

Cost Management & Contributions Sub-Committee

Actions and Agreements 6th July 2015

Item

1. **Apologies**

Present

Brian Strutton – GMB (Chair)

Bryan Freake - Unite

Glyn Jenkins - UNISON

Julian Gravatt – UCEA (sub for Emelda Nicholroy)

Geoff Reader - Practitioner

Bob Holloway – DCLG

Mike Scanlon – GAD

Peter Summers – Hymans Robertson

Mark Norquay – Barnett Waddingham (sub for Alison Hamilton)

John Livesey – Mercer

Alison Murray – Aon Hewitt

Jeff Houston - LGA

Liam Robson - LGA

Apologies: Cllr Ann McLachlan - LGA, Paul Dale - CIPFA, Jon Richards – Unison (Glyn Jenkins substituting), Geoff Reader, Emelda Nicholroy – UCEA (Julian Gravatt substituting), Richard Appleby

2. **Actions and Agreements from 30th March 2015**

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

3. **GAD data requirements - update from meetings held with Actuaries and Software suppliers**

Mike Scanlon (MS) provided an update on progress on GAD data requirements and software supplier engagement, noting the four main data points:

1) 2016 Valuation stock data

GAD, the ACA and software suppliers have met to progress the data requirements for the 2016 valuation(s). By December 2015 it is anticipated that the software will be at the testing stage, running local actuary requirements and GAD requirements in parallel.

Action – Arrange a further meeting with the software suppliers in September (Secretariat).

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Action – Produce a process map/project plan, setting out relationships between all stakeholders. This should be circulated to ensure that all involved know prerequisites and dependencies in the process chain (GAD).

Agreed – Due to its importance, it was agreed that progress on 2016 valuation data should be a standing agenda item.

2) Cashflow data

Pre 2014 benefits, 50/50 take up and other new items that have become key inputs for funding calculations as a result of the career average scheme. These new data items need to have their reporting written into the regulations (accounting and audit).

From 2014 to 2015, it is anticipated that any missing information may have to be approximated.

Action – Draft a new data specification for payroll and administration for the cashflow data that will be required for the 2019 valuation. (Secretariat)

3) 1st April 2014 data

The 1st April 2014 data specifications have been in LGPC bulletins and it is expected that administering authorities will be aware of the new requirements.

4) Contribution data

A letter had been drafted from the Board to DCLG regarding the decision making around contribution rate setting and employee contribution banding.

Assumptions will be made for the valuation on; employee workforce, full membership, new joiners/switchers, previous status, and age of 50/50 members; these will be extracted from 2015 stock data.

4. Cost Management

The various factors adding pressure on the cost cap were discussed in turn:

There are two methods of interpreting the **revaluation method** of the new Scheme, i) the final salary method, with no revaluation in first year; and ii) the career average, revaluing the first year of accrual (which is compounded by each further year of revaluation).

The Committee noted GAD's paper, "2014 Scheme: revaluation of member pension accounts".

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Action - MS to update the worked examples in the revaluation paper to include actual CPI (and current dates) in the calculation (which is set as assumed CPI, currently). The revaluation paper should also be updated to include narrative of the history, policies leading up to the revaluation situation (Bob Holloway (BH) and Secretariat).

Agreed – From the practitioners' point of view, the revaluation method will be addressed by the Administration and Communications sub-committee. The Board would be notified via the 'update from committees' agenda item.

Action – Seek initial sounding from HMT on the possibility of amending legislation to allow the 'final salary' style revaluation as originally planned and the method for which cost assumptions were made (Secretariat).

The Committee will allow one month before re-convening, in the meantime, to fully understand the complexities and consider the results of the possible scenarios. The communication with scheme members will be challenging whatever the outcome and will require careful thought.

Club transfers are expected to add an additional 0.34% of payroll to the contribution calculation. The final salary link that transferred in benefits are granted was not included in the base cost calculations. Initial sounding from HMT indicated that continuation of transfer club membership may be open to negotiation.

The initial estimate used in cost calculations was for 10% of scheme **membership opting for 50/50**. Early indications would suggest the actual figure is much less than that, in many cases less than 1%. The particular reasons for low 50/50 take up are not known. This pushes cost pressures upward in the short term, however there may be higher take up following the ceasing of contracting out and rise in national insurance contributions.

5. **Blue sky thinking**

The Board working group on deficits have a meeting scheduled for 29th July 2015 and the Committee discussed the required papers, which would include the PwC report on LGPS deficits.

Discussion around possible plans or proposals included whether options should be scheme wide or on a funds basis, the separation from local authority finance, whether focus should be on investments or orphan liabilities, for example.

Deficit management project work has been built in to the Board's budget for 2015, and includes provision for some 'road testing' later in the year.

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It was agreed that it would be useful to have a timetable showing changes from 2019 and so on.

It was agreed that some 'framing' around ideas would be beneficial, setting out what is possible and what isn't possible within current frameworks.

Agreed – It was agreed that a briefing paper should be issued for the meeting to steer thinking and help prompt discussion and development of ideas.

6. There was no other business.
7. Next meeting to be arranged following the Board working group on deficits.

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