Mansfield and District Joint Crematorium

Nottinghamshire County Council Pension Fund

Pension accounting disclosure as at 31 March 2019

Prepared in accordance with IAS19

Barnett Waddingham LLP

4 April 2019

Contents

Introduction

We have been instructed by Nottinghamshire County Council, the administering authority to the Nottinghamshire County Council Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to employees of Mansfield and District Joint Crematorium (the Employer) as at 31 March 2019. We have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the Employer and its advisers; in particular, this report is likely to be of relevance to the Employer's auditor.

These figures are prepared in accordance with our understanding of International Accounting Standard 19 (IAS19).

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

The figures quoted will form the basis of the balance sheet and funding status disclosures to be made by the Employer as at 31 March 2019 in respect of its pension obligations under the LGPS. The projected pension expense calculations for the year to 31 March 2020 may be used for the purpose of any interim financial reporting during the year to 31 March 2020. However, it may subsequently be necessary to adjust these projections following the occurrence of any material events such as curtailments, settlements or the discontinuance of the Employer's participation in the Fund.

Please note that no allowance has been made for the recent McCloud judgement which relates to age discrimination within the New Judicial Pension Scheme. It is currently unclear how this judgement may affect LGPS members' past or future service benefits. We continue to participate in discussions with the governing bodies of the LGPS to understand how this may affect mechanisms within the scheme, however, at the time of producing the report no guidance or indication of the likely impact of this ruling has been provided to funds.

Please note we have not made any allowance for IFRIC14 in our calculations. We would be happy to speak to the Employer or their auditor if more information is required.

IAS19 also requires the disclosure of any other employer provided pension benefits which are not paid from the Fund itself: examples include additional pensions paid on retirement under the Discretionary Payment Regulations. We have only valued such additional liabilities, which would not be covered in the formal LGPS valuation, to the extent that they have been notified to us and are as disclosed in the Valuation data section of this report.

Characteristics of defined benefit plans and associated risks

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings. Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS website and the Fund's membership booklet.

The administering authority for the Fund is Nottinghamshire County Council. The Pension Fund Committee oversees the management of the Fund whilst the day to day fund administration is undertaken by a team within the administering authority. Where appropriate some functions are delegated to the Fund's professional advisers.

As administering authority to the Fund, Nottinghamshire County Council, after consultation with the Fund Actuary and other relevant parties, is responsible for the preparation and maintenance of the Funding Strategy Statement and the Investment Strategy Statement. These should be amended when appropriate based on the Fund's performance and funding.

Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation of the Fund will be carried out as at 31 March 2019 and will set contributions for the period from 1 April 2020 to 31 March 2023. There are no minimum funding requirements in the LGPS but the contributions are generally set to target a funding level of 100% using the actuarial valuation assumptions.

On the Employer's withdrawal from the Fund, a cessation valuation will be carried out in accordance with Regulation 64 of the LGPS Regulations 2013 which will determine the termination contribution due by the Employer, on a set of assumptions deemed appropriate by the Fund Actuary.

In general, participating in a defined benefit pension scheme means that the Employer is exposed to a number of risks:

- Investment risk. The Fund holds investment in asset classes, such as equities, which have volatile market values and while these assets are expected to provide real returns over the long-term, the short-term volatility can cause additional funding to be required if a deficit emerges;
- Interest rate risk. The Fund's liabilities are assessed using market yields on high quality corporate bonds to discount future liability cashflows. As the Fund holds assets such as equities the value of the assets and liabilities may not move in the same way;
- Inflation risk. All of the benefits under the Fund are linked to inflation and so deficits may emerge to the extent that the assets are not linked to inflation; and
- Longevity risk. In the event that the members live longer than assumed a deficit will emerge in the Fund. There are also other demographic risks.

In addition, as many unrelated employers participate in the Nottinghamshire County Council Pension Fund, there is an orphan liability risk where employers leave the Fund but with insufficient assets to cover their pension obligations so that the difference may fall on the remaining employers.

All of the risks above may also benefit the Employer e.g. higher than expected investment returns or employers leaving the Fund with excess assets which eventually get inherited by the remaining employers.

Valuation data

Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Nottinghamshire County Council:

- The results of the valuation as at 31 March 2016 which was carried out for funding purposes and the results of the 31 March 2018 IAS19 report which was carried out for accounting purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2019;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2016, 31 March 2018 and 31 December 2018, Fund income and expenditure as noted above, and estimated market returns thereafter for the period to 31 March 2019;
- Estimated Fund income and expenditure in respect of the Employer for the period to 31 March 2019; and
- Details of any new early retirements for the period to 31 March 2019 that have been paid out on an unreduced basis, which are not anticipated in the normal employer service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

Employer membership statistics

The table below summarises the membership data, as at 31 March 2016 for members receiving funded benefits, and as at 31 March 2016 for any members receiving unfunded benefits.

Member data summary	Number	Salaries/Pensions £000s	Average age
Actives	12	223	50
Deferred pensioners	6	5	45
Pensioners	5	20	58
Unfunded pensioners	2	0	69

The service cost for the year ending 31 March 2019 is calculated using an estimate of the total pensionable payroll during the year. The estimated total pensionable payroll during the year is £274,000, as advised by the Employer. The projected service cost for the year ending 31 March 2020 has been calculated assuming the payroll remains at this level over the year.

Scheduled contributions

The table below summarises the minimum employer contributions due from Mansfield and District Joint Crematorium to the Fund over this inter-valuation period. The calculated cost of accrual of future benefits is 17.7% of payroll p.a. The monetary amounts are due to be paid 0.

Minimum employer contributions due for the period beginning	1 Apr 2017	1 Apr 2018	1 Apr 2019
Percent of payroll	17.7%	17.7%	17.7%
plus monetary amount (£000s)	21	21	22

Mansfield and District Joint Crematorium may pay further amounts at any time and future periodic contributions, or the timing of contributions may be adjusted on a basis approved by us.

Early retirements

We requested data on any early retirements in respect of the Employer from the administering authority for the year ending 31 March 2019.

It is our understanding that there were no new early retirements over the year which were not allowed for at the previous accounting date.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2019 is estimated to be 10%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Mansfield and District Joint Crematorium as at 31 March 2019 is as follows:

Asset breakdown	31 Mar 2019		31 Mar 2018	
	£000s	%	£000s	%
Equities	874	60%	846	66%
Gilts	42	3%	29	2%
Other bonds	145	10%	150	12%
Property	226	16%	162	13%
Cash	44	3%	25	2%
Inflation-linked pooled fund	53	4%	32	2%
Infrastructure	72	5%	42	3%
Total	**1,456**	**100%**	**1,286**	**100%**

We have estimated the bid values where necessary. Please note that the individual percentages shown are to the nearest percentage point for each asset class and may not sum to 100%. The final asset allocation of the Fund assets as at 31 March 2019 is likely to be different from that shown due to estimation techniques.

Based on the above, the Employer's share of the assets of the Fund is less than 1%.

We received the following information from the administering authority regarding the detail of their assets as at 31 December 2018, representing the percentages of the total Fund held in each asset class (split by those that have a quoted market price in an active market, and those that do not).

Asset breakdown		31 Dec 2018	
		% Quoted	% Unquoted
Fixed Interest Government Securities			
	UK	2.9%	-
Corporate Bonds			
	UK	9.5%	-
	Overseas	0.4%	-
Equities			
	UK	23.2%	0.1%
	Overseas	34.2%	-
Property			
	All	-	15.5%
Others			
	Private Equity	-	2.5%
	Infrastructure	-	4.9%
	Inflation Linked	-	3.6%
	Cash/Temporary Investments	-	3.0%
Total		**70.3%**	**29.7%**

We do not have any further detail on the current asset allocation of the Fund; we suggest that if further information is required the administering authority is contacted in the first instance. Please note that as above, no adjustments for presentational purposes have been made to the percentages shown.

Actuarial methods and assumptions

Valuation approach

Valuation of the Employer's liabilities

To assess the value of the Employer's liabilities at 31 March 2019, we have rolled forward the value of the Employer's liabilities calculated for the funding valuation as at 31 March 2016, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated value of liabilities as at 31 March 2019 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2019 should not introduce any material distortions in the results provided that the actual experience of the Employer and the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Valuation of the Employer's assets

To calculate the asset share we have rolled forward the assets allocated to the Employer at 31 March 2016 allowing for investment returns (estimated where necessary), contributions paid into, and estimated benefits paid from, the Fund by and in respect of the Employer and its employees.

The Employer currently participates in the Small Scheduled Bodies pool with other employers in order to share experience of risks they are exposed to in the Fund. At the 2016 valuation, the deficit for the whole pool was calculated and allocated to each employer in proportion to their value of liabilities. The next reallocation will be carried out at the 2019 valuation, should the Employer remain in the pool. Each employer within the pool pays a contribution rate based on the cost of benefits of the combined membership of the pool.

Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found here.

On 22 January 2018, the Government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary increase. Therefore we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016. The post retirement mortality tables adopted are the S2PA tables with a multiplier of 100% for males and 90% for females. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.5% p.a..

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2018, which was released in March 2019. We have adopted the default smoothing parameter of 7.0 and have not applied an additional initial rate, while continuing to adopt a long term improvement rate of 1.5% p.a. At the last accounting date, the CMI_2015 Model was adopted. The effect of updating to the most recent model is reflected in the *Change in demographic assumptions* figure in Appendix 3.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)		31 Mar 2019	31 Mar 2018
Retiring today			
	Males	21.6	22.6
	Females	24.4	25.6
Retiring in 20 years			
	Males	23.3	24.8
	Females	26.2	27.9

We have also assumed that:

- 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.

Financial assumptions

The financial assumptions used to calculate the results are as follows:

Assumptions as at	31 Mar 2019	31 Mar 2018	31 Mar 2017
	% p.a.	% p.a.	% p.a.
Discount rate	2.45%	2.60%	2.80%
Pension increases	2.40%	2.30%	2.70%
Salary increases	3.90%	3.80%	4.20%

These assumptions are set with reference to market conditions at 31 March 2019.

Our estimate of the Employer's past service liability duration is 24 years.

An estimate of the Employer's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous accounting date.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 1.0% p.a. below RPI i.e. 2.4% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods and recent independent forecasts and is consistent with the approach used at the previous accounting date.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, we have allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI.

Past service costs/gains

Past service costs/gains arise as a result of introduction or withdrawal of, or changes to, member benefits. For example, an award of additional discretionary benefits to a member such as added years by a member would be considered a past service cost.

We are not aware of any additional benefits which were granted over the year ending 31 March 2019.

Curtailments

We have calculated the cost of curtailments arising as a result of the payment of unreduced pensions on early retirement. The Employer may also have to account for non-pension related costs (e.g. lump sum payments on redundancy) but for the avoidance of doubt, we have only calculated the cost of curtailments which affect the Employer's LGPS pension liabilities.

We calculate the cost of curtailments at the point of exit, with interest applied to the accounting date accounted for separately.

Over the year, we understand no employees were permitted by the Employer to take unreduced early retirement that they would not otherwise have been entitled to.

Settlements

We are not aware of any liabilities being settled at a cost materially different to the accounting reserve during the year.

Results and disclosures

We estimate that the value of the net liability as at 31 March 2019 is a liability of £1,225,000.

The results of our calculations for the year ended 31 March 2019 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2019;
- Appendix 2 sets out the Statement of profit and loss for the year ended 31 March 2019;
- Appendix 3 details a reconciliation of assets and liabilities during the year;
- Appendix 4 shows a sensitivity analysis on the major assumptions;
- Appendix 5 shows the Re-measurements in other comprehensive income for the year;
- Appendix 6 contains our estimates of the projected profit and loss account costs for the year ending 31 March 2020. Please note that no allowance has been made for the costs of any early retirements or augmentations which may occur over the year and whose additional capitalised costs would be included in the value of liabilities. It is only an estimate so actual experience over the year is likely to differ. We have not provided balance sheet projections on the basis that they will depend upon market conditions and the asset value of the Fund at the end of the following year.

The figures presented in this report are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.

Barry McKay

Barry McKay FFA
Associate

Appendix 1 Statement of financial position as at 31 March 2019

Net pension asset as at	31 Mar 2019 £000s	31 Mar 2018 £000s	31 Mar 2017 £000s
Present value of the defined benefit obligation	2,674	2,502	2,430
Fair value of Fund assets (bid value)	1,456	1,286	1,164
Deficit / (Surplus)	**1,218**	**1,216**	**1,266**
Present value of unfunded obligation	7	7	7
Unrecognised past service cost	-	-	-
Impact of asset ceiling	-	-	-
Net defined benefit liability / (asset)	**1,225**	**1,223**	**1,273**

Appendix 2 Statement of profit and loss for the year to 31 March 2019

The amounts recognised in the profit and loss statement are:	Year to 31 Mar 2019 £000s	Year to 31 Mar 2018 £000s
Service cost	103	108
Net interest on the defined liability (asset)	31	34
Administration expenses	-	-
Total loss (profit)	**134**	**142**

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Appendix 3 Asset and benefit obligation reconciliation for the year to 31 March 2019

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Mar 2019 £000s	Year to 31 Mar 2018 £000s
Opening defined benefit obligation	**2,509**	**2,437**
Current service cost	103	108
Interest cost	65	68
Change in financial assumptions	158	(86)
Change in demographic assumptions	(144)	-
Experience loss/(gain) on defined benefit obligation	-	-
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(26)	(34)
Past service costs, including curtailments	-	-
Contributions by Scheme participants and other employers	16	16
Unfunded pension payments	-	-
Closing defined benefit obligation	**2,681**	**2,509**

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to 31 Mar 2019 £000s	Year to 31 Mar 2018 £000s
Opening fair value of Fund assets	**1,286**	**1,164**
Interest on assets	34	34
Return on assets less interest	97	(2)
Other actuarial gains/(losses)	-	-
Administration expenses	-	-
Contributions by employer including unfunded	49	108
Contributions by Scheme participants and other employers	16	16
Estimated benefits paid plus unfunded net of transfers in	(26)	(34)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	**1,456**	**1,286**

The total return on the fund assets for the year to 31 March 2019 is £131,000.

Appendix 4 Sensitivity analysis

Sensitivity analysis	£000s	£000s	£000s
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	2,620	2,681	2,744
Projected service cost	101	103	106
Adjustment to long term salary increase	+0.1%	0.0%	-0.1%
Present value of total obligation	2,690	2,681	2,672
Projected service cost	103	103	103
Adjustment to pension increases and deferred revaluation	+0.1%	0.0%	-0.1%
Present value of total obligation	2,735	2,681	2,628
Projected service cost	106	103	101
Adjustment to life expectancy assumptions	+1 Year	None	- 1 Year
Present value of total obligation	2,778	2,681	2,587
Projected service cost	106	103	100

Appendix 5 Re-measurements in other comprehensive income

Remeasurement of the net assets / (defined liability)	Year to 31 Mar 2019 £000s	Year to 31 Mar 2018 £000s
Return on Fund assets in excess of interest	97	(2)
Other actuarial gains/(losses) on assets	-	-
Change in financial assumptions	(158)	86
Change in demographic assumptions	144	-
Experience gain/(loss) on defined benefit obligation	-	-
Changes in effect of asset ceiling	-	-
Remeasurement of the net assets / (defined liability)	**83**	**84**

Appendix 6 Projected pension expense for the year to 31 March 2020

Projections for the year to 31 March 2020	Year to 31 Mar 2020 £000s
Service cost	103
Net interest on the defined liability (asset)	30
Administration expenses	1
Total loss (profit)	**134**
Employer contributions	49

Note that these figures exclude the capitalised cost of any early retirements or augmentations which may occur after 31 March 2019. These projections are based on the assumptions as at 31 March 2019, as described in the main body of this report.