Police and Crime Commissioner for Lincolnshire

IAS 19 assumptions used in the 2012/13 accounts

1.0. INTRODUCTION

1.1 IAS19 - Employee Benefits is one of the financial reporting standards that the PCC must comply with when producing its Annual Accounts. IAS19's basic requirement is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out.

1.2 To calculate the cost of earned benefits for inclusion in the accounts, the scheme Actuary (Hymans Robertson) use certain assumptions to reflect expected future events which may affect those costs. The assumptions used are designed to 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.

1.3 Lincolnshire Police's net Pension Liability (the difference between the assets held and projected liabilities) as at 31 March 2012 was calculated at £863m. This is a material component of the PCC's balance sheet and therefore its net worth. As such it is important that the PCC is supportive of the assumptions being made by the actuary in their calculations. This year's net position will be affected by the assumptions used, but does not immediately change ongoing revenue costs.

2.0. ASSUMPTIONS

2.1 The calculated costs and the underlying assumptions, based upon the advice of the actuary and the administering authority (Lincolnshire County Council for the LGPS) will be used in preparing the PCC's 2012/13 Accounts.

2.2 The triennial formal actuarial valuation is due as at 31 March 2013. Hymans Robertson will undertake a full review of the fund, its component elements, and its anticipated performance in order to suggest new contribution rates in the Autumn of 2013.

2.3 The accounting requirements of IAS19 do not require that every individual estimate is a "best estimate". Directors of the organisation should be satisfied that the combined effect of the assumptions as a whole is reasonable.

2.4 Proposed financial assumptions for the Local Government Pension Scheme 2012/13

IAS19 - Pensions Assumptions for 31 March 2013

The value of the Pension Fund's assets and liabilities are heavily dependent on the underpinning assumptions. The employer is ultimately responsible for the assumptions used, and this year's proposed assumptions are listed below. The approach for each of them is detailed in the Actuary's briefing note at **Appendix A** but the final figures are the ones quoted below and in the body of the schedule of IAS 19 results:-

- **Discount Rate** – this allows for the effect of inflation on the liabilities in the scheme, and has been assumed to be 4.5% as at 31 March 2013, being 3.2% gilt yield plus 1.3% credit spread. This is higher than the iBoxx yield of 4.1% but is believed to be appropriate for IAS19 purposes.

- **Expected Return on Assets** – this is taken from the actuary's proprietary asset model which tracks the market conditions on a monthly basis. At 31 March 2013 the expected return on equities was 4.5% p.a.

- **Retail Prices Inflation (RPI)** – this is the assumption used as the basis for future salary growth. This is typically derived from the yields available on fixed interest and index linked government bonds – the rate being 3.6% p.a. as at March 2013.

- **Pension Increases Assumption** – Following the announcement in the June 2010 Budget, pension cost increases now follow the Consumer Prices Index (CPI). The Actuary has assessed the gap between RPI and CPI going forward to be a reduction of 0.8%, giving an assumption of 2.8% p.a. as at March 2013.

- **Demographic Assumptions** – these are the post retirement longevity and mortality assumptions used by the Actuary, and have not changed from previous years.

- **Pensioner Mortality** – this impacts on the length of time pensions are expected to be payable, and are unchanged from last year.

- **Salary increase** – a freeze of 1% until March 2015, then reverting to a 5.1% long term increase.

- **Commutation –** this allows for the effect of future retirees choosing to take a larger initial lump sum and reduced annual pension. As for 2011/12, for 2012/13 the assumptions are 25% of members who joined the scheme prior to 1 April 2008 and 62.5% of members who joined since that date.

  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 have not changed from those used in 2011/12.

2.5 Proposed financial assumptions for Police Pension Schemes 2012/13

IAS19 - Pensions Assumptions for 31 March 2013

There are no assets in the police schemes. The value of the Pension Fund's liabilities are heavily dependent on the underpinning assumptions. As for the LGPS, the final assumptions are below and the approach is described in more detail at **Appendix B**:-

- **Discount Rate** – this allows for the effect of inflation on the liabilities in the scheme, and has been assumed to be 4.5% as at 31 March 2013, being 3.2% gilt yield plus 1.3% credit spread. This is higher than the iBoxx yield of 4.1% but is believed to be appropriate for IAS19 purposes.

- **Retail Prices Inflation (RPI)** – this is the assumption used as the basis for future salary growth. This is typically derived from the yields available on fixed interest and index linked government bonds – the rate being 3.6% p.a. as at March 2013.

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- **Demographic Assumptions** – these are the post retirement longevity and mortality assumptions used by the Actuary, and have not changed from previous years.

- **Pensioner Mortality** – this impacts on the length of time pensions are expected to be payable, and are unchanged from last year.

- **Retirement age –** in line with last year, it is assumed that officers retire when they reach 30 years of service.

- **Salary scales –** in line with last year, the promotional salary scales are based on published salary scale tables.

- **Salary growth –** in line with last year, the assumption for the rate of increase in pensionable salaries is 1% above CPI, so 3.8%.

- **Retirement age –** in line with last year, it is assumed that officers retire when they reach 30 years of service.

  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 have not changed from those used in 2011/12.

2.6 There are no direct financial implications as a result of this report, as it sets out the input factors that the actuary uses to calculate the pension position for the PCC under IAS 19, showing the estimated net value of the authority's portion of the pension fund (assets less liabilities). Changes in assumptions will affect the net position, but this has a nil overall change in the resources available to the PCC on the balance sheet, and any changes to the income and expenditure statement are reversed through statutory accounting entries.

2.7 If an employer wishes to use different financial assumptions the Actuary would impose additional fees.