

Cost Management and Contributions Sub-Committee

Actions and Agreements 5th February 2015

Item

1. **Apologies**

Present

Brian Strutton – GMB (Chair)

Bryan Freake - Unite

Glyn Jenkins - UNISON (*substituting for Jon Richards*)

Emelda Conroy - UCEA

Geoff Reader - Practitioner

Richard Appleby - Practitioner

Nigel Keogh – CIPFA (*substituting for Paul Dale*)

Bob Holloway – DCLG

Mike Scanlon – GAD

Peter Summers – Hymans Robertson

Alison Hamilton – Barnett Waddingham

John Livesey – Mercer

Alison Murray – Aon Hewitt

Jeff Houston - LGA

Con Hargrave - LGA

Apologies: Jon Richards - UNISON, Cllr Ann McLachlan - LGA, Paul Dale - CIPFA, Nick Buckland - ALAT

2. **Actions and Agreements from 7th November 2014**

All matters were confirmed as being undertaken or as being on the agenda for the sub-committee's discussion.

It was confirmed that the cost control briefing notes were shortly to be re-issued with some changes having been made to the documents to confirm that the Employer Cost Cap (ECC) has been set at 14.6% and to tighten up the wording in some areas.

3. **Update on deficit management following Board meeting of 8th December 2014**

An update was provided by Jeff Houston in respect of the discussions had with regards deficit management at the meeting of the Shadow Advisory Board held on 8th December 2014. It was confirmed that a letter had been sent to pension funds confirming the deficit management project being undertaken and enclosing the Board's work plan to take this forward.

4. **Update from GAD on Employer Cost Cap (ECC)**

Cost Management and Contributions Sub-Committee

It was confirmed that the GAD ECC valuation report and accompanying papers had recently been published and were shortly to be put on the lgpsregs.org website.

Mike Scanlon (MS) confirmed that the only changes to the documents from those previously seen by the sub-committee were those made to clarify wording and the substantive content had not changed.

5. **2015/16 employee contribution bandings and future changes**

Agreed - Whilst final confirmation of the 2015/16 employee contribution bandings won't be ascertained until HM Treasury lay the relevant Pensions Increase Order in early March, it will be necessary for the anticipated employee contribution bandings for 2015/16 to be publicised as quickly as possible so that employers may plan for the new rates to be implemented.

Agreed - The proposed letter to DCLG enclosed amongst the meeting papers was agreed as tabled and should be considered by the Shadow Advisory Board at their meeting of 6th February.

The Shadow Advisory Board agreed at their meeting of 6th February that this letter be sent to DCLG as drafted. This was sent to DCLG on that same date.

6. **Assumptions for:**

- a. **Scheme Advisory Board Future Service Cost (FSC) process**
- b. **Standardised funding calculations**

Please see the attached updated version of annex 1, which outlines the agreements reached in respect of each assumption.

Action - Sub-committee to consider the remaining assumptions which are to be set centrally for the standardised funding calculations at its next meeting (see updated annex 1 for confirmation as to which assumptions this applies to).

Action - Agenda for next sub-committee to also include a) consideration of the process by which the standardised funding levels will fit in to the 2016 valuation cycle, in particular so that timescales aren't a problem, and b) initial discussions on the communications of the standardised funding calculations.

MS provided a rough outline as to the anticipated baseline level of the SAB FSC based on the recent ECC valuation exercise.

Action - Secretariat to seek a quote from GAD as to how much a full dry run of the SAB FSC process would cost.

Cost Management and Contributions Sub-Committee

7. **AOB**

No other business was raised.

8. **Date of next meeting**

Monday 30th March, 1-3pm
Millbank Room (8.2), Local Government House
Smith Square, London SW1P 3HZ

Cost Management and Contributions Sub-Committee

Annex 1 - Methodology and assumptions

UPDATED VERSION - 16/02/2015

Summary

| No. | | Scheme valuation - Employer Cost Cap (ECC) | Scheme Advisory Board Future Service Cost (FSC) process | Standard Funding Calculation |
|---|---|---|---|---|
| 1. | Methodology | Projected unit methodology with benefits attributed to periods of service in accordance with the requirements of International Accounting Standard 19: Employee Benefits. | Projected unit methodology with benefits attributed to periods of service using a one year control period. <i>Specific wording to be proposed by GAD and amended accordingly.</i> | Projected unit methodology with benefits attributed to periods of service using a one year control period. <i>Specific wording to be proposed by GAD and amended accordingly.</i> |
| 2. | Total membership to March 2016 and March 2019 Profile of membership to March 2016 and March 2019 | Constant with 2013 ¹ Profile to remain stable by salary roll at each age | At the meeting of 7 th November 2014 the committee agreed to the assumption as used in the ECC process | Set locally by Actuary based on Fund experience |
| 3. | Data | GAD Model Fund | GAD Model Fund | Fund specific |
| High level assumptions - Assumptions for ECC set by The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2013 sections 16 to 25 - figures in bold are those used for the GAD 2013 scheme valuation published in December 2014 | | | | |

¹ GAD LGPS Valuation 2013 Report on Methodology

Cost Management and Contributions Sub-Committee

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| 4. | Relevant rate of increase | PI Act where set or (i) 2.9% on 7th April 2014; (ii) 2.3% on 6th April 2015; (iii) 2.1% on 11th April 2016; and (iv) 2% on the first Monday in each tax year subsequently; 2% pa used for ECC | Use actual PI where known. Where not known assume 2% pa. | Use actual PI where known. Where not known assume 2% pa. |
| 5. | Public service earnings growth | (a) 2.2% over the year to 31st March 2014; (b) 2.5% over the year to 31st March 2015; (c) 3% over the year to 31st March 2016; (d) 3% over the year to 31st March 2017; (e) 3% over the year to 31st March 2018; and (f) 4.75% each year from 1st April 2018. 4.75% pa used for ECC | Use actual public service earnings growth where known. Where not known, assume CPI +1.5%. | Use actual public service earnings growth where known. Where not known, assume CPI +1.5%. |
| 6. | Discount Rate | SCAPE discount rate over each year ending on the 31 March (the assumed rate of increases awarded in line with the Pension (Increase) Act 1971 in the April immediately following each year, compounded with 3%;) - 5.06% | As ECC | As ECC |

Cost Management and Contributions Sub-Committee

| | | pa nominal used for ECC | | |
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| 7. | post-retirement mortality rates | Mortality rates published by the Office for National Statistics as part of the most recent principal population projections for the United Kingdom | FSC process will check ONS against LGPS index and scheme experience | Long term 1.5% per annum reduction in mortality rates, to be set centrally by the Scheme Advisory Board |
| 8. | Changes to SPA | When the Secretary of State has made a public statement proposing a change to the state pension age, the proposed change to state pension age has already been made | As ECC | As legislated |
| 9. | 50/50 | No members of a scheme providing benefits to local government workers in England and Wales ever have, or ever will, make an election under regulation 10 of the Local Government Pension Scheme Regulations 2013 | As per reform process 10% of those earning less than £x | Not relevant to deficit calculations: rate only required for any future service calculation |
| Scheme level assumptions - Assumptions for ECC set under The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2013 section 26 as 'the responsible authority's best estimates' and set out in GAD LGPS Valuation 2013 advice on assumptions | | | | |
| 10. | Pensioner baseline mortality Normal health Dependants Ill Health (current) Ill health (future) | Set as standard SAPS tables adjusted by the percentages shown below M: +0.1% +0.1% 99% x S1NMA; F: 93% x S1NFA M: 120% x S1NMA; F: 101% x S1DFA M: 104% x S1IMA; F: 106% x S1IFA | As ECC | Set locally by Actuary based on Fund experience |

Cost Management and Contributions Sub-Committee

| | | M: 104% x S1IMA; F: 106% x S1IFA | | |
|------------|--|--|--------|--|
| 11. | Age retirement All members joining on or after 1 Oct 2006, and all members not entitled to unreduced benefits before age 65 under the 'Rule of 85' | 0.3% (M) or 0.2% (F) retire each year from 55 up to 5 years before NPA, then 9% (M and F) a year prior to NPA: 100% at NPA | As ECC | Set centrally by SAB (specific assumption to be determined - for discussion at next sub-committee meeting) |
| 12. | Members entitled to unreduced benefits at age 65 under the 'Rule of 85' | Members with NPA or 65 or 66 (born before 6 Apr 1960): typically 31% (M) or 30% (F) retire at 60, with 2% (M and F) a year prior to CRA: 17% (M) or 23% (F) a year between CRA and NPA; 100% at NPA. Members with higher NPA (born after 6 Apr 1960): Rates intermediate between the above and those applying to members joining on or after 1 Oct 2006 | As ECC | Set centrally by SAB (specific assumption to be determined - for discussion at next sub-committee meeting) |
| 13. | Members entitled to unreduced benefits at ages between 60 and 65 under the 'Rule of 85' | Consistent with rates above, but based around unreduced benefits being payable at 62 rather than 60 | As ECC | Set centrally by SAB (specific assumption to be determined - for discussion at next sub-committee meeting) |
| 14. | Ill-health retirement - Incidence Tier 1 / 2 / 3 split | Increasing by age: male rates are around 0.01% at age 30, 0.1% at age 45, 0.8% at age 60; female rates lower 77% / 11% / 12% (male and female) | As ECC | Set locally by Actuary based on Fund experience |

Cost Management and Contributions Sub-Committee

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| 15. | Withdrawal | Reducing with age: female rates are around 7% at age 30, 4% at age 45, 2% at age 60, net of 20% re-entry within 5 years; male rates lower; no duration-based assumptions for males or females | As ECC | Set locally by Actuary based on Fund experience |
| 16. | Death before retirement | Increasing by age: male rates are around 0.03% at age 30, 0.09% at age 45, 0.32% at age 60; female rates lower | As ECC | Set locally by Actuary based on Fund experience |
| 17. | Promotional salary scale | Steeper at younger ages: male rates are around 1.1% at age 30, 0.5% at age 45, 0.0% at age 60; female rates lower | As ECC | None |
| 18. | Commutation Pre-2008 service 2008-14 service 2014 Scheme service | 10% of pension commuted 15% of pension commuted* 15% of pension commuted* *Specified in HMT Directions | At the meeting of 3 rd July 2014 the committee agreed that the FSC process should continue using the assumption that members commute 65% of the maximum allowable amount of their pension in to lump sum - (equivalent to 23.2% of pension commuted) | Set centrally by SAB (specific assumption to be determined - for discussion at next sub-committee meeting) |
| 19. | Family statistics Proportion married/partnered Age difference | 80% (M), 75% (F) at ages up to 70, with consistent assumptions for existing pensioners and other ages Male member 3 years older than partner | As ECC | Set locally by Actuary based on Fund experience |

Cost Management and Contributions Sub-Committee

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| | | Female member 2 years younger than partner | | |
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16th February 2015