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Public service pensions - the employer cost cap

By Djuna Thurley

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Summary

Following the reports of the Independent Public Service Pensions Commission, chaired by Lord Hutton of Furness, the Government legislated in the *Public Service Pensions Act 2013* for a framework for new public service pension schemes, to be introduced from April 2015 (2014 for local government). The new structure is designed to manage some of the costs and risks to the Exchequer of providing public service pensions. For example, providing benefits based on career average revalued earnings rather than final salary removes much of the 'salary risk' and adjusting the normal pension age in line with longevity through linking it to the State Pension age (except for the 'uniformed services which have a pension age of 60) removes much of the risk of future increases in longevity.

Cost caps for the teachers', NHS and civil service schemes were set in actuarial valuations, showing the position of the schemes as at the end of March 2012. The financial position of schemes relative to the cap will be considered at each valuation.

Valuations showing the position of the schemes as at end March 2016 are in the process of being finalised. In September 2018, the Government published a document setting out assumptions to be used in finalising them and said Initial results meant scheme benefits would improve:

> Our initial results show that the protections in the new cost cap mechanism mean public sector workers will get improved pension benefits for employment over the period April 2019 to March 2023. This test, known as the cost control mechanism, was introduced to offer taxpayers and employees protection from unexpected changes in pension costs. Where the value of the pension scheme to employees has changed from the levels set when reformed pension schemes were introduced in 2015, steps must be taken to return costs to that level. (HC Deb 6 September 2018 c13WS; Gov.UK, Public service pensions 2016 valuations: supplementary documents)

There would be consultation with the relevant scheme advisory board. Where it was not possible to reach agreement on steps to return costs to their target level, the legislation provides that remedy will be delivered by increasing the rate at which pension benefits accrue. Changes would be implemented with effect from April 2019 (Ibid).

The Government asked GAD to review the cost cap mechanism to ensure it was "working as intended and delivering the Government's objective to protect taxpayers and workers from unforeseen changes in pension costs." The trade union Prospect objected saying that "the Treasury should accept the results which simply reflect the reality that the reforms to these schemes have worked and the cost have fallen" (Prospect press release, 7 September 2018).

GAD wrote to the Treasury on 23 November with comments on the initial results from the valuation and how the cost cap mechanism was working in practice.

On 30 January 2019, Chief Secretary to the Treasury Elizabeth Truss said the Government was putting the operation of the cost cap mechanism on hold, pending the outcome of a legal challenge to the transitional protection arrangements for the 2015 pension reforms (HCWS1286, 30 January 2019). This was met with concern by trade unions.

The impact of the Government's proposals to reduce the SCAPE discount rate on employer contributions is discussed in Library Briefing Paper CBP-7539 (January 2019).

For more on the reforms, see CBP 5768 Public service pensions – the 2015 reforms (February 2018).

1. Background

Public sector pension schemes are occupational pension schemes for employees of central or local government, a nationalised industry or other statutory body. Public service schemes are established by statute or by Ministers exercising statutory powers.[1]

Of the main public service schemes only the Local Government Pension Scheme (LGPS) operates on a funded basis – which means that contributions from employers and employees are paid into a fund, which is invested and from which pension benefits are paid.

The other main public service schemes are unfunded. They operate on a pay-as-you-go (PAYG) basis, which means there is no fund of assets which is invested and from which pension benefits are paid. Employer and employee contributions are paid to the sponsoring government department but these contributions are not invested. Instead, the sponsoring government department pays benefits to pensioner members, netting off the contributions received.[2]

Public service pension schemes are subject to regular actuarial valuations at which the value today of pension benefits that will be paid in the future is assessed.[3] For the unfunded schemes, the purpose of carrying out valuations is to ensure that contributions from employers and employees are set at a level to reflect the future value of benefits being earned. This is so that "the full costs of the scheme are taken into account when financial decisions are made by employers."[4] The employer contribution is normally expressed as a percentage of pensionable pay.

The LGPS is different in that it is made up of a number of different funds, administered at local level. There are 89 funds in England and Wales and 11 in Scotland.[5] Individual funds carry out valuations to determine the contributions to be paid by employers. Where a fund is in deficit, there will be a locally agreed recovery plan to fund the deficit, typically over a 20-year period.[6]

1.1 The Labour Government's reforms

The last Labour Government negotiated reforms to the main public service pension schemes. These had the aim of improving financial sustainability and reflecting changes in life expectancy, working

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1 HM Treasury, Long-term public finance report: an analysis of fiscal sustainability, March 2008, Box 4.3; David Blake, *Pension schemes and pension funds in the United Kingdom*, Second Edition (2003), p686

2 PPI, an assessment of the Government's reforms to public sector pensions, October 2008, p7

3 *Public Service Pensions Act 2013*, s11

4 HM Treasury, Public service pensions: actuarial valuations and the employer cost cap mechanism, March 2014

5 CLG, Local government pension scheme statistics; Scottish Public Pensions Agency, Local Government Pension Scheme

6 HC Deb, 13 May 2009, c819-20W

practices and practice in the private sector.[7] Following consultation, new schemes were introduced for new entrants to the armed forces in April 2005 and for the police and firefighters in April 2006. Reforms to the local government scheme in 2006, applied to both new entrants and existing members. Reforms to the teachers', NHS and civil service schemes were introduced in 2007-08. The schemes all had different aims and different workforces, so the details of the reform are different in each case. However, common features of the reforms included:

- *The modernisation of survivors' benefits*, for example, extending them to unmarried partners;
- *Changes in member contribution rates*, including the introduction of contribution rates, tiered by pay, in the NHS and local government schemes;
- *Increases in the pension age*, mainly for new entrants. In the schemes for teachers, NHS and local government, for example, the normal pension age is 65 for new entrants, 60 for existing members.[8]

The reforms included the introduction of a cost-capping and sharing mechanisms in the main public service schemes. HM Treasury explained:

> The cap and share policy is designed to ensure that the cost pressures associated with the rising cost of providing pension scheme benefits (such as improving longevity) are shared between employers and employees up to an agreed employer contribution cap, beyond which all further increases will be the responsibility of employees. This sets a maximum limit to employer contributions thus protecting the public finances and taxpayer. The costs will be assessed through the periodic scheme valuations that take place every 3 or 4 years.[9]

The National Audit Office (NAO) concluded that the reforms were "on course to deliver substantial savings" with long-term costs projected to stabilise around their current levels as a proportion of GDP.[10] However, opinion was divided on whether the reforms went far enough.[11]

1.2 The Coalition Government's 2015 reforms

Following the 2010 election, the Conservative Liberal Democrat Coalition Government set up the Independent Public Service Pensions Commission, chaired by former Labour Work and Pensions Secretary of State, Lord Hutton of Furness, to conduct a fundamental structural review of public service pension provision.[12] The Commission was

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[7] DWP, Simplicity, security and choice: working and saving for retirement, Cm 5677, December 2002, p106-7

[8] For more detail, see Library Briefing Paper SN 5298

[9] HM Treasury, Long-term public finance report: an analysis of fiscal sustainability, December 2009, Box 6.A; For more detail, see Library Note SN 5252 Public service pension schemes – cost capping and sharing (21 December 2011)

[10] NAO, The impact of the 2007-08 changes to public sector pensions, HC 662, 8 December 2010, Executive

[11] See, for example, CBI, Getting a grip – The route to reform of public sector pensions, April 2010; TUC, Exploding Public Sector Pensions Myths: A Briefing for Trade Union Members, July 2009

[12] Independent Public Service Pensions Commission: interim report, 7 October 2010, p133

invited to report in two stages, with an interim report looking at the potential for making savings in the short-term and a final report making recommendations for longer-term structural reforms.

The Commission's Interim Report was published on 7 October 2010. It recommended that the most effective way of making savings in the short-term was to increase member contribution rates and that there was a case for doing so. In response, the Government announced that it would increase member contribution rates by an average of 3.2 per cent across public service schemes, except for the armed forces. The increases were phased-in over the period 2012/13 to 2014/15.[13]

However, Lord Hutton said longer term structural reform was needed:

> It is my clear view that the figures in this report make it plain that the status quo is not tenable. I believe we need to adopt a more prudent approach to meeting the cost of public service pensions in order to strike a fairer balance not just between current taxpayers and public service employees but also between current and future generations. [14]

He said that although recent reforms would reduce costs over time, they did not "address the underlying issue of structural reforms, nor significantly reduce current costs to taxpayers."[15] The cost capping and sharing policy introduced by the Labour Government had limitations. In particular, it would only apply to increases in costs from a recent baseline:

> Cap and share reduces scheme costs only if scheme valuations reveal future additional cost pressures compared with a recent baseline (which is usually the preceding valuation). Therefore, although cap and share can reduce scheme costs below what they might have been, it would not at present deal with the very considerable increases in the costs of providing pensions, worth several percent of pay a year, that have resulted from increases in longevity in recent decades.[16]

In its final report, published in March 2011, the Commission said its aim was to design a structure that would share the risks and costs of public service pensions between employees and government fairly:

> For example, moving to [career average revalued earnings] from final salary removes much of the salary risk associated with public service pensions. Adjusting [normal pension age] in line with longevity increases through linking to [state pension age] will remove much of the risk to costs of future increases in longevity.[17]

However, it thought there would still be a need for an overriding mechanism to ensure public service pensions remained affordable and sustainable. This would act as a "safety valve in case costs within the

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[13] HM Treasury, Spending Review 2010, October 2010, para 1.94; For more detail, see Library Note SN 6137 Public service pension contributions (April 2012)

[14] Independent Public Service Pensions Commission: interim report, October 2011, foreword

[15] Ibid, Box 2A

[16] Ibid, p47

[17] Independent Public Service Pensions Commission: Final Report, 10 March 2011, para 4.25

new scheme increased due to factors not taken account of in the scheme design." It recommended that:

> The Government on behalf of the taxpayer, should set out a fixed cost ceiling: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long-term. If this is exceeded, then there should be a consultation process to bring costs back within the ceiling, with an automatic default change if agreement cannot be reached.[18]

The Government accepted the recommendations of the Commission's final report as the basis for negotiation with the trade unions.[19] It legislated in the *Public Service Pensions Act 2013* for a framework for new public service pension schemes to be introduced from April 2015 (2014 for local government). Key features of the legislation included:

- Enabling the creation of new public service schemes, providing pensions based on career average rather than final salary (s 8);
- Linking the normal pension age to the State Pension age, except in the schemes for the firefighters, police and armed forces, which would have a normal pension age of 60 (s 10);
- Providing transitional protection for those 'closest to retirement.' People within 10 years of pension age on 1 April 2012 would remain in the existing schemes. Those within a further 3-4 years of normal pension age may have the option of a delayed transition to the new scheme (s 18).

The Government's reforms overall[20] were expected to significantly reduce the cost of public service pensions to the Exchequer as a proportion of GDP. In 2017, the OBR said:

> 3.75 Gross public service pension expenditure (i.e. before offsetting member contributions) is projected to fall from 2.1 per cent of GDP in 2021-22 to 1.3 per cent of GDP in 2066-67. To a large extent, this decline reflects reforms that have been introduced since 2010 and the reductions to the public sector workforce associated with ongoing cuts to departmental spending (although these are less severe than were factored into our 2015 projections).[21]

For more detail, see Library Briefing Paper CBP 5768 Public service pensions – the 2015 reforms (February 2018).

[18] Ibid, p96-7
[19] HM Treasury, *Budget 2011,* para 1.132
[20] Including the switch to the CPI as the measure of prices for increasing pensions in payment and the increase in member contribution rates
[21] OBR, Fiscal sustainability report, 2017; See also, PPI, The implications of the Coalition Government's public service pension reforms, 17 May 2013 (press release)

2. The cost cap

2.1 The 25-year guarantee

In the course of negotiations on the reforms, the then Chief Secretary to the Treasury, Danny Alexander, said that reform along the lines the Government had proposed could endure for 25 years:

> It will be a sustainable deal that will endure for at least 25 years, and an affordable deal that will ensure that taxpayers are asked to make a sensible contribution, but will keep costs sustainable and under proper control.[22]

On 20 December 2011, he undertook to ensure a high bar was set for the design of schemes to be changed:

> I have made the commitment that these reforms will be sustained for at least 25 years. The Government intend to include provisions on the face of the forthcoming public service pensions Bill to ensure that a high bar is set for future Governments to change the design of the schemes.[23]

Section 22 of the Act therefore provides for enhanced consultation arrangements in the event of certain changes being made to "protected elements of the scheme within the protected period" (25 years from 2015). "Protected elements" refers to:

- the extent to which the scheme is a career average revalued earnings scheme;
- members' contributions under the scheme;
- benefit accrual rates under the scheme.[24]

However, as discussed below there are different procedure for changes resulting from the operation of the cost cap.

2.2 *Public Service Pensions Act 2013*

The Government accepted the Independent Public Service Pensions Commission's recommendation for a ceiling on employer costs and provided for it in the *Public Service Pensions Act 2013,* which extends to England and Wales and Scotland.

The Government said:

> 1.3 The Independent Public Service Pensions Commission recommended that the Government establish a mechanism to control future spending on public service pensions, by setting a fixed proportion of pensionable pay that public service employers would contribute to the schemes in the long term. The Commission also recommended that if this cost were exceeded then the Government should consult on how to reduce costs, with an automatic default to be applied if agreement could not be reached.
>
> 1.4 In response to this recommendation, the Government has committed to putting in place an employer cost cap to protect

Northern Ireland

The Northern Ireland Executive agreed the introduction of reforms in line with those for Great Britain and legislated for them in the *Public Service Pensions Act (Northern Ireland) 2014*. The employer cost cap is provided for in section 12 and the *Public Service Pensions (Employer Cost Cap) Regulations (Northern Ireland) 2015 (SI 2015/12).*

22 HC Deb 11 November 2011 c929
23 HC Deb 20 December 2011 c1203
24 Section 22

> against unforeseen changes in scheme costs. The cost cap will provide backstop protection to the taxpayer, to ensure that the risks of increased costs are shared between scheme members and public service employers. The cap arrangements will be symmetrical, so that if costs fall below a certain threshold, the savings will be used to the benefit of scheme members […].[25]

Section 11 (valuations) provides that schemes must be actuarially valued in accordance with Treasury directions – to ensure the approach is transparent and consistent. [26] This applies to the new schemes introduced under the Act and 'connected schemes' under s4 (6).[27] The Treasury is required to consult the Government Actuary before making, revoking or amending directions.[28]

The Government explained that in future, valuations of the funded schemes would have a dual purpose. As well as being used to set employer contribution rates, they would inform the operation of the cost cap:

> 1.6 For the unfunded schemes, the initial level of the employer cost cap will be set with reference to the 2012 scheme valuations, with subsequent valuations being used to measure future costs against this cap. If valuations show that there have been unexpected changes in costs, action will be taken to mitigate these. This may be via an adjustment to the benefits accruing in respect of future service, an adjustment to member contributions, or via some other means.[29]

In the case of the Local Government Pension Scheme (which is made up of different funds administered locally) a model fund would be used to measure assets and liabilities across the scheme as a whole:

> 1.12 The pension schemes for local government employees differ from the other large public service schemes as they are funded schemes, comprised of a number of individual local funds. These individual funds will continue to carry out their own valuations to determine the contributions to be paid by employers using the fund. However, to allow an employer cost cap to operate, a model fund will be used to measure assets and liabilities across the local government scheme as a whole. The outcome of the model fund valuation will be used to assess whether costs remain at sustainable levels. For the remainder of this paper, references in this document to valuations of the local government schemes will relate to these model funds, unless otherwise stated.[30]

Section 12 provides for an **employer cost cap** to be set in accordance with Treasury directions. Under subsection 5, Treasury regulations must make provision for a target cost for the scheme:

> (a) provision requiring the cost of a scheme (and any connected scheme) to remain within specified margins either side of the employer cost cap, and

[25] HM Treasury, Establishing an employer cost cap in public service pension schemes, November 2012, Executive summary
[26] HM Treasury, Actuarial valuations of public service pension schemes, November 2012, para 1.7
[27] *Public Service Pensions Act 2013,* Explanatory Notes, para 73
[28] *Public Service Pensions Act 2013,* Explanatory Notes, para 74
[29] HM Treasury, Actuarial valuations of public service pension schemes, November 2012
[30] HM Treasury, Actuarial valuations of public service pension schemes, November 2012

> (b) for cases where the cost of a scheme would otherwise go beyond either of those margins, provision specifying a target cost within the margins.

Under subsection 6, where costs would otherwise go beyond these margins, regulations may provide for a procedure for the scheme manager, employers and members (or their representatives) to reach agreement on steps required to achieve the target cost.

2.3 Directions and regulations

A Treasury paper published in November 2013 explained how the cap was intended to work. In the event of the floor or ceiling being breached, there would be:

> 1.12 […] a process of consultation to allow the responsible authority, the scheme managers, employers and members (or their representatives) to reach agreement on how the scheme costs will be returned to the level of the cap. The adjustment to the employer contribution rate may be brought about via a change in the benefits members accrue going forward, a change to member contributions, or some other adjustment. There is no intention to make changes to benefits already accrued via the cost cap mechanism. Treasury consent will be required before the changes are implemented, in line with the general requirement for Treasury consent for scheme changes.
>
> 1.13 White the Government expects that agreement would be reached via this process, the Bill sets out that there may be a default action if this is not the case. Scheme regulations will therefore set out what should be changed if there is no agreement within a specified period. This will have the effect of adjusting members' future benefit accruals or contribution rates so that the costs of providing the revised pension scheme are in line with the cap.[31]

The initial level of the cap would be set at a level "deemed to be sustainable in the long-term", based on valuations using 2012 data, which would be completed before the reformed schemes were introduced in April 2015.[32]

These directions and regulations providing for the employer cost cap are on Gov.UK. Correspondence between the Government and the Government Actuary's Department which took place as part of the statutory requirement to consult under section 11 (4) of the Act is on Gov.UK. A policy paper was produced to explain the directions: Public service pensions: actuarial valuations and the employer cost cap mechanism (March 2014).

Scope and timing of valuations

The Treasury explained that scheme valuations, which had not been completed for a number of years, would now be carried out in accordance with the Directions. They would inform employer contribution rates from 2015 and the setting of cost caps:

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[31] HM Treasury, Establishing an employer cost cap in public service pension schemes, November 2012

[32] Ibid, para 1.24-7

> For the unfunded schemes, these valuations will inform the schemes' employer contribution rates to be paid from 2015 onwards. For all of the schemes, including the funded schemes for local government workers, these preliminary valuations will also set the level of the employer cost cap, with future valuations comparing scheme costs against these caps.[33]

Directions provide for old and new schemes for similar categories of employees to be valued together. This is because the cost cap will control the costs associated with the new schemes and some of the costs associated with the existing schemes.[34] Treasury directions require valuations to be carried out every four years (for the unfunded schemes), every three years for the LGPS.[35] As discussed below, in September 2018, the Government proposed that LGPS valuations for cost cap purposes should also be four-yearly.

The cost of unfunded schemes is measured using a SCAPE approach – whereby a notional pot of assets that is set equal to the scheme's total past service liabilities.[36] The Directions set some central assumptions to be used in scheme valuations.[37] Others will be set on a scheme specific basis by the responsible authority. The intention is to introduce greater consistency in the way costs are measured across different schemes.[38]

Costs that will be controlled by the cap

The cap is designed to control changes in "member costs" (those relating to assumptions about the profile of scheme members) not to changes in "employer costs" (those relating to assumptions that are financial or technical in nature):

> 1.22 Many of the assumptions that must be made to carry out a valuation relate to the profile of scheme members – for example the expectations about their life expectancy, growth in salaries, or career paths. These will be defined as "member costs". Other decisions and assumptions that must be made to carry out a valuation are financial or technical in nature – for example the discount rate that is used to assess the present costs of future benefits, or the actuarial methodology to be used. These will be defined as "employer costs".
>
> 1.23 The Government has stated that adjustments will only be made via the cost cap mechanism if they arise from changes in the "member costs". Changes that arise solely from changes in "employer costs" will not be controlled by the employer cost cap and will not trigger changes in member contributions or benefits. Public service employers, and ultimately the Exchequer, will bear the risks of changes in these costs.[39]

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[33] HM Treasury, Public service pensions: actuarial valuations and the employer cost cap mechanism, March 2014, para 1.6

[34] Ibid para 1.8

[35] Ibid para 1.11

[36] Ibid chapter 3

[37] The SCAPE discount rate and its impact is discussed in Library Briefing Paper CBP-7539 Public service pensions – employer contributions (September 2018)

[38] HM Treasury, Public service pensions: actuarial valuations and the employer cost cap mechanism, March 2014, p24

[39] HM Treasury, Establishing an employer cost cap in public service pension schemes, November 2012; HM Treasury, Public service pensions: actuarial valuations and the employer cost cap mechanism, March 2014, para 2.33

It will apply to *all* increases in member costs, except those associated with deferred or pensioner members of the existing schemes:

> 2.24 […] As only active members will see their future benefits or contributions adjusted if the ceiling or floor is breached, the government considers that it would be unfair to control all of the costs associated with pensioner and deferred members of the existing pension schemes.
>
> 2.25 The cost cap will control all other member cost risk, including the past and future cost risks associated with:
>
> - Active members of the reformed schemes, including any service they have in the existing schemes*;
> - Deferred and pensioner members of the reformed schemes; and
> - Transitionally protected active members of the existing schemes.
>
> *The cost risks arising from active members' service in the existing schemes will be controlled by the cap where there has been no break in service of longer than five years between membership of the existing and new schemes. This is in line with the retention of the final salary link for members that rejoin active service within five years.
>
> 2.26 Public service employers, and ultimately taxpayers, will bear the additional risk associated with pensioner and deferred members of the existing schemes, rather than the members themselves.[40]

Past and future service costs for the purposes of the employer cost cap will be different from those used to calculate the contribution rate, in that past service costs relating to deferred and pensioner members of the existing schemes will be excluded. In order to achieve this, the Directions establish the concept of a "cost cap fund", which will measure all costs relating to members of the new schemes, but only costs relating to members of the existing schemes while they remain in active service.[41]

Mechanism for keepings costs within target

The operation of the cap will allow for minor fluctuations in cost:

> 2.28 There may be fluctuations in scheme costs between valuations. So that these do not lead to frequent changes in the scheme design after each valuation, Treasury regulations (made under section 12(5) of the Act) specify that there will be a 2 percentage point margin above and below the cap. The upper margin will form a "ceiling" on the employer contribution rate, with the lower margin forming a "floor". For example, if the employer cost cap is set at 14% of pensionable pay, the ceiling and floor will be set at 16% and 12% respectively.[42]

Scheme regulations would set out the process to be followed in the event of the cap or floor being breached:

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[40] HM Treasury, Public service pensions: actuarial valuations and the employer cost cap mechanism, March 2014, para 1.19

[41] Ibid, para 4.66-4.71

[42] Ibid

> 2.29 As set out above, at future valuations the "cost cap cost of the scheme" will be compared to the employer cost cap. If there is a change in costs, and this measure of scheme costs rises above the ceiling or falls below the floor, the Act requires action to be taken to bring costs back to a "target cost". The Treasury regulations define this target cost as being the same as the employer cost cap. Bringing costs back to the level of the cap will ensure that there is no long-term increase or decrease in the costs of the scheme – a long-term increase would not be fair to taxpayers, whereas a long-term decrease would not be fair to scheme members.
>
> 2.30 Costs may be rebalanced by amending scheme benefits for future accruals to alter the overall cost of the scheme, or by altering the level of employee contributions so that a higher or lower level of employer contributions is required. Scheme regulations will set out a process for agreeing the necessary action with stakeholders, and a default action to be taken if agreement cannot be reached within a reasonable time limit.[43]

Future review

The Government said that the directions would be kept under review. This was because there might be future changes in scheme costs which the government would not wish to affect members via the cost cap. For example:

> 2.37 There may also be some potential changes in scheme costs which cannot be easily quantified at the preliminary valuation. For example, increases in the State Pension age may lead to an increase in the average age of the public service workforces. All things being equal, this would lead to a rise in scheme costs. However, there is no way of accurately forecasting the potential impact of such changes at this stage.
>
> 2.38 Any decisions about whether such changes should feed through to the employer cost cap mechanism, and therefore to scheme members, will need to be taken on a case-by-case basis. If, at a future valuation, it can be demonstrated that the cost cap mechanism has been affected by such a change, the government will need to decide how this should be taken into account in that mechanism. In making such a decision, the government will need to balance the interests of scheme members against the need to protect the taxpayer and ensure that the costs to employers remain sustainable. If any adjustments are made, these may be via an adjustment to the level of the cap, to the valuation process, or by some other means.[44]

Setting the level of the employer cost cap

Directions set out the details of how the initial level of the cost cap should be set, based on the assessment of future service cost from scheme valuations:

> 2.17 Preliminary valuations of the schemes, valued "as at" 31 March 2012, will form the basis for the new cost control framework and will be used to set the cost cap. The preliminary valuations will be conducted subject to an assumption that the schemes will be reformed in line with agreed proposals from 2015 (2014 for LGPS in England and Wales). The level at which that cap will be set will be based on an assessment of only the future

[43] Ibid

[44] Ibid para 2.36-41

> service costs of the new schemes – the costs of the benefits being accrued by current members. It will not take into account any past service costs that have arisen in the existing schemes due to previous over- or under-estimation of costs before those schemes closed. This means that when the level of the cap is set, it is likely to be different from the employer contribution rate actually paid. This is because the rate paid from 2015 will also reflect past service costs associated with members of the pre-2015 schemes.
>
> 2.18 The preliminary valuation of the new schemes will calculate a cost cap based on the costs of providing the new scheme benefits from 2015-19, using assumptions relevant to that period. This is consistent with the approach to calculating the future service element of the employer contribution rate in the preliminary valuation, except that there will be three adjustments made in the way that these costs are calculated. These adjustments will take account of changes in scheme costs which the government expects to take effect after 2019. [45]

This preliminary valuation would use assumptions relevant to the 2015-2019 period, with adjustments to take account of changes in scheme costs which the government expected to take effect after 2019. These adjustments would relate to: the transitional protection arrangement for those closest to retirement; the fact that the retirement decisions of members would change as members accrued more of their rights in the new scheme; and earnings forecasts for the longer term.[46] Future valuations for the unfunded schemes will take place every four years, with the 'first valuation' showing the position of the scheme as at 2016.[47]

The Local Government Pension Scheme (LGPS)

Unlike the other main public service schemes, the LGPS operates on a funded basis. Its rules are in regulations set at national level, but the scheme is made up of different funds, operated and governed at local level. Each fund is subject to periodic valuation (every four years) to ensure it has sufficient assets to meet its liabilities and to set the employer contribution rate accordingly. These valuations are on the basis of assumptions set locally:

- Each LGPS pension fund is required to appoint their own fund actuary, who carries out the fund's valuation. The fund actuary uses a number of assumptions to value the liabilities of the fund. Liabilities are split between those that relate to the past (the past service cost), and those that relate to the future (the future service cost). The results of the valuation may lead to changes in employer contribution rates for both future and past service costs.
- The portion of the total employer contribution which relates to the past service cost is known as the deficit contribution, and is often payable in cash terms. The portion of the total employer contribution which relates to

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45 Ibid
46 Ibid para 2.19 to 2.23
47 Ibid para 4.16

> the future service cost is known as the future service rate and is normally payable in percentage of pay terms.[48]

There is an additional valuation conducted at national level, based on a model fund, for employer cost cap purposes:

> Under the new cost management process, the costs of the LGPS will be reviewed every three years from 31st March 2016 to ensure that they remain in line with agreed targets. The process includes additional valuations that will be carried out at national level. The purpose, assumptions and output from these cost management valuations are all different from the local valuations carried out by LGPS funds. This cost management process can only lead to changes in benefit levels and/or employee contribution rates that will be made at national level.[49]

Before the cost cap mechanism is tested, the LGPS Advisory Board (SAB) for England and Wales will run an additional cost control process with the aim of "providing greater control over the contribution rates actually paid by employers participating in the scheme."[50] The agreed target future service rate for the LGPS in England and Wales is 19.5% of payroll:

> - In the national cost management process, the costs of the LGPS will be assessed in line with the agreed target future service rate for LGPS benefits of 19.5% of payroll (made up of an average yield of 6.5% in employee contributions and an average yield of 13% in employer contributions). A 2% or more movement from the target in either direction must result in agreed recommendations for action to move back to the target or a default process to move back to the target will be triggered, and recommendations for action may be made following changes of less than 2%.
> - The cost management process will (when changes in cost become apparent) only lead to changes in benefit levels and/or employee contribution rates and these changes will apply to all employees in the LGPS. Any changes to benefit levels and/or employee contribution rates will be made at national level and so will impact on all participating employers. These changes will only impact on the actual contributions that employers pay when they are allowed for in the local valuations.[51]

In September 2018, the Government proposed bringing LGPS cost cap valuations onto the same quadrennial cycle as for the unfunded schemes. It said this would minimise complications and assist with comparison.[52]

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48 SI 2013/2356 reg 62; LGPS SAB – Triennial valuations in the LGPS (England and Wales) in detail

49 LGPS (England and Wales) Scheme Advisory Board; HM Treasury, Public service pensions: actuarial valuations and the employer cost cap mechanism, March 2014 para 5.2; Public service pensions (valuations and employer cost cap) (amendment) directions 2018 – amending directions 5 and 6 and technical annex

50 Ibid para 5.3-12

51 LGPS Scheme Advisory Board – 2016 valuations - summary

52 Information about the cost management process is here.

On 10 October 2018, the SAB said that the total cost was 19% and that it would look at ways to return costs to the target 19.5%:

> Based on work undertaken by the Board's actuarial adviser, the total cost of the scheme (employer and employee) under the Board's process is 19% against a target total scheme cost of 19.5%.
>
> The Board agreed to delegate to the Chair and a representative from both the employers and employees' sides, assisted by a small technical group, responsibility for agreeing a package of benefit changes to return the scheme to its total target cost of 19.5% while also looking at employee contributions at the lower end. The resultant package will be put to the full Board for agreement as soon as possible to ensure that scheme changes are on the statute book by April 2019.[53]

However, on 8 February 2019, it announced that this work had been put on hold pending the outcome of legal proceedings in relation to the transitional protection arrangements for the 2015 schemes (see below).[54]

LGPS Scotland

The first valuation of the LGPS (Scotland) under these arrangements was based on scheme data as at 31 March 2014 and was completed on 4 January 2016. It proposed an employer cost cap of 15.5% of pensionable pay.[55] The next valuation will be based on scheme data as at 31st March 2017 and will begin in 2017-18. Any changes arising from that valuation will apply from 1st April 2020.[56]

2.4 2018 – initial valuation results

On 6 September 2018, the Government said early indications from the scheme valuations were that the cost floor which would breached in at least come cases:

> Our initial results show that the protections in the new cost cap mechanism mean public sector workers will get improved pension benefits for employment over the period April 2019 to March 2023. This test, known as the cost control mechanism, was introduced to offer taxpayers and employees protection from unexpected changes in pension costs. Where the value of the pension scheme to employees has changed from the levels set when reformed pension schemes were introduced in 2015, steps must be taken to return costs to that level. [57]

This would be confirmed when scheme valuation results were finalised later in the year.[58]

A breach of the cost floor would require steps to be taken to return costs to their target level. Where agreement could not be reached on how to do this, the default would be an increase in the accrual rate:

[53] LGPS Advisory Board/Board updates/October 2018
[54] LGPS Advisory Board cost management process
[55] SPPA website -valuations; GAD, Actuarial valuation as at 31 March 2014v, March 2016
[56] SPPA website -valuations
[57] HCSW945, 6 September 2018
[58] Letter to TUC 6 September 2018

> There are currently more than 5 million active members of the public service pensions schemes, which cover the NHS, teachers, the armed forces, the police, firefighters, local government workers, judiciary and civil servants. The outcome of the valuations and the cost control mechanism will be confirmed later this year. Secretaries of State, and Scottish and Welsh Ministers, will then consult the appropriate Scheme Advisory Board, which consist of member and employer representatives for each of the pension schemes, to reach agreement on the steps to be taken to return costs to their target level. Where it is not possible to reach agreement, the legislation provides that remedy will be delivered by increasing the rate at which pension benefits accrue. Changes will be implemented with effect from April 2019. An additional process operates in the Local Government Pension Scheme (LGPS) (England and Wales) run by the LGPS England and Wales Scheme Advisory Board. In accordance with stated policy, this will be allowed to complete before the HM Treasury cost control mechanism is tested.[59]

This is provided for in the s12 of the *Public Service Pensions Act 2013* and the *Public Service Pensions (Employer Cost Cap) Regulations 2014 (SI 2014/575).*

GAD said reduced forecasts for short-term pay growth and future life expectancy helped to explain the fall in costs:

> New information, which affects some key valuation assumptions, helps to explain the fall in the costs of the scheme measured in the cost cap mechanism:
>
> • the Office for Budget Responsibility (OBR) has reduced its forecasts of short-term pay growth and updated the period over which these apply, meaning accrued final salary pensions are now expected to be less costly
>
> • the latest population projections from the Office for National Statistics (ONS) show forecasts of future life expectancy have reduced, so pensions will typically be paid for a shorter period than previously expected
>
> These factors mean that schemes are now expecting lower costs to pay future pension payments. Whilst these factors are also reflected in expected changes to employer contribution rates, these downward cost pressures can be more than offset by upward cost pressures outside the cost cap mechanism, such as changes to the discount rate.[60]

Review of the cost cap mechanism

The Government published draft amending directions for the 2016 valuations. These were intended to "reflect the passage of time since 2012 and involve updated parameters." It asked the TUC for comment by 28 September 2018.[61]

In addition, the Government asked the Government Actuary's Department to review the cost cap mechanism to ensure it was working as intended:

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59 HCSW945, 6 September 2018
60 GAD, Public Service Pension Schemes: valuations update, 7 September 2018
61 Gov.UK – Public service pensions 2016 valuations: supplementary documents, 6 September 2018

> We committed to keep the cost control mechanism under review. I will therefore be asking the Government Actuary to undertake a review of the mechanism to check whether it is working as intended and delivering government's objective to protect taxpayers and workers from unforeseen changes in pension costs. We are committed to fairly remunerating public sector workers and to implementing the results of the valuations, but it is right that we examine whether the mechanism is operating appropriately and in line with the original policy intentions. The scope of the review will be limited to the design of the cost cap mechanism. The review will conclude in time for the next four-yearly round of valuations.[62]

The trade union Prospect commented that:

> The Treasury has decided to review the cost cap mechanism. It appears that this review is being carried out primarily because the Treasury did not like the results of process. "Instead of reviewing the mechanism, the Treasury should accept the results which simply reflect the reality that the reforms to these schemes have worked and the costs have fallen. Any fundamental changes to the cost cap mechanism could breach the agreement on pension reform that public sector workers voted for in 2012.[63]

Pause due to legal proceedings

On 30 January, Chief Secretary to the Treasury Elizabeth Truss announced that this element of the valuations had been put on hold pending the outcome of a legal challenge to the transitional arrangements put in place when the 2015 schemes were introduced:

> The Government is announcing a pause to one element of the valuations of public service pensions, following a court ruling on part of the 2015 pension reforms.
>
> The Coalition Government introduced reforms to public sector pensions, meaning most public sector workers were moved to new pension schemes in 2015.
>
> In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members as part of the reforms amounts to unlawful discrimination. The Government is seeking permission to appeal this decision. If this is unsuccessful, the Court will require steps to be taken to compensate employees who were transferred to the new schemes.
>
> A mechanism for assessing the value of pensions (the "cost control mechanism") was also introduced as part of the 2015 reforms. In September of last year, Government announced that provisional results indicated that the cost control mechanism would be engaged, triggering automatic changes to member benefits.
>
> However, given the potentially significant but uncertain impact of the Court of Appeal judgment, it is not now possible to assess the value of the current public service pension arrangements with any certainty. The provisional estimate is that the potential impact of the judgment could cost the equivalent of around £4 billion per annum. It is therefore prudent to pause this part of the valuations

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62 HCWS945, 6 September 2018

63 Prospect warns no good reason to review public sector pension cap, 7 September 2018

> until there is certainty about the value of pensions to employees from April 2015 onwards.
>
> The value of public service pensions will not be reduced as a result of this suspension. If the Government is successful in court, we will implement the changes to employee benefits as planned. If the Government is defeated, employees will be compensated in a way that satisfies the judgment.
>
> In order to ensure employers are meeting the increased costs of providing pensions, the part of the valuations of the unfunded pension schemes which sets employer contributions (which existed before the 2015 reforms) will continue. Employers in unfunded schemes have been planning for these changes in employer contributions to be implemented in April 2019, and the Treasury is in the process of allocating funding to departments to help with these costs.
>
> Whatever the court outcome, we know the costs of providing public sector pensions are increasing. The 2015 reforms were to ensure public service pensions are affordable and sustainable in the long term, maintaining intergenerational fairness and ensuring the burden on the working population remains proportionate.[64]

The Scottish Public Pensions Agency said it would continue to press the UK Government to meet the full cost implications of the contribution rate change:

> We note the UK Government's announcement that, in the light of the recent Court of Appeal judgment, it has paused the cost cap valuations for public service pension schemes. We note also its decision to proceed with increases to employer contribution rates. We continue to press the UK Government to meet the full cost implications of the contribution rate change and we will keep in close touch with them to ensure that the interests of members and employers in the Scottish public sector are fully represented.
>
> • In the meantime, there is no change to current member contribution rates or benefit accrual.
>
> • SPPA will continue to administer pension schemes in line with the existing regulations.
>
> • SPPA will work closely with scheme advisory boards and member and employer representatives to ensure all stakeholders are kept up to date.[65]

Responses

Trade unions representing public sector workers reacted with concern. The TUC said:

> Public sector workers have had years of real-terms pay cuts and job losses. They now face the danger of the government breaking its promises on pension benefits.
>
> "Public sector pension schemes have been cheaper than expected. Under the agreed rules, which the government committed to for 25 years, this should mean lower contributions or improved pensions for members.

64 HCWS 1286 30 January 2019,
65 SPPA, Public service pensions – Court of Appeal case valuations,

> "But halting the valuation process leaves this in jeopardy. The government needs to stick to its own rules and deliver what it pledged.[66]

The trade union Prospect expressed was concerned that cost of the legal challenge might be passed on to scheme members:

> Prospect members voted in favour of the reforms to their public sector pension schemes so we were not party to any legal challenge to changes our members agreed to.
>
> In the short-term it is unclear precisely how the judgment might be applied because many younger Prospect members actually benefited from moving to the reformed schemes rather than staying in the legacy final salary schemes.
>
> In the long-term there could be significant challenges arising from the judgment if the government seeks to pass its costs on to members and perhaps revisit important aspects of previous agreements. […]
>
> The decision to delay the implementation of the cost cap mechanism is a huge blow to Prospect members across the public sector.
>
> Prospect officials had been working hard to deliver possible reductions in member contributions that could have helped alleviate cost of living pressures caused by years of public sector pay restraint.
>
> Suspending the implementation of the cost cap mechanism calls into question the government's commitment to the pension agreements it made with Prospect members and millions of other public sector workers.[67]

The FDA also opposed the pause:

> The Civil Service Pension Scheme valuation identified a breach of the cost cap floor, meaning it has operated cheaper than expected. The members of this scheme should be reaping the rewards of this.
>
> For years, civil servants have suffered from real term pay cuts. Now improvements to their pension benefits aren't being realised. This is just adding insult to injury.
>
> The Government created a set of agreed rules to last for 25 years – now it is trying to back out. By halting this process, Civil Service Pension Scheme members will be unable to benefit from lower contributions or improved benefits for an unknown length of time.[68]

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[66] Government must not break public sector pensions pledge says TUC 30 January 2019

[67] Public sector pension improvements paused by age discrimination cases ruling, Prospect press release, 5 February 2019

[68] FDA opposes Treasury halting public sector pension scheme valuations, 30 January 2019

3. Individual scheme valuations

On 13 March 2014, Chief Secretary to the Treasury, Danny Alexander said that near-final results from valuations of the NHS, teachers and civil service schemes as at March 2012 showed that employer contribution rates would need to increase from 2015:

> The next stage in this programme of reform is to ensure that the costs of the public service schemes are properly measured and remain sustainable in the long term. To achieve this, the Treasury has this week made directions and laid regulations on valuations of public service pension schemes and the employer cost cap, in accordance with the provisions of the *Public Service Pensions Act 2013*.
>
> These directions formalise the basis of the full actuarial valuations of the schemes that are currently being carried out to measure scheme costs. This is the first time valuations have been carried out for a number of years and the first time that schemes have been valued simultaneously and according to the same rigorous, principled and transparent approach.
>
> The final results for the NHS, teachers and civil service schemes will be published later in the spring. But it is already clear that these will show the level of contributions paid by employers have not been sufficient to meet the full long-term costs of these schemes. If current rates were allowed to continue the shortfall would be nearly £1 billion a year across the teachers, civil service and NHS schemes.
>
> The Government are therefore taking corrective action, and will introduce new higher employer contribution rates for these schemes from 2015. This will ensure that the contributions paid by public service employers reflect the full costs of the schemes, including the costs of the deficits that have arisen since previous valuations.
>
> This will not have any impact on existing pensioners, on member benefits, or on the contributions paid by employees in those schemes. Instead it will ensure that pension costs are properly met by employers and do not fall as an additional cost to the taxpayer.
>
> Actuarial reports published by these three schemes and the police pension scheme (E&W) will confirm the final contribution rates to be paid by each scheme. The remaining public service schemes are expected to complete their valuations later in the year.[69]

The Government explained that this would:

> […] ensure that employers are meeting the cost of public service pension schemes, which will result in a permanent reduction to Annually Managed Expenditure (AME) of £725 million in 2015-16, rising to around £1 billion a year from 2016-17 onwards.[70]

Further detail was provided in an accompanying policy costings document.[71]

The next set of valuations, at which the operation of the employer cost cap would be first assessed, would show the position of the scheme as

[69] HC Deb 13 March 2014 c32WS
[70] HM Treasury, Budget 2014, HC 1104, March 2014, para 1.67
[71] HM Government, Budget 2014:policy costings, March 2014, p47

at March 2016. Scheme Advisory Boards established under the *Public Service Pensions Act 2013* would be responsible for providing advice on the desirability of changes to the scheme.[72]

The valuations showing the position of the unfunded pension schemes as at 31 March 2016 have not yet been published.

3.1 Civil Service Pension Scheme

The detailed rules of the pension scheme for civil servants in Great Britain are in the (reg 159).

The actuarial valuation showing the position of the Principal Civil Service Pension Scheme covering civil servants in Great Britain as at 31 March 2012 was also published on 9 June 2014. The results specified the employer contribution rate for the four-year period from 1 April 2015 (the implementation period) and the employer cost cap:

> 1.3 Key results of the valuation are as follows:
>
> Employer contribution rate payable for the implementation period: 20.9% of pensionable pay
>
> Employer cost cap: 18.5% of pensionable pay
>
> Total Scheme liabilities for service to the effective date of £132.7bn and national assets of £127.3bn, giving a notional past service deficit of £5.5bn.[73]

The difference between the employer contribution rate and cost cap was explained as follows:

> 3.9 To calculate the ***employer contribution rate***, we have placed a net present value on the extra annual benefit accrual over the four-year ***implementation period*** and then adjusted for the repayment of the deficit over 15 years and member contributions. The ***employer cost cap*** is a measure of the cost of the 2015 Scheme only. The calculation of the ***employer cost cap*** is similar to that of the ***employer contribution rate*** but is based on all members being in the 2015 Scheme in April 2015, with assumptions reflecting members' likely behaviour had they never been members of the existing schemes, and no deficit contributions apply.[74]

The employer cost cap is provided for in regulation 159 of the *Public Service (Civil Servants and Others) Pensions Regulations 2014 (SI 2014/1964)*

The Scheme Advisory Board – set up to advising on the desirability of changes to the scheme – was constituted in 2016-17.[75]

The Annual Report and Accounts for 2017-18, published in December 2018, said:

Scheme Advisory Boards

The Northern Ireland Civil Service Scheme Advisory Board, established on 1 April 2015, plays the same role for Civil Service Pensions in Northern Ireland.

72 *Public Service Pensions Act 2013*, s7
73 GAD, Principal Civil Service Pension Scheme. Actuarial valuation as at 31 March 2012, 9 June 2014
74 Ibid
75 Resource Accounts 2016/17, para 4.13-4

> 1.67 The quadrennial valuation of the Scheme as at 31 March 2016 is under way and is not expected to be completed by the time these accounts are published, for reasons disclosed in 4.61 in the governance statement. This includes a long-term financial projection for the Scheme and will influence the contributions needed to fund it. Changes arising from the valuation are expected to be implemented in April 2019.[76]

3.2 Teachers' Pension Scheme

The valuation of the Teachers' Pension Scheme as at 31 March 2012 was also published on 9 June 2014. It specified specifies the rate of employer contribution payable for the four-year period from 1 April 2015 and the employer cost cap:

> 1.3 The key results of the valuation are as follows:
>
> **Employer contribution rate** payable for the implementation period: 16.4% of pensionable pay
>
> **Employer cost cap**: 10.9% of pensionable pay
>
> Total Scheme liabilities for service to the effective date of £191.5bn and notional assets of £176.6bn, giving a notional past service deficit of £15.0bn.[77]

Scheme Advisory Board

The Teachers' Pension Scheme Advisory Board (TPSAB) was established in 2015 (SI 2014/512, reg 11-12)

Because teaching establishments work on an academic rather than a financial year, the increase in employer contributions has been deferred from 1 April 2015 to 1 September 2015.[78]

On the basis of initial results from the 2016 valuations, the estimated employer contribution rate from 1 September 2019 to 31 March 2023 is 23.6%. The Department for Education ran a consultation from 12 January 2019 to 14 February on its proposal to support some Education institutions with the increase in employer contributions to the Teachers' Pension Scheme (TPS) in 2019-20.[79] For more detail, see Library Briefing Paper CBP 7539 Public service pensions – employer contributions (January 2019).

3.3 NHS Pension Scheme

The results of the actuarial valuation of the NHS Pension Scheme as at 31 March 2012 were published on 9 June 2014:

> 1.3 The key results of the valuation are as follows:
>
> - Employer contribution rate payable for the implementation period : 14.3% of pensionable pay
> - Employer cost cap: 11.6% of pensionable pay
>
> Total Scheme liabilities for service to the ***effective date*** of £240.4 bn and ***notional assets*** of £230.1 bn giving a notional past service deficit of £10.3 bn.[80]

Scheme advisory board

The NHS Pension Scheme Advisory Board was set up in 2015 (SI 2015/94, reg 5 and Sch 2).

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76 Civil Superannuation Account 2017-18v, December 2018
77 GAD, Teachers' Pension Scheme. Actuarial valuation as at 31 March 2012. 9 June 2014
78 Teachers' Pensions, Valuation – Frequently asked questions, June 2014; DfE, Teachers' Pension Scheme – Further regulations to complete reform, April 2014
79 DfE, Funding the Education sector for contribution increases, January 2019
80 GAD, NHS Pension Scheme. Actuarial valuation as at 31 March 2012, 9 June 2014

A consultation on employer contribution rates in the NHS Pension Scheme from April 2019 took place between 18 December 2018 and 28 January 2019. Proposed changes included:

- introducing a new contribution rate of 20.6% for employers from 1 April 2019
- renewing current member contribution rates so that the same rates continue to apply beyond 31 March 2019
- providing civil partners and same sex spouses with the same survivor pension rights as widows
- extending the current forfeiture of pension benefits rules.[81]

The consultation document explained that the valuation had showed costs to fall by 3.2% from its target level, triggering the cost cap mechanism:

> The value of the 2015 scheme for members must therefore be improved to restore the costs back to target. This can be done by enhancing benefits or reducing member contributions, or a combination of both. If the opposite occurred, with the scheme becoming more expensive, then members would either contribute more or accrue less valuable benefits to reduce costs back to target.[82]

The changes "to provide civil partners and same sex spouses with the same pension benefits as widows" were needed as a result of the judgement of the Supreme Court in 'Walker v Innospec.'[83] For more detail, see Library Briefing Paper CBP 3035 Pensions: civil partnerships and same sex marriages (April 2018).

3.4 Local Government Pension Scheme

LGPS Scheme Advisory Boards:

LGPS Scheme Advisory Board for England and Wales (SI 2013/2356, reg 110-114)

LGPS Scheme Advisory Board (Scotland)

The LGPS Advisory Board published the results of the triennial valuations for the LGPS (England and Wales), showing the position of the scheme as at 31 March 2013. The agreed target future service rate for LGPS benefits was 19.5% of payroll:

> In the national cost management process, the costs of the LGPS will be assessed in line with the agreed target future service rate for LGPS benefits of 19.5% of payroll (made up of an average yield of 6.5% in employee contributions and an average yield of 13% in employer contributions). A 2% or more movement from the target in either direction must result in agreed recommendations for action to move back to the target or a default process to move back to the target will be triggered, and recommendations for action may be made following changes of less than 2%.
>
> The cost management process will (when changes in cost become apparent) only lead to changes in benefit levels and/or employee contribution rates and these changes will apply to all employees in the LGPS. Any changes to benefit levels and/or employee contribution rates will be made at national level and so will impact on all participating employers. These changes will only impact on

81 Proposed changes to NHS Pension Scheme Regulations 2019

82 NHS Pension Scheme. Proposed changes to scheme regulations. Consultation document and explanatory notes, 18 December 2018

83 Ibid

> the actual contributions that employers pay when they are allowed for in the local valuations.[84]

An overview of the results of the triennial valuation in April 2016 said there were significant variations in funding levels and contribution requirements across LGPS funds:

> - The results of the 2016 LGPS valuations show that LGPS funds generally have broadly higher funding levels to those in 2013, with decreased deficits in cash terms. However this overall picture is not reflected at individual employer level, where there have been significant variations in funding levels and contribution requirements.
> - Total employer contributions vary for a number of factors. Differences in membership profiles and experience can cause fluctuations, while funds may choose to vary factors such as deficit recovery periods between employers based on indicators such as perceived risk. From fund to fund, employer rates may also vary because of investment performance and differences in actuarial assumptions.
> - The LGPS is subject to a new cost management process, which is intended to make the scheme more sustainable. Under this process, extra valuations of the LGPS will be carried out at national (not local fund) level every three years from 31st March 2016. These national valuations are quite different from the local valuations in a few key areas. If this cost management process shows that the cost of the LGPS has changed then benefits and/or contribution levels may be changed for all employees in the LGPS as a whole (i.e. nationally).[85]

Results for the valuations of the individual LGPS funds are here.

On 8 February 2019, the LGPS Advisory Board announced that the operation of the cost cap mechanism has been put on hold pending the outcome of court proceedings:

> On 7th February the SAB received confirmation that the cost cap pause and the uncertainty caused by the McCloud case announced in last week's Written Ministerial Statement (see January 2019 cost cap process paused below) applies equally to the LGPS as to the unfunded public service pension schemes. Given that confirmation the SAB considers it has no option but to pause its own cost management process pending the outcome of McCloud.
>
> As a result there are currently no changes to benefits planned in respect of the cost cap. This situation will be reviewed once McCloud is resolved which is not expected for some months.[86]

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[84] LGPS Advisory Board, Triennial valuations in the LGPS (England and Wales) – in detail, June 2014
[85] LGPS Advisory Board – 2016 valuations summary
[86] LGPS Advisory Board website – Cost management

3.5 Firefighters pension scheme

The actuarial valuations of the Firefighters' Pension Schemes as at 31 March 2012 proposed that the employer cost caps should be set at:

- For Scotland, 15.8% of pensionable pay;[87]
- For England, 16.8% of pensionable pay;[88]
- For Wales, 17.1% of pensionable pay.[89]

On the basis of the valuation of the FPS as at end March 2016, employer contribution rates are to increase from April 2019. Any changes to member contribution rates or benefits have been put on hold pending the outcome of legal proceedings:

> On 30 January 2019, HM Treasury issued a written statement with regards to the effect of the recent judgments on the McCloud and Sargeant cases on the valuation.
>
> As a result of this announcement, the cost cap rectification process for the Firefighter Pension Scheme will be suspended, pending the outcome to the Government's appeal.
>
> HM Treasury has also advised that the employer rate that Fire and Rescue Authorities pay towards firefighter pensions should be increased as of 1 April 2019. Following this announcement GAD are able to calculate the individual employer contribution rate for the four firefighter schemes which we will confirm these rates as soon as possible.
>
> **There will be no changes to firefighter pension schemes member's contribution rate or the accrual rate at this stage. There will also be no change to the member contribution banding rates therefore administrators should continue to use the bands that came into effect April 2018.**[90]

Scheme Advisory Boards (SAB)

Details are at:

FPSAB (England)

Scottish PPSAB

FPSAB (Wales)

3.6 Police pension scheme

The actuarial valuations for the Police Pension Schemes as at 31 March 2012 proposed that the employer cost caps should be set at:

- For England and Wales, 12.8% of pensionable pay;[91]
- For Scotland, 12.3% of pensionable pay. [92]

A Police Federation Briefing from October 2018 said that GAD's draft actuarial valuation as at 31March 2016 briefing indicated that:

> - Employer contributions need to increase significantly for the period 1 April 2019 – 31 March 2023; and
> - The Employer Cost Cap has fallen beyond the 2% margin, so restorative action to increase members' benefits and/or

Scheme Advisory Boards (SAB):

Details are at:

Scottish PPSAB

PPSAB (England and Wales)

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87 GAD, Firefighters' Pension Schemes (Scotland) – Actuarial valuation as at 31 March 2012, March 2015

88 GAD, Firefighters' Pension Schemes (England) – Actuarial valuation as at 31 March 2012, March 2015

89 GAD, Firefighters' Pension Scheme (Wales) – Actuarial valuation as at 31 March 2012, March 2015

90 Firefighters Pension Schemes Regulations and Guidance – news 30 January 2019

91 GAD, Police Pension Scheme (England and Wales) - Actuarial valuation report as at 31 March 2012, March 2015

92 GAD, Police Pension Schemes (Scotland) – Actuarial valuation as at 31 March 2012,

reduce members' contributions needs to be taken for the period 1 April 2019 – 31 March 2023.[93]

[93] Police Federation, FAQs for the National Council and National Board on the Actuarial Valuation of the Police Pension Schemes, October 2018

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