Dorset County Pension Fund

Pension accounting disclosure as at 31 March 2021

Prepared in accordance with IAS26

Barnett Waddingham LLP

1 July 2021

Contents

Introduction

We have been instructed by Dorset Council, the administering authority to the Dorset County Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2021. We have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

This report supersedes Version 1 dated 2 June 2021 and uses a revised 31 March 2021 Fund asset statement.

These figures are prepared in accordance with our understanding of IAS26. In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100).

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings.

An allowance was made for the potential impact of the McCloud & Sargeant judgement in the results provided to the Fund at the last accounting date and therefore is already included in the starting position for this report. This allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

Valuation data

Data sources

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Dorset Council:

- The results of the valuation as at 31 March 2019 which was carried out for funding purposes and the results of the 31 March 2020 IAS26 report which was prepared for accounting purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2021;
- Estimated Fund returns based on Fund asset statements provided (or estimated where necessary) as at 31 March 2019, 31 March 2020 and 31 March 2021; and
- Details of any new early retirements for the period to 31 March 2021 that have been paid out on an unreduced basis, which are not anticipated in the normal service cost.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report. Further, we are not aware of any material changes or events since we received the data. The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of this advice.

Fund membership statistics

The table below summarises the membership data, as at 31 March 2019.

Member data summary	Number	Salaries/Pensions £000s	Average age
Actives	24,516	427,351	46
Deferred pensioners	32,946	40,142	45
Pensioners	22,466	104,902	71

Early retirements

We requested data on any early retirements in respect of the Fund from the administering authority for the year ending 31 March 2021.

We have been notified of 89 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £943,300.

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2021 is estimated to be 24.20%. The actual return on Fund assets over the year may be different.

The estimated asset allocation for Dorset County Pension Fund as at 31 March 2021 is as follows:

Asset breakdown	31 Mar 2021		31 Mar 2020	
	£000s	%	£000s	%
Equities	1,809,703	54%	1,343,676	50%
Liability Driven Investment	381,311	11%	306,823	11%
Cash	99,563	3%	81,992	3%
Other Bonds	192,357	6%	220,608	8%
Diversified Growth Fund	164,281	5%	152,783	6%
Property	313,249	9%	301,015	11%
Infrastructure	220,057	7%	186,305	7%
Multi Asset Credit	170,469	5%	120,399	4%
Total	**3,350,990**	**100%**	**2,713,601**	**100%**

We have estimated the bid values where necessary. The final asset allocation of the Fund assets as at 31 March 2021 may be different from that shown due to estimation techniques.

Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2021, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS19.

The full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2021 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2021 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers. We have allowed for actual pension increase experience for the period from 2019-2021. This assumes that pension increases are in line with the annual pension increases set by HM Treasury Revaluation Order.

As a result of allowing for actual experience, an experience item is observed in the reconciliation to 31 March 2021, as shown in Appendix 2.

Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes". More information on the current method of equalisation of public service pension schemes can be found here.

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

Our valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that the Fund will be required to pay the entire inflationary

increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome.

Demographic/Statistical assumptions

We have adopted a set of demographic assumptions that are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019, except for the CMI projection model. The post retirement mortality tables adopted are the S3PA tables with a multiplier of 90% for males and 100% for females. These base tables are then projected using the CMI_2020 Model, allowing for a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.5, an initial addition parameter of 0.5% p.a. and a 2020 weighting of 25%.

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2020, which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI. The new CMI_2020 Model introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. Our view is that placing too much weight on the 2020 mortality experience would not be appropriate given the abnormality of the 2020 data, however, the overall outlook for best-estimate future mortality improvements looks less positive as a result of the pandemic. Therefore we have updated to use the CMI_2020 Model with a 2020 weight parameter of 25%. At the last accounting date, the CMI_2018 Model was adopted. The effect on the Fund's liabilities of updating to the most recent model is reflected in the Change in demographic assumptions figure in Appendix 2, and the effect on the assumed life expectancies is demonstrated in the table below.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 Mar 2021 (after CMI_2020 update)	31 Mar 2021 (before CMI_2020 update)	31 Mar 2020
Retiring today			
Males	23.1	23.4	23.3
Females	24.6	24.8	24.7
Retiring in 20 years			
Males	24.4	24.8	24.7
Females	26.0	26.2	26.2

We have also assumed that:

- Members will exchange pension to get 50% of the maximum available cash on retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 option at the previous valuation date will remain the same.

Financial assumptions

The financial assumptions used to calculate the results in the Appendices are as follows:

Assumptions as at	31 Mar 2021 % p.a.	31 Mar 2020 % p.a.	31 Mar 2019 % p.a.
Discount rate	2.00%	2.35%	2.40%
Pension increases	2.85%	1.90%	2.40%
Salary increases	3.85%	2.90%	3.90%

These assumptions are set with reference to market conditions at 31 March 2021.

Our estimate of the Fund's past service liability duration is 21 years.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration above. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point). This is consistent with the approach used at the previous accounting date.

Similar to the approach used to derive the discount rate, the Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach, using the notional cashflows described above. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30 year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40 year point. This is consistent with the approach used at the previous accounting date.

The BoE implied inflation curve may suggest a higher rate of inflation, over longer terms, than actually expected by market participants due to a willingness to accept a lower return on investments to ensure inflation linked returns. To reflect this, we include an Inflation Risk Premium (IRP) adjustment such that our assumed level of future annual RPI increase is 0.25% p.a. lower than the SEIR calculated using the BoE inflation curve alone. This

differs from the previous accounting date. The impact of this change in derivation on the liability value is shown in Appendix 2.

As future pension increases are expected to be based on the Consumer Prices Index (CPI) rather than RPI, we have made a further assumption about CPI which is that it will be 0.35% p.a. below RPI i.e. 2.85% p.a. We believe that this is a reasonable estimate for the future differences in the indices, based on the different calculation methods, recent independent forecasts and the duration of the Fund's liabilities. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue. The impact of this change in derivation on the liability value is shown in Appendix 2

Salaries are assumed to increase at 1.0% p.a. above CPI. This is consistent with the approach at the previous accounting date.

Results and disclosures

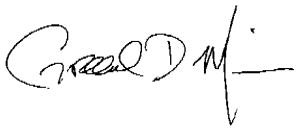
We estimate that the net liability as at 31 March 2021 is a liability of £2,930,648,000.

The results of our calculations for the year ended 31 March 2021 are set out in the appendices below:

- Appendix 1 sets out the Statement of financial position as at 31 March 2021;
- Appendix 2 details a reconciliation of assets and liabilities during the year; and
- Appendix 3 shows a sensitivity analysis on the major assumptions.

The figures presented in this report are prepared only for the purposes of IAS19. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

We would be pleased to answer any questions arising from this report.



Graeme Muir FFA
Partner

Appendix 1 Statement of financial position as at 31 March 2021

Net pension asset as at	31 Mar 2021	31 Mar 2020	31 Mar 2019
	£000s	£000s	£000s
Present value of the defined benefit obligation	6,281,638	4,786,543	5,058,643
Fair value of Fund assets (bid value)	3,350,990	2,713,601	3,030,486
Net liability in balance sheet	**2,930,648**	**2,072,942**	**2,028,157**

*Present value of funded obligation consists of £6,158,591,000 in respect of vested obligation and £123,047,000 in respect of non-vested obligation.

Appendix 2 Asset and benefit obligation reconciliation for the year to 31 March 2021

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	Year to 31 Mar 2021 £000s	Year to 31 Mar 2020 £000s
Opening defined benefit obligation	**4,786,543**	**5,058,643**
Current service cost	162,424	168,392
Interest cost	111,379	120,097
Change in financial assumptions	1,431,794	(508,903)
Change in demographic assumptions	(51,824)	(92,309)
Experience loss/(gain) on defined benefit obligation	(62,322)	116,048
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(130,306)	(151,558)
Past service costs, including curtailments	4,922	48,074
Contributions by Scheme participants and other employers	29,028	28,059
Unfunded pension payments	-	-
Closing defined benefit obligation	**6,281,638**	**4,786,543**

The change in financial assumptions item includes the change in derivation of future assumed RPI and CPI inflation as noted on page 8. These changes have resulted in a loss of £242,270,000 on the defined benefit obligation; comprising a gain of £288,798,000 from the change in assumed IRP and a loss of £531,068,000 from the change in the assumed gap between RPI and CPI inflation.

The change in demographic assumptions figure in the table above reflects the update to use the CMI_2020 Model as set out in the Demographic/Statistical assumptions section of this report.

Reconciliation of opening & closing balances of the fair value of Fund assets	Year to 31 Mar 2021 £000s	Year to 31 Mar 2020 £000s
Opening fair value of Fund assets	**2,713,601**	**3,030,486**
Interest on assets	63,817	72,464
Return on assets less interest	571,523	(365,922)
Other actuarial gains/(losses)	-	1,387
Administration expenses	(2,040)	(2,354)
Contributions by employer including unfunded	105,367	101,039
Contributions by Scheme participants and other employers	29,028	28,059
Estimated benefits paid plus unfunded net of transfers in	(130,306)	(151,558)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	**3,350,990**	**2,713,601**

The total return on the Fund's assets for the year to 31 March 2021 is £635,340,000.

Appendix 3 Sensitivity analysis

Sensitivity analysis	£000s	£000s
Present value of total obligation	6,281,638	
Sensitivity to	**+0.1%**	**-0.1%**
Discount rate	6,153,910	6,412,146
Long term salary increase	6,294,521	6,268,862
Pension increases and deferred revaluation	6,398,046	6,167,608
Sensitivity to	**+1 Year**	**- 1 Year**
Life expectancy assumptions	6,564,962	6,011,113