93	98.96	164.93	95.59	132.77	95.59	132.77	181.43	362.85	127.46	212.43
30	70.20	116.99	70.20	116.99	80.11	111.27	80.11	111.27	128.69	257.39	106.81	178.02
35	54.84	91.39	54.84	91.39	69.09	95.97	69.09	95.97	100.53	201.06	92.13	153.54
40	44.13	73.54	44.13	73.54	57.47	79.82	57.47	79.82	80.90	161.79	76.62	127.70
45	36.11	60.18	36.11	60.18	47.31	65.71	47.31	65.71	66.20	132.40	63.08	105.13
50	27.97	46.61	27.97	46.61	36.05	50.07	36.05	50.07	51.28	102.55	48.06	80.10
55	24.24	40.39	24.24	40.39	27.78	38.59	27.78	38.59	44.43	88.86	37.05	61.74
60	14.69	24.48	14.69	24.48	12.91	17.94	12.91	17.94	26.93	53.86	17.22	28.70