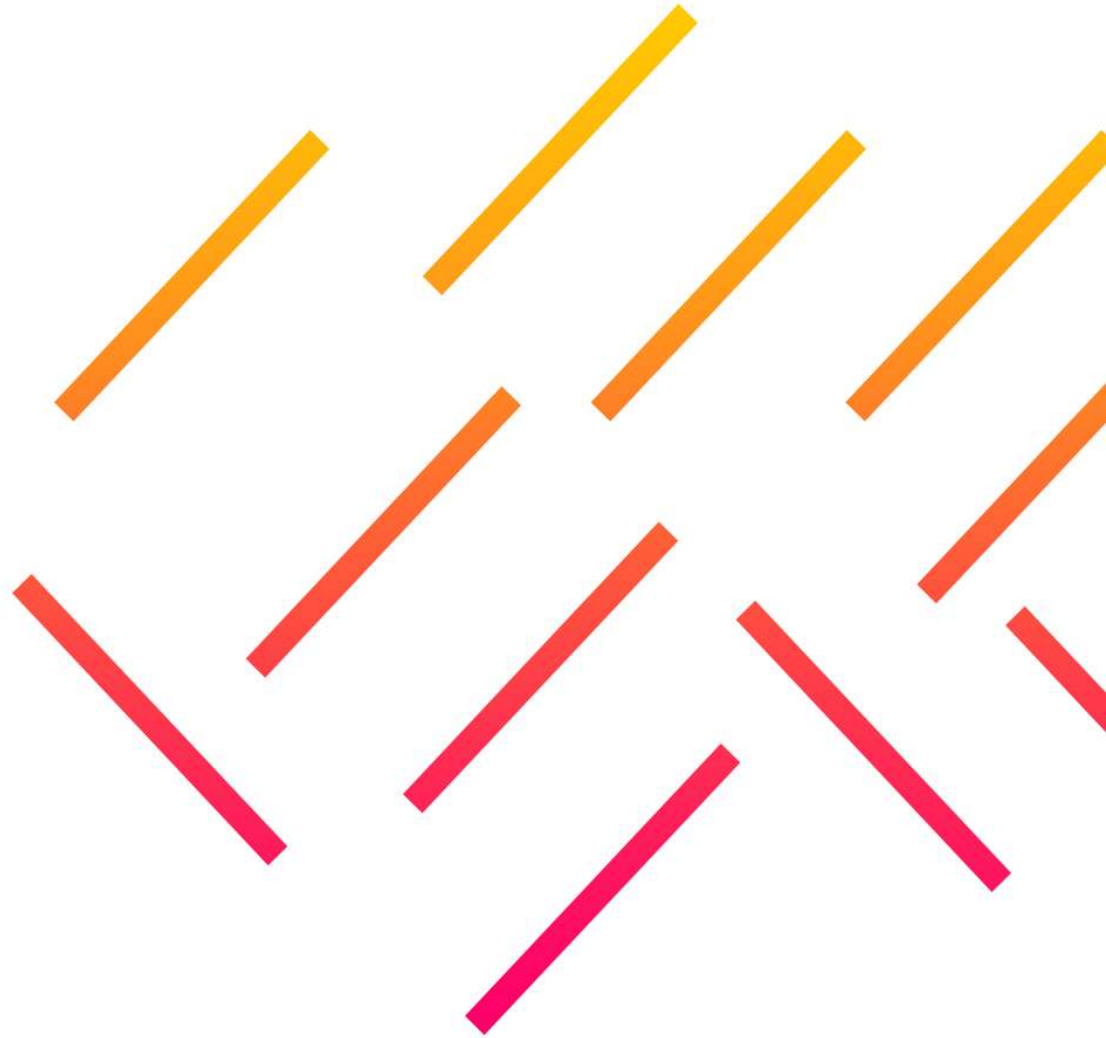


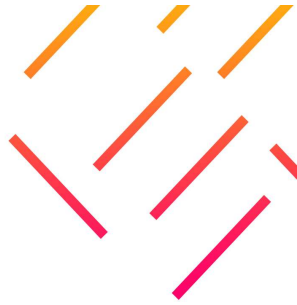
# 2023 Pensions Accounting

FRS102 / IAS19 – Update and expected results



# Agenda

- Introduction to accounting valuations
- Hymans Robertson accounting reports
- Differences between Aon and Hymans Robertson accounting reports
- 2023 results
- Accounting surplus / IFRIC14
- Supporting audits



# Introduction to accounting valuations

# What is an accounting valuation?



## Funding valuation

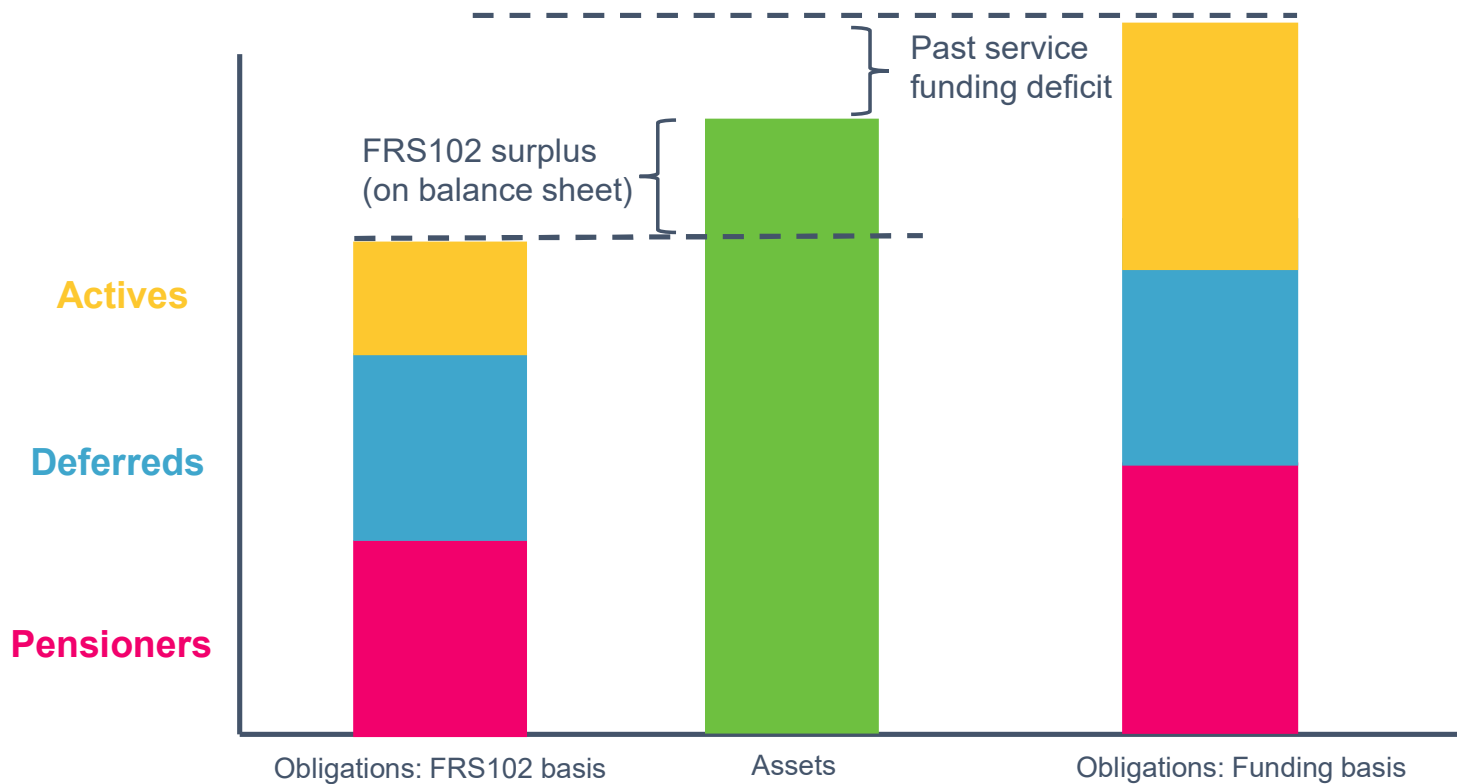
- Purpose is to set cash contributions
- Assumptions set by the Fund
- Future investment returns closely linked to expected return on the Fund's actual assets
- Individual member data used

## Accounting valuation

- Purpose is financial reporting
- Assumptions are responsibility of directors (having taken appropriate actuarial advice)
- Future investment returns set with reference to UK corporate bond yields
- Estimate rollforward approach

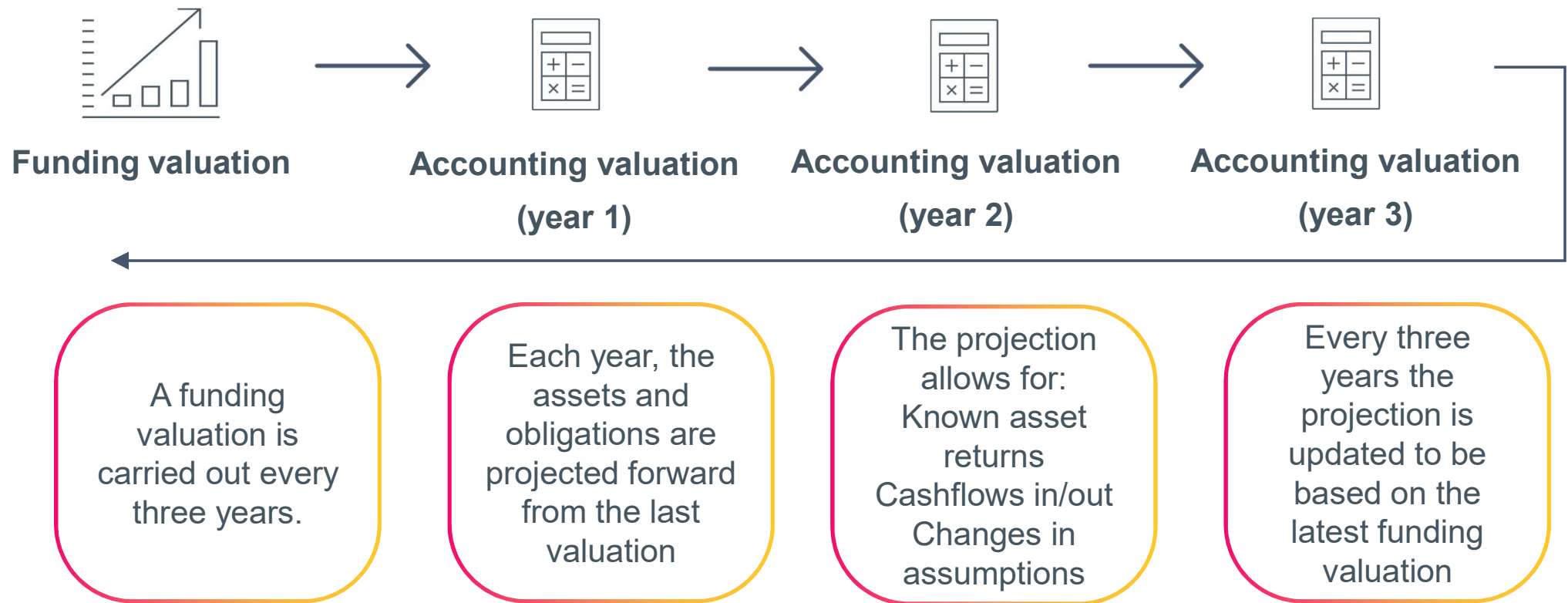
**The annual accounting valuation does not influence cash contributions**

# How the results differ

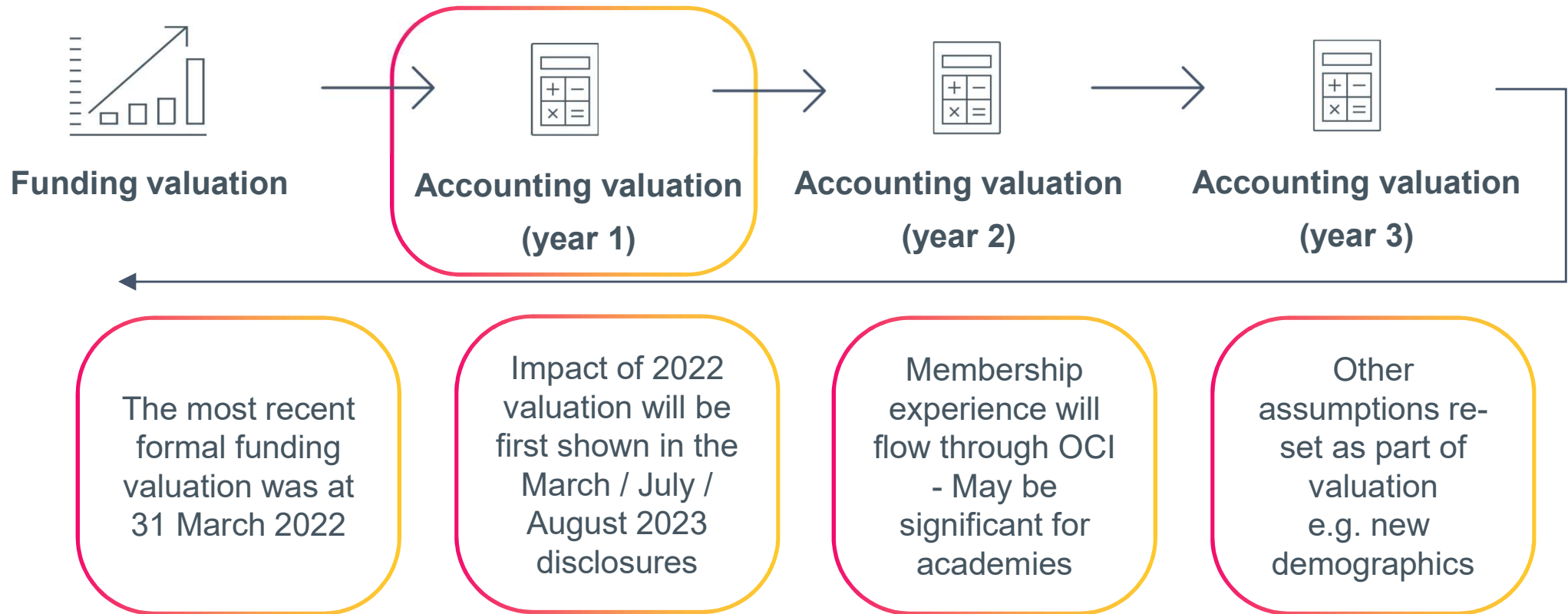


**Difference in obligations driven by the different actuarial assumptions**

# How the accounting valuation is done



# Where are we now?



# How the accounting valuation is done



## Projection of assets

Assets at start of the period  
+  
Expected investment return  
+  
Employee contributions  
+  
Employer contributions  
-  
Benefits paid  
+/-  
Excess investment return (actual less expected)  
=  
Assets at the end of the period

## Projection of obligations

Obligations at the start of the period  
+  
Interest cost  
+  
Employee contributions  
+  
**Service cost (cost of benefits earned over the period)**  
-  
Benefits paid  
+/-  
**Changes in assumptions (Remeasurements)**  
=  
Obligations at the end of the period



# Introduction to Hymans accounting reports

# Initial briefing note



- Key considerations
- Options
- Advice on assumptions

# FRS102 / IAS19 reports



## Schedule of Results

- Summary
- Data
- Assumptions
- Results
- Projections
- Sensitivities

**FRS102 as at 31 July 2023 - Results Schedule**

HYMANS ROBERTSON LLP  
Employer:  
Local Government Pension Scheme Fund - Hampshire Pension Fund  
Local Government Pension Scheme Fund - 18 July 2023  
Terms of Engagement Signed: 18 July 2023  
Date report prepared: 28 August 2023

Summary information from this schedule:

| (A) Balance sheet       | 31 July 2023 | 31 July 2022 |
|-------------------------|--------------|--------------|
| Assets                  | £194,114     | £1,000       |
| Liabilities             | 300,349      | 431,587      |
| Net asset / (liability) | 1,064        | (21,482)     |

Please contact us if you wish to request additional calculations in respect of the accounting books. See the accompanying Accounting Coverage Report for additional information.

**(B) Profit & Loss account for the period ending 31 July 2023**

|  | £1,000   |
|--|----------|
| Service cost                               | (1,000)  |
| Current Service Cost                       | (21)     |
| Past Service Cost (including curtailments) | -        |
| Effect of amendments                       | (9,879)  |
| Total Service Cost                         | (10,899) |

Total net asset:

|   |          |
|---|----------|
| Total net asset   | £1,064   |
| Total defined benefit cost recognised in Profit or Loss | (10,899) |
|   | (9,835)  |

David Law FCA  
For and on behalf of Hyman Robertson  
August 2023

**Actuarial Valuation as at 31 July 2023 for Accounting Purposes**

HYMANS ROBERTSON  
Covering report to accompany the Results Schedule  
August 2023

## Covering report

- Results commentary
- Information for auditors
- Glossary of technical terms

# Key differences between Aon and Hymans reports

# General layout



## Aon

1a – Results under FRS102 (LGPS funded liabilities)

1b – Results under FRS102 (LGPS unfunded liabilities)

2 – Estimated pension expense in future periods

3 – Sensitivity analysis

4 – Data summary

## Hymans Robertson

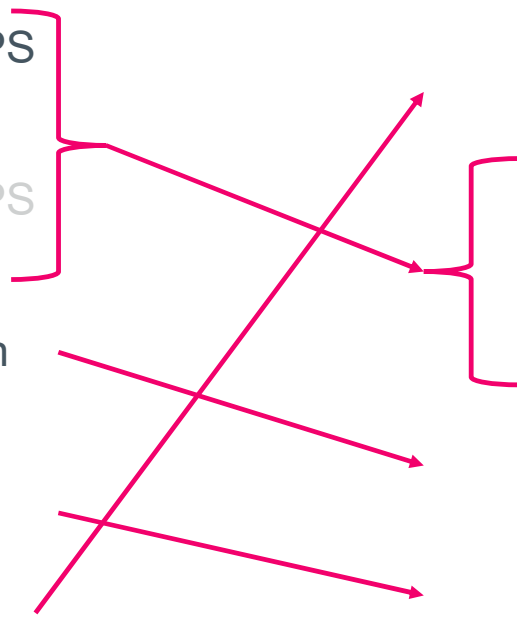
1 – Data

2 – Assumptions

3 – Balance Sheet, P&L, OCI disclosures

4 – Projected defined benefit cost

5 – Sensitivity analysis



# OCI – level of detail

## Aon

“Asset (or remeasurement) gains/(losses) arising during period”



“Liability (or actuarial) gains/losses arising during period”



## Hymans Robertson

“Remeasurements – Other experience”

+

“Remeasurements – Return on assets excluding amounts included in net interest”

“Remeasurements – Changes in financial assumptions”

+

“Remeasurements – changes in demographic assumptions”

+

“Other experience”

HYMANS  ROBERTSON

# Other minor differences



**Minor terminology changes**

**Treatment of “unfunded obligations”**

**Period for projected pension expense**

**Does not usually impact academies!**

**Aon provide 2 years,  
Hymans Roberson  
produces 1 year**

# 2023 Results



# What has happened in the year



**Asset returns have been less than anticipated**

**Significant changes in market conditions**

**2022 formal valuation results are now available**

**Reduces the value of the assets**

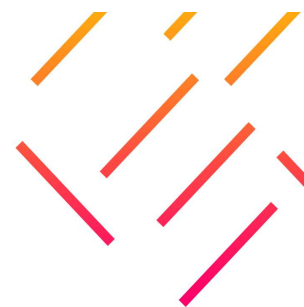
**Much higher discount rates and somewhat higher inflation**

**Refreshes the data underpinning accounting reports**

**Has a negative impact on balance sheets**

**Net impact will improve balance sheets**

**Impact could be positive or negative**



# Results for a typical employer

Assets a little lower



Obligations materially lower



Improved net closing position

# Accounting surpluses



# Potential accounting surplus

- You may see a **net asset position** in their FRS102 / IAS19 figures
- The accounting standard places a limit on the net asset that can be disclosed
- No central academy guidance

|                                | 31 August 2023 |
|--------------------------------|----------------|
| Assets                         | 150,000        |
| Funded obligations             | 140,000        |
| <b>Net asset / (liability)</b> | <b>10,000</b>  |



# Potential accounting surplus

## Common asset ceiling calculation:

- A. present value of *future service costs* over an agreed future period  
*less*
- B. present value of *future contributions* over an agreed future period

## Challenges:

- What period to use?
- What future service cost rate to use?
- Important question to consider “Does a *minimum funding requirement* exist in the LGPS for future service (and for past service)?”
- And if requirement does exist, what future contributions to take account of in the asset ceiling?

# Applying an asset ceiling

- Example calculation:

A. 25,000

B. 20,000

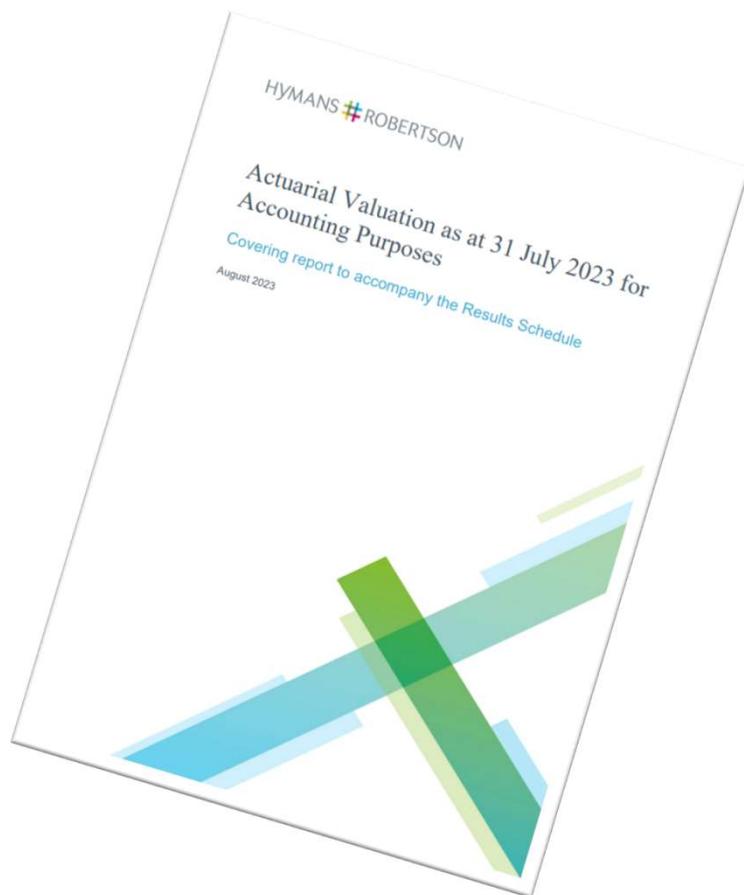
*Asset ceiling = 25,000 – 20,000 = 5,000*

|                                 | 31 August 2023 |
|---------------------------------|----------------|
| Assets                          | 150,000        |
| Funded obligations              | 140,000        |
| <i>Asset ceiling adjustment</i> | <i>(5,000)</i> |
| <b>Net asset / (liability)</b>  | <b>5,000</b>   |

An additional paper can be provided setting out the options for determining an asset ceiling with sample calculations

# Auditor queries

# First port of call for queries



## Covering report

- Commentary on results
- How the calculations are done
- What data has been used
- How the assumptions are set
- How legal and regulatory uncertainty has been dealt with (McCloud, Goodwin, GMP equalisation etc)
- Other considerations
- Professional qualifications of signing actuary



Second port of call for queries



[LGPSCentralAccountingTeam@hymans.co.uk](mailto:LGPSCentralAccountingTeam@hymans.co.uk)

Thank you

The material and charts included herewith are provided as background information for illustration purposes only. This PowerPoint presentation is not a definitive analysis of the subjects covered and should not be regarded as a substitute for specific advice in relation to the matters addressed. It is not advice and should not be relied upon. This PowerPoint presentation contains confidential information belonging to Hymans Robertson LLP (HR) and should not be released or otherwise disclosed to any third party without prior consent from HR. HR accept no liability for errors or omissions or reliance upon any statement or opinion herein.  
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