

Accounting reporting as at 31 August 2021

Employer briefing note pre-accounting date

Contents

Accounting reporting as at 31 August 2021	3
How has the accounting position changed?	3
Asset returns	4
Changes to financial assumptions.....	5
Discount rate	5
Inflation expectations	6
Salary increases	9
Bespoke financial assumptions	10
Mortality assumption.....	11
Overall expected results	12
What does this all mean when we bring it all together?	12
Other considerations	13
Allowance for actual pension increases.....	13
Treatment of settlements and curtailments.....	13
McCloud/Sargeant judgement.....	14
Impact of COVID-19	14
Public sector exit cap	15
Goodwin case.....	15
Guaranteed Minimum Pension (GMP) equalisation and indexation.....	15
Appendix 1 - Auditor views.....	17
Appendix 2 - Adjustments to fees.....	18
Appendix 3 – Supreme Court ruling in McCloud/Sargeant case	19
Appendix 4 – Goodwin case	21
Appendix 5 – CMI_2020.....	22

Accounting reporting as at 31 August 2021

A number of LGPS employers, in particular academies and academy trusts, prepare accounting disclosures as at 31 August each year and these may be in accordance with the IAS19 or FRS102 standard, depending on the employer.

This note outlines some of the changes to the key financial assumptions that are used in preparing the IAS19 and FRS102 accounting numbers since the last reporting date as well as information on asset performance over the period.

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

Unless requested otherwise, we prepare our reports based on our standard approach. We therefore recommend employers discuss this note with their auditors and agree whether the standard approach is appropriate.

How has the accounting position changed?

As we will not know the assumptions that will be adopted for accounting disclosures until 31 August 2021, we have utilised the latest market statistics available. The following analysis uses market statistics as at 30 June 2021. **It is very likely that market conditions at 31 August 2021 will be different.**

As LGPS Funds are usually invested in a range of asset classes, the performance of the assets may be quite different from that of the accounting liabilities (which are linked to corporate bonds, as set out below) and so the results can be very volatile from year to year.

This note discusses our recommended assumptions for the exercise, however the responsibility for setting assumptions ultimately belongs to the employer and, therefore, if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The assumptions in this report are the standards that we intend to use unless instructed otherwise. We believe that these assumptions are likely to be appropriate for most employers but we have not consulted with each employer in setting these.

The change in the balance sheet position over the year is mainly dependent on the answers to three key questions and this report is split into these three sections:

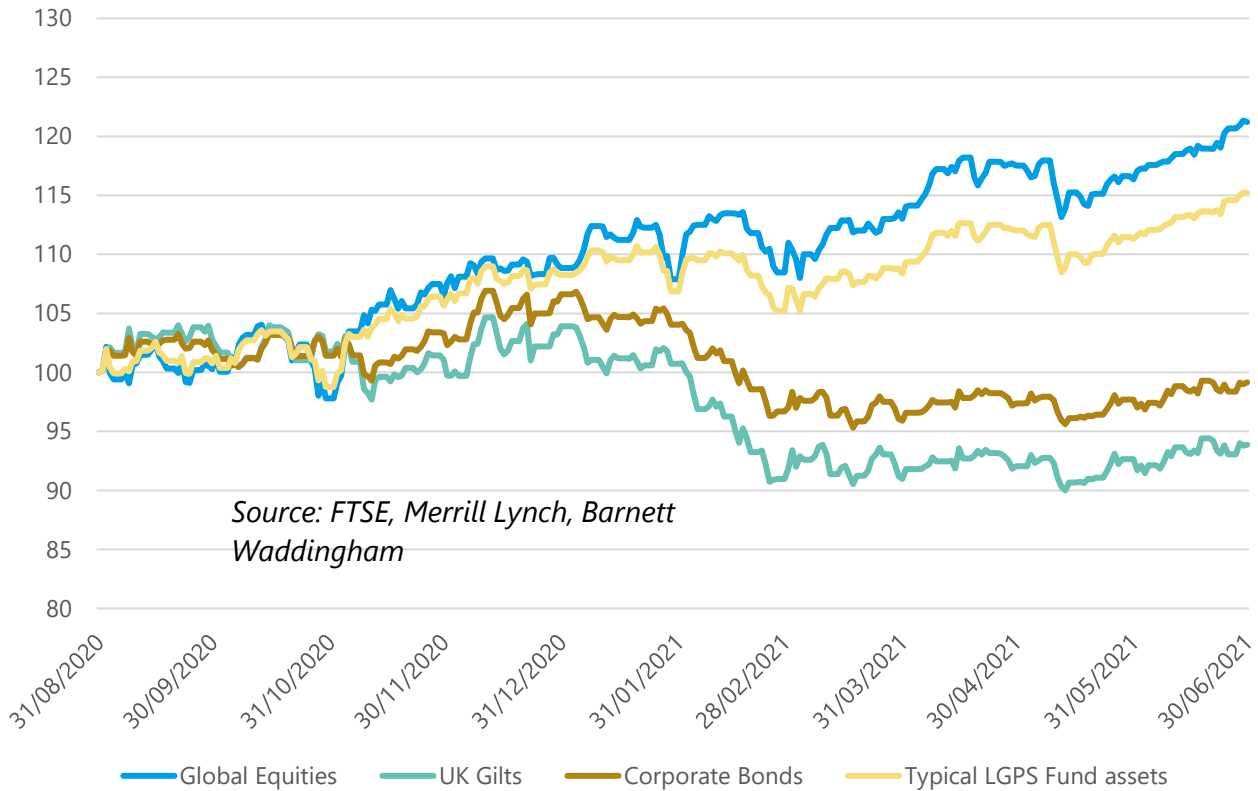
- What were asset returns for the twelve months to 31 August 2021?
- What were corporate bond yields as at 31 August 2021?
- What were market expectations of inflation as at 31 August 2021?

We appreciate that some of the terminology in this report may not be familiar and therefore we would recommend also reading our Glossary and FAQs document for a more detailed explanation on some of the jargon used here. This document has been circulated with this briefing note but please get in touch with the Fund if you would like a copy.

Please let your usual Barnett Waddingham contact know if you have any queries.

Asset returns

The following chart plots returns from the major asset classes since 31 August 2020 alongside the return that would have been achieved by a Fund invested 75% in global equities, 20% in corporate bonds and 5% in gilts.



Asset performance has been strong since 31 August 2020. Based on market indices to 30 June 2021 and the asset allocation outlined above, a typical LGPS Fund might have achieved a positive return of around 15% for the period from 1 August 2020 to 30 June 2021, but this could vary considerably depending on each Fund's investment strategy.

If Fund returns have been around this level, asset returns will have been higher than the discount rate assumed at the previous accounting date. If the actual return for the year is higher than the previous discount rate, this will lead to an actuarial gain on the assets; decreasing the accounting deficit.

However, the overall position is also influenced by the effect of market movements on the assumptions used to place a value on the defined benefit obligation. This is discussed in the next section.

Changes to financial assumptions

The key financial assumptions required for determining the defined benefit obligation under either accounting standard are the discount rate, linked to corporate bond yields, and the rate of future inflation. These assumptions are discussed below.

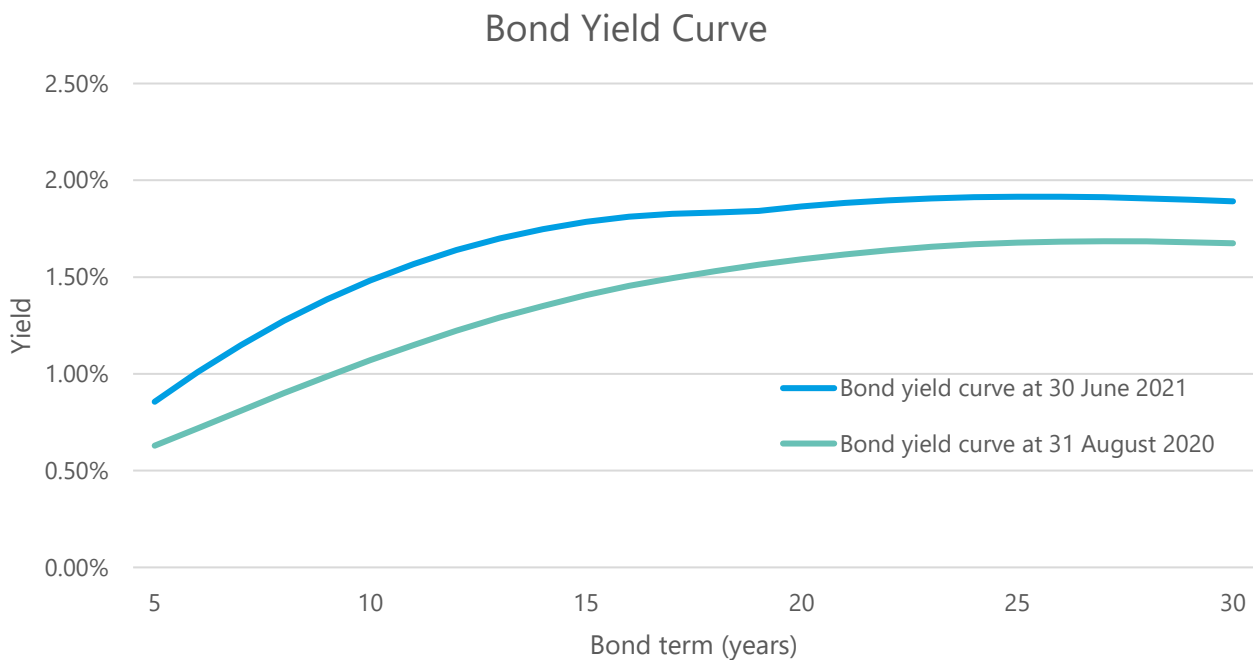
Discount rate

Under both the FRS102 and IAS19 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The approach we adopted to derive the appropriate discount rate at the previous accounting date is known as the Single Equivalent Discount Rate (SEDR) methodology. We intend to adopt the same approach for assumptions used for accounting disclosures at 31 August 2021.

We use sample cashflows for employers at each duration year (from 2 to 30 years) and derive the single discount rate which results in the same liability value as that which would be determined using a full yield curve valuation (essentially each year's cashflows has a different discount rate). This discount rate is known as the SEDR. In carrying out this derivation we use the annualised Merrill Lynch AA rated corporate bond yield curve and assume the curve is flat beyond the 30 year point.

The standard assumptions set for an employer will be based on their individual duration. For example, an employer with an estimated liability duration of 13 years will adopt assumptions consistent with those derived using the 13 year cashflows.

The below graph shows the bond yield curve at the last accounting date along with the yield curve at 30 June 2021:



These curves reflect the yields that underlie the SEDR calculations and are not the estimates of the standard discount rate assumption. Sample SEDR assumptions are set out in the table below.

You will see that the bond yield at 30 June 2021 is higher than at 31 August 2020 at all terms. As a result, the discount rate assumed for employers will be higher than that assumed at the previous accounting date. All else being equal, a higher discount rate will result in a lower value being placed on the defined benefit obligation.

Sample SEDRs are set out in the table below based on market conditions at 30 June 2021 with the equivalent 31 August 2020 SEDRs also shown for comparison:

Duration (years)	30 June 2021	31 August 2020
10	1.65%	1.35%
15	1.75%	1.50%
20	1.85%	1.55%
25	1.85%	1.60%

Assumptions are rounded to the nearest 0.05%.

The below table sets out the estimated effect of the change in discount rate assumed based on the same sample durations:

Duration (years)	Estimated effect of change in discount rate on employer's liabilities
10	Decrease of 3%
15	Decrease of 4%
20	Decrease of 6%
25	Decrease of 6%

The actual effect of the change in the discount rate assumption will depend on each employer's membership and the assumption to be adopted this year compared to last year.

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which active members' CARE benefits and deferred and pensioner members' benefits increase.

IAS19 suggests that in assessing future levels of long-term inflation we should use assumptions that would result in a best estimate of the ultimate cost of providing benefits whilst also giving consideration to the gilt market (in line with general price levels) to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). As there is limited market information on CPI-linked assets, to derive our CPI assumption we first make an assumption on the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

Similar to the SEDR approach described above we intend to adopt a Single Equivalent Inflation Rate (SEIR) approach in deriving an appropriate RPI assumption.

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied

inflation curve. As above, the Merrill Lynch AA rated corporate bond yield curve is assumed to be flat beyond the 30 year point and the BoE implied inflation curve is assumed to be flat beyond the 40 year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH from 2030, our view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% each year beyond 2030. This results in an overall IRP of 0.0% p.a. - 0.3% p.a. depending on the term of the liabilities. This differs from our standard assumption at the previous accounting date where no allowance for an IRP was made.

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 2 to 30 years) in deriving the assumptions for employers.

Sample RPI assumptions are set out in the table below based on market conditions at 30 June 2021, with the equivalent 31 August 2020 SEIRs (based on our standard derivation at that time) also shown for comparison:

Duration (years)	30 June 2021	31 August 2020
10	3.35%	3.30%
15	3.25%	3.20%
20	3.15%	3.15%
25	3.10%	3.05%

Difference between RPI and CPI

In March 2019, the UK Statistics Authority proposed changing the way that RPI is calculated; specifically that the calculation methodology should be aligned with the CPIH, the Consumer Prices Index including owner occupiers' housing costs. Consent was sought from the government and, following a consultation on whether the change could take place before 2030, in November 2020 the Chancellor announced that he will not provide consent for reform prior to 2030, meaning the proposed alignment of RPI to CPIH will take effect from 2030 at the earliest.

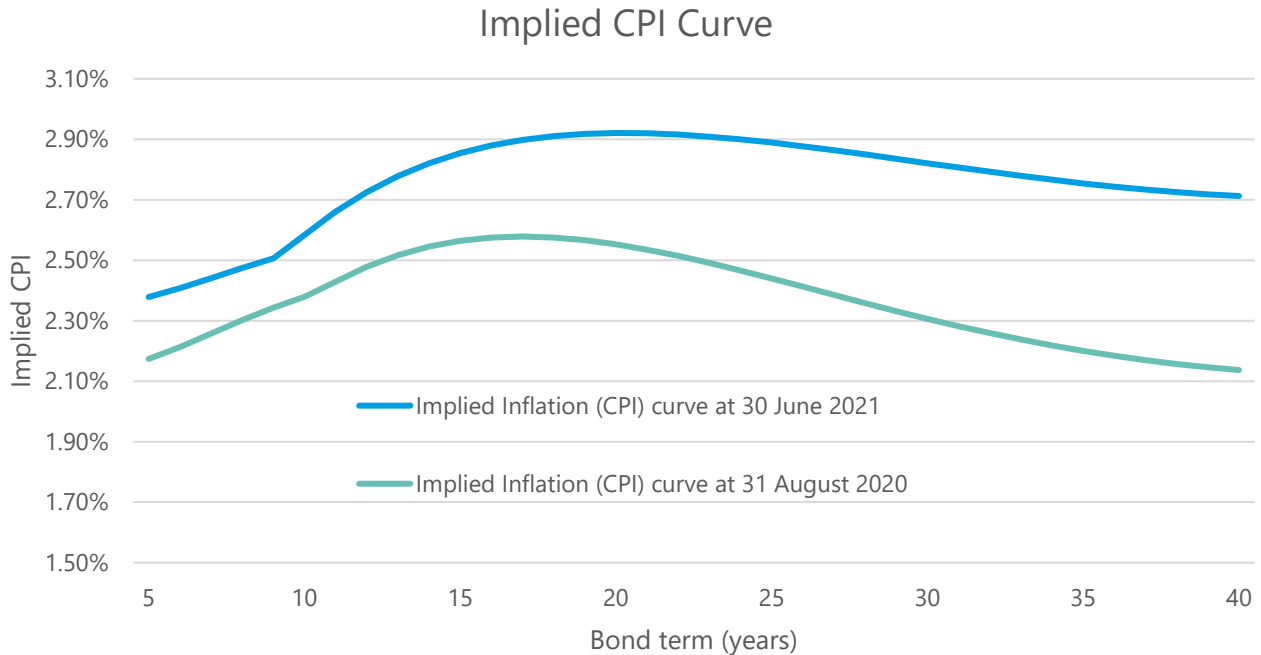
It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result, bringing RPI inflation in line with CPIH (and CPI) from that date. We have therefore considered how this potential change and the market's reaction to the announcement affects the difference between market implied RPI and CPI inflation.

At the last accounting date we noted that the market had already started to react to this potential change and reduced our assumed gap between the two inflation measures to 0.8% p.a. – 1.0% p.a. for terms between 10 and 30 years.

Following the November 2020 announcement, we believe the proposed reform of RPI inflation is now fully priced into the market (although noting the apparent muted reaction allowed for through the IRP we have introduced). We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with RPI inflation thereafter. This results in an assumed gap between the two inflation measures of 0.25% p.a. – 0.90% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

Consumer Prices Index (CPI) assumption

The resulting implied CPI curve at 30 June 2021 is shown below along with the implied CPI curve at the last accounting date for comparison:



These curves reflect the yields that underlie the SEIR calculations and are not the estimates of the standard CPI inflation assumption. Sample SEIR assumptions are set out in the table below.

Using a similar approach described above to calculate the SEIR for our RPI assumption, we have calculated a single equivalent rate of CPI increase that results in the same liability value as would be calculated by applying the above implied CPI curve.

As shown above, the implied CPI curve at 30 June 2021 is higher at all terms. As a result, the level of future pension increases will be higher than that assumed at the previous accounting date, particularly for employers with longer liability durations since this is where the greatest difference in the curves are. If the pension increase assumption is higher than at the previous accounting date, all else being equal, this will result in an increase in the value of employers' liabilities.

The below tables set out the assumed pension increase (CPI) assumptions at sample durations, as well as the estimated effects due to the change in the inflation assumption from last year's standard assumption to this year's:

Duration (years)	30 June 2021	31 August 2020
10	2.75%	2.40%
15	2.80%	2.35%
20	2.80%	2.35%
25	2.80%	2.25%

Duration (years)	Estimated effect of change in inflation on employer's liabilities
10	Increase of 3%
15	Increase of 7%
20	Increase of 9%
25	Increase of 14%

The actual effect of the change in pension increase assumption will depend on the assumption to be adopted this year compared to last year.

Due to the nature of SEDR and SEIR methodology, the assumptions derived are dependent on the sample cashflows used and as a result different cashflows of similar liability durations may result in alternative assumptions. Therefore, another actuary replicating the same approach set out above may derive different assumptions from those set out above. Reasonableness checks have been carried out on the cashflows used.

Salary increases

Although future benefits are not linked to final salary, benefits accrued up to 31 March 2014 will continue to be linked to the final salary of each individual member. Therefore we still need to set an appropriate long-term salary increase assumption.

Where an employer has requested a bespoke salary increase assumption last year, if still appropriate, we will continue the same salary increase assumption at 31 August 2021. For all other employers, we will adopt the standard approach set out below.

For English Funds, our standard assumption remains consistent with the 2019 actuarial valuation. This means assuming that salary increases are in line with CPI plus 1.0% p.a. with no additional allowance for a promotional salary scale.

For Scottish Funds, we intend to use the salary assumption consistent with the 2020 actuarial valuation. This means assuming that salary increases are in line with CPI plus 1.0% p.a. with no additional allowance for a promotional salary scale. This is consistent with the standard approach last year, with the exception that there is now no additional allowance for promotional salary increases as this is assumed to be incorporated in the long term salary increase assumption.

The salary increase assumption is the assumption that employers are most likely to request a specific approach for in line with their own expectations and we are happy to discuss this as required. In particular, we understand that announcements made by the Chancellor as part of the November 2021 spending review in relation to future public pay increases may affect the expected salary increases of some employers who require accounting reports at 31 August 2021. If employers believe that their salary increases in the long term or short term will differ from our standard assumptions, we would be happy to adopt alternative assumptions. However, please note that bespoke financial assumptions will incur additional fees.

Bespoke financial assumptions

As mentioned above, the responsibility for setting assumptions ultimately belongs to the employer and therefore if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The approaches described above are the standard approaches we will adopt to derive financial assumptions, however, we are happy to advise individual employers on the range of assumptions they may be able to adopt.

As part of this advice we are able to provide employers with a deficit modeler which provides an indication of the impact of any changes to their accounting position.

If you would like more information on the options available to employers regarding bespoke assumptions please feel free to contact publicsector@barnett-waddingham.co.uk or your usual Barnett Waddingham contact. However, please be aware that both requesting and receiving advice on bespoke assumptions will incur additional fees.

Mortality assumption

The key demographic assumption is the mortality assumption and there are two main steps in setting this assumption:

- Making a current assumption of members' mortality (the base mortality); and
- Projecting these current mortality rates into the future, allowing for further potential improvements in mortality. Future members' mortality is almost impossible to predict and therefore there is a lot of judgement involved and we naturally have to refine our view on this over time.

Base table mortality

The base table mortality assumptions adopted for Funds' triennial funding valuations were best estimate assumptions and we will, therefore, be using the same assumptions as standard for accounting. As part of the valuation, analysis was carried out by our specialist longevity team to assess the best estimate base table mortality assumption based on each Fund's experience and industry knowledge.

For Scottish Funds, this standard approach will be an update to the base table assumption from the previous accounting date to be in line with the assumption adopted for the recently completed 2020 actuarial valuation.

For English Funds, the standard approach will be the same assumption as that adopted at the last accounting date. For most employers, this is in line with the Fund's 2019 actuarial valuation.

Future improvements to mortality

To project future improvements in mortality, we use a model prepared by the Continuous Mortality Investigation Bureau (CMI). The CMI update their model on an annual basis, incorporating the latest mortality data in the national population.

The CMI recently updated their model and released CMI_2020 in March 2021. This introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results.

We have reviewed our standard future mortality improvements assumption in light of the coronavirus pandemic and believe it would be appropriate to incorporate the latest information available. **Our standard approach is to update the future mortality improvements assumption to be based on the CMI_2020 model with a 2020 weight parameter of 25%. Please note that additional fees will be incurred to incorporate the CMI_2020 model, further details of which can be obtained from your Fund contact. This will be the default approach unless employers opt out, and we would recommend discussing this with the auditor before opting out.**

More information on the CMI_2020 model and our rationale for moving to this model is contained in Appendix 5.

Overall expected results

What does this all mean when we bring it all together?

The first caveat is that no employer is average and so any prediction of what might apply to an average employer will not apply to every, or possibly any employer.

The effect of the changes in the financial assumptions on an employer's liabilities are dependent on the assumptions adopted as well as the specific duration of the employer's liabilities. Typically, employers with greater liability durations are more sensitive to changes in financial assumptions as benefits will be paid over a longer term. The table below describes the estimated effects for employers with liability durations of exactly 10, 15, 20 and 25 years: based on assumptions derived as at 30 June 2021:

Duration (years)	Estimated effect of change in financial assumptions on employer's liabilities
10	No change
15	Increase of 3%
20	Increase of 3%
25	Increase of 8%

Based on market conditions at 30 June 2021, employers of durations higher than 10 years may see an increase in the value of the defined benefit obligation. In addition, the value of liabilities will increase with interest accumulated over the year.

However, there will be other factors affecting the change in an employer's accounting position including (but not limited to) the effects of:

- For Scottish funds, updating to the 2020 valuation results, which could have a positive or negative effect. The effect will depend on how experience over the intervaluation period has differed from that assumed.
- Any updates to the demographic assumptions (in particular updating the future mortality improvement assumption to be based on the CMI_2020 model and for Scottish funds, updating to be in line with those adopted for the 2020 valuation)
- Fund asset performance
- Employer cashflows, in particular the difference in the cost of benefits accrued over the period and the level of contributions paid by employers and employees

We also set out some other considerations in the following section which may affect an employer's accounting results.

Other considerations

Allowance for actual pension increases

We will be incorporating actual pension increase experience up to 31 August 2021 into our accounting disclosures as standard this year. Actual pension increases since the last full valuation have been less than previously assumed and we would recommend that this experience is allowed for.

This is our standard approach as we understand pension increase experience is being considered more often as part of auditor reviews. Please note that additional fees will be incurred to incorporate the actual pension increase experience and therefore the employer should opt out of this standard approach if they do not want these additional calculations to be carried out.

Treatment of settlements and curtailments

Employers accounting under the IAS19 standard

On 7 February 2018, the International Accounting Standards Board (IASB) issued amendments to the IAS19 standard which now requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019 and therefore will apply for the year to 31 August 2021 accounts which are prepared under the IAS19 standard.

Common events for LGPS employers that this amendment may apply to include outsourcings and unreduced early retirements.

The amendment complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not.

Our default approach for IAS19 reports will be to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. We will provide each administering authority with a summary of the events we are aware of and these will be communicated to each employer. If the employer does not want to treat all the events in this way then we would strongly recommend that they engage with their auditor in advance of the preparation of their report to understand their materiality limit and establish which events fall outside of this.

Unless instructed otherwise we will proceed with our default approach and please note that additional fees will apply, details of which can be provided by the administering authority.

Employers accounting under the FRS102 standard

We note that the FRS102 standard is silent on the treatment of settlements and curtailments, and in particular there is no explicit requirement to adopt a similar approach to that set out above for the IAS19 standard.

Therefore, our default approach for FRS102 reports is to not remeasure the net defined benefit liability at the event date, and this is consistent with the approach at the last accounting date.

We are happy to adopt an approach in line with that set out above for the IAS19 reports if requested by the Employer, but please note that that will incur additional charges.

McCloud/Sargeant judgement

If an allowance was already made for McCloud at a previous accounting date in an employer's IAS19/FRS102 report then no explicit adjustment will be made in our results this year. Our standard approach unless requested otherwise was to include allowance for McCloud so we expect most employers this year will fall under this category.

On 13 May 2021 the Government issued a ministerial statement which confirms that changes will be made to the LGPS Regulations to compensate members directly affected by the change to career average benefits from 1 April 2014. The Government's intention is that revised regulations will come into force on 1 April 2023, and draft regulations are expected later in 2021. We do not believe there are any material differences between the approach underlying our estimated allowance and the proposed remedy. A more detailed analysis at this stage would require a significant volume of member data which is not yet available. Therefore, we do not intend to make any further adjustment in light of the expected changes to the Regulations at the accounting date.

If no allowance has been made, then our default approach will be to include an allowance this year based on GAD's analysis (further details can be found in Appendix 3) and the individual assumptions and membership profile of the employer. The effect on the employer's liabilities will be shown as a past service cost.

This will be the default approach unless employers opt out.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors in advance of their year-end to make them aware of our intended approach.

Please contact the administering authority of the Fund to confirm the relevant fees.

Impact of COVID-19

Employers may wish to consider whether it is appropriate to make an allowance for their actual member mortality experience over the accounting year. This would require a full valuation of updated membership data and would incur additional fees. We would encourage employers to discuss with their auditors whether they believe this approach is appropriate based on the employer's specific experience.

Our standard approach is to continue with a roll forward approach in calculating the liabilities, rather than carry out a full valuation of member data. This means that mortality experience is estimated through the benefits paid out to members. The difference between this estimate and the employer's actual mortality experience will then be incorporated once the next actuarial valuation of the Fund is complete.

Any impact on service cost due to the Coronavirus Job Retention Scheme will be reflected in the report based on the payroll information we are provided with. We request information relating to unreduced early retirements each year from the administering authority and any redundancies we are made aware of as part of this are included as a curtailment where applicable.

Unless specified in the employer's report, we are not aware of any other events relating to COVID-19 that are to be allowed for in the employer's accounting results. For example, there have been no changes to funding agreements or suspension of payment of individual member transfer values.

Consideration of the mortality assumption in light of COVID-19 is set out earlier in this note.

Public sector exit cap

As in previous years, we intend to make an allowance for the additional costs of unreduced early retirements that we are aware of having taken place over the year. These predominantly include early retirements on grounds of redundancy or business efficiency in respect of LGPS members who are aged 55 or over and will be treated as “curtailments” within our disclosures. On 4 November 2020, the Restriction of Public Sector Exit Payment Regulations 2020 came into effect which essentially capped the value of exit payments to £95,000 for certain public sector workers, including early retirement pension costs, except in particular cases where a waiver was deemed to apply. The effect is that some Funds may have applied a reduction to affected members’ benefits in order to bring the costs of early payment of benefits to within the cap.

However, on 12 February 2021, HM Treasury (HMT) published the Exit Payment Cap Directions 2021 which effectively disapplied the exit cap for all exits taking place on or after that date. HMT has also issued guidance on these Directions, setting out their expectation that employers should pay the additional sums that would be paid had the cap not applied for employees who left between 4 November 2020 and 12 February 2021. Although the guidance is currently silent on the issue of pensions, it is likely that some Funds have, or will, put into payment the uncapped value of benefits for affected members who left during this period.

Our disclosures will allow for any additional costs to the extent they are notified to us within the data we receive on early retirements and will be included within the “curtailments” figure. Any additional costs not notified to us as this stage will, as with all other types of membership experience, be assessed at the next triennial funding valuation and incorporated into the disclosures thereafter.

Goodwin case

We do not intend to make any adjustments to accounting valuations at 31 August 2021 as a result of the Goodwin case. Please see Appendix 4 for further details.

Guaranteed Minimum Pension (GMP) equalisation and indexation

Impact of Lloyds judgement on past transfer values

The latest news on 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. We await further guidance from CIPFA and MHCLG on this. Our standard approach currently is to make no allowance to reflect this judgement.

GMP Indexation Consultation response

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing ‘interim solution’ that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found [here](#).

Our standard 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 assume that the Fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Appendix 1 - Auditor views

It should be highlighted that auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date and roll forward employers' liabilities.

Asset roll forward

Given the tight timescales for employers to submit their final accounts we appreciate that it is not always possible to wait until a fund's net asset statement at the accounting date is available to begin producing accounting disclosures. As a result, we request details of funds' assets at the most recent date available and, for the remaining period, we assume that returns are in line with relevant market indices.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors and the administering authority of the fund as early as possible to ensure they are comfortable with the information being used to calculate results.

Liability roll forward

To calculate the value of employers' liabilities we carry out a full valuation of membership data at least every three years (as part of the triennial valuation). We then 'roll this forward' to each subsequent accounting date, allowing for the actual cashflows paid into and out of the fund in respect of the individual employer.

In addition we allow for any curtailments as a result of unreduced early retirements we are made aware of. Similarly we allow for any settlements we are made aware of such as those resulting from outsourcings or bulk transfers.

As noted above, we will as standard allow for actual inflation experience between full member valuations. The effect of actual experience compared to what was assumed will be included within the experience item.

Appendix 2 - Adjustments to fees

The Fund will communicate fees to employers however we would like to make you aware that there may be additional fees if there are particular features or events for an employer which need to be taken into account.

As examples of this:

- where an employer chooses their own assumptions;
- if there are additional calculations to be carried out if a surplus is revealed;
- when there are any staff transfers/movements to allow for;
- allowance for actual inflation experience;
- if additional disclosures are required;
- an employer asks to receive their report by a particular deadline; or
- if auditors ask queries following receipt of the report.

Please get in touch with the Fund for further information on fees.

Appendix 3 – Supreme Court ruling in McCloud/Sargeant case

Background

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. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination.

On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and a ministerial statement in response to this was published on 13 May 2021, however a full response to the consultation is still awaited. At the time of producing this briefing note the outcome of these matters is still to be agreed so the exact impact they will have on LGPS benefits is unknown.

Government Actuary's Department (GAD) impact analysis

The Scheme Advisory Board, with consent of the Ministry of Housing, Communities and Local Government (MHCLG), commissioned GAD to report on the possible impact of the McCloud/Sargeant judgement on LGPS liabilities, and in particular, those liabilities to be included in local authorities' accounts as at 31 March 2019. This followed an April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. This analysis was to be carried out on a "worst-case" basis, (i.e. what potential remedy would incur the highest increase in costs/liabilities). The results of this analysis are set out in GAD's report dated 10 June 2019.

Although GAD were asked to carry out their analysis on a "worst-case" basis, there are a number of other potential outcomes to the case which would potentially inflict less cost to the Employer. For example, the solution proposed by the Government would only apply the underpin to all members who were active on 31 March 2012. This would have less impact than GAD's scenario (which also includes any new joiners from 1 April 2012).

IAS19/FRS102 requires us to place a best estimate value on liabilities and costs. Consistent with the approach we adopted for the McCloud impact estimates made last year, we will adjust GAD's estimate to include only members that were active on 31 March 2012. This is in line with that proposed in the Government's consultation.

GAD's analysis compared the cost of the old pre-2014 final salary scheme with the new CARE scheme. The key parameter in assessing this cost is the assumed level of future salary increases in excess of CPI. GAD considered the following two scenarios:

1. Salaries increase at CPI plus 1.5% – on this scenario GAD assessed the average cost of implementing their worst-case scenario to be 3.2% of active liabilities at 31 March 2019 and the impact on service cost (i.e. the cost of benefits accruing) to be 3.0% of active payroll.
2. Salaries increase at CPI plus 0% p.a. – on this scenario GAD assessed the average cost to be less than 0.1% of active liabilities at 31 March 2019 and the impact on service cost to be less than 0.1% of payroll.

For the purpose of our impact estimate we will make an allowance to reflect each employer's own salary increase assumption.

Appendix 4 – Goodwin case

Background

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, we do 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. It is our understanding that the Government Actuary's Department (GAD) is undertaking a review to assess the potential impact on public sector pension schemes, which we expect will be minimal for LGPS funds.

Intended approach for accounting exercise

Although we do not yet have the results of GAD's review, it's our expectation that the impact on the value of LGPS liabilities as a whole, and for the majority of employers participating in the LGPS, will not be material. However, it's possible that the impact on individual employers may vary depending on their specific membership profile; although any cases resulting in a significant impact are likely to be few and far between.

For employers who are receiving accounting disclosures at 31 August 2021, we do not currently intend to make an allowance for the potential impact of this decision. We do not yet have enough information to make an accurate estimate of the potential impact on employers' liabilities.

Indication of potential impact

The Goodwin case affects male survivors (of female members) by extending the applicable service back from 1988 back to 1978. This only impacts the amount to be paid to widower survivor benefits coming into payment after 2005. A typical fund might expect that widowers' benefits in payment represent around 0.5% of their liability profile, however this may vary at employer level.

For these widowers to be affected, the original female member would need to have pre-88 service, which is now 32 years ago. Given the average age of pensioners typically around 70 and the average member's service may be around 10 years, we expect there are very few members who will be affected by this change. If we assume even 10% meet this criteria then the impact might be $0.5\% \times 10\% \times \text{pre 88 benefit} / \text{total benefit}$.

Even if the pre 88 benefit was 50% of the total (which is unlikely) then the impact would be 0.025%. There are necessarily a number of estimates and assumptions here and so this is purely to illustrate that we believe that the impact is very small and not material for the vast majority of employers.

However, as noted above, we understand that GAD is undertaking a review of the potential impact of this decision, which may provide a more accurate assessment of the effect on employers' accounting positions.

Appendix 5 – CMI_2020

Background

The COVID-19 pandemic has led to a sharp increase in reported deaths in the general population, with the number of deaths in 2020 being significantly higher than deaths reported in other years. There were around 73,000 more deaths in the UK from the start of the pandemic to 1 January 2021 than if mortality rates were similar to those experienced in 2019.

Our view is that the pensioner mortality experience will continue to be heavier over both the short and medium term as a result of the pandemic. The short term view is based on having already seen excess deaths continue since the start of 2021. In the medium term (2-10 years), mortality rates could be expected to be higher (than would otherwise have been the case) possibly due to future waves of coronavirus, but more significantly the effects of economic contraction and the long-term health implications of lockdowns are expected to produce heavier mortality.

CMI_2020 model

The CMI have made a material change to CMI_2020 (compared to previous versions) due to the impact of abnormal mortality data in 2020. This change introduces a “2020 weight parameter” for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. The CMI have confirmed the core value of this parameter will be 0% (i.e. no allowance for 2020 mortality data). However, the CMI encourages users to consider the parameter in detail before adopting a certain value, and not to take the core values as the CMI’s “recommendation”.

Changing the 2020 weight parameter has a material impact on projected mortality improvements from 2020. Placing a higher weight on data for 2020 leads to materially lower future mortality improvements as you would expect. However the impact of the 2020 weight parameter on future mortality improvements “dissipates” over time, with the effect completely disappearing by 2040.

Our view is that the overall outlook for best-estimate future mortality improvements looks more negative than implied by the core CMI_2020, with the adverse consequences of the pandemic seeming to outweigh the positive ones.

Given the abnormality of the 2020 data, our view is that placing too much weight on the 2020 data would not be appropriate in setting our best estimate assumption for mortality. However, we believe that the heavy mortality experienced in 2020 and change in future outlook should be captured in our assumption to an extent, and therefore, we believe a 2020 weight parameter of 25% would be an appropriate assumption.

Intended approach for accounting

Overall, we believe it’s appropriate to make a specific adjustment to the future improvement mortality assumptions as a result of this recent experience. This ensures our overall assumption for mortality is a best estimate assumption, as required under the IAS19 and FRS102 accounting standards.

As set out above, we are adopting the new CMI_2020 model with a 2020 weight parameter of 25% as standard for the August 2021 accounting valuations. For English funds, all other parameters will remain unchanged from those adopted for previous model. For Scottish funds, these will be updated in line with the assumptions adopted for the 2020 funding valuation.

Adopting the CMI_2020 model will decrease life expectancies compared to those previously assumed. In terms of accounting liabilities, the defined benefit obligation could reduce by 0.5%-1.5% as a result, depending on the membership and the mortality assumption adopted at the previous accounting date.