AUDIT & ACCOUNTS COMMITTEE
27 APRIL 2022

UNDERLYING PENSION ASSUMPTIONS FOR 2021/2022 STATEMENT OF ACCOUNTS

1.0 Purpose of Report

1.1 To provide Members with information regarding the assumptions made by the pension fund actuary in calculating the IAS 19 (International Accounting Standard 19 - Employee Benefits) figures to be reported in the 2021/2022 Statement of Accounts.

2.0 Introduction

2.1 IAS 19 - Employee Benefits is one of the financial reporting standards with which the Council must comply when producing its annual Statement of Accounts.

2.2 The basic requirement of IAS 19 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

2.3 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.

2.4 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.

2.5 A formal actuarial valuation is carried out every three years, the last being as at 31 March 2019. The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023 as required under Regulation 62 of the Regulations.

2.6 All of the figures relating to IAS 19 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 IAS 19. 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.

2.7 The Actuary's report for 2021/2022 was received on 11th April 2022, however due to the timeliness of the report the Asset valuations where only based up to 31/12/2021. Therefore a revised IAS19 report is expected to be received mid-May with the Asset values at 31/03/2022. The current Actuary report is attached at appendix A.

3.0 Financial Assumptions

	2021/2022	2020/2021
Pension Increase Rate Public sector pension increases are linked to the Consumer Prices Index (CPI).	3.20%	2.80%
Salary Increase Rate Reflects the expected rate of growth in pensionable pay, allowing for increases over and above inflation, eg career progression	4.20%	3.80%
Discount Rate This allows for the effect of inflation on the liabilities in the scheme.	2.60%	2.00%

4.0 Demographic Assumptions

	2021/2022	2020/2021
Pensioner Mortality Life expectancy from age 65 years This impacts on the length of time pensions are expected to be payable		
Retiring today	Male 21.6 Female 24.3	Male 21.6 Female 24.3
Retiring in 20 years	Male 23.0 Female 25.8	Male 22.9 Female 25.7
Additional Assumptions; • Members will exchange half of their commutable pension for cash at retirement; • Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and • The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.		

5.0 Impact in Financial Statements

Assumption	Movement	Impact
Price Inflation	Decrease Increase	Decrease in charge for cost of future pensions Increase in charge for cost of future pensions
Pension Increase Rate	Decrease Increase	Decrease in liabilities Increase in liabilities
Salary Increase Rate	Decrease	Decrease in charge for cost of

	Increase	future pensions Increase in charge for cost of future pensions
Discount Rate	Decrease Increase	Reduction in liabilities Increase in liabilities

6.0 RECOMMENDATION

Members note and approve the assumptions used in the calculation of pension figures for 2021/2022.

Background Papers

Nil

For further information please contact Andrew Snape on extension 5532.

Sanjiv Kohli
Deputy Chief Executive/Director – Resources and S151 Officer