

**ANNEX 1** Item 6 - Assumptions for use in cost management process and consistent funding level calculations  
SAB Cost Management and Contributions Committee - February 2015 -

Methodology and assumptions

	<b>Scheme valuation - Employer Cost Cap (ECC)</b>	<b>Scheme Advisory Board Future Service Cost (FSC) process</b>	<b>Standard Funding Calculation</b> from PWC report
<b>Methodology</b>	Projected unit methodology with benefits attributed to periods of service in accordance with the requirements of International Accounting Standard 19: Employee Benefits.	As ECC	
<b>Total membership</b> to March 2016 and March 2019  <b>Profile of membership</b> to March 2016 and March 2019	Constant with 2013 <sup>1</sup>  Profile to remain stable by salary roll at each age	At the meeting of 7 <sup>th</sup> November 2014 the committee agreed to the assumption as used in the ECC process	
<b>Data</b>	GAD Model Fund	GAD Model Fund	Fund specific
<b>High level assumptions</b> - 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			
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;  <b>2% pa used for ECC</b>	As ECC	CPI assumed to increase at 2.0% pa

<sup>1</sup> GAD LGPS Valuation 2013 Report on Methodology

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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.  <b>4.75% pa used for ECC</b>	As ECC	1.5% pa above CPI. This differs from unfunded schemes, for which GAD used 2.75%pa above CPI in respect of period from 2019 and lower rates before that, reflecting short term pay restraint.
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%; ) - <b>5.06% pa nominal used for ECC</b>	As ECC	3% pa (equivalent to a gross monetary discount rate of CPI+3.0% pa).
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
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	
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

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<b>Scheme level assumptions</b> - 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			
<b>Pensioner baseline mortality</b>  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 M: 104% x S1IMA; F: 106% x S1IFA	As ECC	Set locally by Actuary based on Fund experience, or centrally by SAB
<b>Age retirement</b> 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 locally by Actuary based on Fund experience, or centrally by SAB
Members entitled to unreduced benefits at age 605 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 locally by Actuary based on Fund experience, or centrally by SAB
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 locally by Actuary based on Fund experience, or centrally by SAB
<b>Ill-health retirement -</b>		As ECC	Set locally by Actuary based on

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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)		Fund experience, or centrally by SAB
<b>Withdrawal</b>	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, or centrally by SAB
<b>Death before retirement</b>	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, or centrally by SAB
<b>Promotional salary scale</b>	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
<b>Commutation</b>  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 <sup>rd</sup> 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 locally by Actuary based on Fund experience, or centrally by SAB
<b>Family statistics</b> Proportion married/partnered	80% (M), 75% (F) at ages up to 70, with consistent assumptions for existing pensioners and other ages	As ECC	Set locally by Actuary based on Fund experience, or centrally by SAB

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Age difference	Male member 3 years older than partner Female member 2 years younger than partner		
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