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# Association of Colleges Enhanced Pension Provisions

4 August 2014

The net interest rate (NIR) is used to set the financial basis for valuing unfunded pensions

### Introduction

- This paper sets out comments on the review of the basis for valuing enhanced (unfunded) pensions granted by employers to employees to enable suitable provisions to be included on the employer's financial statements as at 31 July 2014. It should be read in conjunction with the previous paper issued on 6 August 2013 in relation to the 2013 review of basis.
- The paper has been prepared for the Association of Colleges by actuaries employed by KPMG Pensions.
- The work carried out for this exercise is compliant with the relevant standards in force published by the Financial Reporting Council. In particular the standards for Reporting Actuarial Information (TASR), Data (TAS D), Modelling (TAS M) and the Pensions TAS have been followed insofar as their requirements are material for this report.

### Methodology for deriving the net interest rate (NIR)

- No change is proposed to the general method of deriving the NIR compared with the approach used for 2013. However some updates are proposed in light of market practice, current demographic information and current financial conditions as follows:
  - An inflation risk premium of 0.10% has been included to allow for market distortions on UK index-linked stock yields. This will tend to slightly increase the NIR and so reduce calculated liabilities. We recommend this assumption remains under review in the light of future market conditions.
  - The mortality tables have been updated from S1 CMI 2012 1% future improvements to S1 CMI 2013 1.25% future improvements. This will typically tend to slightly increase calculated liabilities although the effect varies by the member's age. For example this will add 0.1 years to the life expectancy of a pensioner aged 65. We recommend this assumption remains under review in the light of future emerging evidence on mortality experience.

### Overall results

- Taking into account market conditions at 31 July 2014 close, **the NIR is calculated at 2.25%** (2013 2.50%).
- The interest rate (for the purpose of calculating the interest cost in the disclosures) is 4.06% (2013 4.28%).



## Association of Colleges Enhanced pension provisions

Over the year, corporate bond yields and real yields have reduced, while gilt yields have increased.

### Financial experience over the last year

The table below shows the relevant published yields for determining the NIR.

Year End	31 July 2013	31 July 2014
10 year gilt yield	2.32%	2.71%
15 year gilt yield	2.93%	3.05%
Over 5 year index-linked gilt yield (0% inflation)	-0.01%	-0.12%
Over 5 year index-linked gilt yield (5% inflation)	-0.05%	-0.16%
iBoxx over 10 year AA corporate bond yield	4.28%	4.06%
Net interest rate ("NIR")	2.50%	2.25%



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