

Cost Management & Contributions Sub-Committee

Agenda item 4 - Agreement of remaining assumptions (to be set centrally) for standardised funding calculations

1. Introduction

At its meeting of 5th February 2015, the sub-committee agreed:

- The assumptions to be adopted for the baseline of the Scheme Advisory Board's Future Service Cost process,
- The majority of assumptions to be adopted for the standardised funding calculations, and
- For the standardised funding calculations, which Scheme-level assumptions should be set centrally and which should be set locally.

The sub-committee also agreed to consider the remaining central assumptions which should be adopted (for the purposes of the standardised funding calculations) at a future meeting. The sub-committee are therefore asked to reach agreement on the national assumptions to be adopted in the following areas:

- Age retirement,
- Members entitled to unreduced benefits at age 65 under the Rule of 85,
- Members entitled to unreduced benefits at ages between 60 and 65 under the Rule of 85, and
- Commutation.

The assumptions table considered by the sub-committee at its last meeting - updated to reflect the agreements reached at that meeting - is below. The sub-committee are also asked to confirm that the approach outlined in respect of each assumption is as per the discussions held.

2. Assumptions table [updated following meeting of 5th February 2015]

The assumptions to be considered by the sub-committee are those in rows 11, 12, 13 and 18 (as highlighted).

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No.		Scheme valuation - Employer Cost Cap (ECC)	Scheme Advisory Board Future Service Cost (FSC) process	Standard Funding Calculation
1.	Methodology	Projected unit methodology. Non-accruing benefits (such as lump sums payable on death in service) are recognised only at the time such a benefit is expected to come into payment. Control period 2016-19, with allowance for new entrants.	As ECC	Projected unit methodology. Non-accruing benefits (such as lump sums payable on death in service) are recognised only at the time such a benefit is expected to come into payment. Control period: 1 year (2013-14), with no allowance for new entrants.
2.	Total membership to March 2016 and March 2019 Profile of membership to March 2016 and March 2019	Payroll of LGPS active members remains constant (in 2013 earnings terms) in the period to 2019 ¹ Profile to remain stable by salary roll at each age	As ECC	Not needed
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

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4.	Relevant rate of increase	<p>PI Act where set or (i) 2.2% on 6th April 2015; (ii) 2.1% on 11th April 2016*; and (iii) 2% on the first Monday in each tax year subsequently;</p> <p>* except long term assumption of 2% used to calculate proposed employer cost cap</p>	As ECC	Actual PI in April 2013 (2.2%) 2% thereafter
5.	Public service earnings growth	<p>(a) 0.5% over the year to 31st March 2014; (b) 1.5% over the year to 31st March 2015; (c) 2% over the year to 31st March 2016; (d) 2.5% over the year to 31st March 2017; (e) 3% over the year to 31st March 2018; (e) 3% over the year to 31st March 2019; and (f) 4.75% each year from 1st April 2019.</p> <p>4.75% pa used for ECC</p>	<p>(a) Actual outturn over the year to 31st March 2014; (b) Actual outturn over the year to 31st March 2015; (c) 3.5% each year from 1st April 2015.</p> <p>[This is CPI +1.5, noting that CPI in April 2017 and thereafter as assumed to be 2%]</p>	<p>3.5% pa</p> <p>[This is CPI+1.5%, noting that CPI in April 2014 and thereafter is assumed to be 2%]</p>
6.	Discount Rate	SCAPE discount rate over each year	As ECC	5.06% pa

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		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%;) From 2016/17, this is 5.06% pa		[This is 2% pa compounded with 3%, noting that CPI in April 2014 and thereafter is assumed to be 2%]
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	As set out in HMT Directions, Direction 18	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	Set as standard SAPS tables adjusted by the percentages shown below	As ECC	Set locally by Actuary based on Fund experience

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	Ill Health (current) Ill health (future)	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 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	Increasing by age: male rates are	As ECC	Set locally by Actuary based on Fund experience

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	Tier 1 / 2 / 3 split	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)		
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	Set centrally by SAB (specific assumption to be determined - for discussion at next sub-committee meeting)

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			their pension in to lump sum - (equivalent to 23.2% of pension commuted)	
19.	<p>Family statistics Proportion married/partnered</p> <p>Age difference</p>	<p>80% (M), 75% (F) at ages up to 70, with consistent assumptions for existing pensioners and other ages</p> <p>Male member 3 years older than partner Female member 2 years younger than partner</p>	As ECC	Set locally by Actuary based on Fund experience

23rd March 2015