31 March 2016 accounting exercise Assumptions and results commentary

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Steven Scott and Craig Alexander summarise Hymans Robertson's recommended accounting assumptions at 31 March 2016 and provide high level commentary on the results for 'typical' LGPS employers.

Recommended financial assumptions as at 31 March 2016

The approach to setting our recommended accounting assumptions as at 31 March 2016 is set out in our February 2016 Briefing Note. Our recommended financial assumptions as at 31 March 2016 are set out below.

Weighted average duration	Discount rate	RPI inflation (CPI)
Less than 17 years (Short)	3.4%	3.1% (2.1%)
Between 17 and 23 years (Medium)	3.5%	3.2% (2.2%)
More than 23 years (Long)	3.6%	3.2% (2.2%)

The demographic assumptions, including longevity, are set in line with the assumptions adopted at the latest formal valuation.

Results commentary

Each employer's results will reflect their own specific circumstances. Therefore, this update should be considered as an illustrative guide to the main issues affecting most employers, rather than a detailed explanation of each employer's experience.

The balance sheet position for the typical employer is likely to have improved over 2015/16. This is as a result of an increase in the net discount rate over this period, the positive impact of which has outweighed the likely lower than expected asset returns.

The 2015/16 charge to Profit & Loss is based on financial conditions at the ***start*** of the year i.e. assumptions as at 31 March 2015. The service cost and net interest cost for 2015/16 should be broadly in line with the projections made in our 2015 reports.

The projected 2016/17 charge to Profit & Loss is likely to be lower than the 2015/16 charge. The reasons for this are as follows;

- A higher net discount rate (the discount rate net of inflation), leading to a lower **current service cost**.
- The effect of the change in assumptions and 2015/16 asset experience on the 2016/17 **net interest cost** will vary for each employer. However, for the typical employer, the 2016/17 net interest cost is likely to be less than the 2015/16 net interest cost due to the likely lower deficit at 31 March 2016.

Please speak to your usual Hymans Robertson contact if you have any queries in respect of this.