

# Scheme Advisory Board

## HYBRID MEETING – 11 March 2024

### ITEM 7 – PAPER C

#### COST MANAGEMENT RESULTS

##### Background

1. On 19 September 2023, HM Treasury (HMT) announced via a written ministerial statement changes to the public sector pension scheme cost control mechanism. The key changes were that the margin by which costs need to vary from the target in order for benefit changes to be required was increased from 2% to 3% of pensionable pay, and an ‘economic check’ was introduced such that benefit changes could only be made if the costs would still be outside the margin once the impact of changes in long-term economic assumptions (SCAPE rate) had been included.
2. Under Regulation 116 of the LGPS Regulations 2013, the Board also has a duty to undertake its own scheme cost assessment (SCA). The assumptions on which this process is based are set by the Board. DLUHC consulted last year on changes to the SCA process which also widened the “corridor” for the SAB process to 3%. The SCA process is intended to run prior to the HMT process, with any changes arising from it being reflected in the HMT cost control calculations.

##### Consideration

3. The Government Actuary’s Department has completed its work on the Board’s cost control mechanism as part of the 2020 valuation of the LGPS E&W, using the assumptions previously agreed by the Board. These results are presented at Annex A.
4. The results show that there is a 1% deviation upwards from the target cost, which is in the territory where the Board may make recommendations which would bring the scheme cost closer to the target cost (i.e. in this case, to *reduce* benefits). After taking initial soundings from the Chair and Vice-Chair, the Secretariat do not believe that there is any appetite to propose benefit changes in these circumstances.
5. The yield in member contributions has also been confirmed as 6.5%, so there is no need to amend contribution thresholds.

**The Board is asked to agree that it makes no recommendations on benefit or contribution changes, and if it so agrees, bring the 2020 SCA process to a conclusion.**

6. GAD have also shared, on a confidential basis, the provisional outcome of the separate HMT Cost Control Mechanism process for the LGPS. We understand these results, which are in confidential Annex B, are likely to be finalised shortly and published in the coming weeks.

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7. GAD have helpfully prepared a short additional paper (Annex C) that explains how the different assumptions for the SAB and HMT processes have affected the derived scheme costs under either process.

## **Recommendations**

8. The Board is asked to note the position and ask the Secretariat to draft a short statement to accompany publication of the SCA results.
9. The Board may also want to reflect on how well the revised cost management processes have run, and to what extent they are providing an effective indication of scheme affordability.

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