Accounting reporting as at 31 December 2020

Employer briefing note post-accounting date

Barnett Waddingham LLP

7 January 2021

Contents

Accounting reporting as at 31 December 2020

A number of LGPS employers prepare accounting disclosures as at 31 December each year and these may be in accordance with the IAS19 or FRS102 standard, depending on the employer.

This note outlines some of the changes to the key financial assumptions that are used in preparing the IAS19 and FRS102 accounting numbers since the last reporting date as well as information on asset performance over the period.

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

Unless requested otherwise, we prepare our reports based on our standard approach. We therefore recommend employers discuss this note with their auditors to check that the standard approach is appropriate.

How has the accounting position changed?

As LGPS Funds are usually invested in a range of asset classes, the performance of the assets may be quite different from that of the accounting liabilities (which are linked to corporate bonds, as set out below) and so the results can be very volatile from year to year.

This note discusses our recommended assumptions for the exercise, however the responsibility for setting assumptions ultimately belongs to the employer and, therefore, if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The assumptions in this report are the standards that we intend to use unless instructed otherwise. We believe that these assumptions are likely to be appropriate for most employers but we have not consulted with each employer in setting these.

The change in the balance sheet position over the year is mainly dependent on the answers to three key questions and this report is split into these three sections:

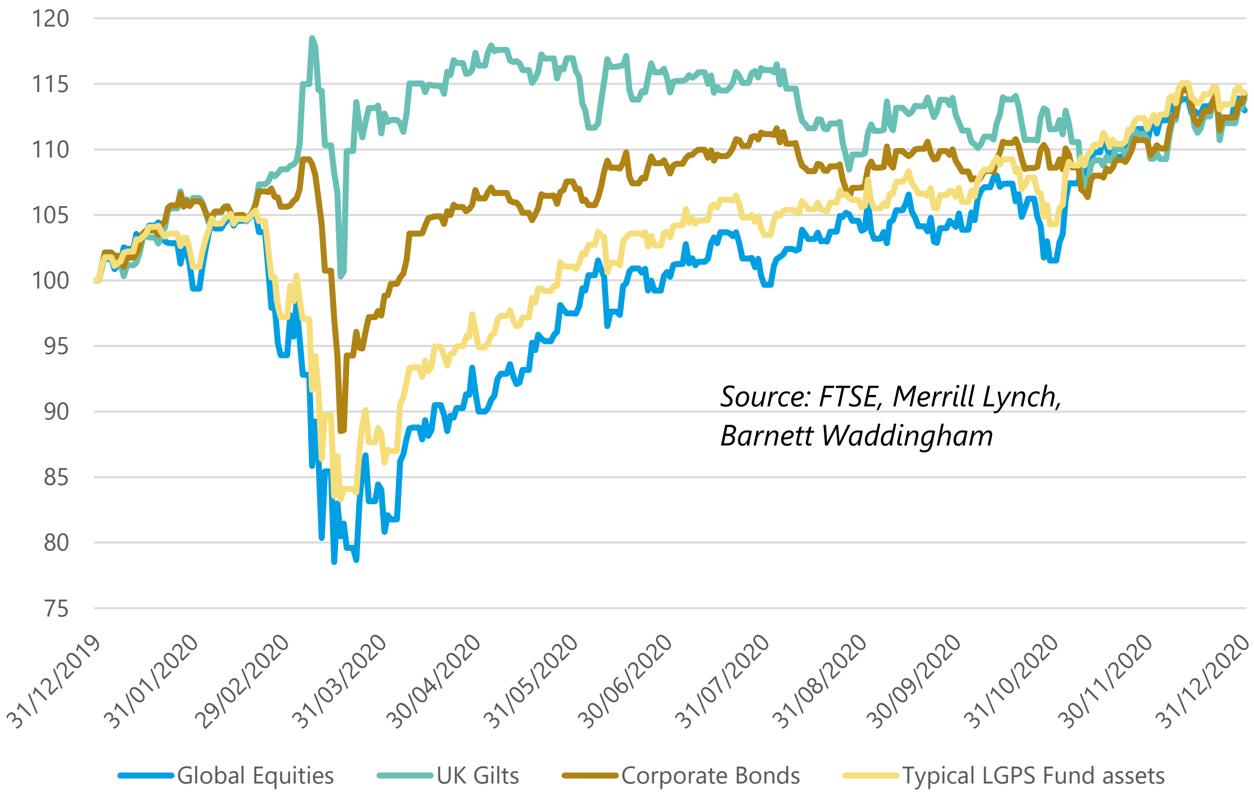
- What were asset returns for the twelve months to 31 December 2020?
- What were corporate bond yields as at 31 December 2020?
- What were market expectations of inflation as at 31 December 2020?

We appreciate that some of the terminology in this report may not be familiar and therefore we would recommend also reading our Glossary and FAQs document for a more detailed explanation on some of the jargon used here. This document has been circulated with this briefing note but please get in touch with the Fund if you would like a copy.

Please let your usual Barnett Waddingham contact know if you have any queries.

Asset returns

The following chart plots returns from the major asset classes since 31 December 2019 alongside the return that would have been achieved by a Fund invested 75% in global equities, 20% in corporate bonds and 5% in gilts.



Asset performance has been volatile over the year to 31 December 2020, particularly in February and March as a result of the COVID-19 crisis. Based on market indices, and the asset allocation outlined above, a typical LGPS Fund might have achieved a return of around 14% for the year to 31 December 2020. However, given the level of volatility seen in the markets, this could vary considerably depending on each Fund's investment strategy.

If Fund returns have been around this level, asset returns will have been higher than the discount rate assumed at the previous accounting date. If the actual return for the year is higher than the previous discount rate, this will lead to an actuarial gain on the assets; decreasing the accounting deficit.

However, the overall position is also influenced by the effect of market movements on the assumptions used to place a value on the defined benefit obligation. This is discussed in the next section.

Changes to financial assumptions

The key financial assumptions required for determining the defined benefit obligation under either accounting standard are the discount rate, linked to corporate bond yields, and the rate of future inflation. These assumptions are discussed below.

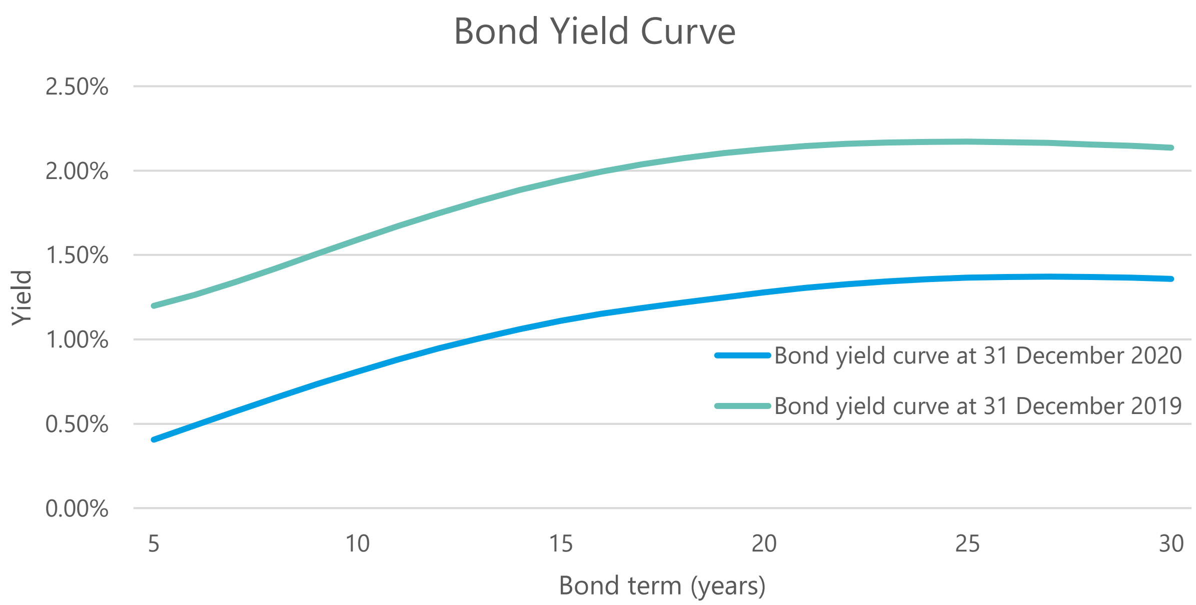
Discount rate

Under both the FRS102 and IAS19 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The approach we adopted to derive the appropriate discount rate at the previous accounting date is known as the Single Equivalent Discount Rate (SEDR) methodology. We intend to adopt the same approach for assumptions used for accounting disclosures at 31 December 2020.

We use sample cashflows for employers at each duration year (from 2 to 30 years) and derive the single discount rate which results in the same liability value as that which would be determined using a full yield curve valuation (essentially each year's cashflows has a different discount rate). This discount rate is known as the SEDR. In carrying out this derivation we use the annualised Merrill Lynch AA rated corporate bond yield curve and assume the curve is flat beyond the 30 year point.

The standard assumptions set for an employer will be based on their individual duration. For example, an employer with an estimated liability duration of 13 years will adopt assumptions consistent with those derived using the 13 year cashflows.

The below graph shows the bond yield curve at the last accounting date along with the yield curve at 31 December 2020:



These curves reflect the yields that underlie the SEDR calculations and are not the estimates of the standard discount rate assumption. Sample SEDR assumptions are set out in the table below.

You will see that the bond yield at 31 December 2020 is lower than at 31 December 2019 at all terms. As a result, the discount rate assumed for employers will be lower than that assumed at the previous accounting date. All else being equal, a lower discount rate will result in a higher value being placed on the defined benefit obligation.

Sample SEDRs are set out in the table below based on market conditions at 31 December 2020, with the equivalent 31 December 2019 SEDRs also shown for comparison:

Duration (years)	31 December 2020	31 December 2019
10	1.10%	1.90%
15	1.20%	2.00%
20	1.25%	2.05%
25	1.30%	2.10%

Assumptions are rounded to the nearest 0.05%.

The below table sets out the estimated effect of the change in discount rate assumed based on the same sample durations:

Duration (years)	Estimated effect of change in discount rate on employer's liabilities
10	Increase of 8%
15	Increase of 13%
20	Increase of 17%
25	Increase of 22%

The actual effect of the change in the discount rate assumption will depend on each employer's membership and the assumption to be adopted this year compared to last year.

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which active members' CARE benefits and deferred and pensioner members' benefits increase.

IAS19 suggests that in assessing future levels of long-term inflation we should use assumptions that would result in a best estimate of the ultimate cost of providing benefits whilst also giving consideration to the gilt market (in line with general price levels) to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). As there is limited market information on CPI-linked assets, to derive our CPI assumption we first make an assumption on the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

Similar to the SEDR approach described above we intend to adopt a Single Equivalent Inflation Rate (SEIR) approach in deriving an appropriate RPI assumption.

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. As above, the Merrill Lynch AA rated corporate bond yield curve is assumed to be flat beyond the 30 year point and the BoE implied inflation curve is assumed to be flat beyond the 40 year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH from 2030, our view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% each year beyond 2030. This results in an overall IRP of 0.0% p.a. - 0.3% p.a. depending on the term of the liabilities. This differs from our standard assumption at the previous accounting date where no allowance for an IRP was made.

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 2 to 30 years) in deriving the assumptions for employers.

Sample RPI assumptions are set out in the table below based on market conditions at 31 December 2020, with the equivalent 31 December 2019 SEIRs (based on our standard derivation at that time) also shown for comparison:

Duration (years)	RPI 31 December 2020	RPI 31 December 2019
10	3.05%	3.25%
15	3.00%	3.20%
20	2.85%	3.15%
25	2.80%	3.10%

Difference between RPI and CPI

In March 2019, the UK Statistics Authority proposed changing the way that RPI is calculated; specifically that the calculation methodology should be aligned with the CPIH, the Consumer Prices Index including owner occupiers' housing costs. Consent was sought from the government and, following a consultation on whether the change could take place before 2030, in November 2020 the Chancellor announced that he will not provide consent for reform prior to 2030, meaning the proposed alignment of RPI to CPIH will take effect from 2030 at the earliest.

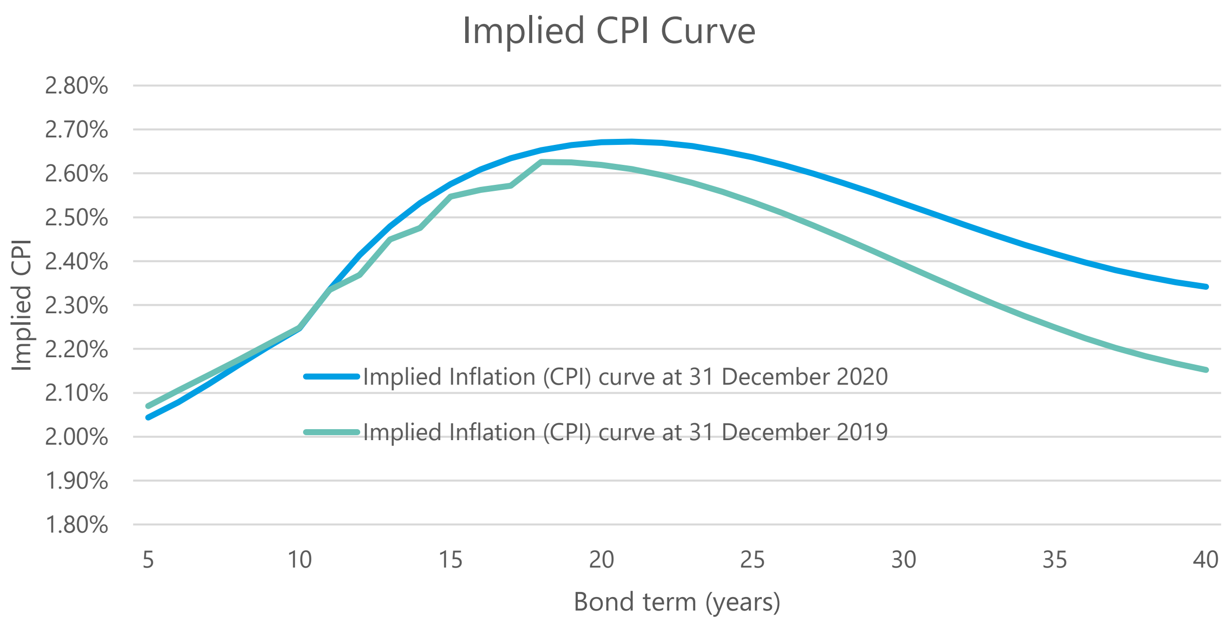
It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result, bringing RPI inflation in line with CPIH (and CPI) from that date. We have therefore considered how this potential change and the market's reaction to the announcement affects the difference between market implied RPI and CPI inflation.

At the last accounting date we noted that the market had already started to react to this potential change and reduced our assumed gap between to the two inflation measures to 0.8% p.a. – 1.0% p.a. for terms between 10 and 30 years.

Following the November 2020 announcement, we believe the proposed reform of RPI inflation is now fully priced into the market (although noting the apparent muted reaction allowed for through the IRP we have introduced). We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with RPI inflation thereafter. This results in an assumed gap between the two inflation measures of 0.25% p.a. – 0.95% p.a. depending on the term of the liabilities (for terms ranging between 5 years and 30 years).

Consumer Prices Index (CPI) assumption

The resulting implied CPI curve at 31 December 2020 is shown below along with the implied CPI curve at the last accounting date for comparison:



These curves reflect the yields that underlie the SEIR calculations and are not the estimates of the standard CPI inflation assumption. Sample SEIR assumptions are set out in the table below.

Using a similar approach described above to calculate the SEIR for our RPI assumption, we have calculated a single equivalent rate of CPI increase that results in the same liability value as would be calculated by applying the above implied CPI curve.

As shown above, the implied CPI curve at 31 December 2020 is similar to that at 31 December 2019 at earlier but higher at longer terms. As a result, the level of future pension increases will be higher than that assumed at the previous accounting date, particularly for employers with longer liability durations. If the pension increase assumption is higher than at the previous accounting date, all else being equal, this will result in an increase in the value of employers' liabilities.

The below tables set out the assumed pension increase (CPI) assumptions at sample durations, as well as the estimated effects due to the change in the inflation assumption from last year's standard assumption to this year's:

Duration (years)	CPI 31 December 2020	CPI 31 December 2019
10	2.45%	2.25%
15	2.50%	2.35%
20	2.45%	2.35%
25	2.50%	2.30%

Duration (years)	Estimated effect of change in inflation on employer's liabilities
10	Increase of 2%
15	Increase of 2%
20	Increase of 2%
25	Increase of 5%

The actual effect of the change in pension increase assumption will depend on the assumption to be adopted this year compared to last year.

Due to the nature of SEDR and SEIR methodology, the assumptions derived are dependent on the sample cashflows used and as a result different cashflows of similar liability durations may result in alternative assumptions. Therefore, another actuary replicating the same approach set out above may derive different assumptions from those set out above. Reasonableness checks have been carried out on the cashflows used.

Salary increases

Although future benefits are not linked to final salary, benefits accrued up to 31 March 2014 will continue to be linked to the final salary of each individual member. Therefore we still need to set an appropriate long-term salary increase assumption.

Where an employer has requested a bespoke salary increase assumption last year, if still appropriate, we will continue the same salary increase assumption at 31 December 2020. For all other employers, we will adopt the standard approach set out below.

For English Funds, we intend to use the salary increase assumption from the 2019 actuarial valuation. For all English Funds, this means assuming that salary increases are in line with CPI plus 1.0% p.a. with no additional allowance for a promotional salary scale. For the employers adopting our standard salary increase assumption last year, this assumption has been updated from a short term increase in line with CPI for the period to 31 March 2020 and CPI plus 1.5% p.a. thereafter in addition to a promotional salary scale.

For Scottish Funds, our standard approach remains consistent with the 2017 actuarial valuation and is in line with CPI plus 1.0% p.a. in addition to a promotional salary scale. This is consistent with the standard approach last year.

The salary increase assumption is the assumption that employers are most likely to request a specific approach for in line with their own expectations and we are happy to discuss this as required.

Bespoke financial assumptions

As mentioned above, the responsibility for setting assumptions ultimately belongs to the employer and therefore if an employer was to request alternative assumptions then we would be happy to use these in producing our report. The approaches described above are the standard approaches we will adopt to derive financial assumptions, however, we are happy to advise individual employers on the range of assumptions they may be able to adopt.

As part of this advice we are able to provide employers with a deficit modeler which provides an indication of the impact of any changes to their accounting position.

If you would like more information on the options available to employers regarding bespoke assumptions please feel free to contact publicsector@barnett-waddingham.co.uk or your usual Barnett Waddingham contact. However, please be aware that both requesting and receiving advice on bespoke assumptions will incur additional fees.

Mortality assumption

The key demographic assumption is the mortality assumption and there are two main steps in setting this assumption:

- Making a current assumption of members' mortality (the base mortality); and
- Projecting these current mortality rates into the future, allowing for further potential improvements in mortality. Future members' mortality is almost impossible to predict and therefore there is a lot of judgement involved and we naturally have to refine our view on this over time.

The mortality assumptions adopted for our Fund's triennial funding valuations were best estimate assumptions and we will, therefore, be using the same assumptions as standard for accounting. As part of the valuation, analysis was carried out by our specialist longevity team to assess the best estimate mortality assumption based on each Fund's experience and industry knowledge.

For Scottish Funds, our standard approach is to adopt the same assumption as that adopted at the last accounting date. For most employers, this is a base mortality assumption in line with the Fund's 2017 actuarial valuation, projected in line with the CMI_2018 Model published by the Continuous Mortality Investigation (CMI).

For English Funds, our standard approach is to update the mortality assumption to be based on those adopted for the Fund's 2019 actuarial valuation. In most cases, this will mainly be an update to the base mortality assumption and retention of the CMI_2018 projection model that most employers adopted at the last accounting date. The variables underlying the CMI_2018 Model will, however, be updated in line with those adopted for the Fund's 2019 actuarial valuation.

Other levers

2019 valuation update (English Funds)

The results for each employer in English Funds will incorporate the results of the 2019 valuation, which could have a positive or negative effect. The effect will depend on how experience over the intervaluation period has differed from that assumed.

Service accrued over the period

The change in employers' deficits will also be affected by the difference in the cost of benefits accrued over the period and the level of contributions paid by the employer and employees.

The service cost accrued over the year is based on the assumptions at the start of the period, i.e. at the previous accounting date. Employers' contributions may consist of contributions towards funding any deficit as well as funding the cost of benefits being accrued on an ongoing funding basis. These contributions are likely to have been calculated using different assumptions than under IAS19/FRS102 and may therefore differ from the service cost calculated for the period.

Depending on the membership profile of the employer; the cost of benefits accrued over and above the level of contributions paid may have a more significant effect on the level of deficit than the change in financial assumptions and investment performance.

Treatment of settlements and curtailments

Employers accounting under the IAS19 standard

On 7 February 2018, the International Accounting Standards Board (IASB) issued amendments to the IAS19 standard which now requires that when determining any past service cost or gain or loss on settlement that the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. This applies for all accounting periods starting on or after 1 January 2019 and therefore will apply for the year to 31 December 2020 accounts.

Common events for LGPS employers that this amendment may apply to include outsourcings and unreduced early retirements.

The amendment complicates the accounting disclosure as additional calculations are required to determine the cost before and after each event, and to rebase the standard roll forward approach on updated assumptions based on each event date. The amendment does, however, note that the extra remeasurement does not need to be applied where the application of that remeasurement is immaterial. The assessment of materiality will be subject to each employer and auditor's discretion. We can provide additional information to help assess materiality but we cannot conclude whether an event is material or not.

Our default approach for IAS19 reports will be to assume that all events are material and therefore will adopt the approach set out in the IAS19 amendment. We will provide each administering authority with a summary of the events we are aware of and these will be communicated to each employer. If the employer does not want to treat all the events in this way then we would strongly recommend the employer reviews these events with their auditor in advance of the preparation of their report.

Unless instructed otherwise we will proceed with our default approach and please note that additional fees will apply, details of which can be provided by the administering authority.

Employers accounting under the FRS102 standard

We note that the FRS102 standard is silent on the treatment of settlements and curtailments, and in particular there is no explicit requirement to adopt a similar approach to that set out above for the IAS19 standard.

Therefore, our default approach for FRS102 reports is to not remeasure the net defined benefit liability at the event date, and this is consistent with the approach at the last accounting date.

We are happy to adopt an approach in line with that set out above for the IAS19 reports if requested by the Employer, but please note that that will incur additional charges.

McCloud/Sargeant judgement

If at the last accounting date allowance was made for McCloud in an employer's IAS19/FRS102 report then no explicit adjustment will be made in our results this year. At the last accounting date, our standard approach unless requested otherwise was to include allowance for McCloud so we expect most employers this year will fall under this category.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closes on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. We do not believe there are any material differences between the approach underlying our estimated allowance and the proposed remedy. A more detailed analysis at this stage would require a significant volume of member data which is not yet available. Therefore, we do not intend to make any further adjustment in light of the ongoing consultation at the accounting date.

If no allowance was made at the last accounting date, then our default approach will be to include an allowance this year based on GAD's analysis (further details can be found in Appendix 3) and the individual assumptions and membership profile of the employer. The effect on the employer's liabilities will be shown as a past service cost.

This will be the default approach unless employers opt out.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors in advance of their year-end to make them aware of our intended approach.

Please contact the administering authority of the Fund to confirm the relevant fees.

Goodwin case

We do not intend to make any adjustments to accounting valuations at 31 December 2020 as a result of the Goodwin case. Please see Appendix 4 for further details.

Overall expected results

What does this all mean when we bring it all together?

The first caveat is that no employer is average and so any prediction of what might apply to an average employer will not apply to every, or possibly any employer.

The effect of the changes in the financial assumptions on an employer's liabilities are dependent on the assumptions adopted as well as the specific duration of the employer's liabilities. Typically, employers with greater liability durations are more sensitive to changes in financial assumptions as benefits will be paid over a longer term. The table below describes the estimated effects for employers with liability durations of exactly 10, 15, 20 and 25 years:

Duration (years)	Estimated effect of change in financial assumptions on employer's liabilities
10	Increase of 10%
15	Increase of 15%
20	Increase of 19%
25	Increase of 28%

Based on market conditions at the accounting date, employers of all durations would see an increase in the value of the defined benefit obligation. In addition, the value of liabilities will increase with interest accumulated over the year.

However, there will be other factors affecting the change in an employer's accounting position including (but not limited to) the effects of:

- For English funds, updating to the 2019 valuation results
- Any updates to the demographic assumptions (in particular for English funds, updating to be in line with those adopted for the 2019 valuation)
- Fund asset performance
- Employer cashflows, in particular the difference in the cost of benefits accrued over the period and the level of contributions paid by employers and employees

Appendix 1 - Auditor views

It should be highlighted that auditors continue to look for greater accuracy in the roll forward approach used to calculate employers' results. This includes the approach used to determine each employer's share of fund assets at the accounting date and roll forward employers' liabilities.

Asset roll forward

Given the tight timescales for employers to submit their final accounts we appreciate that it is not always possible to wait until a fund's net asset statement at the accounting date is available to begin producing accounting disclosures. As a result, we request details of funds' assets at the most recent date available and, for the remaining period, we assume that returns are in line with relevant market indices.

In order to reduce the chance of having to revise any reports we recommend that employers engage with their auditors and the administering authority of the fund as early as possible to ensure they are comfortable with the information being used to calculate results.

Liability roll forward

To calculate the value of employers' liabilities we carry out a full valuation of membership data at least every three years (as part of the triennial valuation). We then 'roll this forward' to each subsequent accounting date, allowing for the actual cashflows paid into and out of the fund in respect of the individual employer.

In addition we allow for any curtailments as a result of unreduced early retirements we are made aware of. Similarly we allow for any settlements we are made aware of such as those resulting from outsourcings or bulk transfers.

We do not, as standard, allow for actual inflation experience between full member valuations. The effect of actual experience compared to what was assumed is typically included within the experience item when full valuations are incorporated into accounting disclosures.

However, if employers wish us to allow for actual inflation experience over the inter-valuation period we would be happy to do so. It should be noted that this does fall outside the scope of what is covered in our standard report fee and will therefore incur additional fees.

Appendix 2 - Adjustments to fees

The Fund will communicate fees to employers however we would like to make you aware that there may be additional fees if there are particular features or events for an employer which need to be taken into account.

As examples of this:

- where an employer chooses their own assumptions;
- if there are additional calculations to be carried out if a surplus is revealed;
- when there are any staff transfers/movements to allow for;
- allowance for actual inflation experience;
- if additional disclosures are required;
- an employer asks to receive their report by a particular deadline; or
- if auditors ask queries following receipt of the report.

Please get in touch with the Fund for further information on fees.

Appendix 3 – Supreme Court ruling in McCloud/Sargeant case

Background

Two employment tribunal cases were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination.

On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

Government Actuary's Department (GAD) impact analysis

The Scheme Advisory Board, with consent of the Ministry of Housing, Communities and Local Government (MHCLG), commissioned GAD to report on the possible impact of the McCloud/Sargeant judgement on LGPS liabilities, and in particular, those liabilities to be included in local authorities' accounts as at 31 March 2019. This followed an April 2019 CIPFA briefing note which said that local authorities should consider the materiality of the impact. This analysis was to be carried out on a "worst-case" basis, (i.e. what potential remedy would incur the highest increase in costs/liabilities). The results of this analysis are set out in GAD's report dated 10 June 2019.

Although GAD were asked to carry out their analysis on a "worst-case" basis, there are a number of other potential outcomes to the case which would potentially inflict less cost to the Employer. For example, the solution proposed by the Government would only apply the underpin to all members who were active on 31 March 2012. This would have less impact than GAD's scenario (which also includes any new joiners from 1 April 2012).

IAS19/FRS102 requires us to place a best estimate value on liabilities and costs. Consistent with the approach we adopted for the McCloud impact estimates made last year, we will adjust GAD's estimate to include only members that were active on 31 March 2012. This is in line with that proposed in the Government's consultation.

GAD's analysis compared the cost of the old pre-2014 final salary scheme with the new CARE scheme. The key parameter in assessing this cost is the assumed level of future salary increases in excess of CPI. GAD considered the following two scenarios:

1. Salaries increase at CPI plus 1.5% – on this scenario GAD assessed the average cost of implementing their worst-case scenario to be 3.2% of active liabilities at 31 March 2019 and the impact on service cost (i.e. the cost of benefits accruing) to be 3.0% of active payroll.

2. Salaries increase at CPI plus 0% p.a. – on this scenario GAD assessed the average cost to be less than 0.1% of active liabilities at 31 March 2019 and the impact on service cost to be less than 0.1% of payroll.

For the purpose of our impact estimate we will make an allowance to reflect each employer’s own salary increase assumption.

BARNETT WADDINGHAM
beyond the expected

Appendix 4 – Goodwin case

Background

Following a case involving the Teachers' Pension scheme, known as the Goodwin case, differences between survivor benefits payable to members with same-sex or opposite-sex survivors have been identified within a number of public sector pension schemes. As a result, the Government have confirmed that a remedy is required in all affected public sector pension schemes, which includes the LGPS.

As this has just recently been announced, we do not yet have an accurate indication of the potential impact this may have on the value of employers' liabilities or the cost of the scheme. Any indication of cost at this stage will only be a rough estimate as in a lot of cases, funds will not have this information or data to hand. It is our understanding that the Government Actuary's Department (GAD) is undertaking a review to assess the potential impact on public sector pension schemes, which we expect will be minimal for LGPS funds.

Intended approach for accounting exercise

Although we do not yet have the results of GAD's review, it's our expectation that the impact on the value of LGPS liabilities as a whole, and for the majority of employers participating in the LGPS, will not be material. However, it's possible that the impact on individual employers may vary depending on their specific membership profile; although any cases resulting in a significant impact are likely to be few and far between.

For employers who are receiving accounting disclosures at 31 December 2020, we do not currently intend to make an allowance for the potential impact of this decision. We do not yet have enough information to make an accurate estimate of the potential impact on employers' liabilities.

Indication of potential impact

The Goodwin case affects male survivors (of female members) by extending the applicable service back from 1988 back to 1978. This only impacts the amount to be paid to widower survivor benefits coming into payment after 2005. A typical fund might expect that widowers' benefits in payment represent around 0.5% of their liability profile, however this may vary at employer level.

For these widowers to be affected, the original female member would need to have pre-88 service, which is now 32 years ago. Given the average age of pensioners typically around 70 and the average member's service may be around 10 years, we expect there are very few members who will be affected by this change. If we assume even 10% meet this criteria then the impact might be 0.5% x 10% x pre 88 benefit / total benefit.

Even if the pre 88 benefit was 50% of the total (which is unlikely) then the impact would be 0.025%. There are necessarily a number of estimates and assumptions here and so this is purely to illustrate that we believe that the impact is very small and not material for the vast majority of employers.

However, as noted above, we understanding that GAD is undertaking a review of the potential impact of this decision, which may provide a more accurate assessment of the effect on employers' accounting positions.