

# CPN Scottish workshop



## Actuarial update on the LGPS

- Richard Warden
- 30 September 2015

# Agenda

- Financial health
  - 2014 benchmarking
  - Where are we now?
- Hidden liabilities?
- Hot topics
  - LGPS pooling
  - Tax relief consultation
  - End of contracting out
  - Exit cap of £95k



HM Treasury



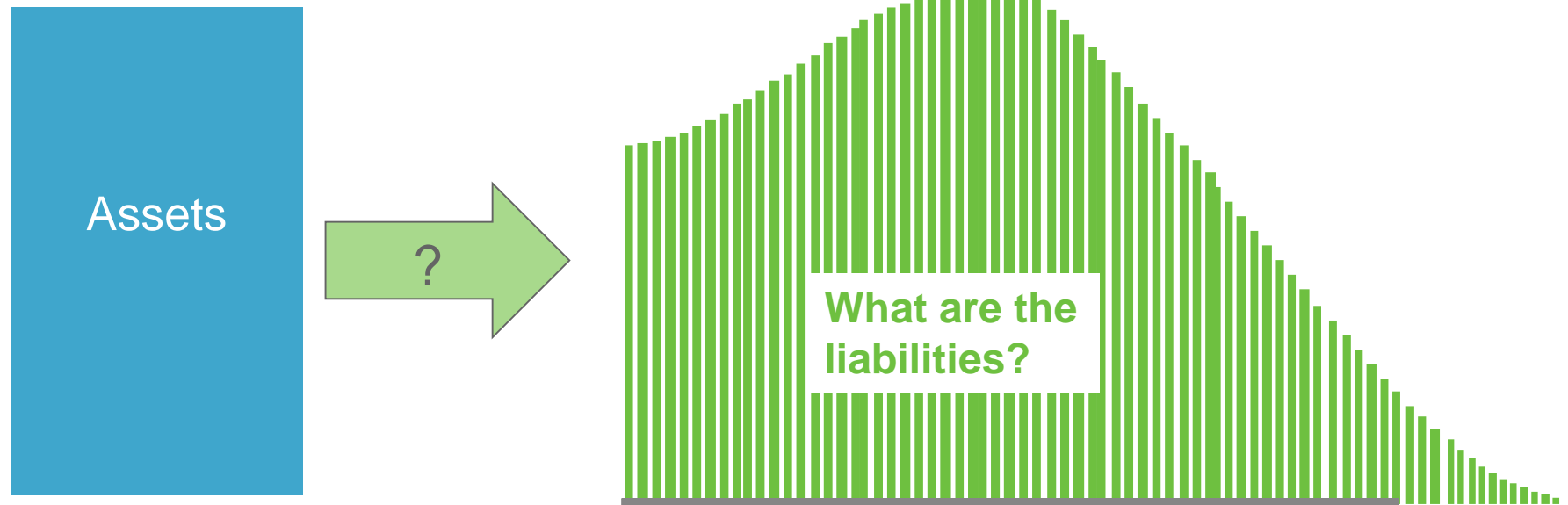
Department  
for Work  
& Pensions



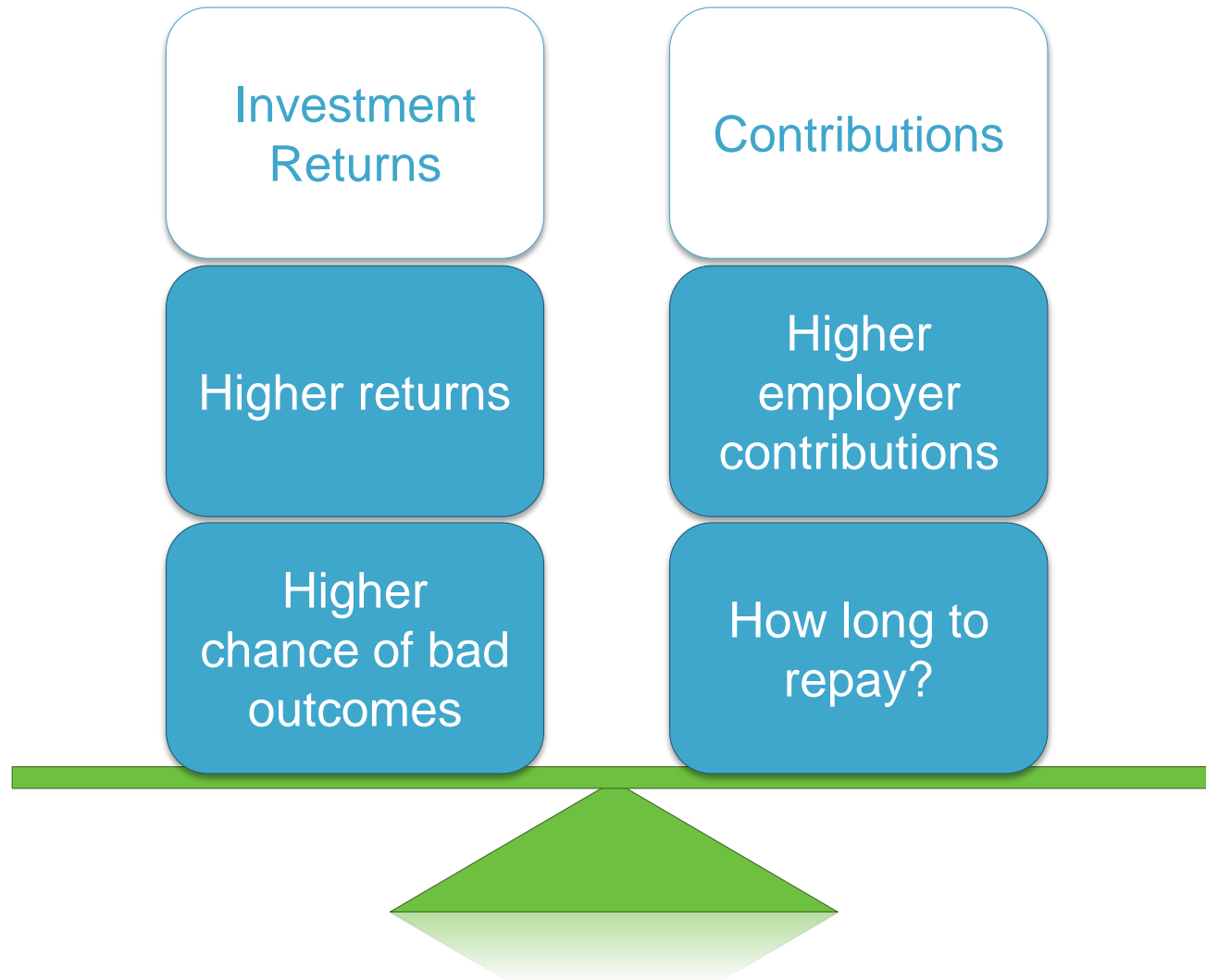
## Financial health

# The ultimate objective of a valuation

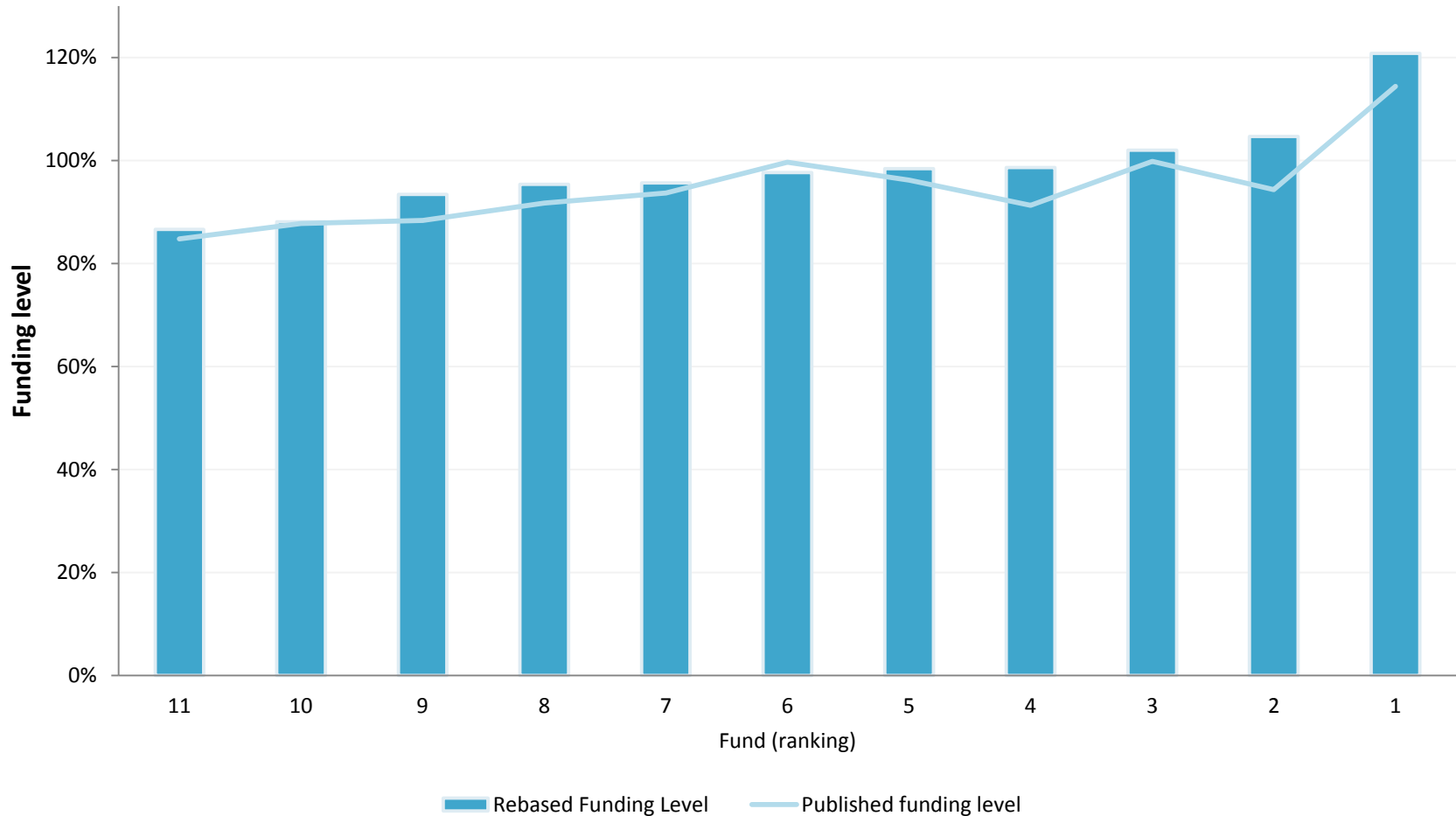
- How much money does the Fund need, and how should it be invested, in order to be able to meet the promised benefits?



# Deficit management

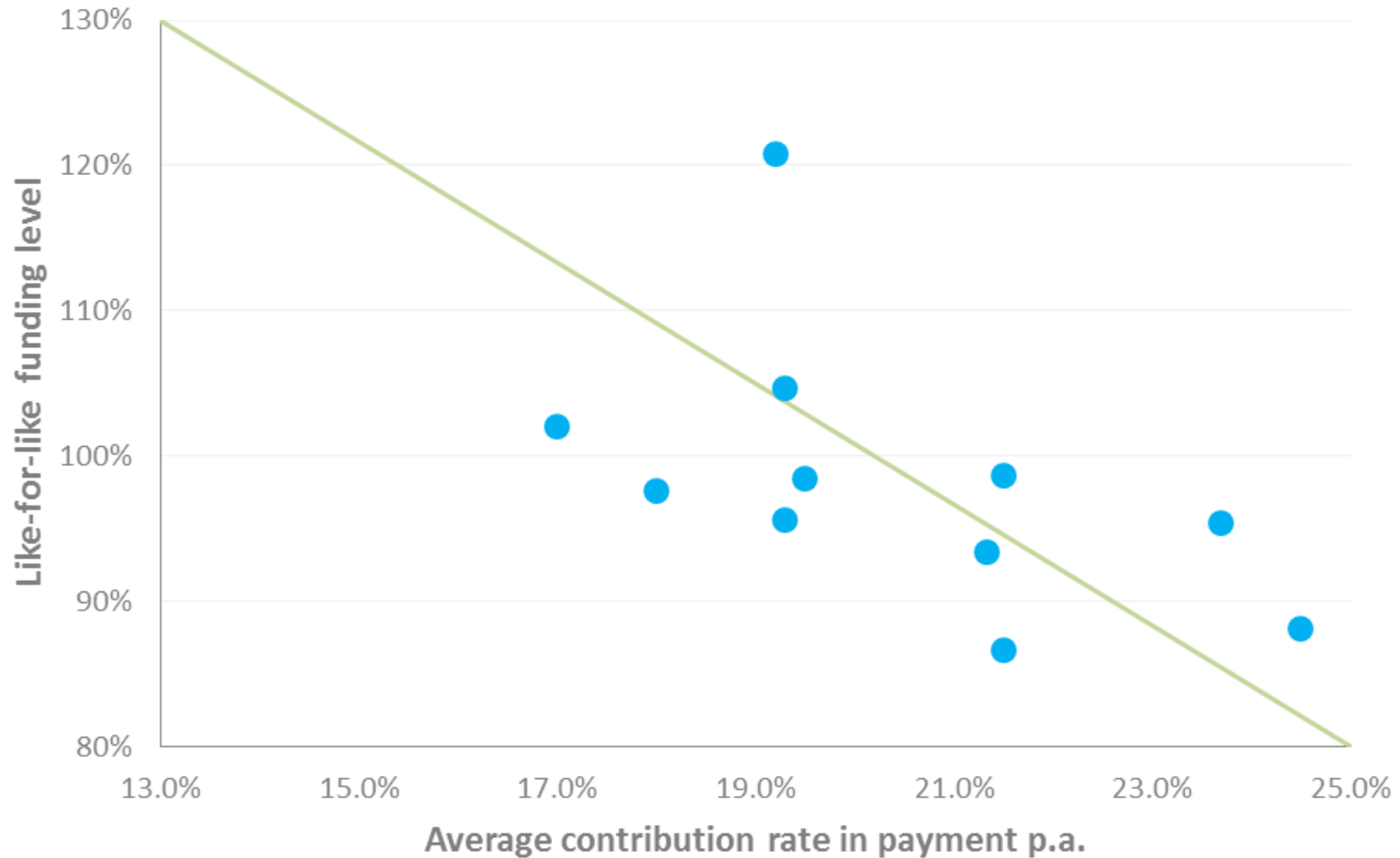


# 2014 Like-for-Like Valuation Results



**Average for Scottish funds higher than E&W equivalent**

# Bigger deficit = Bigger contributions?



**Lower funding levels - higher contributions**

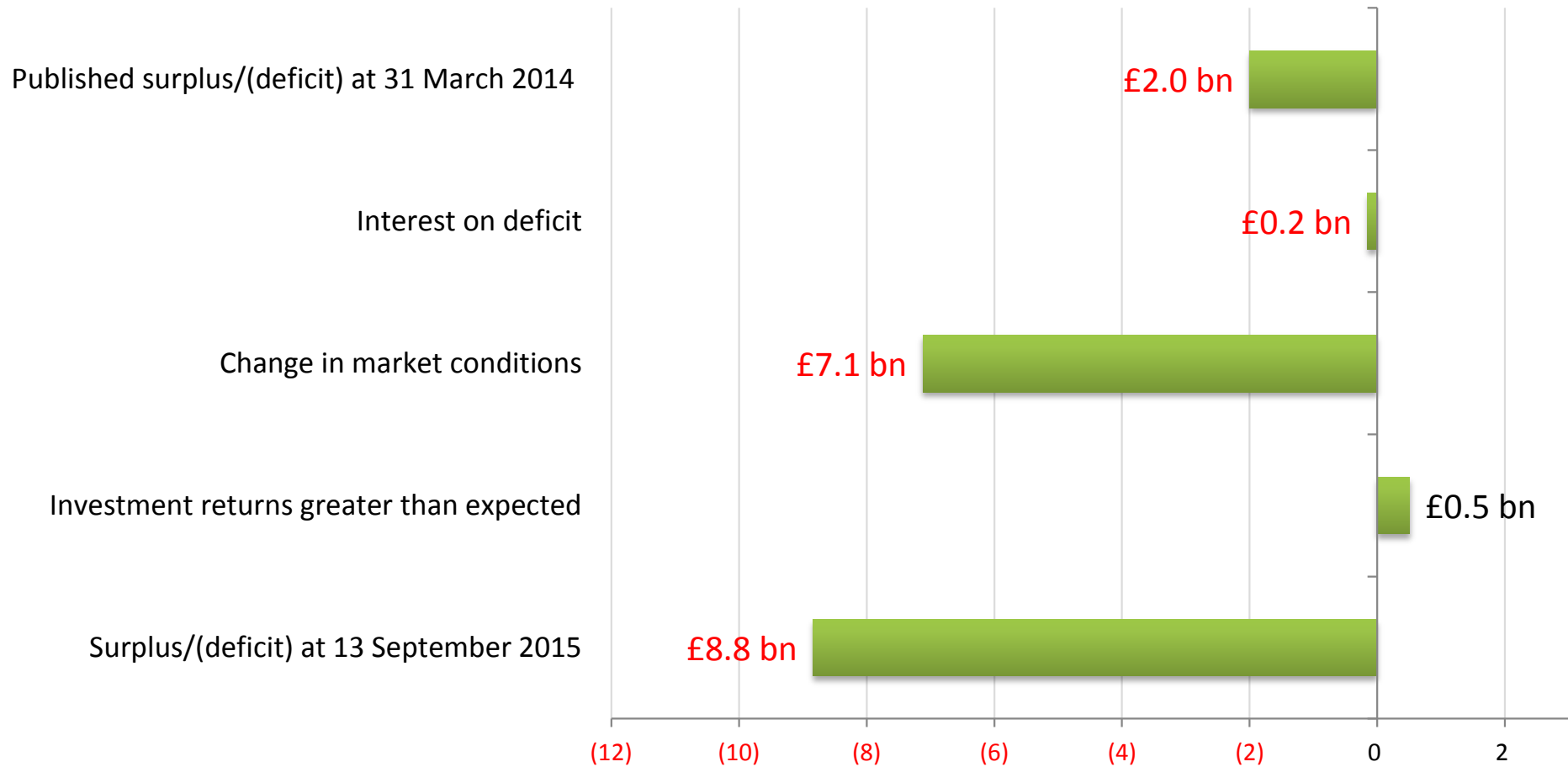
# How hard can the assets work?



**Average for Scottish funds lower than E&W equivalent**



# Where are we now?





**Hidden liabilities?**

# Certificates of protection

- Retained in **Scotland** and valid for **10 years**
- Compulsory and permanent reduction or restriction of contractual pay
- Pay definition
  - Best year in the last **5 years**, or
  - Annual average of **consecutive 3 years** in last 13 years
  - Employers required to provide all the pay information
- Actuarial impact
  - not known until actual leaving/retirement
  - not picked up at triennial valuation

# Aggregation of service

- 12 months to elect to keep benefits **separate**
- Impact on ongoing salary link
  - ◆ If kept **separate** then salary link lost
  - ◆ If **combined** then salary link retained
- Issues with pension input periods for Annual Allowance
  - ◆ Delay in new Fund obtaining information to enable calculation to be carried out
- Actuarial impact
  - ◆ Membership data at valuation is 12 months in arrears
  - ◆ Liabilities could be over or under stated

# Club transfers

- **Divergence** of benefit structures across schemes
- **Increased costs** to LGPS employers from Club transfers in
  - ◆ LGPS CARE revaluation is CPI
  - ◆ Other public service schemes use CPI + x%
- **Uncertainty** over Club membership longer term?
  - ◆ Case could be made to exit Club completely
- Actuarial impact
  - ◆ Correct revaluation rate needed in valuation data
  - ◆ An employer liability, not whole Fund



HM Treasury



Department  
for Work  
& Pensions



## Hot topics

# LGPS asset pooling - Summer Budget 2015

*“pool investments to significantly reduce costs, while maintaining overall investment performance”*

*“sufficiently ambitious” proposals*

## What UK government is looking for

- Pools with significant **scale** (c£30bn?)
- Significant **savings** (hundreds of millions annually?)
- Explain how **governance** will work
- Expected savings **quantified** and evidenced
- Savings able to be **monitored**
- A fall back or **default for underperformers?**
- A clear picture of **how various initiatives fit together**

Proposals must be “sufficiently ambitious”



# Consultation on Pensions Tax Relief

- Consultation issued July 2015, closes 30 September
- All options considered
- Most radical proposal is to remove tax relief on contributions (EET to TEE)
- Commentators believe most likely result is perhaps a move to flat rate tax relief (in the range 25-35%)

## End of Contracting Out



- Introduction of a single tier state pension from 6 April 2016
- End of contracting out

### Impact 1 Increased costs

Members suffer a 1% pay cut

Employer costs increase by 2.5% of pay

### Impact 2 GMP reconciliation

# GMP Reconciliation



## Stage 1

- Identify members with GMP
- Anyone with service from 1978 to 1997
- 100k's of records

## Stage 2

- Compare and reconcile with HMRC data
- Absolute deadline of 2018

## Stage 3

- Update fund's data
- Update HMRC's data

## End of six-figure exit payments

- Applies to all public sector workers
- £95k cap on all exit payments
- Pension strain costs included
- Applies to LGPS in England (separate decision for devolved administrations)
- Waiver process in exceptional circumstances
- Many unintended consequences
- *“No impact on an individual’s accrued pension rights”*



**Thank you**

Any questions?