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Accounting Update - 2014

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Accounting Update 2014

- LGPS Pension Fund Accounting
- Changes to IAS19(R)
- Accounting for LGPS management costs

LGPS Pension Fund Accounting

- No major changes in 2013-14

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- No changes to Code Guidance Notes

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LGPS Pension Fund Accounting

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…but there will be for 2014-15

Changes to IAS19(R)

Changes to components of defined benefit charges:

2013-14	2012-13
Surplus/Deficit on Provision of Services a) current service cost b) past service cost c) gains and losses arising from settlements, as permitted by paragraph 6.4.3.12 of the Code; d) net interest on the net defined benefit liability (asset). **Other Comprehensive Income and Expenditure** a) remeasurements of the net defined benefit liability (asset), to be recognised in other comprehensive income, comprising: i) actuarial gains and losses ii) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset) iii) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset).	**Surplus/Deficit on Provision of Services** a) current service cost b) interest cost c) expected return on plan assets d) past service costs e) the effect of any settlements or curtailments **Other Comprehensive Income and Expenditure** a) actuarial gains and losses

Changes to IAS19(R)

	Local Government Pension Scheme £000		Discretionary Benefits Arrangements £000	
	20X1/X2	**20X0/X1**	**20X1/X2**	**20X0/X1**
Comprehensive Income and Expenditure Statement[128]				
Cost of Services:				
Service cost comprising:				
current service cost	x	x	x	x
past service costs	x	x	x	x
(gain)/loss from settlements	x	x	x	x
Financing and Investment Income and Expenditure				
Net interest expense	x	x	x	x
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	x	x	x	x
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement				
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	x	x	x	x
Actuarial gains and losses arising on changes in demographic assumptions	x	x	x	x
Actuarial gains and losses arising on changes in financial assumptions	x	x	x	x
Other (if applicable)	x	x	x	x

Changes to IAS19(R)

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets[1]

	Local Government Pension Scheme £000		Discretionary Benefits Arrangements £000	
	20X1/X2	20X0/X1	20X1/X2	20X0/X1
Opening fair value of scheme assets	x	x	x	x
Interest income	x	x	x	x
Remeasurement gain/(loss):				
The return on plan assets, excluding the amount included in the net interest expense	x	x	x	x
Other (if applicable)	–	–	–	–
The effect of changes in foreign exchange rates	x	x	x	x
Contributions from employer	x	x	x	x
Contributions from employees into the scheme	x	x	x	x
Benefits paid	(x)	(x)	(x)	(x)
Other (if applicable)	–	–	–	–
Closing fair value of scheme assets	x	x	x	x

Reconciliation of Present Value of the Scheme Liabilities (Defined

[1] Required by paragraphs 6.4.3.42 6) and 6.4.3.42 7) of the Code.

Changes to IAS19(R)

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)[1]

	Funded Liabilities: Local Government Pension Scheme £000		Unfunded Liabilities: Discretionary Benefits £000	
	20X1/X2	20X0/X1	20X1/X2	20X0/X1
Opening balance at 1 April	x	x	x	x
Current service cost	x	x	x	x
Interest cost	x	x	x	x
Contributions from scheme participants	x	x	–	–
Remeasurement (gains) and losses:				
Actuarial gains/losses arising from changes in demographic assumptions	x	x	x	x
Actuarial gains/losses arising from changes in financial assumptions	x	x	x	x
Other (if applicable)	–	–	–	–
Past service cost	x	x	x	x
Losses/(gains) on curtailment (where relevant)	–	–	–	–
Liabilities assumed on entity combinations	x	x	x	x

[1] Required by paragraph 6.4.3.42 6) and 7) of the Code.

Changes to IAS19(R)

Changes to disclosure requirements including:

An authority shall disaggregate the fair value of the plan assets into classes that distinguish the nature and risks of those assets, subdividing each class of plan asset into those that have a quoted market price in an active market (as defined in IFRS 13 Fair Value Measurement) and those that do not; for example an authority could distinguish between:

a) cash and cash equivalents

b) equity instruments (segregated by industry type, company size, geography etc)

c) debt instruments (segregated by type of issuer, credit quality, geography etc)

d) real estate (segregated by geography etc)

e) derivatives (segregated by type of underlying risk in the contract, for example, interest rate contracts, foreign exchange contracts, equity contracts, credit contracts, longevity swaps etc)

(f) investment funds (segregated by type of fund)

(g) asset-backed securities, and

(h) structured debt.

Changes to IAS19(R)

Local Government Pension Scheme assets comprised:

	Fair value of scheme assets[a]	
	20X1/X2	20X0/X1
	£000	£'000
Cash and cash equivalents	x	x
Equity instruments:		
By industry type		
Consumer	x	x
Manufacturing	x	x
Energy and utilities	x	x
Financial institutions	x	x
Health and care	x	x
Information technology	x	x
Sub-total equity	x	x

1 Note that this example features a particular format to analyse risk in the scheme assets. It might be that this does not reflect the risk profile for the assets in question for an individual authority. Authorities will need to reflect the appropriate risk profile for each asset categorisation. In order to demonstrate this for their own circumstances, authorities may need to use one or more alternative formats.

Changes to IAS19(R)

Bonds:		
By sector[135]		
Corporate	x	x
Government	x	x
Sub-total bonds	x	x
Property:		
By type[136]		
Retail	x	x
Commercial	x	x
Residential	x	x
Sub-total property	x	x
Private equity:		
UK	x	x
Overseas	x	x
Sub-total private equity	x	x
Other investment funds:		
Infrastructure	x	x
Property	x	x
Sub-total other investment funds	x	x

Changes to IAS19(R)

Derivatives:

Forward foreign exchange contracts	x	x

Changes to IAS19(R)

Asset and Liability Matching (ALM) Strategy (where applicable)[1,2]

The pensions committee of the Auppenchamber County Council has agreed to an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The fund has matched assets to the pensions' obligations by investing in long-term fixed interest securities and index linked gilt edged investment with maturities that match the benefits payments as they fall due. This is balanced with a need to maintain the liquidity of the fund to ensure that it is able to make current payments. As is required by the pensions and (where relevant) investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (X% of scheme assets) and bonds (Y%). These percentages are materially the same as the comparative year. The scheme also invests in properties as a part of the diversification of the scheme's investments. There is a limited use of derivatives to manage X% of the bond risk for the shorter-term instruments. The ALM strategy is monitored annually or more frequently if necessary.

1 Where a pension fund has engaged upon an asset and liability matching (ALM) strategy, the above disclosure is required and will need to reflect the fund's ALM strategy. If a formal ALM strategy is not adopted authorities would need to provide information on the use of other techniques used to manage risk. The Code uses the examples of annuities or longevity swaps. However, practitioners should seek to confirm which approach and what information is relevant with their pension fund administrator.

2 Required by paragraph 6.4.3.42 12) of the Code. This disclosure will need to reflect the ALM for the scheme participated in by the individual authority.

Changes to IAS19(R)

Code requires:

An authority shall disclose a description of any asset–liability matching strategies used by the plan or the authority, including the use of annuities and other techniques, such as longevity swaps, to manage risk.

Changes to IAS19(R)

IAS19 says:

BC231 In developing the proposals in the 2010 ED, **the Board considered requiring entities to discuss their strategies for mitigating risks arising from defined benefit plans. However, the Board concluded that such a requirement would result in generic disclosure that would not provide enough specific information to be useful to users of financial statements.** Nonetheless, in the Board's view, information about an entity's use of asset-liability matching strategies, or about the use of techniques such as annuities or longevity swaps to manage longevity risk, would provide additional information on how the entity manages the risk inherent in its defined benefit plan. Accordingly, the 2010 ED proposed a requirement to disclose information about these items.

Accounting for LGPS management expenses

- Why do we need this?
- Why now?
- What will it look like?
- Status?
- When?

Accounting for LGPS management expenses

Why do we need this?

- Lack of comparability
- Under-reporting

Accounting for LGPS management expenses

Why now?

- Long-standing issue
- Hutton Commission
- LGPS Shadow Scheme Advisory Board
- Call For Evidence
- CEM benchmarking

Accounting for LGPS management expenses

What will it look like?

- Three categories of costs:

  Investment Management expenses
  Oversight and Governance
  Pensions Administration

Accounting for LGPS management expenses

What will it look like?

- Robust definitions
- Examples
- Disclosure suggestions

Accounting for LGPS management expenses

Status?

- Initially, guidance
- Statutory over-ride

Accounting for LGPS management expenses

When?

- Summer 2014
- Early adoption permitted
- Aim for 2014-15
- Prior year comparators

Accounting for LGPS management expenses

Questions?

Thank you

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