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Dear Jeff,

Subject: Assumptions for 2016 SAB Cost Management Process

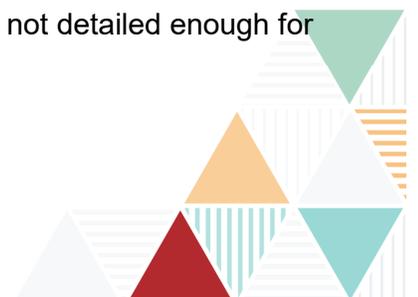
When we spoke on 1 April I provided oral advice on appropriate assumptions to use for the resumed 2016 SAB Cost Management Process for the Local Government Pension Scheme. This advice was subsequently discussed and agreed by the CMBDA Committee on 12 April. For clarity I repeat that advice here in advance of the SAB meeting on 10 May.

I will not repeat the earlier advice and decisions regarding these assumptions as Annex A of Paper B for the 12 April CMBDA meeting gives a comprehensive record. A key point is that the SAB agreed to use the same assumptions underlying the HMT Employer Cost Cap Process and specified in HMT Directions unless there is good reason not to do so. The specific assumptions for which a departure from or addition to the HMT Directions was agreed were:

- The discount rate
- Future salary growth
- The cost of pension revaluation in the first year of retirement
- The proportion of benefits commuted to a lump sum at retirement
- The proportion of members choosing the 50/50 option for pension accrual
- The cost of club transfers

Importantly the latest HMT Directions for the resumed Cost Cap Process state that schemes should continue to use the same assumptions as before unless as a direct result of the impact of the transitional protection remedy either:

- They are no longer best estimates (eg member behaviour change); or
- They are insufficient for the purpose of calculating remedy costs (eg not detailed enough for 'better of' choices)



Given the SAB's agreed approach I believe it would be appropriate for the SAB to adopt these same principles as regards its own assumptions.

At this stage, no decision has been made by the SAB as to whether or not to allow for the McCloud remedy costs as part of the Cost Management Process. As a result I have not considered further whether or not any additional assumptions would be needed for this purpose.

Equally I believe it is too early for there to be reliable evidence of changes resulting from the McCloud remedy that would suggest a change to existing assumptions.

My advice is therefore that the resumed SAB Cost Management Process should use the same assumptions and methodology as were previously agreed.

Please do not hesitate to contact me if you have any questions.

Best wishes,

A handwritten signature in black ink, appearing to read 'C. Wilson' with a stylized flourish at the end.

Colin Wilson
Deputy Government Actuary