Cost Management, Benefit Design and Administration Committee

DATE:	30th October 2023
VENUE:	Hybrid meeting (MS Teams and 18 Smith Square)
TIME:	11:00am to 1:00pm

AGENDA

Item		Paper	Timings
1	Welcome, introductions, apologies and declaration of interests		11:00
2	Meeting protocol		11:05
3	Actions and Agreements from 26th June meeting	**Paper A**	11:10
4	McCloud Update		11:15
5	Update from Gender Pensions Group working group	**Paper B**	11:25
6	Update from surpluses working group	**Paper C**	11:40
7	GAD Update on LGPS data for CCM valuation	**Paper D (CONFIDENTIAL)**	11:55
8	GAD advice on Scheme Cost Assessment Assumptions	**Paper E**	12:05
9	Opt Outs data and survey	**Paper F**	12:15
10	Workplan	**Paper G**	12:25
11	Updated terms of reference	**Paper H**	12:40
12	DLUHC Update		12:50
13	AOB and date of next meeting		12:55

Cost Management, Benefit Design and Administration Committee

MEETING OF 30TH OCTOBER 2023

Item 3 Paper A

ACTIONS AND AGREEMENTS FROM MEETING OF 26TH JUNE 2023

PRESENT

George Georgiou	Members (GMB), Chair
Sean Collins	Practitioners
Simon Taylor	Practitioners
Emma Mayall	Practitioners
Kevin Gerard	Practitioners
Glyn Jenkins	UNISON
John Neal	Unite
Charity Main	Academy Representative
Joel Duckham	Actuaries: Aon
Steven Law	Actuaries: Hymans Robertson
Graeme Muir	Actuaries: Barnett Waddingham
Michelle Doman	Actuaries: Mercer
Alan Wareham	DLUHC
Brian Allan	GAD
Mike Scanlon	GAD
Martin Smith	GAD
Greg Donaldson	GAD
Lorraine Bennett	LGA – Senior Pensions Adviser
Jo Donnelly	LGA – Board Secretary
Jeremy Hughes	LGA – Deputy Board Secretary
Ona Ehimuan	LGA – Pensions Secretary
Gareth Brown	LGA – Pensions Analyst

Welcome, introductions and declarations of interest

1. The Chair welcomed all in attendance to the meeting. Michelle Doman deputised for Clive Lewis (Mercer); Joel Duckham deputised for Jonathan Teasdale (Aon); Stephen Law deputised for Catherine McFadyen (Hymans Robertson). There were also apologies from Jenny Bullen (GAD).

2. There were no conflicts of interest declared.

Matters arising

3. The minutes of the meeting on 24th April 2023 were agreed as a fair and true record of the meeting.

Item 4 – McCloud update

4. Lorraine Bennett (LB) gave a verbal update to the Committee. DLUHC had responded to the first McCloud consultation and the second consultation had also been issued, which would close on 30th June 2023. The LGPC team was working on their response to this further consultation.

5. DLUHC would also be restarting their implementation working groups. It was expected that final regulations would be in place by 10th September and would take effect from 1st October 2023. However, LB expressed concern that DLUHC's current plan was that work would not start on drafting the associated statutory guidance until September.

6. The LGPC team was procuring centralised communications which would be shared with practitioners and available from the LGPS members website.

Item 5 – Factor Review

7. LB confirmed that actuarial factors were being reviewed following the change in the SCAPE rate. New factors would be delivered in four batches, the first had already been received, the second was due in the next few weeks and whole process was expected to be completed by the Autumn.

Item 6 – TPR General Code

8. The TPR Code had not yet been published. This meant that it would not apply before Autumn 2023 at the earliest, since it needed to be laid in Parliament for 40 days (known as the "laying in period") before coming into effect. TPR had not shared updated contents of the Code.

Item 7 – HMT Cost Control Mechanism and draft directions

9. Martin Smith (MS) and Greg Donaldson (GD) from GAD introduced Papers B and C to the Committee. The HMT directions were draft at this stage and were shared in confidence with the Committee. There would not be a formal consultation, but Committee members were invited to give any comments on the directions.

10. GAD delivered a presentation to the Committee, outlining the reformed HMT Cost Control Mechanism and giving a broad timeline and overview of the process.

11. GAD outlined the new economic check, which incorporated the revised HMT SCAPE rate (based on long term GDP growth) which was now CPI plus 1.7% (down from CPI plus 2.4%). This contributed a significant upward pressure on costs, which was expected to more

than offset the downward pressures arising from lower than expected increases in life expectancy and salary growth. It was expected that the final results of the valuation would be available in Autumn 2023.

12. George Georgiou (GG) said that the employee representatives had discussed the directions ahead of the meeting, and that their priorities out of this process were to improve the affordability of the scheme for members, to reduce the level of opt-outs and address gender pensions inequality. There were no other comments from the Committee.

Item 8 – SAB Scheme Cost Assessment Process

13. JH gave a verbal update to the Committee. The SAB Scheme Cost Assessment (SCA) is a separate mechanism to the HMT process, but there are similarities across both. The key purposes of the SCA would be to ensure scheme costs are as set out in the Scheme Regulations (19.5%), that the 2:1 contribution ratio between employer and employee contributions was maintained, and to ensure that the yield from employee contributions was in line with the 6.5% set out in the Scheme Regulations.

14. DLUHC had consulted earlier in the year on changes to the SCA process and the corridor for the SAB process had also been widened to 3%. The SCA process was intended to run prior to the HMT process, with any changes arising from it being reflected in the HMT cost control calculations. Changes to scheme benefits or contributions under this process remained at the Minister's discretion. It was not expected that the minister would agree any changes at this time, but as this was only the second time the process had operated it was important to think carefully about how assumptions would be set.

15. One key assumption was the discount rate, which could justifiably vary from the SCAPE rate since the LGPS is a funded scheme. The Committee also noted the context, with many funds now being over 100% funded which led to a reduction in overall employer contributions (although primary contribution rates continue to rise). GAD would be commissioned to provide advice on suitable assumptions over the summer. It was explained that the Committee's agreement to assumptions would need to happen via correspondence as the Committee did not meet again until the end of October.

Item 9 – Scheme Level Annual Report and Valuation Report

16. Jo Donnelly (JD) said that the tenth Scheme Annual Report would be published the following day, shortly after the Board Chair, Cllr Phillips, had presented it to the PLSA conference in the Cotswolds. A draft 2022 Scheme Valuation Report had been received from Barnett Waddingham and the Secretariat were reviewing. It was expected that

the final report would be published on the Board's website in July/August 2023.

Item 10 – Academies Guarantee and ESFA Forum

17. JH updated the Committee on a revised DfE guarantee which covered former academy employees who were transferred under TUPE to an outsourced supplier. The Committee also noted that DfE had through the ESFA set up a new working group for academies which had some overlap in membership with this Committee. JH said that while the Board welcomed the academy sector setting up groups that enabled it to speak with one voice and spread good practice, there was a need to ensure that there was a clear and shared understanding of the relative roles of the two bodies.

18. Glyn Jenkins (GJ) asked whether the average contributions from academies had changed. JH explained that they were hugely variable between different academies but that due to improved funding levels, it was likely that on average there would be a downwards pressure on overall contributions.

Item 11 – Gender Pensions Gap Update

19. Michael Scanlon (MSc) introduced Paper D to the Committee. The initial Gender Pensions Gap report had been published, which confirmed that there was a significant Gender Pensions Gap between male and female members of the scheme. The report further examined some of the causes of this gap, looking in more depth at career patterns and occupational differences.

20. GG commented that the private sector had begun to look at addressing the gender pensions gap and it was incumbent on the LGPS sector to do the same. The Committee agreed that as well as including Gender Pensions Gap analysis into wider reporting, such as the publishing of the data in the valuation reports, it was important to consider giving advice to employers as to how it could be tackled.

21. The report would be published on the SAB website with a suitable narrative and the Secretariat would arrange a follow-up meeting on next steps.

ACTION – That the Secretariat share draft communications with the Committee on publication and then arrange a meeting to discuss next steps.

Item 12 - Opt Out Rates Update

22. Following up on the earlier survey of funds, Gareth Brown (GB) informed the Committee that discussions had been held with software providers to identify the opt out data that they could provide. It was hoped to develop a standardised report that could be easily run by

funds to provide the data. This would both meet the Committee's purpose of maximising participation in the scheme whilst also addressing concerns that many officers had about their existing high workloads.

Item 13 – DLUHC Update

23. Alan Wareham (AW) gave a verbal update to the Committee. There was no further progress to report on the Board's proposal for the separation of pension fund accounts from the administering authority's accounts.

24. On Good Governance, progress had been made and there had been ongoing discussions within the Compliance and Reporting Committee workstreams that was helping to shape the Department's work going forward.

25. On Fair Deal, there was no further update to report.

26. On survivor benefits, the Minister would be maintaining the stance of declining to implement the recommendation from the Board to remove the upper age limit of 75 on award of death grants. GJ raised concerns about potential age discrimination on this issue. Also highlighted was a backlog in addressing underpayments of survivor benefits that arose because of retrospective changes in entitlement following the Brewster judgment. GJ also asked whether the draft regulations amending survivor benefits would be published by the end of the year; AW could not confirm that at this stage. GJ reluctantly indicated that it may be time for litigation to be brought to ensure that members' rights were respected given the ongoing delays to amending scheme regulations.

Item 14 – AOB and date of next meeting

27. JD informed the Committee that the frequency of meetings would be an item for discussion at the next Board meeting on 17th July 2023. The current Terms of Reference for the Board and Committee mandated a minimum of four meetings a year, but the Board would be considering a reduction to three times a year to allow for smoother and more manageable workflow. If the Board agreed this change, the Committee agreed to also reduce the frequency of its meetings to three times a year.

28. The date of the next meeting was confirmed as 30th October 2023.

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Cost Management, Benefit Design and Administration Committee (CMBDA)

MEETING OF 30TH OCTOBER 2023

ITEM 5 – PAPER B

GENDER PENSIONS GAP WORKING GROUP UPDATE

Current position:

1. The Gender Pensions Gap (GPG) working group met on 9th October 2023 to discuss:

    - Any in-scheme changes that may help address the levels of inequality (e.g. around the ability to buy back service, issue of multiple small pension pots)
    - Directing employers to best practice in managing the career paths of those who take time off for caring responsibilities and other life events (child related leave, divorce, bereavement and career breaks)
    - Communicating with members to ensure they are informed about the potential pension implications of the career choices they make
    - Mainstreaming analysis so to allow for proper evaluation "what works" and how much is left to do.

2. In attendance at the first meeting were Glyn Jenkins (Unison), John Neal (Unite), George Georgiou (GMB), Julia Grace (Avon Pension Fund), Joana Marfoh (Islington Pension Fund), Laura Caudwell (Aon), Julie West (Hymans Robertson), Tara George (Meridian Trust), Lisa Clarkson (LGA), Luann Donald (LGA) Jeremy Hughes (LGA), Becky Clough (LGA) and Ona Ehimuan (LGA). Apologies were received from Liz Manuel (Bedfordshire Pension Fund) and Martin Griffiths (Warwickshire Pension Fund).

3. The group discussed any in-scheme changes that could help address the levels of inequality. Suggested solutions put forward was more flexibility in the deadline for buying back lost pension for periods of reduced or no pay, the suggestion of variable accrual rates and the increased promotion of existing arrangements such as the 50/50 section and Shared Cost Additional Pension Contributions (SCAPCs). These solutions were raised with the caveat that affordability and equality issues would need to be considered especially from the members' and employers' perspective.

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4. With the suggestion of variable accrual rates, it was stated that it would be necessary to ensure that any policy introduced to address the GPG was fair for all and did not unintentionally create other equality issues. Therefore, any gender specific policies would not be considered due to discrimination laws. More likely to be successful was to address the employment issues affecting lower paid, part-time workers with multiple small pension pots which was highlighted in the Scheme Advisory Board's (SAB's) GPG report.

5. The deadline for buying back lost pension at a shared-cost with an employer was only permitted by the regulations within 30 days of returning to work, with any extension requiring the permission of the scheme employer using a non-mandatory regulatory discretion. The 30-day deadline was thought to be unhelpful particularly with maternity breaks with many female scheme members either not aware of the deadline, or not in a financial position to make additional contributions so soon after returning from maternity leave.

6. Better communication of the different options under the LGPS regulations during key life events was also supported by the group. Ideas included promoting the benefits of the scheme, with the use of case studies, to enable scheme members to have examples of the different options available when approach life events such as divorce, maternity/paternity and other caring responsibilities.

7. Outsourcing of contracts was raised as another issue thought to be contributing to the GPG. Many contractors working for LGPS employers and joining the scheme as admitted bodies, were enrolling staff into NEST pensions if their job changed and eligibility for the LGPS was lost due to a change in employment. Examples were given of eligible scheme members opting out or not re-joining under the outsourced contract if the benefits of the scheme were not being regularly communicated or the regulations implemented correctly. The delay by the Government in implementing New Fair Deal, which was thought to strengthen LGPS pension protection, was considered to impact the GPG.

8. Since the working group meeting, the Scheme Advisory Board chair, Councillor Roger Phillips has written to the Department to ask for an updated timeframe on when the Department plans to publish its

response to the April 2019 consultation on the New Fair Deal proposals.

9. A member of the Local Government Association's Workforce Team shared the work around the gender pay gap with the group. Focus had been placed on influencing behaviour and culture within Local Authority employers to promote a rebalancing of caring responsibilities. Initiatives such as expanding flexible working policies and paternity leave rights would be important in supporting the shift in culture needed to help address inequities between men and women. Having more flexibility in senior roles would also assist with enabling caring responsibilities to be combined with work schedules. The SAB Secretariat are looking at how it can work with the LGA Workforce Team in these areas to address the GPG.

10. The group discussed the impact of cultural background in GPG. It was noted that there is some cross-over with the SAB's project on the Sharia compliance of the LGPS. It would be important for any work to address the gap to consider the cultural factors that contribute to the GPG.

Next steps:

11. The group agreed that the SAB Secretariat would collate the issues discussed and then at the next meeting agree how the specific actions can be taken forward.

12. The themes of the actions have broadly been identified in four following areas and members of the CMBDA are asked to approve whether these should be taken forward:

    1. Investigate changes to regulations for the deadline for scheme members to elect for SCAPCs
    2. Create specific communication to employers on GPG and options within the LGPS regulations
    3. Work with LGA workforce team on increasing awareness of GPG with Local Authorities and policy solutions which have had a positive impact
    4. Investigate impact of outsourcing and progress of New Fair Deal with the Department

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Cost Management, Benefit Design and Administration Committee (CMBDA)

MEETING OF 30TH OCTOBER 2023

ITEM 6 – PAPER C

SURPLUSES WORKING GROUP UPDATE

Current position:

1. The Surpluses Working Group was set up to explore the issues that may arise with more funds being in surplus.
2. The Group comprises: Euan Miller (West Yorkshire Pension Fund), Peter Wallach (Merseyside Pension Fund), Elizabeth Vollans (South Tyneside Pension Fund), Sara Maxey (Essex Pension Fund), Jonathan Teasdale (Aon), Robert Bilton (Hymans Robertson), Michelle Doman (Mercer), Clive Lewis (Mercer), David Goldsmith (Osborne Clarke), Roisin McGuire (ICAEW), John Neal (Unite), Charity Main (Anglian Learning), Jennie Mulrooney (DfE), Emelda Nicholroy (UCEA), Aidan Smith (GAD), Teresa Clay (DLUHC), Joanne Donnelly (LGA) Jeremy Hughes (LGA), Becky Clough (LGA) and Ona Ehimuan (LGA).
3. The Terms of Reference (ToR) for the group is at Annex A.

Impact on Contributions

4. The Group agreed that a key objective of the LGPS is to maintain stable contribution rates. Primary contribution rates had been rising but now seemed flat, or even falling. As employers had made extra payments when funds were in deficit, they might reasonably expect negative secondary contribution rates in a surplus situation. It was commented that most employers were not demanding reductions and understood the surplus position was only notional and potentially temporary in duration. There were however some funds where the surplus could reasonably be described as “structural”, and it was appropriate for employers in those funds to see reductions in contributions.
5. Employers’ understanding of what being in surplus meant varied, especially as there were differences between the calculation of valuation surplus and accounting surplus. It was discussed whether funds had an educational role to better explain the position to them. What mattered most to employers was feeling that there was parity of treatment and fairness across employers.

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6. Member representatives were keen to emphasise that while a surplus situation made it more attractive for employers to leave the scheme, this should be discouraged, and the benefits of continuing membership emphasised.

7. The group considered whether Regulation 64A was engaged by the drop in estimated liabilities due to market movements, and whether funds should consider reducing contributions for an employer who was financially stretched (especially local authorities at risk of a s114 notice) on that basis. It was also thought that well-funded employers may see this as an avenue to reduce the risk of future changes in contribution level and 'lock-in' higher funding levels. The preferred view was that there needed to be consistency across funds and employers, taking into account the need for stability and wider covenant considerations. It was noted that the Universities Superannuation Scheme (USS) was looking at mid-cycle valuations due to a changed funding position and if this was taken forward, it could create additional pressure from LGPS employers to be treated similarly.

8. Some felt that there were differences in how the DFE guarantee for academies was treated between LGPS funds. The group were informed that the Education and Skills Funding Agency (ESFA) had established a working group to look at the LGPS responsibilities from an academy school perspective and SAB had been invited to join the discussion.

Impact on Investment Strategies

9. The Group noted that more employers were now taking an interest in their fund's investment strategy and were looking to have a strategy that was tailored to meet the particular needs. Often this was around de-risking and stabilising future contributions. It was observed that with current market conditions it was unclear how achievable de-risking actually was, and the Liability Driven Investments (LDI) crisis of 2022 showed that risks can sometimes be unforeseen or unexpected.

10. On the issue of employing different strategies for different employers, a number of funds urged caution. It could add considerable complexity, could lead to cross-subsidy between employers and could have unintended consequences if it needed to be unwound for any reason.

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Cost Management, Benefit Design and Administration Committee (CMBDA)

Communications

11. The group felt that there was a need for better communications. It was noted that sometimes there was a low level of feedback from employers when funds consulted on their funding strategies – possibly as few employers understood the changes. The SAB's Funding Strategy Statement working group was looking at revising the current CIPFA guidance on this to make it easier for employers to access and understand, as well as providing more practical advice on consulting. Any findings or recommendations of this group would be fed back to the working group.

12. DLUHC expressed interest in understanding more about the current situation and asked if there is data supporting some of points made in the meeting.

Next steps

13. The group agreed that the SAB Secretariat would collate the issues discussed and at the next meeting agree how the specific actions can be taken forward. The immediate actions the Secretariat will be taking forward, and members of the CMBDA are asked to approve, are:

    1. To produce a statement from the Board offering our view of the main issues exposed in the Group's discussion.
    2. Liaise with DLUHC to see if there is an appetite to provide further guidance on employer flexibilities in the LGPS Regulations.
    3. Consider addressing these issues in one of our LGPS Live events.

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Government Actuary's Department

Local Government Pension Scheme (LGPS)

Actuarial valuation as at 31 March 2020
Initial advice on assumptions for the SAB cost management process

18 October 2023
Matt Gurden

Contents

Background

Public service pensions cost control

The Public Service Pensions Act 2013 and associated HM Treasury Directions introduced a cost control mechanism for public service pension schemes, referred to here as the Employer Cost Cap (ECC).

Unlike other public sector schemes, the LGPS Scheme Advisory Board (LGPS SAB) has established a second cost control mechanism, implemented through scheme regulations, referred to here as the SAB cost management process (SAB process).

The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2023 (the Directions) require an ECC calculation for the LGPS as at 31 March 2020. Therefore, the SAB process is also required as at 31 March 2020.

Since the last ECC and SAB process as at 31 March 2016, changes[1] have been made such that the ECC process now only relates to the reformed scheme with a wider corridor around the employer cost cap and an economic check, which allows for changes in the SCAPE discount rate before confirming any cost cap breach. Consequently, the SAB agreed to update the SAB process to allow for the reformed scheme only (but retaining allowance for the underpin), to widen the corridor and to adopt a discount rate reflecting changes in conditions.

This report has been commissioned by the LGPS SAB and provides advice on the assumptions required for the SAB process as at 31 March 2020. It is intended to aide discussion on the assumptions to adopt and refers to the approach adopted for the SAB process as at 31 March 2016.

Assumption requirements

The Directions specify numerous assumptions for the ECC process and require others to be determined by the responsible authority as best estimates. The SAB process is less prescriptive and provides the LGPS SAB with greater flexibility about the assumptions to adopt. However, the approach has been to maintain consistency with the ECC process where appropriate and only deviate where there are legitimate LGPS specific reasons. The SAB process at the previous valuations adopted the EEC process assumptions, unless there was good reason not to. At the 2016 scheme valuation, the SAB process assumptions differed from the EEC process in the following areas:

- Discount rate
- pay growth
- commutation
- 50:50

[1] https://www.gov.uk/government/consultations/public-service-pensions-cost-control-mechanism-consultation

In addition to these assumption differences, the SAB process also adopted a different methodology to the EEC process in the following areas:

- cost of revaluation in first year of retirement
- cost of club transfers assumptions

These latter differences relate to policy positions rather than actuarial judgement and I do not consider them further in this paper.

Financial assumptions

There are a variety of financial assumptions required to calculate costs for the ECC and SAB process. Table 1 below summarises the ECC assumptions (where known) and indicates whether they are LGPS specific or set in Directions. Where assumptions for the ECC are LGPS specific, there is unlikely to be a strong justification for the SAB process to adopt a different assumption. Therefore, the comments below on the various assumptions are mainly in relation to assumptions that are set in Directions for the ECC process.

Table 1: Summary of financial assumptions for the LGPS England & Wales 31 March 2020 valuation

Assumption	% per annum	LGPS specific / Directed
Discount rate	CPI + 2.4% to 31 March 2023, CPI + 1.7 thereafter	Directed
Pay increases	Year to 31 March 2021 7.6 Year to 31 March 2022 4.7 Year to 31 March 2023 2.8 Year to 31 March 2024 2.5 Year to 31 March 2025 1.6 Year to 31 March 2026 1.6 Year to 31 March 2027 1.9 Year to 31 March 2028 2.7 Thereafter 3.8	Directed
Promotional pay scale	Separate male and female scale between ages 20 and 50 (the same as for 2016)	LGPS specific
Pension increases	Official pension orders where known, then 8 April 2024 4.1 7 April 2025 0.6 6 April 2026 0.0 12 April 2027 0.8 10 April 2028 1.7 Thereafter 2.0	Directed

Discount rate

The discount rate for the ECC is a Directed assumption and uses up-to-date SCAPE rates. The effect of changes in the SCAPE rate, since the employer cost cap was set, are then excluded from the ECC check, but considered as part of the new economic check.

The 2016 SAB process adopted a discount rate that allowed for the change to the SCAPE rate applicable at 1 April 2016 (CPI + 2.8%). The reduction in the discount rate, since the employer cost cap was set, was broadly equivalent to the reduction in discount rates used in Fund valuations between 2013 and 2016.

Tables 2 and 3 below show the change in the SCAPE rate and the average Fund real discount rate over the period since the 2016 valuations.

Table 2: SCAPE rate changes since 31 March 2016

Date	SCAPE Rate
1 April 2016	CPI + 2.8%
1 April 2019	CPI + 2.4%
1 April 2023	CPI + 1.7%

Table 3: Average LGPS Fund real discount rate since 31 March 2016

Date	Fund real discount rate
31 March 2016	2.2%
31 March 2019	1.8%
31 March 2022	1.5%

Both the SCAPE rate and average real Fund discount rates have fallen in the period since 31 March 2016, with reductions in the SCAPE rate greater than those in Fund discount rates.

If the SAB follows a consistent process as 2016 and allows for the change to the SCAPE rate applicable at 31 March 2020 the discount rate to adopt would be CPI + 2.4% pa. This would act to increase the cost cap cost relative to the 2016 SAB process by the order of 2-3% pa based on the sensitivities disclosed as at 31 March 2016, but may be higher or lower when scheme experience and other assumptions changes are allowed for.

Alternative approaches could be:

- Maintain the 2016 rate, which would not change the cost relative to the 2016 process
- Allow for CPI + 2.4% pa from 31 March 2020, reducing further to CPI + 1.7% pa from 1 April 2023 in line with the latest changes to the SCAPE rate, which would increase the cost by 4-5% pa relative to the 2016 process

- Allow for the average real Fund discount rate, either 1.8% or 1.5% pa, which would increase the cost by more than 5% pa relative to the 2016 process

It is also worth noting that since 31 March 2022, market yields have increased considerably. Real gilt yields are around 3% pa higher than they were at 31 March 2022. Therefore, the real discount rates Funds might adopt at the current time would likely be higher than they were at the last Fund valuations, which would act to reduce costs. Hence, there may be arguments not to allow for the full reduction in discount rates illustrated in tables 2 and 3.

As described above, the discount rate has a material influence on the results of the SAB process, and there are a variety of reasonable options that could be adopted.

Pay increases

The pay increase assumption has a relatively small impact on the cost of providing ongoing benefits, since these are provided on a Career Average Revalued Earnings basis, and are revalued in line with CPI. However, the LGPS statutory underpin means that pay increases can affect the SAB process outcomes. The recent period of high inflation compared to salary growth reduces the cost of the statutory underpin and hence limits the significance of the pay increase assumption.

Assumptions need to reflect long term expectations up to the point of retirement for member accruing benefits in 2014-22, which covers a long period that is difficult to anticipate. However, the LGPS SAB should consider whether the Directed short term assumptions and the long term assumption of CPI + 1.8% pa are reasonable for the membership of the LGPS. For comparison the 2016 SAB process adopted a single assumption for both the short and long term of CPI + 1.5% pa.

Promotional pay increases

A scheme specific assumption is adopted for the ECC. This assumption is largely based upon experience in the LGPS and expectations for future promotional progression, consistent with the assumption adopted in 2016. Therefore, this should reflect a reasonable best estimate and there should be no reason to adopt anything different for the SAB process.

Pension increases

The LGPS provides pension increases in the same way as other public service pension schemes, predominantly providing increases in line with the change in CPI. The Directed pension increase assumptions are intended to reflect changes in CPI and there is nothing unusual about the LGPS which would suggest any reason for deviating from these. However, it will be important to check the overall consistency of all the financial assumptions when settling on a basis for the SAB process.

Overall effect of financial assumptions

The overall effect of financial changes to the SAB process assumptions relative to 2016 will be largely dependent on the choice of discount rate. Therefore, this could be anything from close to no change in the assessed cost to upwards of a 5% pa increase relative to 2016.

Demographic assumptions

Table 4 below sets out the majority of demographic assumptions required to carry out the valuation calculations.

Table 4: Summary of demographic assumptions for the LGPS England and Wales 31 March 2020 valuation

Assumption			LGPS specific / Directed
Post-retirement base mortality rates (males / females)	Normal health	99% S3NMA_M / 96% S3NFA_M	LGPS specific
	Ill health	117% S3IMA / 133% S3IFA	
	Dependants	96% S3DMA / 97% S3NFA_H	
Post-retirement mortality improvement rates	ONS-2020 population projections		Directed
Retirement decrements (years) (males / females)	CRA 60 CRA 65	61.5 / 60.5 65.1 / 64.6	LGPS specific
Withdrawal (likelihood of leaving service before 65 for member now 45) (males / females)	Males Females	52.0% 59.4%	LGPS specific
Proportion married/partnered (at death)	Males Females	63% 37%	LGPS specific
Age difference (years)	Males less females Females less males	3 -2	LGPS specific
Commutation (of pension)	Pre-2008 service: 10% Post-2008 service: 20%		LGPS specific
50:50 option	Cost cap past service - reflect actual cost Cost cap future service - ignore		Directed
Club transfer allowance	No expected impact		LGPS specific

LGPS specific assumptions

The LGPS specific assumptions above used in the 31 March 2020 ECC valuation reflect a best-estimate approach (do not include margins for prudence or optimism) and are based on analysis of LGPS scheme experience and other information, where relevant. There is no specific reason to adopt an alternative approach for the SAB process and hence I would recommend these assumptions are maintained for the SAB process.

Note the assumption for commutation of pension for cash in respect of post-2008 service was previously directed by HMT but is now scheme specific.

Directed assumptions

Mortality improvements

HMT directs the mortality improvement assumption for the ECC valuation process and has directed the use of the ONS-2020 population projections. This is the latest ONS model and includes estimated adjustments in respect of the impact of Covid-19 on mortality rates in the short term. This results in lower mortality improvements than were assumed for the 2016 SAB process.

Fund actuaries typically use a mortality improvement model produced by the CMI to set future mortality improvements, which is similar but not the same as the ONS projections. However, the Funds do not all use the same version of the CMI model or the same parameters to determined future mortality improvements.

For the 2016 SAB process it was agreed to adopt the ONS model, consistent with the ECC process, which applies consistent mortality improvements across all Funds. There is no specific reason to change this approach for the 2020 SAB process.

50:50 option

The 50:50 benefit option is also directed by HMT. For the 2020 ECC valuation process the cost cap future service cost continues to be calculated as if no member has or ever will opt for 50:50 benefits to ensure that the take up has no impact on the cost cap future service cost. For the past service cost, there is a slight change in the technical implementation of the 50:50 policy in that the cost cap liabilities and assets will now reflect the actual take up of the 50:50 option, so that 50:50 take up does not lead to cost cap surpluses or deficits, and ensure that the take up of 50:50 has no impact on the cost cap past service cost.

For the 2016 SAB process an allowance was made for the 50:50 option, despite information at the time showing very few members had taken up the option. There are three possible approaches for the 2020 SAB process:

- Maintain the 2016 assumption, regardless of experience
- Follow the ECC process to ignore the impact of 50:50
- Update the analysis of take-up of the option to support an updated assumption

The impact of the 50:50 assumption will be relatively small as regardless of which approach is adopted it only applies to a small proportion of the membership.

Overall effect of demographic assumptions

The impact of adopting the demographic assumptions in table above would be to reduce the cost cap cost relative to the 2016 SAB process. This is because the mortality improvement rates are lower than for the 2016 process and hence future life expectancy is reduced. It is estimated at this stage that the impact on the cost cap cost would be a reduction of the order of 1% pa.

Conclusion

The majority of assumptions required for the SAB process are LGPS specific when used in the ECC and therefore it seems appropriate to maintain these assumptions. For the assumptions that HMT directs for the ECC, the most significant is the discount rate. There are multiple possible options to set the discount rate, which would lead to a wide range of potential SAB process costs.

The financial assumption options are likely to lead to an increased SAB cost estimate relative to the 2016 SAB process. Conversely, the demographic assumptions are likely to lead to a reduction in the SAB cost estimate relative to the 2016 SAB process. The overall outcome will depend upon the choice made for the discount rate. It is therefore important to consider the achievable objectives from the SAB process and its interaction with the ECC before settling on the assumptions to adopt.

Reliance

This work has been carried out in accordance with the applicable Technical Actuarial Standards: TAS 100 and TAS 300 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

This document should be read in conjunction with the Advice on Assumptions Report in respect of the Actuarial Valuation as at 31 March 2020.

This report has been prepared for the use of the LGPS England and Wales Scheme Advisory Board in relation to the 31 March 2020 SAB cost cap valuation. The assessment of the impact of assumption changes on the SAB process costs are approximate guides to help inform consideration of the process. Accurate figures will be required on proposed assumptions before the SAB process can be finalised. The information and advice in this report should not be relied upon, or assumed to be appropriate, for any other purpose or by any other person. In particular, this report does not provide any advice on employer contribution rates or funding.

GAD relies on the accuracy of data and information provided by the administering authorities. GAD does not accept responsibility for advice based on wrong or incomplete data or information provided by the administering authorities.

Cost Management, Benefit Design and Administration Committee (CMBDA)

MEETING OF 30TH OCTOBER 2023

ITEM 9 – PAPER F

OPT-OUTS AND MOVEMENT TO 50/50 IN THE LGPS

Summary

1. As members will be aware, the Secretariat asked LGPS funds in a survey in late 2022 whether there had been an increase in the number of members opting out of the scheme, or opting into the 50/50 section, and whether there was any evidence that any increase could be linked to increases in the cost of living.
2. The results of this survey proved inconclusive, primarily because it was not possible to draw conclusions from the time series data on the rate of opt outs, due to the confounding effects of auto re-enrolment[1]. In addition, the number of eligible employees is constantly moving, due to changes in the status of the employers because of mergers or outsourcing/insourcing.
3. The Secretariat has engaged in discussions with the software providers to identify or isolate data which would enable us to examine time series data on opt outs. This has proved challenging due to the different ways in which data is stored in administrative systems and there may be a cost to reconfigure those systems in a way that would allow consistent reporting. Funds may also be required to change some internal processes around recording of optants out.

Alternative Methodologies and Recommendations

4. One possible solution which the Secretariat is exploring is to compare the total membership of the LGPS with the total number of employees who are eligible to join. Although this will not be the same as the number of people choosing to opt out, we believe it will offer a reasonably reliable estimation of the proportion of the workforce who have chosen to opt out.
5. Employers are required to submit a declaration of compliance to the Pension Regulator (TPR) annually to report on how they have met their Auto Enrolment duties. Within this report employers are required to declare pension membership. We have submitted a Freedom Of Information request and have received a reply with some data, we have not yet been able to obtain the figures requested. A further request has been made to TPR specifically asking for the data submitted by employers quoting the Pension Scheme Registry number

[1] Members who have opted out are automatically re-enrolled in the scheme every 3 years, if they are eligible. As a consequence, there are peaks at different stages every three years when eligible members who wish to continue to opt out do so after being automatically re-enrolled into the scheme. The pattern at fund level is not regular as the dates when auto re-enrolment occurs are different for each employer.

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10051249 relating to the LGPS to the question "*The total number of staff employed on your duties start date or staging date*" This is data that is submitted by employers with their declaration of compliance .

6. Should this prove unsuccessful the Secretariat proposes to conduct a survey of all local authorities (i.e. not just administering authorities) using Local Government Association (LGA) workforce contacts to ask if they hold and request data on the number of their employees who are eligible for the LGPS, compared to the total number of employees who have chosen to join.

7. Of course, such a survey will not include those employers which are not local authorities (approximately 20% of the scheme by membership). Depending on the composition of that non-local authority segment of the membership, it would not capture a full representative picture of the experience of all LGPS eligible employees (e.g, it may exclude some lower paid workers engaged on outsourced service contracts). However, a survey could facilitate a range of more qualitative questions concerning the experience of outsourcing to employers and their interaction with employees related to this topic. This could include questions such as the employers' understanding of why employees are choosing to opt out and publication of scheme benefits in employment documentation and during induction and other events.

Comments from the Committee

8. We welcome comments and suggestions from the Committee on our work to date and our next proposed approach.

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Cost Management, Benefit Design and Administration Committee

MEETING – 30TH OCTOBER 2023

ITEM 10 – PAPER G

CMBDA COMMITTEE WORK PLAN FOR 2024

Background

1. The Terms of Reference for this Committee states that a workplan must be developed and submitted for approval to the Board on an annual basis. The workplan will be flexible and respond to matters as they arise but should give an overview of the key workstreams associated the Committee. The workplan below details the key workstreams expected for the Committee in 2024.

Workplan Items

2. **McCloud** is expected to remain a major workstream over the coming year. The LGPC team is working closely with DLUHC to develop another set of regulations, as well as further statutory and actuarial guidance from GAD. There are also still issues on the teachers' excess pension issue to be resolved. Timescales on this workstream are yet to be confirmed.

3. The **Gender Pensions Gap** reports published by GAD have led to the convening of a working group to explore what the Board's next steps should be. The working group met for the first time on 9 October and while the group is likely to finish its work before the end of this financial year, we expect there to be actions that will continue to be worked on in 24/25. Indeed, given the scale of the disparities identified, it should be expected that work on this area will continue for some time.

4. Many funds are now finding themselves in a position of notional surplus. As a response to this, the Board has convened a **Surpluses working group** to determine whether any recommendations need to be made to the Minister on managing this new position. The group met for the first time on 4 October and as with the Gender Pensions Group we expect the group itself to wind up before the end of this year, but for the actions to be progressed through the next year. The Committee is expected to discuss any recommendations made with a view to pass on recommendations to the Board before sending to the Minister. It is also expected that information will be fed into the Funding Strategy Statement Guidance working group if needed.

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5. We expect that, as it was a manifesto commitment, the Government will come back with proposals on **Exit Pay reforms** at some point next year. It is expected that the Board will need to engage with the policy development leading up to any consultation being issued as well as submitting a response. Both would require the input of the Committee. Depending on the content of the proposals, this could be a hugely time-consuming piece of work.

6. We are also expecting the Department to issue a consultation on **survivor benefits** early in 2024. It is expected that the Board will submit a response to this consultation and will require the input of the Committee to shape the response and issue guidance to funds on how to implement any changes. Updates on the consultation will be provided by DLUHC at Committee meetings over the year.

7. Work towards the 2022 **Section 13 report** will be a key workstream in 2024. The timescales associated with this workstream will be largely dependent on the activities of the Government Actuary's Department (GAD) and DLUHC. The Secretariat are just starting their engagement with GAD on emerging findings and recommendations. In the past, the s13 reports have made a number of recommendations for the Board to take forward (e.g. the guidance note on academy conversions).

Recommendation – That the Committee reviews and submits the workplan to the Board for approval.

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Cost Management, Benefit Design and Administration Committee (CMBDA)

MEETING of 30th OCTOBER 2023

ITEM 11 – PAPER H

UPDATED TERMS OF REFERENCE (ToR)

Background:

1. The Committee's current Terms of Reference (ToR) have been in place since 2016 and set out the membership and functions of the Cost Management, Benefit Design and Administration (CMBDA) Committee. The ToR is published on the Scheme Advisory Board (SAB) website, alongside the meeting reports.
2. In July 2023, the SAB agreed to reduce its meeting frequency from a minimum of four to a minimum of three times a year. The meeting frequency was changed because it was proving increasingly difficult to fit in each year (with sensible breaks in between) the four meetings required by the previous ToR. The SAB agreed an updated ToR for the main Board and proposed an update to all Committee ToR's regarding meeting frequency. This change was also agreed in principle at the previous Committee meeting.
3. The SAB Secretariat team have amended the CMBDA ToR to reduce the meeting frequency. The team are also undertaking a wider review of the current document to ensure it is still relevant and feedback from Committee members is welcome.

Recommendation:

1. To approve the updated ToR and agree for it to be published on the SAB website.