REPORT TO GOVERNANCE & AUDIT COMMITTEE

REPORT OF: Corporate Head, Finance & Customer Services

REPORT NO: CHFCS96

DATE: 18th March 2010

TITLE:	UNDERLYING ASSUMPTIONS TO BE USED TO CALCULATE FRS17 PENSION FIGURES IN 2009/10 STATEMENT OF ACCOUNTS	
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	None	
PORTFOLIO HOLDER: NAME AND DESIGNATION:	Cllr Mike Taylor Assets and Resources Portfolio Holder	
CONTACT OFFICER:	Nicky Lovely, Finance Support Service Manager n.lovely@southkesteven.gov.uk Telephone 01476 406208	
INITIAL IMPACT ASSESSMENT: **Equality and Diversity**	N/A	Full impact assessment Required: N/A
FREEDOM OF INFORMATION ACT:	This report is publicly available via the Local Democracy link on the Council's website: www.southkesteven.gov.uk	
BACKGROUND PAPERS	None	

1. RECOMMENDATION

1.1 Committee is asked to:

- Approve the FRS17 (Financial Reporting Standard 17) assumptions to be used in the production of the 2009-10 Statement of Accounts.

2. PURPOSE OF THE REPORT

2.1 The purpose of this report is to allow the Committee to consider the assumptions the pension fund actuary proposes to use in preparing the FRS17 figures to be reported in the annual Statement of Accounts. It is an audit requirement that those charged with governance have the chance to consider these assumptions.

3. DETAILS OF THE REPORT

3.1 FRS17 - Retirement Benefits is one of the financial reporting standards with which we must comply when producing our annual Statement of Accounts.

3.2 The basic requirement of FRS17 is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

3.3 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.

3.4 SKDC will use the calculated costs and the underlying assumptions, based upon the advice of the actuary of the Lincolnshire County Council Pension Fund and the administering authority (Lincolnshire County Council), in preparing the annual Statement of Accounts.

3.5 A formal actuarial valuation is carried out every three years, the last being as at 31st March 2007. The figures produced for 31st March 2010 are estimates based on the last full actuarial valuation rolled forward and allowing for any change in the underlying assumptions. The result of the 31 March 2010 actuarial valuation will not be made known until later in the year and any change required to employers' pension contributions will not take effect until 1 April 2011.

3.6 <u>Financial Assumptions for 2009-10</u>

Inflation & Pension Increase Rate – this allows for the effect of inflation and for any increases in pensions. The assumption as at 31st December 2009 is 3.8%. (31st March 2009 3.1%). This is higher than the current general rate of inflation to reflect the long-term nature of the scheme liabilities.

Salary Increase Rate – reflects the expected rate of growth in pensionable pay, allowing for increases over and above inflation, eg career progression. This will be based on the inflation rate at 31 March 2010, a definite figure cannot be given at this time, but the rate is expected to be inflation + 1.5% (31st March 2009 4.6%).

Expected Return on Assets – This reflects the interest earned and changes in values of the investments within the scheme and will be based on market values as at 31st March 2010. (31st March 2009 6.4%)

Discount Rate – this allows for the effect of inflation on the liabilities in the scheme. The assumption as at 31st December 2009 is 5.7%, down from 6.9% at 31st March 2009).

All the percentages will be reviewed at 31st March 2010 to confirm that there have been no material changes over the three months since December, and to calculate final figures.

3.7 Demographic Assumptions

Pensioner Mortality – this impacts on the length of time pensions are expected to be payable. For the 2009/10 accounts the mortality assumptions are to be based on a different set of indicators than in previous years. The new tables to be used allow for higher life expectancies than in previous years. Age ratings will also be applied dependent on geographical location and class of membership. At the present time, the life expectancy figures are not available, but will be calculated as at 31 March 2010. However, it is expected that the increased life expectancies being indicated will increase the fund liabilities by 4-5%.

Commutation – this allows for the effect of future retirees choosing to take a larger initial lump sum and reduced annual pension. As at 31st March 2009 the assumptions were 25% of members who joined the scheme prior to 1st April 2008 and 62.5% of members who joined since that date. These ratios are not expected to change for the 2009/10 accounts.

Other demographic assumptions are used e.g. Rates of withdrawal from the scheme, number of ill-health early retirements etc. These assumptions are based on past experience and will not change from those used in 2008/09.

3.8 Financial Impact

The effect of the expected increase in the assumed inflation and salary increase rate is likely to be a higher charge to the authority for the cost of future pensions. The charge for 2008-09 was £1.422 million.

A reduction in the expected return on assets would also have a negative impact causing the pension liability on the balance sheet to increase from £20.107 million.

The use of different mortality indicators is also likely to increase the liability.

Conversely, the reduction in the discount rate used to calculate the value of the liabilities will have the effect of reducing the liability held in the balance sheet.

It is therefore probable that in the 2009/10 financial accounts the annual charge made within the accounts will be higher than in 2008/09 and the liability on the balance sheet will increase.

It is now certain that as a result of the current economic climate and increased life expectancy, when the next formal valuation of the fund is carried out as at 31st March 2010, the employer's contribution rate will need to be significantly increased to mitigate the larger liability. Talks are ongoing between the Pension Fund administrators and the Actuary as to how to manage this in light of expected future decreases in income.

4. OTHER OPTIONS CONSIDERED

4.1 N/A

5. RESOURCE IMPLICATIONS

5.1 Employer pension contributions will increase from 1 April 2011 to reflect the probable increase in the Pension liability calculated during the 31 March 2010 actuarial valuation.

6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)

6.1 N/A

7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT

7.1 N/A

8. CRIME AND DISORDER IMPLICATIONS

8.1 N/A

9. COMMENTS OF SECTION 151 OFFICER

9.1 Prior to the compilation of the statement of accounts for 2009/10 it is important that members of Governance and Audit Committee have the opportunity to discuss and comment on the underlying financial assumptions made by the actuary in respect of the Council pension fund. These assumptions, if agreed, will have an impact on both the income and expenditure account and the balance sheet for the financial year 2009/10.

10. COMMENTS OF MONITORING OFFICER

10.1 I have had no involvement in any of the assumptions made.
Assumptions must be subjective. This is a forecast of what might happen within the year.

11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER

11.1 None

12. APPENDICES:

12.1 None