

**CYNGOR SIR POWYS COUNTY COUNCIL****Audit Committee  
September 2015****BRIEFING FOR: Strategic Director of Resources****BRIEFING BY: Pension Fund Manager****SUBJECT: Pension Fund Discount Rates**

---

**REPORT FOR: Information**

---

**1 Introduction**

Audit Committee has sought further information about the discount rate used as part of the process for the valuation of Pension Fund liabilities, as set out in the draft Statement of Accounts.

**2 Background**

Pension Fund liabilities are valued subject to a discount rate to reflect the fact that payment of such liabilities lies in the future and therefore, it is not necessary for full funding to be held to meet those liabilities.

There are a variety of methods for determining a discount rate to be used, dependant principally upon the context of the valuation being undertaken and the objectives of the valuation. It should be noted that there will be significant differences between discount rates selected for 'standard' liability valuations – such as those undertaken by the Actuary for the purposes of International Accountancy Standard 19 (IAS19) requirements for inclusion in the Statement of Accounts; and, those chosen for actual Fund valuations at which employer contribution rates are set.

The discount rate plays an important role determining the employer's contribution. In effect if the discount rate increases (compared with the one used in the current pension funding strategy) lower employer contributions can be made but conversely decrease would require increased contribution levels. This is because the fund would need more 'assets' today to generate the required funding levels.

**3 IAS19 Calculations**

It should be noted that IAS19 reporting on pension liabilities is a method that simply enables liabilities to be shown in the Statement of Accounts on a 'crystallised' basis – i.e as if the current liabilities had to

be funded in full at the accounting date.

IAS19 requires the discount rate to be set equal to the current rate of return on high quality corporate bonds “of equivalent currency and term to the scheme liabilities”. The discount rate used for the purposes of the Statement of Accounts is therefore determined each year by the Fund’s Actuary on a standard basis that will vary from year-to-year dependant on the movement of bond yields.

#### **4 Pension Fund Valuation Calculations**

The determination of the discount rate to be used in Fund valuations is determined, within limits, within the context of the Fund’s funding and solvency targets; the need to retain where possible stable employer contribution rates; whilst taking a reasonable view of the probability of success in relation to all economic and financial assumptions used in the process.