



LGPS EW SAB Cost Control Mechanism - 2020 valuation

Introduction

The attached Annex summarises the assumptions proposed for the initial calculations of the SAB cost control mechanism for the 31 March 2020 valuation of the LGPS EW. This summary is based upon CMBDA discussions and includes an alternative discount rate assumption to allow SAB to consider the effect of the discount rate on the outcome of the cost control mechanism.

The summary also includes the assumptions used to set the original target cost, the initial fund and for the 31 March 2016 valuation. In the financial assumptions, the real discount rates are the most appropriate figures to allow comparison between the various assumption sets.





Annex: Assumptions

	Target overall cost = 19.5% ¹	Initial fund at 31 Mar 2014	Overall cost at 31 Mar 2016	Overall cost at 31 Mar 2020	Alternative discount rate at 31 Mar 2020
Financial assumptions²	p.a.	p.a.	p.a.	p.a.	p.a.
Nominal discount rate		5.06%	4.86%	4.86%	4.45%
Rate of pension increases		2.00%	2.00%	2.00%	2.00%
Rate of general pay increases	N/A	3.50%	3.50%	3.50%	3.50%
Real discount rate in excess of:					
Pension increases	3%	3.00%	2.80%	2.80%	2.40%
Long-term pay increases	N/A	1.51%	1.31%	1.31%	0.92%
Mortality assumptions					
Baseline mortality	Based on LGPS experience up to 2009-11	In line with 2013 valuation ³	In line with 2016 valuation ⁴	In line with 2020 valuation	In line with 2020 valuation

¹ See GAD letter to DCLG dated 30 May 2012

² Note there are no short term financial assumptions in the SAB CMP

³ <http://lgpslibrary.org/assets/othergov/2013VRep.pdf>

⁴ [LGPS 2016 Valuation Advice on Assumptions \(publishing.service.gov.uk\)](https://publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/444444/LGPS_2016_Valuation_Advice_on_Assumptions.pdf)

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	Target overall cost = 19.5%¹	Initial fund at 31 Mar 2014	Overall cost at 31 Mar 2016	Overall cost at 31 Mar 2020	Alternative discount rate at 31 Mar 2020
Future mortality improvements	In line with ONS 2010-based population projections	In line with ONS 2012-based population projections	In line with ONS 2016-based population projections	In line with ONS 2020-based population projections	In line with ONS 2020-based population projections
Other demographic assumptions					
	Based on LGPS experience up to 2009-11	In line with 2013 valuation	In line with 2016 valuation	In line with 2020 valuation	In line with 2020 valuation
Commutation (pre-2008 service)	N/A	N/A	N/A	N/A	N/A
Commutation (post-2008 service)	23.2% of pension commuted (65% of HMRC maximum)	23.2% of pension commuted (65% of HMRC maximum)	23.2% of pension commuted (65% of HMRC maximum)	In line with 2020 valuation: 20% of pension commuted	In line with 2020 valuation: 20% of pension commuted
50/50 take up	10% of all members take the 50/50 option, and that all those taking the option earn less than £21,000	N/A	5% of all members take the 50/50 option	1% of all members take the 50/50 option	1% of all members take the 50/50 option
Benefit design					
CARE revaluation – first revaluation applied to benefits accrued each year	At end of following year	At start of following year	At start of following year	At start of following year	At start of following year