

Shadow Advisory Board

Cost control in the LGPS - A briefing note for administering authorities

1. Introduction

This briefing note has been prepared by the Shadow Scheme Advisory Board (SSAB) for Local Government Pension Scheme (LGPS) administering authorities in England & Wales in order to outline the role of pension funds in the LGPS cost control process.

In the LGPS in England & Wales, there will be two mechanisms used to do this:

- a) the employer cost cap (ECC) process as operated by HM Treasury, and
- b) the future service cost (FSC) process as operated by the LGPS Scheme Advisory Board.

The Scheme will be assessed every three years against the cost control mechanisms using the data provided to individual actuaries for individual funding valuations. Importantly, both processes could lead to changes to the scheme design or to the level of members' contributions if the mechanisms demonstrate that the cost of the LGPS has moved sufficiently from the target.

Part 2 of this paper outlines those aspects of the cost control processes which will require the assistance of LGPS administering authorities in ensuring that GAD have the information they need to be able to calculate the cost control figures within the required timescales.

Part 3 of this paper contains a briefing note for LGPS members and employers. This has been prepared in order to:

- give a broad overview of the background to the cost control processes,
- outline the differences between the cost control processes and local funding valuations, and
- detail the possible impacts on the benefits structure and/ or employee contribution rates which could arise from the results of the cost control processes.

We ask that administering authorities make these documents accessible to fund employers and members so that they can familiarise themselves with the processes and the possible impacts they could have on the Scheme benefits structure and/ or employee contribution rates.

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2. The role of administering authorities in the cost control process

Under the new public service pension scheme framework implemented by the Public Service Pensions Act 2013, the costs of the reformed pension schemes must be periodically assessed to ensure that the reforms are affordable and sustainable.

There are two mechanisms in the LGPS in England & Wales because the ECC process has been partly established in order to demonstrate consistency between the public service pension schemes. Because of this, the LGPS Scheme Advisory Board FSC process has been set up to reflect the specifics of the LGPS experience in assessing the costs of the pension scheme reforms.

Both processes could lead to changes to the scheme design or to the level of members' contributions if the mechanisms demonstrate that the cost of the LGPS has moved sufficiently from the target.

The cost control processes will be subject to tight timescale and GAD will require the submission of accurate and consistently reported information in order to calculate figures that best reflect the experience of the Scheme.

A timetable and flow chart outlining the plans for the processes is available [here](#) and the full GAD data requirements for the cost control processes are available [here](#).

Process

The cost control process will be undertaken in tandem with the local triennial valuations and will first be effective - in the sense that changes to the Scheme may be required if the cost of the Scheme has moved sufficiently from its target - at the 2016 valuations. This means that the first ECC and FSC figures will be based on the same data produced and submitted to your fund actuary as at 31st March 2016 for your local funding valuation.

Timescales

By October 2016 (and for future cost control processes, the October of each valuation year), each fund's actuary will be required to submit to GAD valuation data which has been cleaned and which has undergone reasonableness checks. Your fund actuary will account for the time they need to prepare and submit this data in your valuation timetable, and you will need to ensure you are able to meet your actuary's timescales in, a) submitting your fund's data and b) answering any data queries that may arise.

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Any changes to the Scheme benefits structure or to employee contribution rates made via the cost control process will first be effective in the year commencing 1st April 2019

Data required

The shift to a career average scheme will require that certain additional information is held and extractable in order for GAD's actuarial calculations to be undertaken. For the cost control processes, GAD require the below information to be provided by each administering authority:

- **Pre- and post- 14 data** - For actives, deferred and pensioner members, pension amounts split between:
 - amounts relating to pre-2014 accrual, and
 - amounts relating to post-2014 accrual.
- **50/50 section and full section data** - For actives, deferred and pensioner members, post-2014 pension amounts split between:
 - those relating to 50/50 section membership, and
 - those relating to full section membership.
- **Cashflows** - For benefits paid and transfers paid, split between:
 - pre-2014 membership,
 - post-2014 50/50 section membership, and
 - post-2014 full section membership.
- **Contributions** - For employee contributions, split between:
 - contributions paid whilst in 50/50 section, and
 - contributions paid whilst in full section.
- **Membership movements** - For those leaving and joining the pension fund:
 - 'Benefits at date of exit' for those members leaving or retiring from active service after April 2014, and
 - 'Benefits at date of re-joining' for those members aggregating pre-2014 benefits.
- **Commutation** - For those who have commuted any of their pension to lump sum since April 2008:
 - How much in annual pension they commuted to lump sum, and
 - The maximum amount they could have commuted to lump sum.

The full GAD data requirements are available as a PDF document [here](#).

In addition, the basic stock data for all members with a pension liability as at the valuation date - and as already required by fund actuaries in undertaking fund valuations - will be required.

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Please note - If you do not believe that you will currently be able to provide this information as split in the above fashion, please liaise with your pensions software provider to establish if a future release is anticipated that will allow for this information to be provided within the required timescales.

We understand that certain requirements, such as commutation data for those retiring since April 2008, may not retrospectively be obtainable. Our understanding is that GAD are looking to obtain as complete a data set as is reasonably practical and the priority will be to ensure that current and future data can be provided in accordance with the requirements, rather than requiring funds to undertake backward reworking. However, it is important to stress that more complete data sets will be of substantial assistance and will contribute to more accurate results, more timely completion of the required calculations, and fewer data queries arising.

3. Briefing note for members and employers

TO BE INSERTED UPON FINALISATION