

29 March 2010

Circular 05.2010

To: Salaries and Wages Departments  
Pension Contacts

At: All compensatory paying authorities

Dear Colleagues,

### **Calculation of Capital Cost of Compensatory Added Years for Accounts**

Each year a number of employing authorities request tables and the market adjustment factor to be used when calculating the capital cost of compensatory added years for inclusion in their annual accounts.

Our Circular, 08/2009, issued on 4<sup>th</sup> September 2009 advised that the tables and guidance we have is now considerably out of date. We asked employers if they wished to obtain updated guidance from the actuary, the cost of which would have to be met by those employers. As only one employer contacted us updated guidance was not requested.

Therefore, we recently contacted John Buchanan of the NI Audit Office to ask if employers should continue to use the existing factors for their accounts and his reply is detailed below:

#### **For 2009/2010 accounts based on SORP 2009**

If the capitalised cost is not a material figure Councils may use

- The existing factors.

If the capitalised cost is a material figure Councils should use

- An actuary valuation of the added years
- Or, if available, updated guidance on the calculation of the capital value of added years.

#### **For 2010/2011 accounts and subsequent accounts**

Councils will need to obtain an actuarial valuation of pension assets and liabilities (their share of NILGOSC scheme assets and liabilities) and Councils should ask the actuary to value the added years.

***You may wish to confirm with your own auditors what they regard as a "material figure".***

If you would like the actuary to calculate the capital values or to provide updated guidance there will be an actuarial charge incurred and this cost will be recharged to you. Please note that it may take the actuary a few weeks to complete the calculations. If you are interested in this option please contact Mark Wright at [mark.wright@nilgosc.org.uk](mailto:mark.wright@nilgosc.org.uk) and we will obtain an actuarial fee quote for the calculations.

Finally, for those Councils using the existing factors to calculate the compensatory liability, the yield on the FT-Actuaries Index of index-linked government stocks over 5 years (0% inflation) on 1<sup>st</sup> March 2010 is 0.89% giving a **Market Value Adjustment (MVA) of 1.12**. This figure is also posted on the Employer Section of the website under Circulars.

Yours sincerely

A handwritten signature in black ink that reads "Zena Kee". The signature is written in a cursive, slightly slanted style.

Zena Kee  
Pensions Manager