Government Actuary's Department

Local Government Pension Scheme : England and Wales (LGPS (E&W))

SAB Cost Management Process (CMP)

Scheme cost assessment as at 31 March 2020

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24 June 2024

Highlights

SAB CMP overall cost of scheme

SAB CMP overall cost of scheme

20.5%

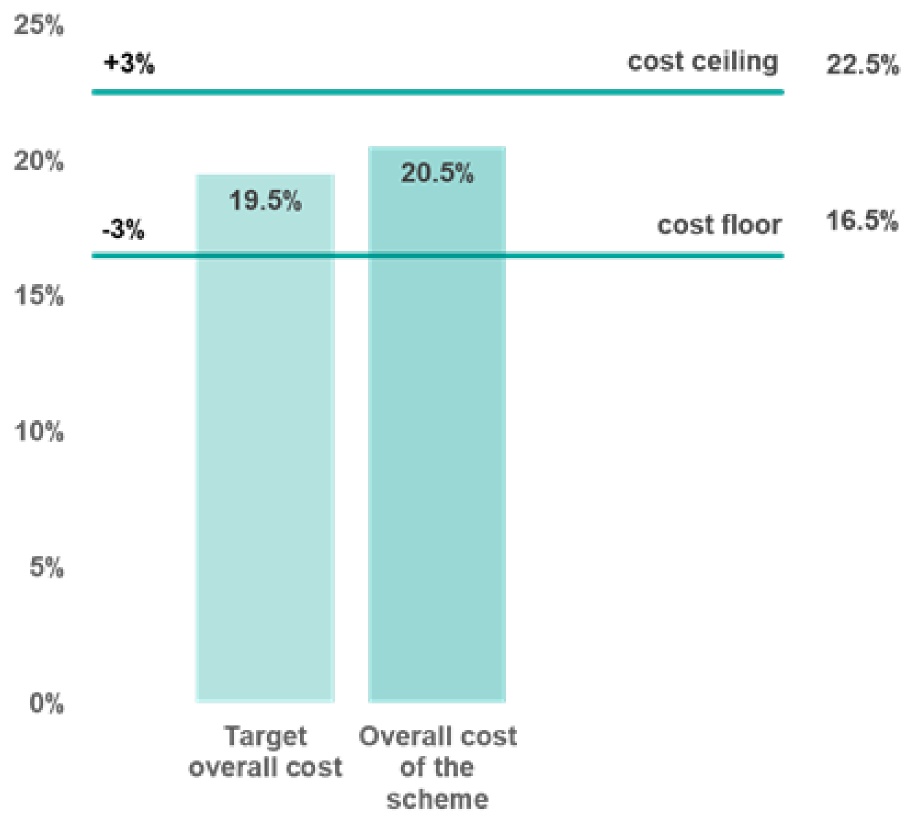
of pensionable pay which is

1.0% above

the 19.5% target overall cost

The <u>overall cost of the scheme</u> lies within a 3% corridor.

As a result, there is no requirement for the Scheme Advisory Board (SAB) to make recommendations to the Secretary of State as to steps to take to bring overall cost back to overall target cost, although they may do so. The SAB have agreed to make no recommendations accordingly.



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Report on Valuation Results

Any terms that are described in the Glossaries are underlined the first time they appear on a page within this report.

At the Government Actuary's Department ('GAD'), we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes the standards we apply.

Appendices

This report should be read in conjunction with the report on the actuarial valuation as at 31 March 2020 for the Local Government Pension Scheme – England and Wales dated 29 February 2024.

Introduction

Who is this report for?

This report is addressed to the Secretary of State for Levelling Up, Housing and Communities and was commissioned by the SAB Secretariat. It sets out the scheme cost assessment as at 31 March 2020 under regulation 116 (Scheme advisory board: additional functions) of the 2013 LGPS Regulations (as amended in 2023).

What is the outcome of the valuation?

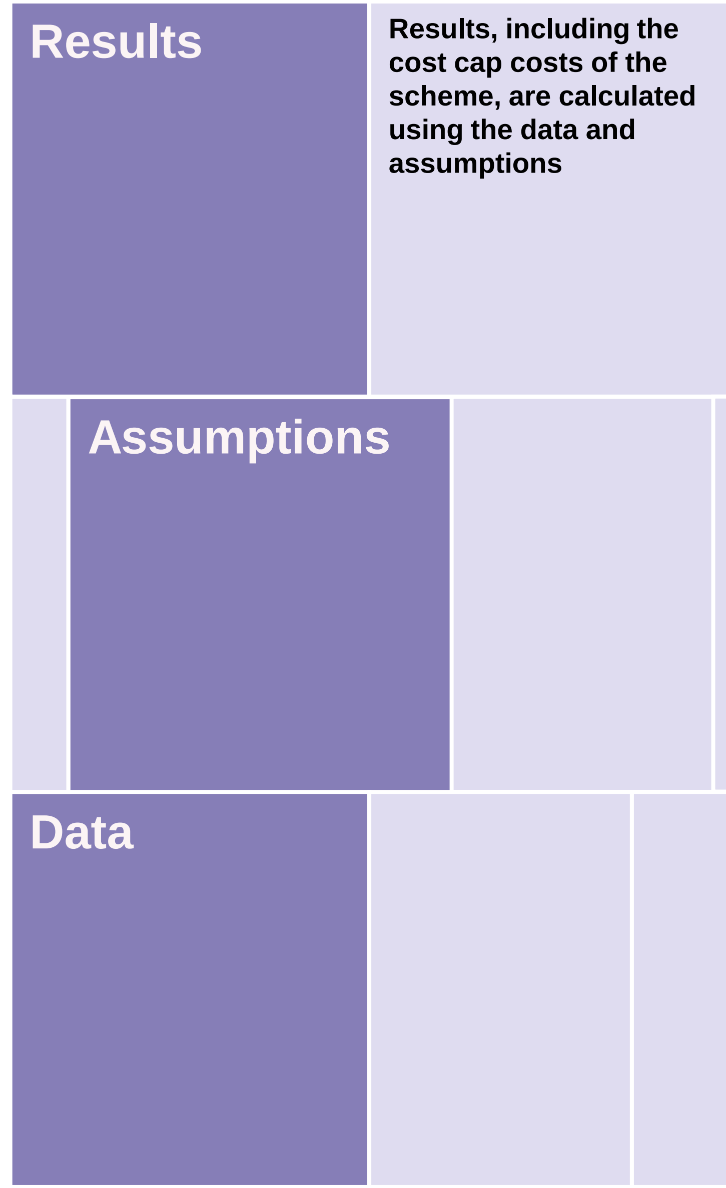
The key results of the valuation relate to the SAB Cost Management Process:

- **SAB CMP Cost is 20.5% of pensionable pay, which is 1.0% above the 19.5% target overall cost.**
- **Members are expected to meet 6.5% of the overall cost of the scheme based on the data received – employers are expected to meet 14.0%.**

How have the results been prepared?

The results have been prepared in accordance with the:

- Benefits as set out in the scheme regulations.
- Methodology determined by the SAB, based on the paper "SAB Cost Management Process – Methodology" from the 19 February 2024 CMBDA meeting.
- Data received from or on behalf of LGPS administering authorities as described in our Membership data report dated 29 February 2024. This is summarised on page 11.
- Assumptions which are set by the SAB, as set out in the paper "LGPS EW SAB Cost Control Mechanism 2020 Valuation" from the 4 December 2023 SAB meeting and as ratified at the 11 March 2024 meeting. These are summarised on pages 12 and 13.



Testing the SAB cost management process

What is the process?

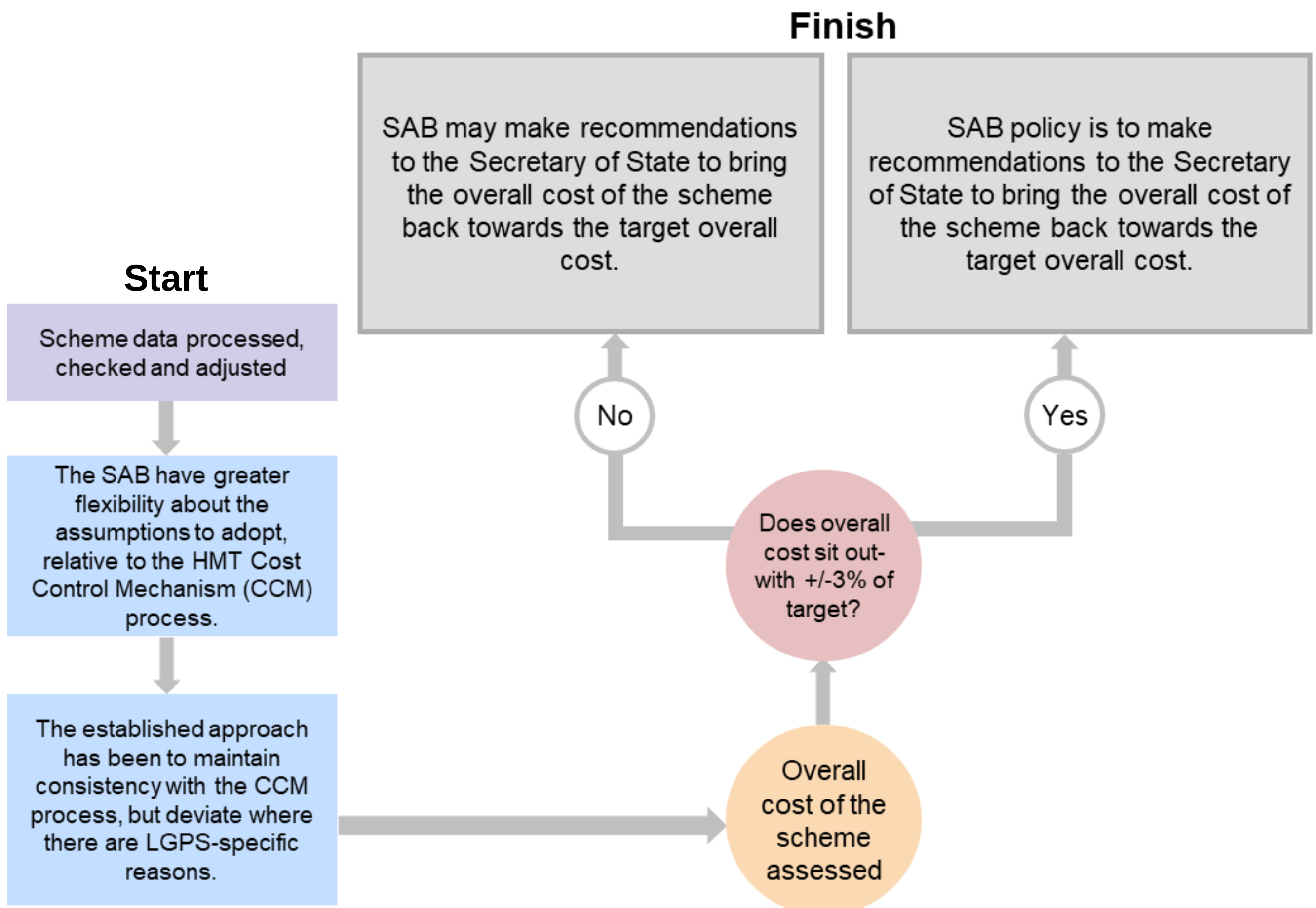
The diagram to the right illustrates the steps of the valuation process.

This begins with the receipt of scheme data as at 31 March 2020, followed by assumption setting.

It then details the various steps involved in the implementation of the SAB cost management process.

If the overall cost sits outside +/- 3% of the target, SAB policy is to make recommendations to the Secretary of State to bring the overall cost of the scheme back towards the target overall cost.

If the overall cost sits within +/- 3% of the target, SAB may still choose to make recommendations to the Secretary of State to bring the overall cost of the scheme back towards the target overall cost.

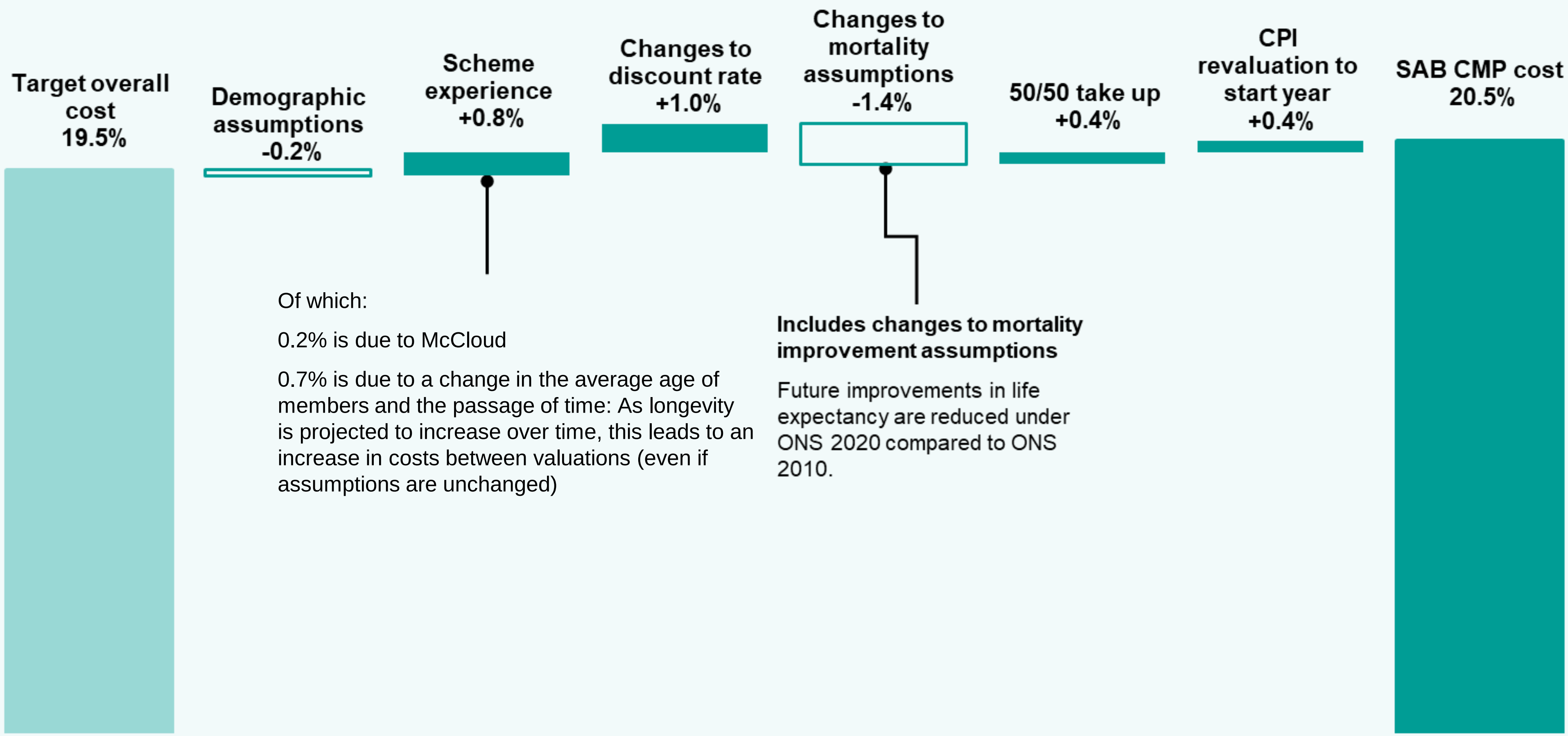


SAB Cost Management Process

Key Results

Changes since 2013

The chart below shows the main factors contributing to the difference between the target overall cost of 19.5% and the overall cost of the scheme assessed as at 31 March 2020.

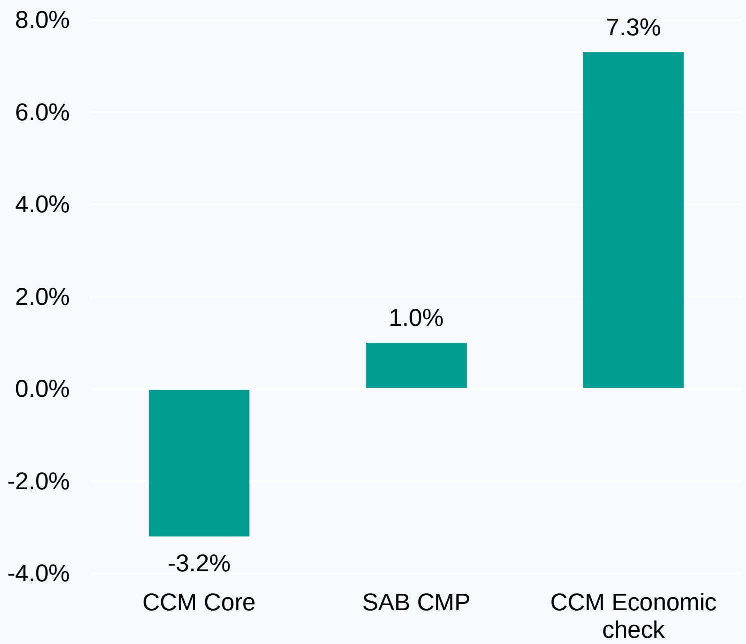


All percentages shown are of pensionable pay per annum.

Comparison with Cost Control Mechanism

Comparison

The SAB CMP is +1.0% pensionable pay above the target cost. The chart below compares this outcome with the results from the HMT CCM Core and Economic check:



The main drivers of the differences seen in the chart above are set out opposite.

Discount rate

The following table compares the changes in the discount rate:

	CCM Core	SAB CMP	CCM Economic Check
Change in discount rate	No change	3% to 2.8%	3% to 1.7%
Impact on future service cost	Nil	+1.0%	+8.5%

Policy: 50/50 and underpin / McCloud

The SAB CMP includes allowance for 50/50 (+0.4% cost pressure) and the underpin / McCloud (+0.2% cost pressure), which are excluded from the CCM.

Different baseline target cost

The CCM target cost (employer cost 14.6%) is higher than the SAB CMP target (19.5%, of which employer cost 13%). Where the overall costs measured at the 2020 valuation are more aligned between the SAB CMP and the CCM, this tends to result in downward cost pressures in the CCM relative to the SAB CMP.

Detailed comparison with CCM Core

	SAB CMP	HMT CCM	Comment / analysis
Discount rate	1.0%	0.0%	HMT core mechanism not affected by discount rate
Mortality assumptions	-1.4%	-2.2%	Different baseline mortality assumptions – SAB target cost allows for older, heavier longevity improvement expectations than HMT CCM (2010 vs 2012) – hence lower reduction in cost for SAB CMP
Other demographic assumptions	-0.2%	-0.9%	Different baseline commutation assumption – for example, the SAB CMP assumed more pension was commuted for cash at retirement, so updated assumption reduces liabilities less for SAB CMP
Care revaluation at start year	0.4%	0.0%	Different baseline - SAB target cost assumed revaluation at the end of the year only, but regulations confirm an extra revaluation at the start of the year hence increased SAB cost
50/50 section	0.4%	0.0%	HMT CCM not affected by 50/50 elections – SAB CMP will have upwards cost pressure where actual take-up has been lower than expected
Member contributions	0.0%	0.2%	Different member contribution target - HMT is 6.7% at 2013, equivalent to 6.5% assuming no 50/50
Public Sector Transfer Club	0.0%	-0.3%	Different baseline - HMT target included 0.3% for PSTC (effect of retaining final salary link), which is reduced now that only those in reformed section are considered within HMT CCM
McCloud	0.2%	0.0%	HMT mechanism not affected by McCloud, but SAB CMP allows for McCloud
Past service	0.0%	-0.7%	HMT CCM past service surplus due to mortality, but no SAB surplus due to (lower) discount rate applied
Other experience	0.6%	0.7%	Change in average age (older members have a shorter period of discounting) and passage of time (a typical member is generally expected to live longer now than before)
Total	**+1.0%**	**-3.2%**	

Data & Assumptions

Scheme data as at 31 March 2020

The results in this report have been based on the data described in our Membership data report in respect of the valuation of the LGPS scheme under HMT Directions and summarised below.

Summary statistics

6.0m
Scheme members
+10.1% vs. 2016

28 : 72
Male : Female
vs. 29 : 71 in 2016

£37.3bn
Total actual pay
+12.8% vs. 2016

£3.6bn
Deferred pension
+26.1% vs. 2016

£9.2bn
Total pension
+19.8% vs. 2016

Pension amounts include the April 2020 pension increase.

Membership over time (000's)

Main demographic assumptions

The results in this report have been based on assumptions in the paper "LGPS EW SAB Cost Control Mechanism – 2020 Valuation" from the 4 December 2023 SAB meeting which were later ratified by the Board.

The table below provides a summary of the changes since the target overall cost of the scheme was assessed. It also sets out the directional impact of the changes on the results.

Assumption	Change in assumption adopted	Impact of change on scheme costs
Mortality after retirement	Move to S3 tables and inclusion of more recent experience	Lower costs
Proportion commuted	Decrease in amount of pension exchanged for cash	Higher costs
Retirement ages	Lower rates of retirement at earlier ages for certain members	No impact
Rates of leaving service	Increased rates of withdrawal	No impact
Promotional pay increases	None	No impact
Rates of ill-health retirement	None	No impact
Mortality before retirement	None	No impact
Family statistics	None	No impact

Main financial and other assumptions

Financial assumptions

	Target overall cost = 19.5%	Overall cost at 31 Mar 2020
Nominal discount rate	5.06%	4.86%
Rate of pension increases	2.00%	2.00%
Rate of general pay increases	N/A	3.50%
Real discount rate in excess of:		
Pension increases	3.00%	2.80%
Long–term pay increases	N/A	1.31%

Note there are no short-term financial assumptions in the SAB CMP.

Other assumptions

	Target overall cost = 19.5%	Overall cost at 31 Mar 2020
Deficit spreading periods	15 years	
Future mortality improvements	In line with 2010-based ONS projections	In line with 2020-based ONS projections
State Pension age	As legislated for in the Pensions Act 1995, Pensions Act 2007, Pensions Act 2011 and Pensions Act 2014	
Election for 50/50 benefit option	10% of lower paid members take the 50/50 option	1% of all members take the 50/50 option

Sensitivities & Potential future impacts

Sensitivities – overall cost of scheme

Which assumptions is the overall cost of the scheme most sensitive to?

The chart to the right shows the sensitivity of the overall cost of the scheme to specified changes in a number of key directed and scheme-set assumptions.

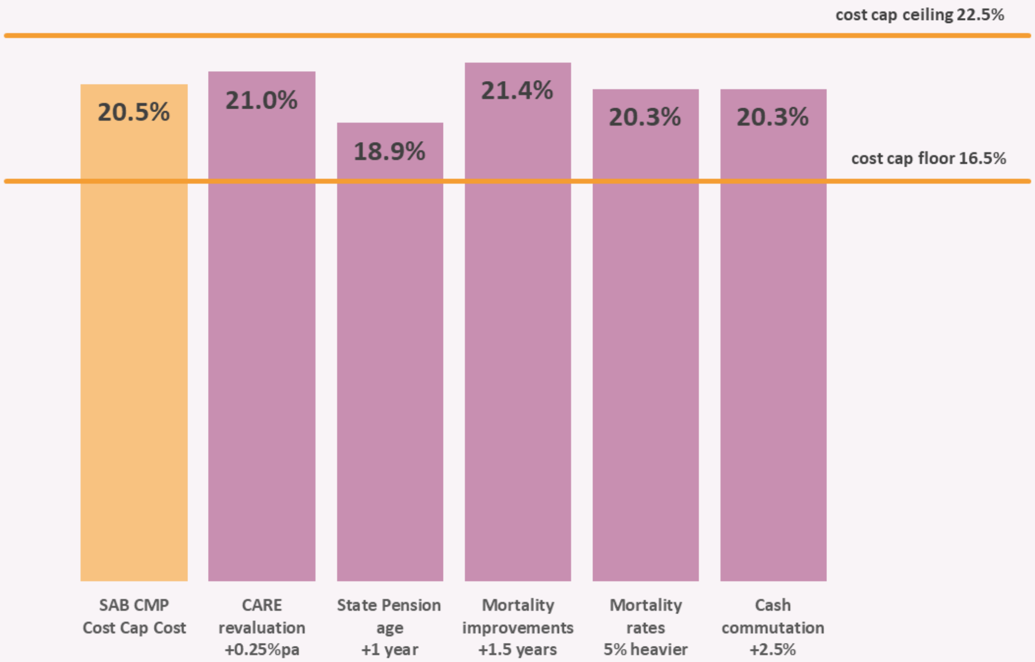
Under each scenario the position of the resulting overall cost of the scheme within a +/-3% corridor is also illustrated.

It should be noted that:

- The sensitivities have been calculated in isolation for each assumption, leaving all others unchanged.
- Sensitivities are not a prediction of future changes and are not minimum or maximum possible impacts.
- A change in discount rate would increase the overall cost of the scheme by approximately 1.9%.
- Changes to the assumptions in the opposite direction to illustrated here will produce approximately equal and opposite changes in the valuation results.

Please see the LGPS EW HMT 2020 valuation results report for approximate sensitivities to other assumptions and other factors affecting future valuations.

SAB CMP overall cost of scheme sensitivity



All percentages shown are of pensionable pay per annum.

Appendices

Appendix A: Cost Management Process

Cost Management Process

What are the aims of the cost management process?

When the CCM was introduced, it was agreed that the LGPS EW SAB would operate an additional check on scheme costs. The CMP aims are similar to that of the CCM. The CMP looks to manage costs and the way they are shared between employers and employees in the LGPS.

How does the process work?

The SAB CMP differs from the CCM in that:

- The SAB CMP has target costs of 19.5% employer and employee contributions (with a 2/3rd to 1/3rd respective split).
- The SAB CMP can use different assumptions around the cost of providing member benefits, for example, it can use a different discount rate to reflect that LGPS is a funded scheme. It also takes into account the level of take up of the 50/50 benefit option.
- The SAB CMP allows for different criteria for when corrective action is taken to move the scheme back to target cost in a broader range of circumstances.
- The SAB CMP operates prior to the CCM, and recommendations made as a result (if accepted by government) are considered when calculating the scheme costs (for the purpose of the CCM).

Further details on the SAB CMP including background and the 2023 amendments can be found in the government response to the 2023 consultation:

Changes to the Scheme Advisory Board cost management process

SAB CMP overall cost of the scheme

What is the assessment process?

As explained on page 5, the SAB CMP overall cost of the scheme is to be assessed against the target overall cost. It needs to determine where the former lies relative to a ±3% corridor around the latter. Based on the outcome of this, action may need to be taken to bring costs back to the target overall cost.

The SAB CMP overall cost of the scheme is a calculated measure of the cost of benefits being provided from the reformed scheme (it does not take into account benefits for service before 1 April 2014) but it maintains an assessment of the impact of the underpin.

The target overall cost of the scheme is set as 19.5% within regulations.

SAB CMP overall cost of the scheme components

The component parts of the overall cost of the scheme are:

a: Future service cost – contribution rate required to cover the expected cost of benefits accrued by members during the implementation period as used in the CCM.*

b: Past service cost – the difference between the SAB CMP liabilities and SAB CMP fund, as a percentage of pensionable pay at the effective date.

c: McCloud impact: McCloud underpin impact assessed over 2014-22 and spread over the period to 2026

* Note this is in line with the HMT CCM but an update relative to the 2016 CMP which used a 1 year future period.

Overall cost of scheme calculation

	% p.a.	
Future service cost	**20.3%**	a
+ Past service cost	0.0%	b
+ McCloud impact	0.2%	c
Overall cost of scheme	**20.5%**	a+b+c
- Target overall cost	-19.5%	
Difference	**1.0%**	

All percentages shown are of pensionable pay per annum to the nearest 0.1%.

Results

The overall cost of the scheme lies 1% above the target overall cost.

As a result, there is no requirement for the SAB to make recommendations to the Secretary of State as to steps to take to bring overall cost back to overall target cost. The SAB have agreed to make no recommendations accordingly.

SAB CMP fund balance

Why is it calculated?

In order to calculate the SAB CMP past service cost we are required to calculate the SAB CMP fund balance – that is the difference between the SAB CMP liabilities and SAB CMP fund – and then divide this by pensionable pay.

How is it calculated?

The SAB CMP fund is a notional amount of money, building up from 1 April 2014 when the reformed scheme was introduced. It has been estimated at 31 March 2020 using data at this date; we do not expect any approximations inherent in this estimate to have a material impact on the outcome of the cost control mechanism.

The table to the right covers the period from 2016 **(a)** to 2020, with a description of each component item set out below. The change from 2014 to 2016 is detailed on the following page.

b: SAB CMP income – income received by the scheme, including contributions. The employer portion of this is that which would have been paid if the SAB CMP contribution rate had been in effect (see page 21).

c: Cost cap benefits paid – benefits paid, for example pensions.

d: SAB CMP notional investment returns – notional amount of growth of the economic cost cap fund.

SAB CMP Fund Balance

The table below summarises the calculation of the economic cost cap fund balance.

	£bn	
Reconstructed SAB CMP fund at 31 March 2016	**13.4**	a
+ SAB CMP income	29.2	b
- SAB CMP benefits paid	-1.5	c
+ SAB CMP notional investment returns	5.6	d
SAB CMP fund at 31 March 2020*	**46.7**	a+b-c+d
- SAB CMP liabilities at 31 March 2020	-46.8	
SAB CMP fund balance at 31 March 2020*	**(0.1)**	

*Totals may not sum due to rounding.

All figures shown are calculated to 1 decimal place.

It should be noted that items a, b, c, and d have been estimated and are shown for illustrative purposes only. They do not have any impact on the outcome of the SAB CMP.

SAB CMP fund

SAB CMP fund development 2014/16

	£bn	
SAB CMP fund at 31 March 2014	**0.0**	a
+ SAB CMP income	13.4	b
- SAB CMP benefits paid	-0.2	c
+ SAB CMP notional investment returns	0.2	d
Reconstructed CMP fund at 31 March 2016*	**13.4**	a+b-c+d

*Totals may not sum due to rounding

Items b, c and d in the table above and the SAB CMP fund contribution rate to the right have been estimated and are shown for illustrative purposes only.

SAB CMP fund contribution rate

The **SAB CMP** fund contribution rate is the contribution rate required from the employer to cover the cost of benefits accruing to members over the period 1 April 2016 to 31 March 2020 with an adjustment to reflect any surplus or deficit at 31 March 2016.

It is used to calculate the employer contribution component of the **SAB CMP** income and its component parts are set out below:

	% p.a.	
Expected cost of benefits accrued 2016 to 2020	21.3%	a
SAB CMP past service cost at 2016	0.0%	b
Member contributions paid 2016 to 2020	-6.5%	c
SAB CMP fund contribution rate	**14.8%**	a+b-c

All percentages shown are of pensionable pay per annum to the nearest 0.1%.

Appendix B: Climate Change

Climate Change

For further details on climate change please refer to the GAD report "Local Government Pension Scheme: England and Wales Valuation Results" dated 29 February 2024, covering:

Climate change risks

- Why consider climate risk?
- Impact of climate change on the LGPS
- Climate risk types

Climate scenario analysis

- Climate scenarios
- Limitations of climate scenario analysis

Appendix C: Benefits

Benefits

For further details on benefits please refer to the GAD report "Local Government Pension Scheme: England and Wales Valuation Results" dated 29 February 2024 which includes a summary of the benefits provided to members in respect of benefits accrued before 1 April 2014 and from 1 April 2014 as set out in regulations. A statutory underpin was provided to certain members for service from 1 April 2014 in line we with the benefit provision before 1 April 2014. From 1 April 2022, members accrue service in line with the provision from 1 April 2014.

Appendix D: Methodology

Methodology and minor assumptions

The methodology and minor assumptions used in the SAB CMP are broadly in line with the methodology used for the HMT CCM valuation as set out in the LGPS EW 2020 valuation results report, with the primary differences as set out below:

1. Reform scheme basis including the underpin (McCloud)
The SAB CMP reflects only reformed scheme benefits (it does not take account of benefits for service before 1 April 2014), but in doing so (and unlike the CCM) it maintains an assessment of the impact of the underpin as per item 5 paper B of the 14 February 2022 SAB meeting ("the 2022 SAB policy paper"). The additional costs associated with the underpin are spread over the 10 year period from 2016 to 2026.

2. Movements in discount rates
The SAB CMP process includes movements in discount rates, reflecting the economic check in the CCM. However, unlike the CCM, the discount rate used is determined by the SAB (as per the 2022 SAB policy paper).

3. Corridor
The SAB CMP has a corridor of 3% but retains the ability to make recommendations on a may/should/must basis to earlier and better manage movements in scheme costs which although not breaching the corridor are structural in nature (see 2022 SAB policy paper).

4. 50/50 benefit option
The SAB CMP takes into account the level of take up of the 50/50 option and capture associated cost pressures, whereas the HMT CCM seeks to exclude such pressures.

5. Public sector transfer club
Costs associated with Public Sector Transfer Club membership are recognised as they arise, rather than including an advance allowance for these costs.

6. Benefits valued (including approach to CARE revaluation)
The SAB CMP reflects the benefits under the scheme regulations (including first CARE revaluation at the start of the following scheme year). The 2016 CMP was based on an alternative approach to CARE revaluation, contingent on Government agreeing to make this change to scheme benefits (please refer to item 5 paper B of the 16 January 2019 SAB meeting). However, no such change has been made to the regulations and so the SAB CMP reflects the regulations in force.

7. Non-adjustment of age retirement assumptions
The HMT CCM uses assumptions ignoring the impact of legacy schemes / transitional protection for the cost cap future service cost. The SAB CMP does not make any such adjustment.

Appendix E: Inter-valuation events

Inter-valuation events

For further details on inter-valuation events, please refer to the GAD report "Local Government Pension Scheme: England and Wales Valuation Results" dated 29 February 2024, covering:

McCloud

- What is McCloud?
- Why does it matter?
- Who is affected?

Other events since the 2016 valuation

- Member contributions
- Employer contribution
- In-service revaluations
- Pension increases
- Legal Cases
- Cost Control Mechanism review
- SCAPE rate review

Appendix F: Compliance, Limitations and Data Uncertainty

Compliance

Purpose

GAD has been appointed as scheme actuary by the Local Government Pension Scheme (England & Wales) as at 31 March 2020 (the effective date), as required by the Local Government Pension Scheme Regulations 2013.

The SAB must obtain a scheme cost assessment from the scheme actuary detailing the overall cost of the Scheme.

Its purpose is to set out the results of the scheme cost assessment as at 31 March 2020, namely:

- The overall cost of the scheme and how this compares to the target overall cost of the scheme.

It has been prepared in accordance with methodology and assumptions set by the SAB.

The information and advice in this report should not be relied upon or assumed to be appropriate for any other purpose, or by any other person.

Throughout this report the totals given for summed data may not be exactly the same as the sum of the components shown due to rounding effects.

Sharing

We are content for the Department of Levelling Up, Housing and Communities (DLUHC) to release this letter to the SAB, or to other third parties, as appropriate. This letter is intended to assist DLUHC and the SAB carrying out their roles under Regulation 116.

Third parties whose interests may differ from those of the Secretary of State for Levelling Up, Housing and Communities or the SAB should be encouraged to seek their own actuarial advice where appropriate. GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this report.

Compliance statement:

This report has been prepared in accordance with the applicable Technical Actuarial Standards: TAS 100 and TAS 300 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

Reliances, Limitations and Data Uncertainty

Reliances and Limitations

In preparing this report, GAD has:

- Relied on the data and other information supplied by or on behalf of administering authorities, as described in our Membership data report. The limitations set out in that report apply equally here.
- Used SAB's provisional methodology and assumptions.

Checks, Adjustments and Reconciliations

GAD carried out a significant review of the data supplied to us and excluded records deemed to be unreliable, or not usable due to missing data. Certain processing adjustments were also made to the data received to prepare it for the calculations.

At the final checking stage, the adjusted data was used to calculate liabilities which were reconciled approximately against the 2016 valuation results, adjusted for cashflows.

Can data issues cause uncertainty?

Our checks, adjustments and reconciliations aim to ensure that the data is appropriate for use in valuation calculations.

The more confidence we have that the dataset adopted reflects that of the true scheme, the more confidence we have in the accuracy of the valuation results.

However, our checks do not constitute a full data audit and our adjustments, although reasonable in our view, may not mean that the dataset adopted accurately reflects the scheme reality.

As a result, residual **data uncertainty** exists, however this is normal in large, complex data sets and isn't usually concerning.

Is data uncertainty a significant issue?

We are comfortable that the checks and adjustments that have been made are reasonable and the data is appropriate for the purpose of the 2020 valuation. In our opinion, there is no impact expected on member outcomes from data uncertainty from the SAB cost management process.

Appendix G: Directions modifications

Modification to Directions

The LGPS EW 2020 valuation report outlined the location of the material required by the HMT Directions. The SAB policy and methodology is implemented by applying the HMT Directions with certain modifications, as follows:

Direction	Paragraph	Modifications
3	Interpretation	• Use Target overall cost of 19.5% in place of Employer cost cap • Use Overall cost of the scheme in place of Economic cost cap cost of the Scheme
13 - 19	Other methodology and assumptions	See 'Data & Assumptions' and Appendix D
27 – 32	Employer contribution rate	Ignore
33 – 49	Core cost cap cost	Ignore (except for directions 34, 38, and 44)
34 **38**	Cost cap liabilities as at the effective date Cost cap benefits paid	Apply unchanged
44	Cost cap future service cost	• Omit direction 44(5) – so use standard assumptions, rather than assumptions adjusted as if no members of the relevant scheme had any benefits accrued in any legacy connected scheme or any entitlement to savings provisions made under section 89 of the 2022 Act • Do not include a loading for the Public Sector Transfer Club
50 – 53 **54 – 58**	Calculating the employer cost cap Part 3 judiciary	Ignore

Direction	Paragraph	Modifications
59 **59A** **60** **61** **62** **63** **64** **65**	Interpretation Reconstructed first cost cap valuation Prior value of the economic cost cap fund Economic cost cap fund contribution rate Economic cost cap income Economic cost cap notional investment returns Economic cost cap fund Change in value of the economic cost cap fund	Apply unchanged
66	Economic cost cap past service cost	Add an additional cost reflecting the cost of underpin, reflecting the liabilities associated with underpin for service between 2014 and 2022, less the accumulated notional contributions associated with the underpin made since 2016, with the resulting deficit (or surplus) spread over the period from the valuation date to 31 March 2026.
67	Economic cost cap cost of the scheme	Overall cost of the scheme is gross of member contributions
68	Total cumulative technical immunity adjustment	Ignore
69	Application of Part 4 to local government workers	In relation to directions 61(1) and 61(3), when the scheme actuary calculates the economic cost cap fund contribution rate, it must reflect the assumptions at the start of the inter-valuation period for 50/50 elections made

Appendix H:

Glossary 1 – General

Glossary 2 – SAB Cost Management Process

Glossary 1 - General

CARE	CARE stands for Career Average Revalued Earnings and refers to a methodology whereby earnings over a member's working lifetime in the scheme are used in the calculation of their benefits in the reformed scheme.
Directions	A document published by HM Treasury and referred to in The Public Service Pensions Act 2013, which sets out the process and requirements for carrying out valuations, including the results which need to be disclosed. Directions were first published in 2014 and have been amended several times since then. The latest Directions, on which the results of this valuation are based, are **the Public Service Pensions (Valuation and Employer Cost Cap) Directions 2023**, as they apply at the date of signing.
Effective date	31 March 2020
Employer Contribution Rate	The percentage of scheme members' pensionable salaries which employers are notionally required to pay to: • meet the costs of future benefits accrued by active members • make good any deficit in the notional amounts set aside to cover benefits already built up. The result is heavily dependent on assumptions about future financial conditions and membership changes. These amounts are notional amounts in respect of LGPS as in practice local fund valuations are carried out to calculate employer contribution rates actually paid.
Implementation date	1 April 2023
Implementation period	The period over which future accrual in the scheme is measured for the purposes of the Cost Control Mechanism. For the 31 March 2020 valuation the implementation period is 1 April 2023 to 31 March 2027.

Glossary 1 - General

Inter-valuation period	For the valuation with an effective date of 31 March 2020, the inter-valuation period is the four years from 1 April 2016 to 31 March 2020.
McCloud	McCloud refers to a legal judgment made in December 2018. The England and Wales Court of Appeal upheld claims of age discrimination brought by some firefighters and members of the judiciary against ‘transitional protection’ rules.
Normal pension age	The age at which a member in normal health is entitled to unreduced benefits. This age varies between the schemes and is set out in Appendix C.
Notional assets	Notional amount of money, initially set as the value of all members’ past service liabilities at a specific date (as set out in Schedule 1 of the Directions). It is updated at each valuation to take account of all actual scheme income and benefits paid, plus an allowance for notional investment returns.
Past service liabilities	The monetary amount assessed in today’s terms, as being required to meet benefit promises (pensions, lump sums, dependants’ pensions etc) that have been made to scheme members over their period of service prior to the effective date. For active members, these liabilities include allowance for future salary inflation and in-service benefit revaluation until the assumed date of cessation of pensionable service.
Pension increase	Public service pensions are increased under the provisions of the Pensions (Increase) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

Glossary 1 - General

Pension revaluation	The rate at which the CARE pension is revalued each year a member is active.
Professional actuarial requirements	The professional requirements that we have complied with when completing this actuarial valuation include: 1. Technical Actuarial Standards: TAS 100 and TAS 300, issued by the Financial Reporting Council (FRC) 2. The Actuaries' Code, issued by the Institute and Faculty of Actuaries (IFoA) 3. The Civil Service Code. GAD is also accredited under the IFoA's Quality Assurance Scheme. More details can be found on our website.
Reformed (new) and legacy schemes	As per the Public Service Pensions and Judicial Offices Act 2022 (PSPJOA 2022), the local government new scheme means a scheme under section 1 of the Public Service Pensions Act 2013 (PSPA 2013) which came into force on 1 April 2014 (referred to as the reformed/post 2014 section in this report). As per the PSPJOA 2022, the local government legacy scheme means an existing scheme mentioned in paragraphs 16 or 17 of Schedule 5 of PSPA 2013 (referred to as the legacy/pre 2014 section in this report).
SCAPE discount rate	SCAPE is short for the Superannuation Contributions Adjusted for Past Experience. It is the discount rate set by HM Treasury which is used when assessing the discounted value of pension payments from the unfunded public service pension schemes. It is currently based on OBR's forecast for long-term GDP growth.
50/50 section	Employees accruing benefits in the Local Government Pension Scheme (England & Wales) can elect to make member contributions at a rate half of the standard level for their salary. Where a member elects to do this, they also accrue benefits at half the standard rate. HMT Directions prevent changes in the take up of the 50/50 option from triggering action under the cost cap mechanism.

Glossary 2 – SAB Cost Management Process

Cost Management Process (CMP)	Scheme cost assessment under regulation 116 (Scheme advisory board: additional functions) of the 2013 LGPS Regulations (as amended in 2023)
Overall cost of the scheme	The total cost as calculated by the Scheme actuary as part of a scheme cost assessment making use of the data provided under the 2013 LGPS Regulations 114(4) according to such methodology and assumptions as are determined by the SAB
Target overall cost	19.5% of the pensionable earnings of members of the scheme
Target proportion	Scheme employers meeting two-thirds and members meeting one-third of the **overall cost of the scheme**
Scheme Advisory Board (SAB)	Local Government Pension Scheme Advisory Board
SAB CMP benefits paid	Benefits paid during the inter-valuation period 1 April 2016 to 31 March 2020 from the 2014 Scheme (including benefits paid in respect of the statutory underpin for members who are in scope for McCloud remedy).
SAB CMP income	Income received by the scheme, for example employee contributions. Employer contributions are also included, but these are set to the amount that would have been received if employer contributions were paid at the SAB CMP fund contribution rate.

Glossary 2 – SAB Cost Management Process

SAB CMP fund	It is a notional amount of money, building up from 1 April 2014 when the reformed scheme was introduced. The SAB CMP fund values at 31 March 2016 have been reconstructed on a consistent basis with that of the cost cap fund in accordance with the latest Directions and have been estimated at 31 March 2020 using data at this date.
SAB CMP future service cost	The contribution rate required to cover the expected cost of benefits accrued by members during the implementation period.
SAB CMP liabilities	The value of the liabilities relating to benefits that have accrued in the reformed scheme as at 31 March 2020, including an allowance in respect of the statutory underpin).
SAB CMP notional investment returns	Notional amount of money added to the **SAB CMP fund** representing the growth of the fund over time.
SAB CMP past service cost	It is the difference between the **SAB CMP liabilities** and the **SAB CMP fund** as at 31 March 2020, expressed as a percentage of pensionable pay.