Pension Fund Liabilities

Once all the other variables such as life expectancies, mortality rates, CPI etc. have been taken into consideration and a total future liability has been calculated, the actuary reports this future outlay at a net present value.

This is achieved by using a discount rate based on bond yields. Barnett Waddingham use the annualised yield on the iBoxx AA rated over 15 year corporate bond index as their discount rate.

Due to the perceived increase in risk in the Eurozone during 2011 and 2012, especially around Greece, Portugal and Spain's Sovereign debt worries, UK Gilts were seen as a safer place to invest.

The large inflow of investment drove up prices, and consequently reduced yields. The increase in Gilt prices had a knock on effect on the corporate bonds market as witnessed by the iBoxx AA rated over 15 year corporate bond index

The yield as at 31st March 2011 per the index was 5.53%
The yield as at 31st March 2012 per the index was 4.63%

The fall of 0.9% from the previous years yield would equate to around a 15% increase in liabilities on average across the contributing bodies.

The actual increase for Bucks CC between 2011 and 2012 was 15.6%

A rise in yield rates in future (all else being equal) would reduce the NPV of the fund's liabilities