HYMANS ROBERTSON

Lincolnshire Pension Fund

Actuarial Valuation as at 31 March 2020 for accounting purposes

April 2020

Anne Cranston

Associate of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

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1 Introduction and summary

Scope

1 I have been instructed by the Administering Authority named in the accompanying Results Schedule to undertake pension expense calculations for the Employer named in the Results Schedule, for the purpose of complying with the Accounting Standard stated in the accompanying Results Schedule for the period ending 31 March 2020. The instruction is set out in the Terms of Engagement letter (see Results Schedule for date of signature). These calculations relate principally to the Employer's participation in the Fund named on the cover ("the Fund") which is part of the Local Government Pension Scheme ("the LGPS").

2 These figures are prepared in accordance with our understanding of the latest version of the Accounting Standard. My calculations and advice, in this report and the accompanying Results Schedule, have been carried out in accordance with Technical Actuarial Standard 100: Principles for Technical Actuarial Work, which came into force on 1 July 2017. This report does not constitute an audit opinion in relation to the Fund.

3 Under accounting guidance, employers are expected to disclose the sensitivity of the valuation to key assumptions, and the required information is described in section 4 of this report.

Results

4 The results of our calculations for the period ended 31 March 2020 and the projected net pension cost for the year ended 31 March 2021 are set out in the Results Schedule.

5 Please let me know if the Employer wishes to discuss the contents of this report or if, having considered the results, the Employer wishes to consider alternative assumptions. As noted above, the impact of varying certain key assumptions is illustrated in section 4.

Reliances and limitations

6 This report (including the accompanying Results Schedule) is provided to the Employer solely for the purpose of complying with the Accounting Standard for the period ending 31 March 2020. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. However, a copy of this report may be passed to the Employer's auditor to be used solely for the purpose of their audit.

7 We accept no liability to any third party unless we have expressly accepted such liability in writing.

8 Note that the methodology of the Accounting Standard, in conjunction with the Fund's investment strategy, means that the accounting surplus or deficit can vary significantly over short periods of time. This means that the results set out in the accompanying Results Schedule should not be taken as being applicable at any date other than 31 March 2020.

9 The figures presented in this report are prepared only for the purposes of the Accounting Standard and have no validity in other circumstances. In particular, they are not relevant for calculations undertaken for funding purposes, for accounting under any other standard that named in the Results Schedule, for bulk transfers or for other statutory purposes under LGPS Regulations.

10 The data with which we have been provided with and relied upon for this exercise is summarised in section 3.

11 The projected pension expense calculations for the period to 31 March 2021 may be used for the purpose of any interim financial reporting during the year to 31 March 2021. However, subsequent adjustments may be necessary to take account of:

- any material events, such as curtailments, settlements or the discontinuance of the Employer's participation in the Fund;
- actual pensionable payroll during the year to 31 March 2021;
- any changes to accounting practices; or
- any changes to the Fund.

12 This report and the Results Schedule deal principally with pension benefits provided via the LGPS. However, the Accounting Standard may require the disclosure of any additional liabilities, for example, those in respect of compensatory added years pensions. I have only valued such additional liabilities, which would not be covered in the formal LGPS funding valuation, to the extent that they have been notified to me and are summarised in the Results Schedule.

13 I have not been notified by the auditor to the Employer of the materiality limits which apply to the Employer and I have therefore prepared these figures using methods which are as accurate as is feasible using the data made available to me and the timescale within which the report is required.

Next steps

14 The information set out in this report and Results Schedule should be included in a disclosure note in the Employer's report and accounts.

With absences and remote working, we recognise the difficulties that employers/auditors face preparing accounts and the specialist nature of pension disclosures.

To help, we can arrange 3-way calls with Employers and their Auditor, prepare a summary paper explaining key movements of an Employer's specific figures and in general provide further details on any aspects on the accounts.

For further assistance, the Employer can contact me or our LGPS accounting experts at LGPSCentralAccountingTeam@hymans.co.uk.

2 Approach

Valuation method

1 As required under the Accounting Standard we have used the projected unit credit method of valuation.

2 No allowance has been made for administration expenses in the present value of the defined benefit obligation, or the balance sheet. Expenses are allowed for by way of an increase in the current service cost.

3 We have projected the valuation results of the latest formal valuation date (or date Employer joined the Fund if later) forward to 31 March 2020 using approximate methods (unless otherwise stated in the Results Schedule). The roll-forward allows for changes in financial assumptions, additional benefit accrual, actual pension increase orders and estimated cash flows over the period.

4 In order to assess the value of the Employer's liabilities in the Fund as at 31 March 2020 (unless otherwise stated in the Results Schedule), I have rolled forward the value of the Employer's liabilities calculated at the latest formal valuation date (or date the Employer joined the Fund if later), allowing for the different financial assumptions required under the Accounting Standard at the reporting date. In calculating the current service cost I have allowed for changes in the Employer's pensionable payroll as estimated from contribution information provided. In calculating the asset share, I have rolled forward the Employer's share of the assets calculated at the latest formal valuation date (or date the Employer joined the Fund if later), allowing for investment returns (estimated where necessary), the effect of contributions paid into (estimated where necessary), and estimated benefits paid from, the Fund by the Employer and its employees.

5 In preparing the balance sheet at 31 March 2020 and the revenue account to 31 March 2020, no allowance is made for the effect of changes in the membership profile since the latest formal valuation date (or date the Employer joined the Fund if later) unless otherwise stated in the Results Schedule. The principal reason for this is that insufficient information is available to allow me to make any such adjustment. However, for most employers, the effect is likely to be immaterial in actuarial terms. If there have been significant changes, the Employer should discuss with its auditor whether an investigation into the effect on the balance sheet as at 31 March 2020 and service cost for period to 31 March 2020 are required.

6 Whilst the liabilities calculated under the Accounting Standard include an allowance for some premature retirements on grounds of ill-health, there is no allowance for early retirements on grounds of redundancy or efficiency other than those actual cases of which I have been notified.

7 All employers have been given the choice to make an allowance in their 31 March 2020 accounting report for the potential impact of the McCloud judgment. Where we have been instructed to make such an allowance, this is noted in the Results Schedule.

8 The 2019 formal funding valuation included an allowance for full GMP indexation within the LGPS. The rolled forward position to 31 March 2020 therefore includes this allowance (unless otherwise stated in the Results Schedule)

9 It is not possible to assess the accuracy of the estimated rolled-forward liability shown in the Results Schedule without conducting a full valuation using updated individual membership data. Such a valuation is generally not practical in the time available to meet the Employer's reporting requirements. The estimated rolled-forward liability as at 31 March 2020 will therefore not reflect differences in demographic experience from that assumed (e.g. pensioner longevity) or the impact of differences between aggregate changes in salary/pension or changes for specific individuals.

10 Whilst we have no reason to believe that the approximations used in rolling forward the valuation to 31 March 2020 will introduce any undue distortion in the results, the Employer and its auditors may wish to consider the size of the Fund's assets and liabilities in relation to the Employer's materiality limits. The Results Schedule will state if a full valuation has been carried out instead of a roll-forward.

11 Our default assumption setting approach relies upon the calculation of a weighted average duration for each employer. There are a number of different ways to calculate an employer's duration and our default approach is to use the calculated duration figure from the most recent actuarial valuation. This duration figure is then categorised as either short, medium or long and the employer is assigned the appropriate short, medium or long default accounting assumptions. The approach taken and the assumptions adopted are ultimately the responsibility of the Employer. We are happy to take guidance from the Employer and its auditors as to how the Employer's duration is determined and the assumptions set. Where we have been instructed to use a different approach to our default, details are given in the Results Schedule.

12 For employers whose separate membership of the Fund started in the last 12 months and where a first time accounting report has been provided:

- The Results Schedule relates to the period from date of joining to 31 March 2020.
- The initial asset allocation used for accounting purposes (will be based on final opening position membership data) and may differ from any initial asset allocation previously quoted (if it used estimated transferring membership data for example). However, if the calculations carried out in the past were based on final data and final assumptions at the date the Employer joined the Fund, then the initial asset allocation used for accounting purposes will be in line with that which was previously quoted.
- The liability value reported in the Results Schedule will differ from those in any previous actuarial reports related to the Employer opening funding position due to the different assumptions adopted under the Accounting Standard, compared to funding assumptions used for setting contribution rates etc.

3 Data and information used

Benefit changes

1 The pension expense for the period to 31 March 2020 and the projected pension expense for the year to 31 March 2021 allow for the LGPS career average revalued earnings (CARE) benefit design. The figures are based on my understanding of the provisions of the Fund and are subject to change as any changes are made to the Fund.

Data sources

2 Our calculations in accordance with the relevant accounting standard are based on the following information and documents, all provided by the Administering Authority:

- the bid value and split of Fund assets by major categories as at the latest available date;
- the actual Fund returns provided up to the latest available date;
- employer and employee contributions for the accounting period (estimated for the most recent month(s) where actual contributions were not yet available);
- the individual pensioner member data in respect of LGPS unfunded pensions and Teachers' pensions where appropriate, as summarised in the Results Schedule; and
- any new early retirements to the latest available date on unreduced pensions which are not anticipated in the normal employer service cost (e.g. non ill-health retirements before the earliest retirement age at which all the member's benefits can be taken unreduced), as summarised in the Results Schedule.

We carry out reasonable checks to establish whether the source data provided is complete, consistent with previous data and fit for purpose of the accounting valuation. However, these checks are necessarily limited by the scope of the information provided and by time constraints. Ultimate responsibility for the accuracy of the data shown in the Employer's accounts rests with the Employer. Where the actual data is materially different to that shown in our accounting report, the Employer should provide notification as the calculations may need reviewed and a revised report produced.

Assets and investment returns

3 Details of the investment return on the Fund over the accounting period and used in our calculations is set out in the Results Schedule.

Membership numbers

4 The latest total numbers of employees (and deferred and pensioners) are typically provided by the Administering Authority for the purpose of aiding the checking of contribution data. Please note that these latest membership numbers have no impact on any of the calculated accounting figures for 31 March 2020 (e.g. the balance sheet or revenue account disclosures).

Additional comments

5 Any specific comments on the data provided in respect of the Employer are set out in the Results Schedule. This will include any material uncertainty in the data used and any limitations on the accounting information shown in the Results Schedule where assumptions have been made in respect of incomplete or unreliable data.

4 Actuarial assumptions

Reliances and limitations

1 My advice to the Employer on the assumptions (and resulting disclosures) which may be adopted for the purpose of the Accounting Standard is compliant with Technical Actuarial Standard 100[1]. This report and the accompanying Results Schedule comprise the totality of my advice on the default assumptions.

Responsibility

2 The assumptions are ultimately the responsibility of the directors (or equivalent) based on actuarial advice. The Results Schedule will show if I have been instructed by the Employer to use different financial or demographic assumptions (to the default assumptions).

Demographic assumptions

3 The mortality assumptions adopted for this year's exercise are set out in the Assumptions section of the Results Schedule.

4 The other default demographic assumptions which I recommend are adopted (e.g. commutation) are the same as those used for the latest formal funding valuation. Full details of these assumptions are also set out in the Fund's formal valuation report.

Financial assumptions

5 The financial assumptions used to calculate the components of the pension expense (service cost and net interest) for the period ended 31 March 2020 were those from the beginning of the period (as set out in Section 2 of the Results Schedule) and have not been changed during the period. The default assumptions for disclosure of the funded status under the Accounting Standard as at 31 March 2020 are summarised below.

	Weighted Average Duration At Most Recent		
	Short	Medium	Long
Period Ended	31 Mar 2020	31 Mar 2020	31 Mar 2020
	% p.a.	% p.a.	% p.a.
Discount Rate	2.3%	2.3%	2.3%
Retail Price Inflation (RPI)	2.9%	2.8%	2.7%
Consumer Price Inflation (CPI) - Pension Increase Rate	2.0%	1.9%	1.8%

Reasonableness of assumptions

6 There is a range of actuarial assumptions which are acceptable under the requirements of the Accounting Standard. I consider that the assumptions above are within the acceptable range and are thus consistent with the requirements of the Accounting Standard. Where I have been instructed by the Employer to use different assumptions, these are shown in the Results Schedule: it is possible that these fall outside the range which I consider to be acceptable.

Sensitivity to assumptions

7 Under accounting guidance, employers are expected to disclose the sensitivity of the valuation to key assumptions.

8 The costs of a pension arrangement require estimates regarding future experience. The financial assumptions used for reporting under the Accounting Standard are the responsibility of the directors (or similar) of the Employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work, including the information and advice contained in this report.

rate (essentially the difference between the discount rate and the assumed rates of increase of salaries, deferred pension revaluation or pensions in payment), can have a significant effect on the value of the liabilities reported.

9 A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of similar magnitude.

10 There is also uncertainty around life expectancy of the UK population. The value of current and future pension benefits will depend on how long they are assumed to be in payment. The disclosures have been prepared using the longevity assumptions set out in the Results Schedule. Average life expectancies at age 65 on these longevity assumptions are also shown in the Results Schedule.

11 Details of the effect on the liabilities of changes to the above assumptions are displayed in the Results Schedule in the Sensitivity Analysis section.

Risks and uncertainties

12 There are risks and uncertainties associated with whatever assumptions are adopted. The Accounting Standard requires the assumptions to be determined on a 'best estimate' basis. However, the assumptions are in effect projections of future investment returns and demographic experience many years into the future and there is inevitably a great deal of uncertainty inherent in what constitutes 'best estimate' with such projections. For the purpose of this report, I have interpreted best estimate to mean that the proposed assumptions are 'neutral': there is in my opinion an equal chance of actual experience being better or worse than the assumptions proposed.

13 It is also important to note that the Accounting Standard requires the discount rate to be set with reference to the yields on high quality corporate bonds irrespective of the actual investment strategy of the Fund. As such, the figures illustrated in the Results Schedule are unlikely to reflect either the actual eventual cost of providing the benefits or the likely level of contributions to fund the Employer's obligations to the Fund. Also, the balance sheet position may change significantly due to relative changes in the equity and bond markets at the reporting date.

14 The main risk to the Employer is that it determines assumptions that are more prudent (for example a lower net discount rate or higher longevity) than its peers, leading to a relatively poorer reported financial position. The Employer therefore needs to take into account both the requirement for a 'best estimate' set of assumptions and the commercial need not to overstate the pension liabilities.

15 There is also a risk that the Employer determines assumptions which are less prudent than its peers. This does not have an impact on the underlying cost of the Fund nor the level of contributions that will be derived from future funding valuations. However, analysts and other users of the accounts may take a view that the Employer is understating its pension liabilities if it uses weaker assumptions and this may have adverse consequences.

16 I have not addressed any risks to the Fund itself. Such advice would generally be given to the Administering Authority by the Fund's Actuary through the actuarial valuation process.

5 Miscellaneous matters

Past service costs (including curtailments)

1 Past service costs can arise from the Employer awarding discretionary benefits e.g. added years augmentation or allowing LGPS employees to retire on unreduced benefits before attaining their "Rule of 85" age (subject to a minimum of age 60 and a maximum age of 65) on grounds of efficiency.

2 Details of any such retirements are summarised the Results Schedule and any Past Service Costs are set out in the Revenue Account figures of the Results Schedule. These represent the difference between an active member reserve and the actual early retirement reserve both calculated at the time of early retirement based on the reporting date accounting assumptions. Note that these costs relate only to LGPS benefits and not other elements such as redundancy lump sums.

Settlements

3 My calculations do not take account of any liabilities being settled at a cost materially different to the Accounting Standard reserve during the period ended 31 March 2020, other than as set out in the Results Schedule.

Bulk transfers

4 My calculations do not take account of any bulk transfers (in or out) since the Employer's previous Accounting Standard valuation (or following the date of joining for employers receiving a first time Accounting Standard valuation) other than as set out in the Results Schedule.

Re-measurements

5 For the avoidance of doubt, unless otherwise stated in the Results Schedule, I have not altered the assumptions used for any re-measurements of the current service cost or net interest cost as a result of past service costs, curtailments or settlements occurring in the accounting period.

Recognition of surplus/deficit

6 The Accounting Standard imposes a limit on the maximum amount of surplus which can be recognised on the employer's balance sheet. In very broad terms, surplus can only be recognised to the extent that it is no greater than the present value of the liability expected to arise from future service by current and future scheme members less the value of future employee contributions. Where this situation **may** apply, this is indicated on the front page of the Results Schedule and further calculations may be required before publishing the results in the Employer's formal accounts.

7 My understanding is that the Employer has a "constructive obligation" to fund any deficit allocated to its share of the Fund and it should therefore fully recognise the whole of any deficit.

Deferred tax

8 No allowance has been made for deferred tax, and the appropriate treatment in respect of this should be agreed with the Employer's auditors.

Results and disclosures

9 FRS12 - some employers may account for their unfunded pensioners under FRS12 instead of the Accounting Standard stated in the accompanying Results Schedule. For simplicity and where instructed, we have included all unfunded liabilities in the Results Schedule. However, we are happy for employers to move the unfunded results to an FRS12 section of their accounts if they wish and the figures will be unaffected.

Appendices

Appendix 1 – Glossary of technical terms

Remeasurements (actuarial gains/losses)	Over a reporting period, these consist of: - experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred (e.g. known investment returns, actual pension increase orders, reflection of any funding valuation which has taken place since the last report etc); and - the effects of changes in actuarial assumptions (split between financial and demographic)
Current service cost	The increase in the present value of the defined benefit obligation resulting from employee service in the current period. This is based on the employer's "service cost" rate which accounts for the cost to the employer of benefits accruing over the period calculated on the financial assumptions at the beginning of the accounting period. This could differ significantly from what the employer is currently paying in cash contributions based on the certified rates from the latest formal funding valuation.
Net defined benefit liability	The present value of the defined benefit obligation less the fair value of the plan assets.
Total net interest	The change during the period in the net defined benefit liability that arises from the passage of time. This includes allowance for interest on the current service cost.

Past service cost	The change in the present value of the defined benefit obligation for employee service in prior periods, resulting from a plan amendment (the introduction or withdrawal of, or changes to, a defined benefit plan) or a curtailment (a significant reduction by the entity in the number of employees covered by the plan).
Present value of defined benefit obligation	The present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.
Settlement	Occurs when an entity enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan, for example, when a lump-sum cash payment is made to, or on behalf of, plan participants in exchange for their rights to receive specified post-employment benefits.
Weighted average duration	The weighted average time until payment of all expected future discounted cashflows, determined based on membership as at the most recent actuarial valuation. The shorter the duration, the more 'mature' the employer.

Appendix 2 – Briefing Note Results Commentary

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Briefing note

IAS19/FRS102 as at 31 March 2020: Results Commentary **April 2020**

Default accounting assumptions as at 31 March 2020

Weighted average duration	Discount rate	RPI inflation (CPI)
Less than 17 years (Short)	2.3%	2.9% (2.0%)
Between 17 and 23 years (Medium)	2.3%	2.8% (1.9%)
More than 23 years (Long)	2.3%	2.7% (1.8%)

The approach to setting these default Local Government Pension Scheme accounting assumptions at 31 March 2020 is set out in full in our accompanying Accounting Assumptions Briefing Note (issued February 2020).

Results commentary

This update should be considered as an illustrative guide to the main issues affecting most employers, rather than a detailed explanation of your own experience.

For 31 March 2020, it is difficult to comment on how a 'typical' LGPS employer's balance sheet may compare to March 2019. For all LGPS Funds, investment returns have been significantly lower than expected (particularly in the last 2 months of the accounting period) which has served to worsen the balance sheet position. The effect of this will have been at least partly offset by a higher net discount rate which serves to reduce the value placed on the obligations (corporate bond yields are at a similar level to 2019 but inflation expectations are significantly lower). In addition, each employer's accounting results will reflect their own specific circumstances which could introduce differences (e.g. your LGPS cashflow position and your individual LGPS Fund's actual asset experience).

The 2019/20 charge to Profit & Loss (P&L) is based on financial conditions at the start of the year (i.e. assumptions as at 31 March 2019). The service cost and net interest cost for 2019/20 should be broadly in line with the projections made in our 2019 reports. Lastly, due to the higher net discount rate at 31 March 2020, the projected 2020/21 charge to P&L is likely to decrease compared to 2018/19.

Further, the effect of asset returns and/or financial assumption changes on the 2020 balance sheet (and the projected 2020/21 charge to Profit & Loss) may be overshadowed by the effect of the 2019 formal actuarial valuation calculations and the resulting 'step-change' in the roll forward approach. **More details on the impact of the 2019 English and Welsh formal actuarial valuations are set out in the below Appendix on page 3.**

Choice of assumptions

The accounting assumptions adopted are the responsibility of each organisation's directors (or equivalent) based on actuarial advice. Employers can take more control of the figures disclosed in their pension accounts by investigating the assumptions adopted.

We strongly recommend that, alongside your auditor, you consider the suitability of the default financial, longevity and other demographic assumptions for your specific organisation.

It is up to you to determine how to proceed with the choice of assumptions given the relative importance of the LGPS accounting figures to your organisation's own circumstances.

Further, after receiving results on the default assumptions, employers can still discuss with us their accounting figures and revisit the assumptions should this be required. This can be done by Hymans Robertson and does not require you to appoint a separate adviser for that purpose.

Contact details

For assumptions advice or for further assistance with your Results, please get in touch with our accounting specialists at:

LGPSCentralAccountingTeam@hymans.co.uk

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Appendix

Impact of the 31 March 2019 English and Welsh formal actuarial valuations

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The 31 March 2019 formal valuations for English and Welsh LGPS Funds were concluded by 31 March 2020.

The accounting balance sheet position as at 31 March 2020, and the projected charge to the P&L for 2020/21, are therefore based on this new roll forward from the 2019 formal valuation. This differs to the balance sheet position as at 31 March 2019 and the charge to the P&L for 2019/20, which were based on a roll forward from the 2016 formal valuation. **This 'step change' can lead to sizeable asset and liability 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2019 to 31 March 2020.**

For accounting purposes we project forward the results from the most recently completed formal valuation: we only allow for certain elements of experience since the formal valuation date, such as actual investment return, contributions paid, estimated benefit outgo, actual early retirements and actual outsourcings/bulk transfers when advised to do so by the employer. As such, the accuracy of the accounting projection declines over time. We would typically expect our projections to be within +/-2% of the underlying position for each year of projection. However, greater differences are possible, particularly if there have been volatile financial market movements or significant membership changes.

The asset and liability 'remeasurement experience' items arise because in the accounting roll-forward we cannot recognise all possible elements of membership experience, and these are recognised in the formal valuation calculations. **In effect, our accounting figures are "re-calibrated" every three years following each formal valuation.** For example;

- Membership movements (new entrants, withdrawals, ill health retirements, transfers etc) – any movements different to those assumed within the previous formal valuation will contribute positively or negatively to the asset and liability 'experience' items.
- Actual level of salary/pension increases – lower than expected salary growth over the previous inter-valuation period would lead to a positive liability 'experience' item (i.e. lower past service liabilities) and vice versa.
- Outsourcings / Bulk transfers – where the employer has chosen, due to materiality, not to recognise outsourcings and bulk transfers in their accounting position, the impact of these will be included in the asset and liability 'experience' items.

In line with the accounting standards, the liability 'experience' item is identified separately in the reconciliation, however the asset 'experience' item is included in the re-measurement 'return on assets' item shown in Other Comprehensive Income (OCI). In non-valuation years, the 'return on assets' item reflects the difference between actual returns over the year and the expected return (recognised in the P&L as the interest income on assets). At first glance, the 2019/20 'excess return on assets' item may appear unusual but this is likely to be due to the inclusion of any asset 'remeasurement experience' from the 2019 formal actuarial valuation 'step-change'.

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Appendix 3 – Accounting Assumptions

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Accounting Assumptions

Take control early, it's your call!

From listening to LGPS employers, we understand the importance of the pension figures disclosed in your accounts. The figures disclosed can have a material impact on your ability to carry out your normal business function.

The pension figures, in both the balance sheet and revenue account, are heavily dependent on the choice of assumptions. Crucially, as directors of the organisation, it is your responsibility to set assumptions that best reflect the characteristics of your organisation.

Your options

1 Enhanced Service

For employers who wish to take control of the figures disclosed in their pension accounts, using the enhanced service would allow your organisation to:

- Receive an employer specific assumptions paper covering the assumptions key to your organisation, what changes to assumptions could be made, and the estimated financial impact on your accounting disclosures. This would be based on information you provide about future expected pay growth and recruitment plans.
- Arrange a face-to-face meeting or a call with an Actuary to discuss the accounting assumptions and how these impact on your organisation's accounting figures.
- Receive provisional FRS102 / IAS19 figures in advance of the reporting date, giving an early indication of how your assets and obligations have developed and can also help inform the assumption setting exercise.

Engaging directly with the Actuary preparing your FRS102 / IAS19 report is typically more cost-effective than seeking third party advice.

For more information about our enhanced service, please click here or call one of our accounting specialists - Craig Alexander on 0141 566 7843, Tom Hoare on 0141 566 7991 or Adrian Loughlin on 0141 566 7591.

2 Basic Service

For employers who are happy to adopt the default assumptions, appropriate for an average LGPS employer with your liability profile, we will prepare the standard accounting report for the standard fee.

HYMANS ROBERTSON

Briefing note

Local Government FRS102 / IAS19

February 2020

> "You choose assumptions appropriate for your organisation"

As the actuary to the LGPS fund in which you participate, we provide a set of default accounting assumptions for a 'typical LGPS employer' which can be amended to be more appropriate for your organisation.

The accounting assumptions adopted are ultimately the responsibility of your organisation's directors (or equivalent) based on actuarial advice.

We therefore strongly recommend that you consider the suitability of the default assumptions to your specific organisation. It is up to you to determine how to proceed with the choice of assumptions given the relative importance of the LGPS accounting figures to your organisation's own circumstances.

The value placed on the liabilities for accounting purposes (the defined benefit obligation) is heavily dependent on the assumptions adopted. The assumptions you choose to adopt will drive:

1. your **accounting balance sheet at the year-end date**; and
2. your **profit and loss cost for the year following the year-end date.**

For example, adopting a lower salary increase assumption than our default assumption may better reflect your own organisation's forecasts. This change would lower the value placed on the defined benefit obligation (and improve the accounting balance sheet position).

If you wish to take control of your accounting disclosures, please get in touch with us as soon as possible.

The remainder of this briefing note sets out the rationale behind the setting of our default principal accounting assumptions. The approach to our default assumption setting applies to all accounting disclosures (unless otherwise stated) and is discussed in advance with the National Audit Office, Audit Scotland and Wales Audit Office.

Discount Rate

Both FRS102 and IAS19 state that the discount rate used to place a value on the liabilities should be determined by reference to market yields on high quality corporate bonds at the reporting date. In addition, the currency and term of the high quality corporate bonds used to set the discount rate should be consistent with the currency and term of the liabilities.

Corporate bond yield curve

Government bond yield curves are updated and available on a daily basis from the Bank of England. It is therefore relatively easy to identify a spot yield on Government bonds at any duration and at any date. Unfortunately, a similarly accessible corporate bond yield curve is not so readily available.

We have adopted an approach to setting the discount rate whereby a "Hymans Robertson" corporate bond yield curve is constructed based on the constituents of the iBoxx AA corporate bond index.

Weighted average duration

The discount rate should reflect the 'term' of the benefit obligation. We have interpreted 'term' to be the weighted average duration of the benefit obligation. This is broadly defined as '*the weighted average time until payment of all expected future discounted cashflows, determined based on membership and the financial and demographic assumptions at a particular time*'. The shorter the duration, the more 'mature' the employer.

With increased divergence of LGPS employers, the weighted average durations of individual employers can be materially different. It is therefore not appropriate for all employers to adopt the same financial assumptions for accounting purposes. Our default assumption approach sets out 3 separate discount rates (and corresponding RPI/CPI inflation assumptions) for employers who fall into each duration category below:

Weighted average duration at most recent actuarial valuation	Duration category
Less than 17 years	Short
Between 17 and 23 years	Medium
More than 23 years	Long

Retail Prices Inflation (RPI)

This assumption is typically derived from yields available on fixed interest and index linked government bonds, and should be consistent with the derivation of the discount rate.

We use a market implied inflation curve over a range of maturities. Cashflow weighted single RPI rates are derived from the market implied inflation curve that recognise the weighted average duration of each corresponding duration category defined above.

Pension Increases (CPI)

The pension increase assumption is set in line with our default Consumer Prices Index (CPI) assumption. As a market in CPI linked bonds does not exist, we need to estimate the long-term gap between RPI and CPI to derive a CPI assumption for accounting purposes. Our estimate is based on analysis of past and emerging future trends in the gap between these indices. When setting a CPI assumption, we also take account of the Bank of England's long-term rate of CPI inflation of 2% p.a.

Based on the above approach, our proposed default assumed RPI-CPI gap is 0.9% p.a. for 31 March 2020 (noting this is a slight reduction from the 2019 accounting exercise where 1.0% was used).

Salary growth

Our default assumption for salary growth is set relative to the derived RPI/CPI assumption at the reporting date using the same methodology as the 2019 actuarial funding valuation for the LGPS fund(s) in which you participate. Further details on the salary growth assumption can be found in the 2019 actuarial valuation reports, which will be publicly available on each LGPS fund's website from 1 April 2020.

Longevity assumptions

Our default longevity assumptions for the 2020 accounting exercise are in line with those adopted by your LGPS fund(s) for the 2019 funding actuarial valuation.

Other demographic assumptions

These include assumptions for commutation, withdrawal, ill-health early retirements, etc. We gathered data on recent experience of LGPS funds in order to set appropriate demographic assumptions for the 2019 actuarial valuation. Our default approach will be to use the same demographic assumptions for accounting purposes as at the 2019 funding actuarial valuation. Collectively, these demographic assumptions are intended to be best estimate.

Indicative default assumptions (based on market conditions as at 31 December 2019)

The following table shows our default financial assumptions at 31 December 2019, based on the above methodology. Our default assumptions used for the 31 March 2019 exercise are also shown for comparison purposes.

Please note that bond yields can be particularly volatile and it is the observed bond yields at the actual year-end date that will be used to set our default assumptions. Therefore, the actual default assumptions at 31 March 2020 could be significantly different from the indicative assumptions below which are based on *market conditions as at 31 December 2019*.

Duration category	31 March 2019		31 December 2019	
	Discount rate	RPI (CPI)	Discount rate	RPI (CPI)
Short	2.4%	3.5% (2.5%)	2.0%	3.3% (2.4%)
Medium	2.4%	3.5% (2.5%)	2.0%	3.2% (2.3%)
Long	2.5%	3.4% (2.4%)	2.1%	3.2% (2.3%)

* The indicative assumptions at 31 December 2019 allow for the proposed RPI-CPI gap of 0.9%.

This communication has been compiled by Hymans Robertson LLP, and is based upon their understanding of legislation and events as at date of publication. It is designed to be a general information summary and may be subject to change. It is not a definitive analysis of the subject covered or specific to the circumstances of any particular employer, pension scheme or individual. The information contained is not intended to constitute advice, and should not be considered a substitute for specific advice in relation to individual circumstances. Where the subject of this document involves legal issues you may wish to take legal advice. Hymans Robertson LLP accepts no liability for errors or omissions or reliance on any statement or opinion.

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Appendix

Impact of the 31 March 2019 English and Welsh formal actuarial valuations

Formal actuarial valuations are carried out every three years, where each employer's assets and liabilities are calculated on a detailed basis, using individual member data, for cash contribution setting purposes. The formal valuations for English and Welsh LGPS Funds will be concluded by 31 March 2020.

The accounting balance sheet position as at 31 March 2020, and the projected charge to the P&L for 2020/21, are therefore based on this new roll forward from the 2019 formal valuation. This differs to the balance sheet position as at 31 March 2019 and the charge to the P&L for 2019/20, which were based on a roll forward from the 2016 formal valuation. **This 'step change' can lead to sizeable asset and liability 'remeasurement experience' items in the reconciliation of the balance sheet from 31 March 2019 to 31 March 2020.**

For accounting purposes, we project forward the results from the most recently completed formal valuation: we only allow for certain elements of experience since the formal valuation date, such as actual investment return, estimated contributions paid, estimated benefit outgo, actual early retirements and actual outsourcings/bulk transfers when advised to do so by the employer. As such, the accuracy of the accounting projection declines over time. We would normally expect our projection to be within +/-2% of the underlying position for each year of projection. However, greater differences are possible, particularly if there have been volatile financial market movements or significant membership changes.

The asset and liability 'remeasurement experience' items arise because in the accounting roll-forward we cannot recognise all possible elements of experience, and these are recognised in the formal valuation calculations. **In effect, our accounting figures are "re-calibrated" every three years following each formal valuation.** For example;

- Actual level of salary (or pension) increases – e.g. lower than expected salary growth over the previous inter-valuation period would lead to a positive liability 'experience' item (i.e. lower past service liabilities).
- Outsourcings / Bulk transfers – where the employer has chosen, due to materiality, not to recognise outsourcings and bulk transfers in their accounting position, the impact of these will be included in the asset and liability 'experience' items.
- Membership movements (new entrants, withdrawals, ill health retirements, transfers etc) – any movements different to those assumed within the previous formal valuation will contribute positively or negatively to the asset and liability 'experience' items.

In line with the accounting standards, the liability 'experience' item is identified separately in the reconciliation, however the asset 'experience' item is included in the re-measurement 'return on assets' item shown in Other Comprehensive Income (OCI). In non-valuation years, the 'return on assets' item reflects the difference between actual return over the year and the expected return (recognised in the P&L as the interest income on assets). At first glance, the 2019/20 'excess return on assets' item may appear unusual but this is likely to be due to the inclusion of any asset 'remeasurement experience' from the 2019 formal actuarial valuation 'step-change'.

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Appendix 4 – Key Considerations and FAQs

HYMANS ROBERTSON

Briefing note

Local Government Accounting - FRS102 and IAS19

Key Considerations and Frequently Asked Questions for the 31 March 2020 accounting exercise

This briefing note has been prepared for the Administering Authorities of Hymans Robertson's LGPS clients. We realise that it will also be a very useful document for employers participating in the Local Government Pension Scheme and we recommend it is shared with your employers and their auditors. However, a copy of this briefing note should not be passed to any other third party without our prior written consent.

Please encourage your employers to agree, with their auditors, the approach taken to their accounting disclosures ahead of 31 March 2020. All the information the employers and their auditors should require are contained in our initial correspondence documents.

Key 2020 considerations (employer choice)

Employers have choices to make about 2 key items within the 31 March 2020 disclosures.

1. **McCloud Judgement (Public service pensions age discrimination cases)** –The 2019 funding valuation liability positions (which are the starting roll forward points for the 31 March 2020 IAS19 figures) do not include any estimated allowance for McCloud. This is the case because we were instructed by the Scheme Advisory Board to value the liabilities at the 31 March 2019 funding valuations in line with the current LGPS Regulations benefit structure. Therefore, the 31 March 2020 IAS19 figures would have no estimated allowance for the expected increase in liabilities as a result of the McCloud judgement unless we make a further adjustment to the 2019/20 accounting rollforward calculations. For any employer who allowed for McCloud in 2018/19, without such an adjustment their McCloud allowance would effectively 'drop out' out of the 31 March 2020 figures (and it is our understanding that auditors are unlikely to be comfortable with this).

   As a result, we propose the following options are given to your Fund employers:

   a) Default option A - We make an estimated adjustment to the liabilities for McCloud from the 2019 valuation data to ensure this is captured in the 31 March 2020 IAS19 balance sheet figures.
      - For employers who made an allowance in 2018/19, this is 'putting back in' a McCloud allowance. This impact would flow through as one of many 'other experience' items in the 2019/20 OCI.

- For employers who made no allowance in 2018/19, this allows for a McCloud impact (through the OCI as one part of lots of other valuation experience items) and onto an employer's year end accounting balance sheet.

b) Option B - We make an estimated adjustment to the liabilities for McCloud from the 2019 valuation data to ensure this is captured in the 31 March 2020 IAS19 balance sheet figures (but the impact is separately recorded as Past Service Cost in the 2019/20 P&L).

c) Option C - No allowance is made for McCloud within the 2019/20 accounting disclosures.

Note that Options A and B involve additional calculations and will incur an added cost. We recommend employers agree an approach to the McCloud treatment with their auditor and communicate this to the Fund and actuary ahead of the year end.

2. **Use of estimated investment returns** – As the Actuary, we are able to produce accounting reports in April (which will include an element of estimated Fund asset returns) or later in May (based on finalised Fund assets returns over the year). Employers should be given the choice and agree on the approach taken with their auditor.

   The majority of employers tend to require figures as early as possible to meet internal deadlines and therefore may have no option but to receive reports in April based on estimated Fund asset returns. Under this option, and something that we expect to happen more frequently now as part of the standard process, auditors may subsequently check the estimated Fund returns used against the actual Fund returns once they are known. If there are differences which could have a material impact on an employer's accounts, the auditor may require that the employer requests an updated accounting report.

   Alternatively, for employers who are not under such tight internal deadlines, they could request to wait for their report until a few weeks after the actual Fund returns are available (typically 4-6 weeks following the year end date for the majority of Funds).

   Please also see our response to A1.5 for more information on revised reports (based on updated asset returns or contribution data).

Other considerations

Guaranteed Minimum Pension (GMP) equalisation / indexation – We have allowed for the impact of full GMP indexation in the calculation of the 31 March 2019 triennial funding valuation results. This valuation position is used as the starting point for the accounting rollforward to 31 March 2020 and therefore any increase to your obligations as a result of GMP indexation will be recognised within your closing balance sheet position at 31 March 2020. If you require the breakdown of your additional obligations in respect of GMP, this can be provided at an additional cost to your standard FRS102/IAS19 report. Please discuss this with your auditor ahead of the year end.

Further details on GMP equalisation / indexation can be found in our separate Sixty Seconds Summary here.

Audit queries – There was a marked increase in auditor queries in 2019 on all aspects of the accounting process and the data used. We expect this trend to continue in 2020.

In the first instance, queries should be directed to the Administering Authority who will then, where necessary, liaise with the Actuary.

In instances where we receive queries as the Actuary we will always endeavour to agree an additional fee in advance of answering audit questions.

For example, where we are contacted directly by an auditor (or an employer), we will contact the Administering Authority first to agree a course of action and if required, seek to obtain permission from the employer to engage and agree on an additional cost to answer the queries.

Frequently asked questions

The remainder of this note is a consolidation of questions received and answered during previous FRS102/IAS19 exercises.

Questions

1 Process issues

1.1 Which employers are required to comply with FRS102/IAS19 in full and what are the implication of this?

1.2 Are any employers exempt from the disclosures?

1.3 When will the FRS102/IAS19 figures as at 31 March 2020 be available?

1.4 Do I have to wait until after 31 March 2020 before I can submit information to you?

1.5 Will any advance information need to be revised after 31 March 2020?

1.6 Why can't FRS102/IAS19 reports be finalised ahead of the year end?

1.7 Can an employer use full 12 months actual data instead of "annualised" up part year data?

1.8 Some of my employers did not have a report prepared last year. Will this make a difference to your approach this year?

1.9 An employer in the Fund is expecting a large number of redundancies around the end of the reporting period. How will this affect production of reports?

2 Technical issues

A General Queries

2.1 How will you approach the calculations for the 2020 accounts?

2.2 How do the FRS102/IAS19 calculations differ from the formal valuation and what effect do they have on the contribution rate payable?

2.3 What impact will changes to the Local Audit Regulations have on the IAS19 process for the local authorities?

2.4 How does the International Financial Reporting Interpretations Committee 14 (IFRIC 14) affect the calculations?

2.5 How does International Accounting Standard 26 (IAS26) affect the calculations?

2.6 How does ill-health liability insurance affect the disclosures for 2019/20?

2.7 What asset information does Hymans Robertson require to prepare disclosures?

2.8 The Financial Reporting Standards have changed: how does this affect my 2020 accounts?

B Assumptions

2.9 Can we rely on the assumptions put forward by Hymans Robertson?

2.10 What financial assumptions will you propose (e.g. discount rate, pension increases)?

2.11 What non-financial assumptions will you propose (e.g. life expectancy, turnover rates)?

2.12 What assumptions can employers' directors decide?

2.13 What happens if we want to use assumptions which the actuary is not comfortable with?

2.14 How will the 2019/20 Revenue Account costs compare with those estimated last year?

C Calculations

2.15 Are unfunded liabilities for redundancy pensions covered by FRS102/IAS19?

2.16 Can you give some examples of what might appear as past service costs (including curtailments) and settlements?

2.17 How are (non ill-health) early retirements treated?

2.18 How are ill-health early retirements treated?

2.19 How are employees' contributions accounted for?

2.20 How are Additional Voluntary Contributions (AVCs) accounted for?

2.21 How are administration expenses treated?

2.22 How do you calculate the employer's share of assets in the Fund?

Our Responses

1 Process issues

Q1.1 Which employers are required to comply with FRS102/IAS19 in full and what are the implications of this?

A1.1 Our understanding is that all local authority, corporate and other bodies which are subject to FRS102/IAS19 should now be complying in full and disclosing the figures on the face of their accounts. You should encourage your employers to discuss their requirements with their auditors. (See also Q1.2).

Q1.2 Are any employers exempt from full disclosures?

A1.2 CIPFA gives an exemption from full defined benefit disclosures if any "Town, Parish and Community Councils or other non-principal authorities (such as internal drainage boards)" does not have an individually assessed employer contribution rate.

There is a possible exemption under the accounting standards for any employers for whom it is not possible to separately identify their assets and liabilities. However, any employers relying on this exemption will need to explain in their accounts why it is not possible to separately identify the assets and liabilities.

We are aware that some employers which are pooled consider that such pooling falls within the exemption. We would note that where employers' assets and liabilities are pooled together in a notional sub-fund, this is generally carried out with the mutual agreement of the employers or at the request of the Administering Authority.

This gives greater stability of actual employer contributions and is administratively simpler for funding purposes.

However, we believe that the membership data that we hold is, in virtually all cases, sufficient to disaggregate the liabilities down to the level of each individual employer within the pool. In certain cases, it may be necessary to make reasonable assumptions to apportion liabilities, e.g. where pension increase costs are shared.

As it is therefore possible to provide disaggregated FRS102/IAS19 figures for virtually all LGPS employers, we are not sure whether it is possible for employers to claim an exemption.

However, this does not prohibit employers from seeking such an exemption if they wish and we will only produce accounting reports for employers who have been identified by you as requesting one.

Ultimately, it is a matter for each employer to establish, with the help of their auditors, whether or not they are exempt.

Q1.3 When will the FRS102/IAS19 figures as at 31 March 2020 be available?

A1.3 It is not possible for us to produce final results in advance of the year end since the accounting standards require the calculations to be based on market conditions as at 31 March 2020 (see also Q1.6).

For an extra fee, a provisional report could be provided in advance of the year end, based on the most up to date investment return and market yields available. The report would be subject to revision after the year end date. (See also Q1.5).

Reports will be issued as soon as possible after 31 March 2020 with all standard reports typically delivered before the end of April 2020 (subject to the provision of complete and correct data to us in agreed timescales).

In order to be fair to all our clients, we cannot guarantee that any late submitted requests for additional employer reports can be carried out to the same timescale. The timescale may change if we are subsequently provided with amended or additional data.

We would ask you to identify in advance any new employers that have joined since the last accounting date, or have been subject to significant change in membership (e.g. bulk transfers) as these employers will require extra work and may take longer.

As always, if any of your employers have a known audit date/deadline please let us know as soon as possible. We are happy to work with individual funds to prioritise their reports to ensure employer deadlines may be met.

Q1.4 Do I have to wait until after 31 March 2020 before I can submit information to you?

A1.4 Whilst we cannot finalise our calculations until after the year end (see Q1.6 and 2.3), we typically request the data well in advance of 31 March 2020. We would be very grateful if Administering Authorities could provide full 12 month contribution data. This could be in one of two forms:

1. "annualised" data whereby the data consists of actual contributions for a certain period e.g. 10 months and estimated contributions for the remaining period to 31 March 2020; or
2. Actual contribution information for the full year to 31 March 2020

Under option 1 Administering Authorities should ensure they are satisfied the "estimated" contribution information provided reflects what they expect an employer to pay over the full year as this will be what appears in the employer's accounting report. Under this option we would be grateful if Administering Authorities could provide data and cashflow information by mid-March 2020 at the very latest.

Option 2 is available for an employer to receive their report based on actual cashflow information to 31 March 2020. In this case, the updated cashflow information as at 31 March 2020 would be submitted as soon as it is available (likely early to mid-April). This option may mean later delivery of reports compared to option 1 (as the data required is being received at a later date).

We require actual fund investment returns from 1 April 2019 through to the latest available date and a split of investments in the fund between different asset classes (as at 31 December 2019) (see also Q2.7).

We will assume that the split of assets at 31 March 2020 is equal to that as at 31 December 2019. The estimated fund return, from the latest available date for actual returns to 31 March 2020, is based on market returns for each of the principal asset classes.

In respect of early retirements, we require details of any new non ill-health retirements (except those awarded actuarially reduced benefits) in the period from 1 April 2019 to the latest available date and individual details of all unfunded benefits in payment at the latest available date.

If your employers are able to give advance warning of planned early retirements in the period to 31 March 2020 that information would be very useful. Please see also Q1.9.

Q1.5 Will any advance information need to be revised after 31 March 2020?

A1.5 For the majority of employers, we would expect that any differences between the initial data supplied and the position at 31 March 2020 would not have a material impact on the calculations. If for any reason, the Administering Authority or an employer believes the data supplied is inaccurate such that it could introduce material distortions in the results, please let us know as soon as possible upon discovery.

As noted in the key considerations on at the start of this Briefing Note, auditors may choose to compare any estimated Fund returns used (disclosed on page 2 our Results Schedules) with the actual Fund returns once they are known. If there is a difference in the returns which could have a material impact on an employer's overall balance sheet position, the employer and their auditor may request a revised report using the most up-to-date asset information.

New data (early retirement information, asset return figures, contribution paid in etc) may need to be submitted to allow us to revise our calculations.

However, once we receive this new data, we should be able to produce a revised accounting report, typically for a fixed additional cost, in accelerated timescales.

We strongly recommend that employers inform their auditors of our approach to FRS102/IAS19 calculations, well before 31 March, so that we can address any issues they have in advance of the provision of results.

Q1.6 Why can't FRS102/IAS19 reports be finalised ahead of the year end?

A1.6 The accounting standards require the assets and liabilities to be measured on the year-end date, and this limits the extent to which work may be carried out in advance.

The discount rate and RPI rate used to value the liabilities for the balance sheet position are based on bond yields as at the year-end and hence will not be known until after the year-end date. This prevents any final calculations being carried out in advance of the year-end date.

Further, the asset value should be a market value on the balance sheet date so cannot be accurately estimated until after the year-end.

Our ability to accurately estimate bond yields at the accounting date, and asset returns over the period to the accounting date, is further complicated at this time due to recent volatile market changes. There is a significant risk that any reports prepared in advance of the accounting date will need to be revised once actual bond yields and asset returns as at the accounting date are known: this would add delays and costs to the exercise. NB see also Q2.3.

Q1.7 Can an employer use full 12 months actual data instead of "annualised" up part year data?

A1.7 Yes, as long as we know this in advance and the employer is aware that it will likely mean a later delivery date for their accounting report.

Please confirm to us in advance which employers (if any) would like to take up this option.

Q1.8 Some of my employers did not have a report prepared last year. Will this make a difference to your approach this year?

A1.8 2019 figures are essential to provide the opening position for FRS102/IAS19 calculations for this year's reports. We can, however, prepare the opening position figures at the same time as the 31 March 2020 figures. There is extra work involved in this process, however, and there will therefore be an additional cost. Please let us know of such employers when submitting the data capture spreadsheet.

If this is a new employer in the fund, then we will discuss this with you separately and the first year report will cost markedly more than in the future.

Q1.9 An employer in the Fund is expecting a large number of redundancies around the end of the reporting period. How will this affect production of reports?

A1.9 If the employer is adopting the full actual 12 months data option (See Q1.7) then this is not an issue. Otherwise, we suggest that this is dealt with as follows:

(a) submit known early retirement data as at a date prior to 31 March 2020 along with other FRS102/IAS19 data;

(b) carry out checks once actual data becomes available; and

(c) if actual data significantly differs from initial submission, submit revised data.

Given the process described in Q1.3 for determining timescales for delivery of reports, we cannot guarantee that employers affected by this will receive updated reports at the same time as the main batch. To reduce the likelihood and extent of delays, we would encourage employers to submit full year data to the administering authority as soon as possible. Depending on when the full year data is received, there may be additional fees for any necessary rework of calculations and reissue of reports.

2 Technical issues

A General Queries

Q2.1 How will you approach the calculations for the 2020 accounts?

A2.1 The 2019/20 disclosure will be based on the formal funding valuation results as at 31 March 2019, projected forward for one year. This will be adjusted to allow for known changes in assets, changes in salary roll, and the FRS102/IAS19 financial assumptions.

Q2.2 How do the FRS102/IAS19 calculations differ from the formal valuation and what effect do they have on the contribution rate payable?

A2.2 The purpose of the formal funding valuation, which is carried out every three years, is to assess the ongoing financial position of the Fund and to determine the rate at which the employing bodies participating in the Fund should contribute in the future. The aim of this valuation is to ensure that the existing assets and future investment returns and contributions will be sufficient to meet future benefit payments from the Fund.

FRS102 & IAS19 are accounting standards, the purpose of which is to facilitate comparison of the pension obligations of employers. The accounting calculations are carried out using a prescribed method and some of the assumptions are also prescribed.

As the method and assumptions underlying the calculations are different, the accounting calculations will produce different results from the formal funding actuarial valuation. In particular, the calculated surplus, or deficit, will likely be different from that published in the formal funding valuation.

In terms of the contributions that need to be paid into the Fund, accounting valuations have no effect. The contribution rates are set by the triennial actuarial valuation referred to in the first paragraph.

Any calculated FRS102/IAS19 deficit is noted in the employer's accounts in full. In a formal funding valuation, however, a calculated deficit can be spread and paid off over a number of years by an addition to the contribution rate.

Q2.3 What impact will changes to the Local Audit Regulations have on the IAS19 process for local authorities?

A2.3 The Local Audit Regulations have brought forward the deadlines for local authorities to prepare their draft financial statements by 31 May (then be approved by audit and published by 31 July). This applies for the first time in the 2019/20 financial year.

To help with this revised deadlines, we are able to provide IAS19 reports shortly after the year-end date. Please discuss with your actuary the specific timescales we should work to for specific employers.

Q2.4 How does the International Financial Reporting Interpretations Committee 14 (IFRIC 14) affect the calculations?

A2.4 IFRIC14 limits the surplus a company can recognise on its balance sheet. The International Accounting Standards Board recently decided to tighten up the rules around this and amend its IFRIC14 guidance as it applies to IAS19, however it is our understanding that the IFRIC14 changes should not change the approach LGPS employers take to recognising surplus in their accounts. As such, there will be no change to our standard reports as a result of this amendment and we recommend that LGPS employers seek further advice (from us or their auditor) if a balance sheet surplus exists on the accounting date.

Q2.5 How does International Accounting Standard 26 (IAS26) affect the calculations?

A2.5 IAS26 relates to the accounts for pension schemes and LGPS Funds, not employers. The accounts for such schemes or funds may refer to IAS19 liabilities, although the IAS19 disclosures themselves are not affected by IAS26. Please speak to your actuary regarding production of an IAS26 disclosure for your Fund.

Q2.6 How does ill-health liability insurance affect the disclosures for 2019/20?

A2.6 If an employer has ill-health liability insurance, this will have no impact on their accounting disclosures for 2019/20.

The liabilities have not changed even if ill-health liability insurance is taken out, as the pensions still need to be paid for and funded by the employer (albeit some of the ill-health pension cost will be met by the insurer). It is not the case that the ill-health pension is being paid by an insurer, as it pays out a single lump sum to the employer (and the Fund is left to meet the whole benefit regardless).

The presence of ill-health liability insurance does not reduce the employer's liabilities, at least in the longer term, because we expect the ill-health insurance premium to be broadly equal to the expected ill-health strains on the accounting assumptions, and in turn to be broadly equal to the actual ill-health strains.

Our current approach in effect includes an ill-health premium within the current service cost. Technically an employer with ill-health liability insurance should not account for the ill-health premium elsewhere in their accounts, but instead should say that the pension service cost in effect includes the ill-health insurance premium. The premium may be shown in the cash reconciliation statement.

Q2.7 What asset information does Hymans Robertson require to prepare disclosures?

A2.7 In line with the current version of IAS19, implemented for the first time in 2013, we require detailed information in respect of the Fund's asset allocation.

When an employer requests an IAS19 report, we require a more detailed split of the Fund's assets, in order for us to provide disclosures that comply with the IAS19 standard. A note of the asset information required will be sent to Administering Authorities by your usual Hymans Robertson contact.

Q2.8 Our organisation reports under the Financial Reporting Standards: how do these affect my 2020 accounts?

A2.8 On 14th March 2013, the Financial Reporting Council issued FRS 102: The Financial Reporting Standard applicable in the UK and Republic of Ireland, which sets out the accounting and reporting requirements for unlisted entities. It replaced the

majority of UK accounting standards (including FRS17). FRS102 first applied to accounting periods beginning on or after 1 January 2015.

On the first time adoption of FRS102 an employer is required to show comparative information, determined in line with the FRS 102 standard, for the prior accounting period. For example, an employer with a 31 March 2020 year end will be required to state the FRS 102 position for the year to 31 March 2019.

The above does not affect local authorities or other bodies using International Accounting Standards.

B Assumptions

Q2.9 Can we rely on the default assumptions put forward by Hymans Robertson?

A2.9 Yes, the methodology used for setting our default assumptions at 31 March 2020 is discussed with the National Audit Office in advance. Please note however that the ultimate decision on what assumptions to use in employers' accounts lies with the directors (or equivalent) of each organisation (subject to auditor agreement).

For non-CIPFA employers the National Audit Office technically has no role, but its agreement to the methodology of setting our default assumptions should be of some comfort. We are seperately issuing an Assumptions Briefing Note which outlines our default assumption-setting approach: you are strongly advised to share this with your auditor as soon as you receive this, to ensure they are comfortable with these too.

If we are requested to alter assumptions after the accounting date, this may cause delays and/or additional fees.

Q2.10 What financial assumptions will you propose (e.g. discount rate, pension increases)?

A2.10 We cannot confirm these until after 31 March 2020, since the accounting standards require us to use market conditions (e.g. long term bond yields) at the accounting date. Further, the term of the bonds should be consistent with the estimated term of the liabilities which means different employers may have different assumptions applying. Our separate Assumptions Briefing Note outlines our approach to setting the default accounting assumptions.

Q2.11 What non-financial assumptions will you propose (e.g. life expectancy, commutation etc)?

A2.11 These are normally set in line with the most recent funding valuation.

Q2.12 What assumptions can employers' directors decide?

A2.12 The assumptions used for FRS102/IAS19 reporting are ultimately the responsibility of the directors (or equivalent) but should take into account advice given by an actuary. FRS102/IAS19 requirements for the various financial and demographic assumptions, and the scope for judgement, are set out in the separate Assumptions Briefing Note. We would be happy to tailor any of the assumptions to the needs of individual employers.

If the employer wishes to use different financial or demographic assumptions, there may be an additional fee; depending on the complexity of the request, the preparation of the report could fall outside of the main batch of the reports.

To ensure that we are able to carry out the reports in the most cost effective and timely manner, it is important that we are informed in advance of the accounting date if the employer wishes to move away from default assumptions.

Q2.13 What happens if we want to use assumptions which the actuary is not comfortable with?

A2.13 There is no single "right answer" when it comes to setting accounting assumptions, and so there is a range of acceptable bases which could be used. If your actuary feels that your chosen basis falls outside this range, we will still prepare figures as you request but our report will state that this is the case.

Please note that this is not the same as qualifying your accounts: if your auditor accepts the basis then the figures can be included in your accounts without any problem.

Q2.14 How will the 2019/20 Revenue Account costs compare with those estimated last year?

A2.14 Most of the components of the Revenue Account cost can be readily estimated in advance and we provided estimates of 2019/20 costs when valuing the closing balance sheet figures as at 31 March 2019.

We expect that, in the normal course of events, the main revenue figures disclosed in the accounts to 31 March 2020 would be broadly unchanged from those estimated last year. However, we allow for any changes between projected and actual payroll/cashflows over the year.

Last year's projections will not have allowed for any early retirement costs or the transfer of benefits during 2019/20. Such things need to be accounted for in the year in which they occur, but clearly cannot be known in advance (and thus are not included in our projections).

C Calculations

Q2.15 Are unfunded pensions covered by FRS102/IAS19?

A2.15 Yes. Any unfunded liabilities which an employer has outside its main pension arrangements should be valued and reflected in its Balance Sheet.

The main example will be employers paying top-up unfunded pensions direct from revenue rather than from the pension fund. This is relatively common for certain employers participating in the LGPS.

Note that, whilst employers with members in the Teachers' Pension Scheme are permitted to simply account for their normal pension scheme costs as cash contributions, we do not believe that this exemption applies to unfunded Teachers' pensions which the employer pays directly. The value of the accrued unfunded liabilities is shown in the balance sheet and the FRS102/IAS19 cost of any new early retirements from Teachers should go through the employer's Revenue Account.

Q2.16 Can you give some examples of what might appear as past service costs (including curtailments) and settlements?

A2.16 Discretionary benefits awarded on early retirement are treated as past service costs. This includes added years and unreduced pension benefits awarded before the Rule of 85 age, (excluding ill-health early retirements).

Settlements may take account of outgoing bulk transfers and will show the difference between the FRS102/IAS19 liability and the amount paid to settle the liability. This includes any English Council schools converting to academy status during the year.

Curtailments will include the cost of the early payment of pension benefits and any discretionary benefits awarded in the event that any employee has been made redundant in the previous financial year. Under IAS19 and FRS102, curtailments are recognised as past service costs.

Q2.17 How are (non ill-health) early retirements treated?

A2.17 Our FRS102/IAS19 estimates of liabilities arising from future retirements will assume that members retire at the date on which they can take all pension unreduced.

Where retirement occurs before this date in practice, an additional FRS102/IAS19 liability may be required: we will value any such early retirements which we are advised of.

Any costs of new early retirements in the financial year would be shown in the Revenue Account as a past service cost. Any new awards of augmentation (whether funded or unfunded) would also be a past service cost.

Q2.18 How are ill-health early retirements treated?

A2.18 An allowance is included in both the past service and future service costs for the assumed extra costs of ill-health retirements

There is no additional FRS102/IAS19 cost in an employer's revenue account for any ill-health retirements which occur during the year.

The ill-health assumptions are not normally tailored to the circumstances of individual employers participating in a LGPS fund, although they do allow for the membership structure of each employer. Any difference between assumptions and experience will be revealed in the OCI.

Q2.19 How are employees' contributions accounted for?

A2.19 In calculating the pension costs for the Revenue Account, we will deduct an allowance for employees' contributions (estimated using the banded scale).

The projected 2019/20 service cost also excludes the estimated employee contributions.

Q2.20 How are Additional Voluntary Contributions (AVCs) accounted for?

A2.20 Money purchase AVCs are excluded from our accounting calculations. It is not practical to include them and the employer is not underwriting the benefit or (normally) promising any contribution. Any LGPS employers which have established shared cost AVC schemes will need to account for their contributions to these schemes.

Added years which have already been purchased by the year end date will be included in the benefit liabilities for active members. Future purchases of added years (and the contributions payable) will be excluded from the future pension cost figures.

Q2.21 How are administration expenses treated?

A2.21 Our calculations are based on the assumption that expected administration expenses are met by an element of the ongoing contributions paid, i.e. within the Current Service Cost. This expense allowance is measured at the most recent triennial valuation.

Q2.22 How do you calculate the employer's share of assets in the Fund?

A2.22 This is calculated at each triennial valuation of the Fund, or for a new employer it is calculated at the time the employer joins the Fund.

Thereafter it is rolled forward to the accounting date using suitable estimates of the investment returns, contributions received and benefits paid out, all applicable to the employer's share. For the avoidance of doubt, each employer's share of the Fund is individually tracked. Therefore, any contributions which you pay to the Fund are allocated entirely to your asset share and are not spread in any way.

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