Report of the Deputy Chief Executive

STATEMENT OF ACCOUNTS 2021/22 - UNDERLYING PENSION ASSUMPTIONS

1. Purpose of Report

To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS19 figures to be reported in the 2021/22 Statement of Accounts.

2. Introduction

IAS19 (International Accounting Standard 19 - Employee Benefits) is one of the financial reporting standards with which the Council must comply when producing its annual Statement of Accounts. The basic requirement of IAS19 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

In order to calculate the cost of earned benefits for inclusion in the Statement of Accounts, the scheme actuaries use certain assumptions to reflect expected future events which may affect the cost. The assumptions used should lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date. The proposed assumptions for 2021/22 are shown in the appendix.

The Council will use the calculated costs and the underlying assumptions based upon the advice of the actuary of the Nottinghamshire County Council Pension Fund, Barnett Waddingham and the administering authority (Nottinghamshire County Council) in preparing the annual Statement of Accounts. A formal actuarial valuation is carried out every three years, the last being as at 31 March 2019. The Actuary's final report for 2021/22 is due to be received on 25 April 2022. All of the figures relating to IAS19 are simply accounting adjustments made to comply with accounting standards and have no direct impact on resources. The amount charged to the General Fund Balance is the actual amount paid out in employers' contributions and not the charge calculated in accordance with IAS19. The liability shown in the balance sheet is an estimate based on assumptions and would only ever become payable if the Council ceased as a going concern.

Recommendation

The Committee is asked to NOTE the assumptions to be used in the calculation of pension figures for 2021/22.

Background Papers - Nil

APPENDIX

Proposed Financial Assumptions for 2021/22

The value of the Pension Fund's assets and liabilities are heavily dependent on the underpinning assumptions. The Employer is ultimately responsible for the assumptions used and this year's proposed assumptions are listed below:

- Corporate bond yields – This is used to derive the discount rate which is applied to the employer's liabilities to calculate their future values. The rates used are those that match the duration of the employer's liability.
- Expected Return on Assets – The actuaries anticipate that a typical local Government Pension Fund might achieve a positive return of 8% in the year to 31 March 2022 although this may vary depending on the individual funds investment strategy.
- Inflation Expectations – The levels of future Retail Prices Inflation (RPI) are assessed on the basis of the yields on fixed interest and index linked government securities over the period of the duration of the liabilities. The increases in pensions in the Local Government Pension are based on the Consumer Prices Index (CPI) which historically is lower than the Retail Prices Index. The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of between 0.25% and 0.9% dependent on the duration of the employer's liabilities.
- Salary Increases – The actuaries have proposed that salary increases are in line with CPI plus 1%.

The overall impact of the assumptions for an average employer is set out below but it should be noted that individual employer's circumstances vary, in particular the average age of their overall liabilities and therefore the results for Broxtowe may be different from the assessment below.

Changes in Actuary's Assumptions upon Employer's Liability from 2020/21

Assumption	Duration of Individual Employee Liability (Years)			
	Less than 10 years	Between 0 to 15	Between 15 to 20	Greater than 20 years
Effect of change in discount rate on employer's liability	Decrease of 3%	Decrease of 4%	Decrease of 5%	Decrease of 5%
Change in inflation on employer's liability	Increase of 4%	Increase of 4%	Increase of 5%	Increase of 5%
Overall impact	No change	Increase of 1%	No change	No change

Impact of Covid-19 on mortality assumption

There are two main steps in setting the mortality assumption:

- Making a current assumption of members' mortality and
- Projecting these current mortality rates into the future

To project future mortality rates, a model prepared by the Continuous Mortality Investigation Bureau (CMI) is used. The CMI update their model on an annual basis incorporating the latest mortality data in the national population. CMI have made a material change to the 2020 model due to the impact of abnormal mortality data in 2020.

The approach of the Actuaries will be to continue with a roll forward approach in calculating liabilities rather than carry out a full valuation if member data. This means mortality experience is estimated through benefits paid to members. The difference between this estimate and the employer's actual mortality rate experience will then be incorporated once the next actuarial valuation of the fund is undertaken in 2022. For the assumptions as at March 2021 the CMI 2020 model will be adopted.

Supreme Court ruling in McCloud/Sargeant cases

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. The first case McCloud and the second case (Sargeant) were subsequently linked and in June 2019 the Court of Appeal ruled the reforms amounted to unlawful discrimination.

There are currently uncertainties in relation to Local Government Pension Schemes (LGPS) benefits due to the McCloud and Sargeant judgements. Remedial regulations are expected in 2022 and uncertainty over the benefit changes proposed for the LGPS will remain until these have been finalised.

Impact of Goodwin case

Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS.

As this has just recently been announced, the Actuary does not yet have an accurate indication of the potential impact this may have on the value of employers' liabilities or the cost of the scheme. Any indication of cost at this stage will only be a rough estimate as in a lot of cases, funds will not have this information or data to hand. However, the Actuary believes the impact will very small and not material for the vast majority of employers.

Impact of Lloyds judgement

The Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid. It is not yet known if, or how, this will affect the LGPS.