

Suffolk Pension Fund AGM

23 September 2017

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Today

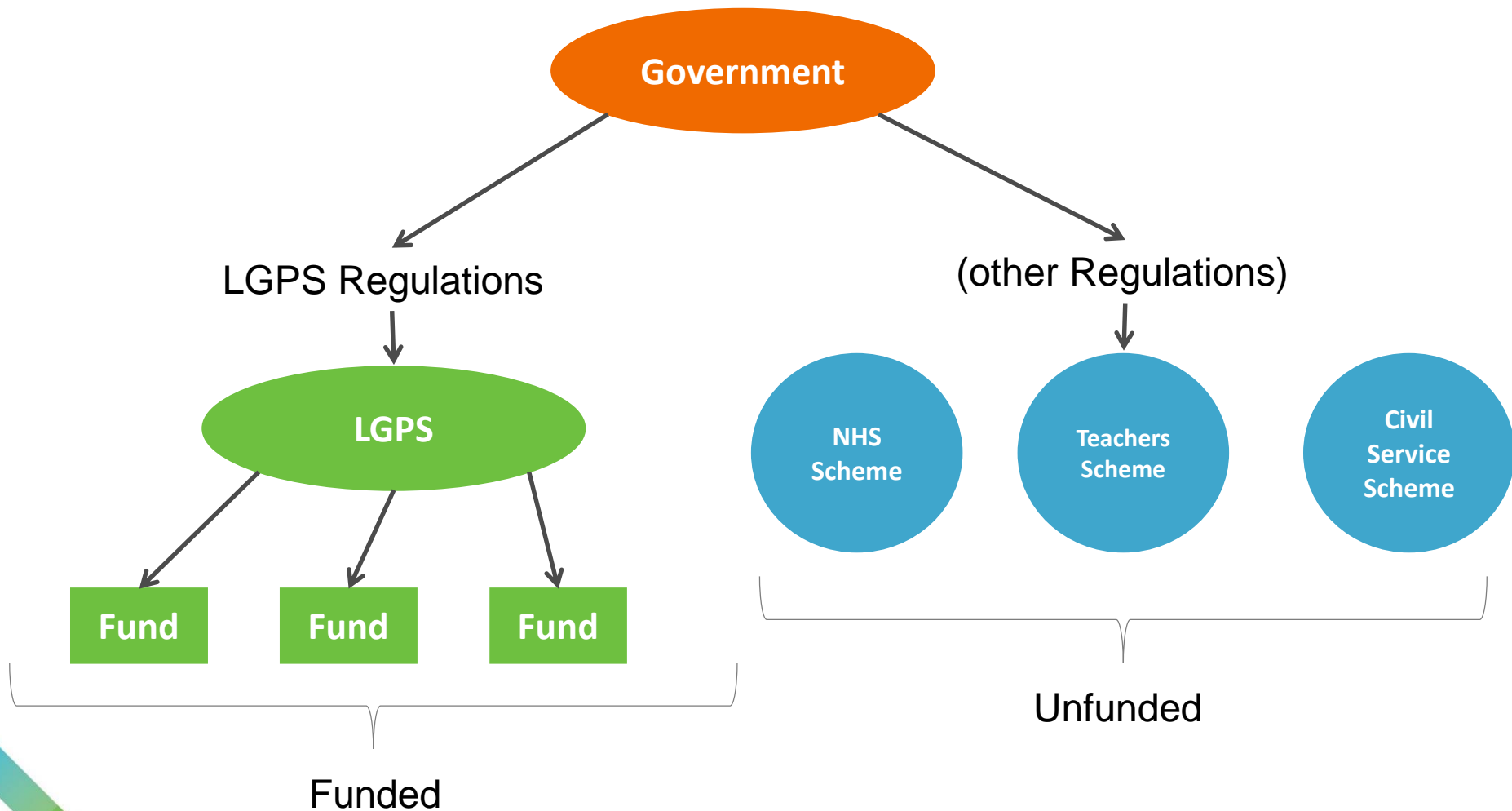
1. Pensions landscape
2. 2016 funding valuation
3. 2017 Accounting (FRS102 and IAS19)
4. Accounting - Academies

Please ask questions as we go along

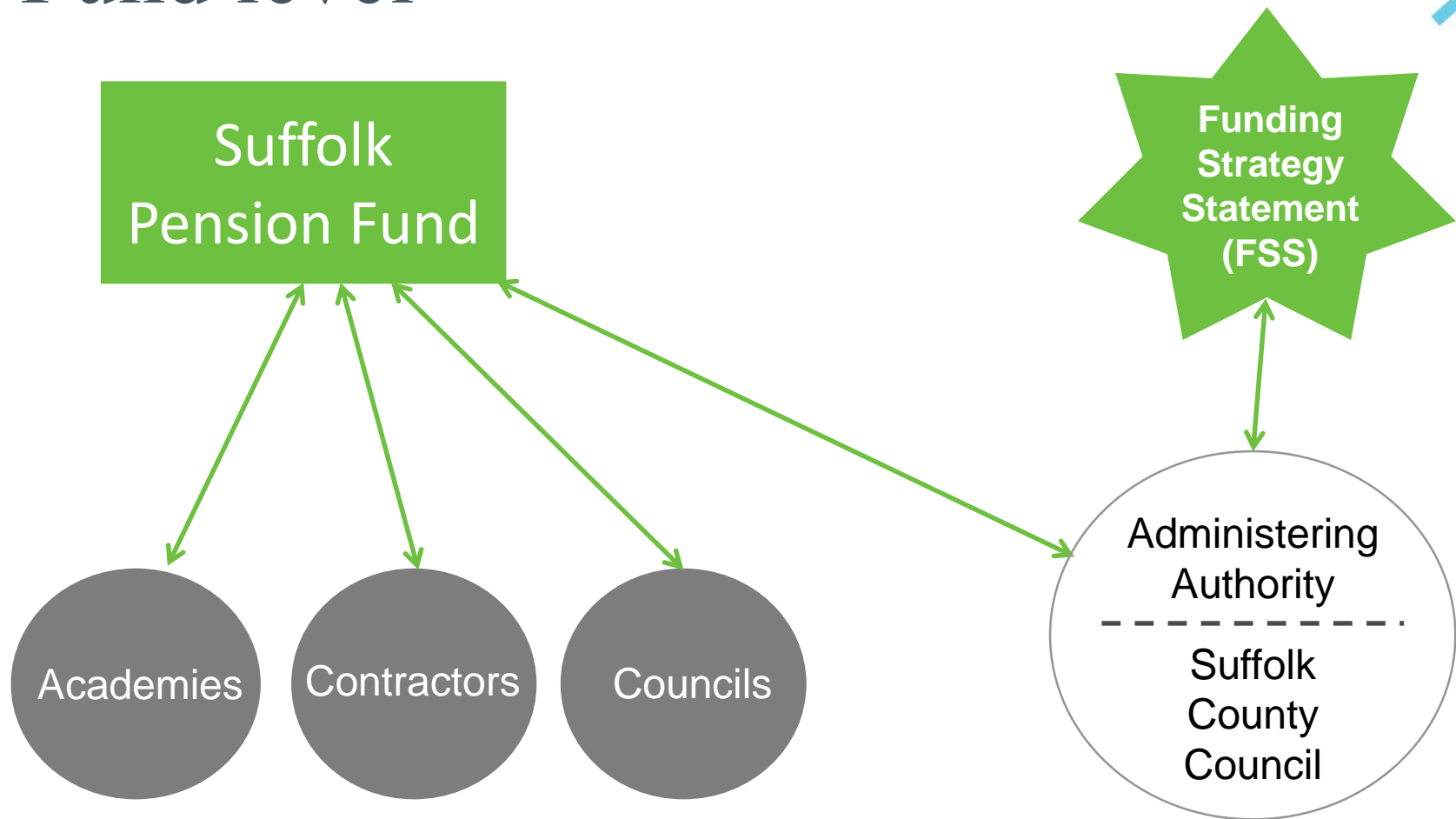
Pensions Landscape



The public sector pensions landscape



Fund level



2016 funding valuation



Purpose of the funding valuation

- To estimate how much money will be needed to pay the pensions
- Estimate is based on assumptions
 - projected amounts of benefit payments
 - projected probability of benefits being paid
- Check financial health of employers
- Set contributions for period 1 April 2017 to 31 March 2020

Cost of
Benefits

Investment
Returns

Employer
Contributions

Employee
Contributions

**Benefits and employee contributions are set
by Regulations**

What happened between latest funding valuations (2013 to 2016)?



Pay & CPI experience
Pay & CPI expectations
Asset returns
Contributions

Reduced deficits

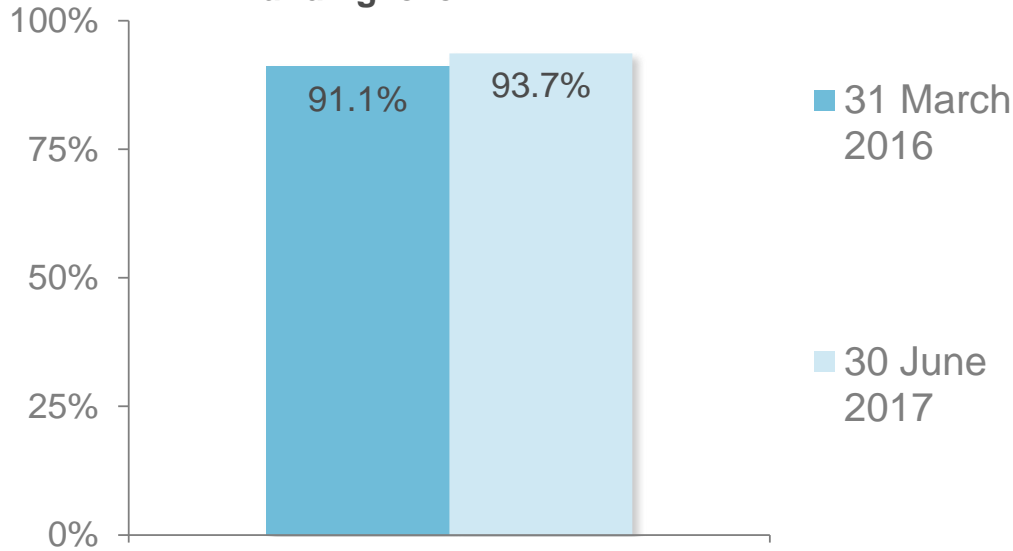


Asset expectations
50:50 take up

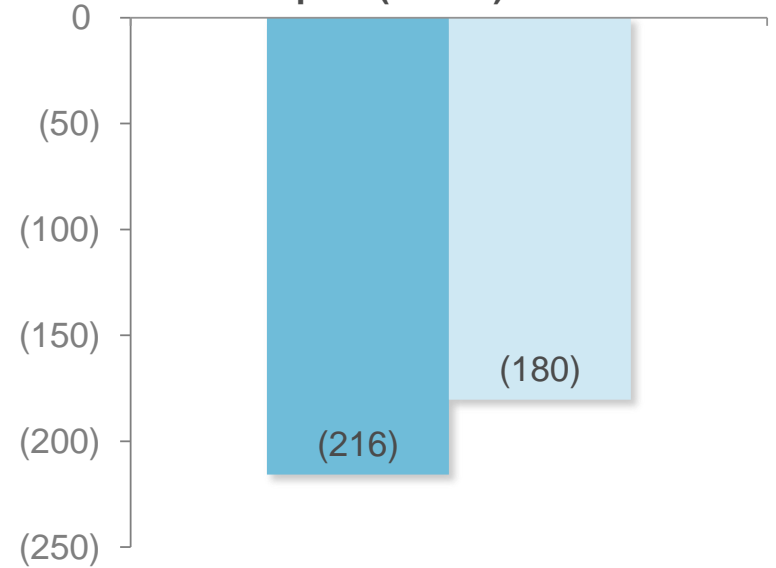
Increased cost of
ongoing benefits

What's happened since?

Funding level



Surplus/(deficit) - £m



**Reduced deficits
but higher cost of future benefits**

2017 Accounting (FRS102 and IAS19)



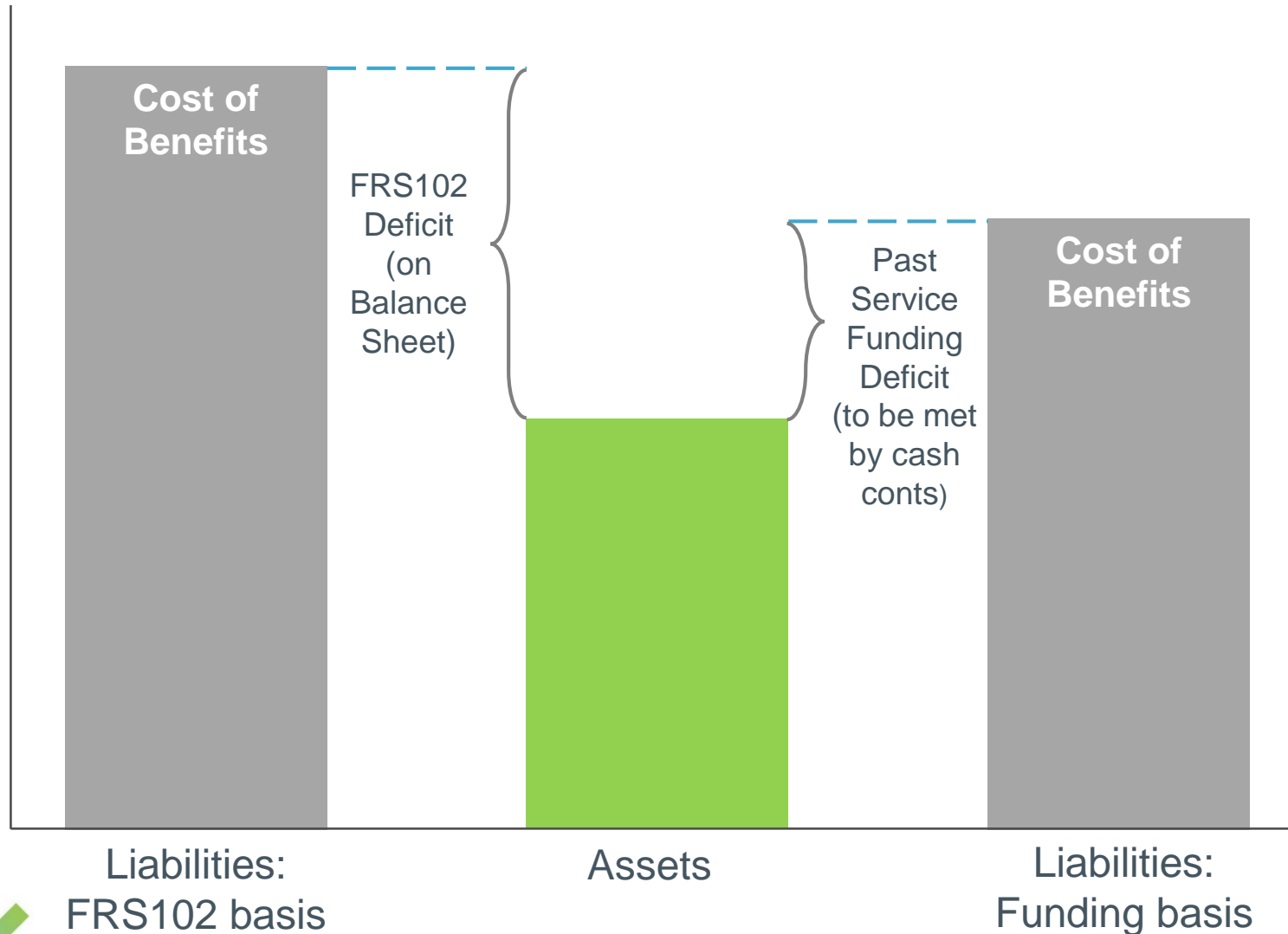
Funding vs Accounting



	Triennial Funding Valuation	FRS102 (and IAS19) Accounting
Purpose	To set cash contributions	For inclusion in Employer Accounts
Assumptions	Set by the LGPS Fund	Responsibility of the Employer
Discount rate	Based on the Fund's prudent expectation of <i>future</i> investment returns	Based on high quality corporate bond yields <i>on the accounting date</i>
Methodology	Based on full membership data	Projection from last funding valuation (31 March 2016)

Ensure assumptions are appropriate for your organisation

Different assumptions: different results



Accounting assumptions

Value placed on the pension liabilities for accounting purposes (the obligations) are heavily dependent on the assumptions adopted.

Key financial assumptions:

- **Discount rate** (yield available on high quality corporate bonds *on the accounting date*)
- **Pension increase rate** (market implied *future* inflation expectations *on the accounting date*)
- **Salary increase rate** (*future* expectations, typically inflation +/- a margin)

Why your accounting figures are important?

Balance Sheet

Assets	120		120
Obligations		145	(145)
Balance sheet	120	145	(25)

Profit and Loss Account

Current service cost	(3)
Interest income on assets	4
Interest cost on obligations	(5)
Total included in Profit or Loss	(4)

...could restrict sources of funding available to your organisation.

Valuation recalibration experience

Your 2017 accounting figures

Rolled forward from 2016 funding valuation results.

2017 figures will capture each employer's actual membership experience, i.e.

- actual pay awards
- leavers and joiners

This 'experience' item will come through in the FRS102/IAS19 report on both the asset and obligation side:

- could be **significant**
- could be **positive** or **negative**



How the actuary can help you?







- We are available for **calls** or **face-to-face meetings** with you/your auditors to allow better understanding of the accounting figures.
- We can work with your organisation on **tailored accounting assumptions advice**.
- We can provide assistance on any accounting reporting questions (i.e. individual academy FRS102 vs consolidated figures)

Make sure you get all the documents (Results Schedule, Covering Report, Briefing Notes) from the actuary and Suffolk County Council.

Accounting - Academies



What's happened since 31 August 16?

Change to	Change from 31 August 2016	Impact on Balance Sheet at 31 August 2017
Corporate bond yields	Increased by c0.4-0.5% p.a.	
Inflation expectations	Increased by c0.3-0.4% p.a.	
Salary growth	Lower future expectations	
Investment returns	c12% over the year	
Valuation recalibration experience	Academy specific	
Overall impact	Academy specific	

Valuation recalibration experience could be significant

EFA Accounts Return for 2016/17

Pensions (present value movements)

The reconciliation of obligations between 31 August 2016 (or academy conversion date if later) and 31 August 2017.

‘Actuarial (gain) / loss’

Made up of the following ‘remeasurements’:

- Changes in demographic assumptions
- Changes in financial assumptions
- Other experience

EFA Accounts Return for 2016/17

Pensions (fair value of scheme movements)

The reconciliation of assets between 31 August 2016 (or academy conversion date if later) and 31 August 2017.

‘Actuarial (loss) / gain’

Made up of the following ‘remeasurement’:

- Return on assets excluding amounts included in net interest’ reconciliation of assets

Included within the above remeasurement is effectively 2 parts:

1. Extra c10% asset return over the year (returns c12% vs 2% discount rate at start of year) **AND**
2. 2016 valuation recalibration asset experience item .

MAT considerations

Funding valuations - options

- Separate contribution rates per academy
- Combined single MAT contribution rate
- Combination of the above

FRS102 accounting - options

- Separate FRS102 reports per academy
- Combined FRS102 MAT
- Combination of the above

Thank you

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