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Association of Colleges

Enhanced Pension Provisions
31 July 2016

ACTUARIES · PENSION CONSULTANTS · PENSION ADMINISTRATORS

Contents

Introduction

The Colleges within the Association of Colleges are required to value their enhanced (unfunded) pensions for inclusion in their financial statements each year.

This report, and the accompanying spreadsheet, enables the Colleges to calculate suitable provision.

This year, the new accounting standard, FRS102, will apply. The revised Statement of Recommended Practice: Accounting for Further and Higher Education also applies. This means the Colleges will have a slightly different disclosure to previous years.

Assumptions & Commentary

To enable the valuation of the unfunded pension provision, various assumptions are required. The proposed assumptions (including those at the previous accounting date) are as follows:

	31 July 2016	31 July 2015
Net Interest Rate	1.00%	1.75%
Interest Rate	2.30%	3.46%
Inflation Rate	1.30%	1.71%
Mortality Tables	95% S2NA YoB with CMI 2015 projections & 1.25% long term rate	95% S1NA YoB with CMI 2014 projections & 1.25% long term rate
Proportions Married	Varies by age (see later slide)	Varies by age (see later slide)
Age difference member / spouse	Males 3 years older	Males 3 years older

Commentary:

- Falling bond yields have reduced the net interest rate to 1.0%, tending to increase the provisions required.
- For example, a 0.25% p.a. decrease in the net interest rate could increase liabilities by around 2.5% (depending on age) if all other assumptions remain unchanged.

Approach and methodology – Discount Rate

The FRS102 standard requires the discount rate used to be determined "by reference to market yields at the reporting date on high quality corporate bonds", with a term consistent with the estimated period of future payments.

Historically, as the benefits provided are inflation-linked (based on the Consumer Prices Index), an interest rate net of these inflationary increases has been used.

We have derived the financial assumptions using the methodology shown below which, for the avoidance of doubt, is unchanged from that used in the previous year:

ASSUMPTION	METHODOLOGY
INTEREST RATE (A)	over 10 year iBoxx corporate bond yield (rounded to 0.1%)
INFLATION (B)	Bank of England spot inflation 10 year term less 1% difference between RPI and CPI inflation less 0.2% inflation risk premium (rounded to 0.1%)
NET INTEREST RATE (C=A-B)	Interest Rate less Inflation Assumption (rounded to 0.25%)

Approach and methodology – Mortality

We propose to use the following mortality assumptions, with last year's assumptions shown for comparison purposes:

ASSUMPTION	VALUE IN 2016	VALUE IN 2015
Base Table	95% of the S2N tables	95% of the S1N tables
Improvements	CMI 2015	CMI 2014
Long Term Rate	1.25% per annum	1.25% per annum

Commentary:

- The base tables are published by the Actuarial Profession. We have updated the base tables here from the 'S1 series' (published in 2008) to the 'S2 series' (published in 2014). This has a negligible effect on life expectancies and will therefore have a negligible effect on the Colleges' provisions.
- To reflect more recent mortality experience we have used CMI 2015 improvements instead of CMI 2014 improvements. This results in slightly lower life expectancies and hence slight lower provisions for the Colleges, although the precise impact depends on mix of ages / sexes valued.

Approach and methodology – Other Assumptions

The proportion of members who leave a qualifying dependant is estimated from national statistics. Census data, however, only reflects the proportion of people married at any given age.

We propose to keep the same assumption as used last year for this assumption:

Age	Proportion of males leaving a qualifying dependant	Proportion of females leaving a qualifying dependant
Younger than 80	80%	65%
80-84	70%	40%
85-89	60%	30%
90-94	50%	10%
95 or older	40%	10%

The age difference between a member and their surviving qualifying dependant is taken to be 3 years (males 3 years older than females). This is the same assumption as last year.

Appendix A - Compliance

This document, which includes any attachments, has been commissioned by, is addressed to, and is intended for use by, the Association of Colleges for the sole purpose of enabling their members to make suitable provision for unfunded enhanced pensions in their accounts and for no other purpose. It is not intended for use by, and is not written for the benefit of, any other third party. The information and advice in this document may be made available to third parties, however third parties must bear in mind that the information and advice is specific to the users and their current circumstances, requirements and objectives and should not be applied in other circumstances or at other times. Any third party wishing to rely on this information or advice for any purpose must make personal contact with its author first to discuss their own objectives and the limitations to the extent to which this document may be relied upon. Neither the author nor Mitchell Consulting Actuaries Limited nor any of its employees can accept liability to any third party in relation to the contents of this document or its attachments.

The Financial Reporting Council issues guidance which actuaries must follow (known as Technical Actuarial Standards (TASs)), and this document, related documents (including letters, emails, presentations, or anything else connected with this piece of work) and all of the work associated with it, has been carried out in accordance with Technical Actuarial Standards TASR (reporting), TASD (Data), TASM (Modelling) and the Pensions TAS where material to do so and in a manner proportionate to the decisions being taken by its users.

Our advice is based upon information (which, for the avoidance of doubt, includes deeds, booklets, member announcements, member data, benefit statements and any other relevant documents or information that might be relevant to our work) provided to us by you and other third parties during the course of our appointment, and relies on that information being correct and legally effective. We are unable to give any assurances or legal opinion about the correct interpretation of the Scheme's benefit structure or whether the Scheme's documentation has been validly amended in all material respects to reflect the intended benefits for the beneficiaries. If you have any doubts, we strongly recommend that you take legal advice.

The results of calculations in this document are the outcome of a valuation exercise for the purpose of measuring liabilities at a point in time, and not part of a planning exercise for the purpose of setting target funding positions and future contributions.

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