HYMANS ROBERTSON

# Suffolk County Council Pension Fund

LGPS 2014 Scheme Modelling

August 2012

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For and on behalf of Hymans Robertson LLP

PUBLIC SECTOR

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## LGPS 2014 Scheme Modelling

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# Executive summary

## Background

The purpose of this paper is to give the administrators of the Suffolk County Council Pension Fund ("the Fund") an indication of how pension contribution rates could change from 1 April 2014 purely as a result of the introduction of the proposed new LGPS benefit structure[1].

The Government Actuary's Department have indicated that the proposed benefits that are likely to apply for future service earned in the LGPS from 1 April 2014 are expected to reduce employer contribution rates by 1.5% to 2.0% of payroll for the typical LGPS fund. However, due to the individual characteristics of different funds and employers, any savings will vary in practice.

It is important to note that the proposed scheme changes will have no effect on existing deficits (as accrued rights will be protected). Therefore, any deficits outstanding will still need to be recovered. Market conditions have reduced typical funding positions and therefore the costs associated with deficit repair contributions are likely to increase at the next formal valuation.

At the time of writing, my advice would be that it is highly unlikely that overall employer contribution rates will fall at the next formal valuation at 2013. Rather, the proposed new scheme design is likely only to make contribution rate rises slightly smaller than they would have been if no reforms were being implemented.

## Results

Employers' contributions paid to the Fund are likely to increase significantly if all things hold equal up to the valuation date. My findings show that:

- Deteriorating market conditions mean that, as at 30 June 2012, the Fund's future service employer contribution rate will have increased to around 21.1% of pay (from 16.6% at the 2010 formal valuation);
- From this starting point of 21.1%, the proposed LGPS 2014 scheme will result in a saving to the Fund's future service contribution rate of around 0.5% of pay;
- The level of savings (if any) will vary from employer to employer. A key factor will be the average age of an employer's active membership and the degree of protections that will apply in relation to retirement age.

I would be happy to discuss the contents of this paper in more detail, if required.

[1] Subject to consultation and agreement, the new scheme will be effective from 1 April 2014.

# 1 Introduction

This paper sets out to extend the reader's understanding of the proposed benefit structure that will apply in the LGPS for benefits earned from 1 April 2014. I believe that it is vital that stakeholders understand the issues and are in a position to make informed comments when this proposal goes out for consultation – this paper is intended to help this happen.

In order to meet the above goals, I have included:

- A comparison of the current benefits and those that have been proposed;
- The cost implications for the Fund of the proposed benefits;
- Quantification of the various changes to the proposed scheme design and impact on the future service cost;
- The future service rate for three selected employers in the Fund to show the different impact of the reforms.

### Addressee

This report was requested by and is provided to Suffolk County Council, the administering authority to the Suffolk County Council Pension Fund, to help them to understand the implications of the recently communicated benefit structure that may apply for Local Government Pension Scheme (LGPS) benefits from 2014. It should not be used for any other purpose.

It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. We accept no liability to any third party unless we have expressly accepted such liability in writing.

### Reliances and limitations

The main limitation on my work is the data used and some existing ambiguity within the scheme proposals.

The data used for my analysis was the 2010 formal valuation data. However, I have removed 15% of the membership via random selection in order to approximately allow for any effects arising from the significant staff cuts and outsourcings that have taken place since March 2010.

The data used has been summarised in Appendix 1. Please note that I will not be in a position to calculate definitively the level of savings arising from the new scheme design until the next formal valuation in 2013, when I expect to receive full, up-to-date data.

Details of the major scheme changes have been proposed but have not been finalised and are subject to change. Therefore, this paper is based on the proposals that have been announced and assumptions have been made where detail is lacking. In particular, details of the proposed retirement protections have not been fully explained.

I have based my figures on assumptions derived using the methodology outlined in the Fund's 2010 formal funding valuation. This methodology may change for the 2013 valuation which may have an impact on any results.

No details on a potential 'cap and share' plan have been made available. The 'cap and share' plan would allow for some risk sharing between employers and employees and could have a significant effect on employer contribution rates in the future. As there are no details yet on how this mechanism will work, I have not allowed for this in my calculations.

# 2 Benefit reform

**Background**

We are in a period of significant change and development for most public sector pension schemes.

The cost and risks associated with public sector pensions have long been the topics for vigorous debate. The latest round in this debate was initiated by an independent review by Lord Hutton in 2010. The aim? To make sure that public sector pensions were fit for purpose – "affordable, sustainable, adequate and fair".

Since 2010, financial problems have hit world economies and the effects have been widespread and significant. Investment values and yields have been very volatile. Therefore, governments have, in an attempt to get control over budget deficits, put in place austerity measures that have put public finances under immense pressure.

In the LGPS world, stakeholders are having to deal with the impact and understand the implications of changes arising from both these sources:

- Short term change – initiated by the Comprehensive Spending Review.
- Long term change – the Hutton recommendations were accepted by the Government.

Having accepted the recommendations of Lord Hutton the Government entered negotiations with various interested parties, most notably the trade unions, to agree the actual level of the benefit package. The "Reference Scheme" was a target package of benefits that was to be used as the basis for negotiation. It was not set in stone, as the public sector pension schemes had the ability to adjust the benefit package to suit their needs as long as they did not increase the value of the overall package.

The overall value of the package was known as the *Cost Ceiling* (i.e. a cost benchmark). It was not a cap on the employer contributions, which is what some observers considered it to be. It was simply the cost of the Reference Scheme on predetermined assumptions, including member contributions, but excluding expenses. If a public sector arrangement wanted to adjust its benefit package then it needed to ensure that the cost of the adjusted package was no more than the "cost ceiling". The adjusted package was to be tested using the same assumptions and data as was used for setting the cost ceiling.

In November 2011, an improved benefit package was put on the negotiating table with a correspondingly higher Cost Ceiling. It was decided that due to the unique nature of the LGPS (e.g. that it is a funded scheme) that the changes being applied could be significantly different to those of the other public sector schemes (which are largely unfunded). Most notably, there was no requirement for employee contributions to increase immediately. This differed to the unfunded schemes which had immediate increases (from 1 April 2012) to employee contributions which will be followed up by revised benefits going forward.

Following protracted negotiations, the Government and the local authority trade unions agreed the proposed LGPS benefit changes that will apply from 1 April 2014. There is still a long way to go before these changes are adopted. In particular, there is still a consultation period, writing of draft regulations and consultation on these concluding with adoption of final regulations. This is all expected to happen within extremely tight time scales in order for actuaries to be able to calculate contributions rates for the 2013 actuarial valuations in England and Wales.

## The proposals

The following table details the benefits and protections available in the LGPS 2008 scheme, the Reference Scheme mentioned above and the proposed scheme. The proposed scheme would apply from 1 April 2014 and would affect future service only.

| | 2008 Scheme | Reference Scheme | Proposed 2014 Scheme |
|---|---|---|---|
| Accrual rate | 60th | 60th | 49th |
| Benefit type | Final Salary | Career Average Revalued Earnings (CARE) | CARE |
| Pension increases | Consumer's Price Inflation (CPI) | CPI | CPI |
| Revaluation on accrued benefits | N/A | National Average Earnings or equivalent | CPI |
| Retirement age | 65 | State Pension Age (SPA) | State Pension Age (SPA) |
| Protections | Retirement age protections for members retiring before 2020 | N/A | Retirement age protections for members retiring before 2020 and a no worse off guarantee if retiring before 2022 |
| Alternative benefits | N/A | N/A | 50:50 Scheme |
| Accrued rights | N/A | Protected | Protected |

## Comparing the 2008 scheme and the Reference Scheme

### CARE

In line with the Hutton Report (and widespread public expectation), the Reference Scheme recommended a move away from basing benefits on members' final salaries. They have accomplished this by moving to a CARE scheme where pension is earned annually based on members' salary in that year. To avoid the pension earned being eroded by inflation and to redistribute wealth on retirement, it was suggested that each year of pension is revalued up to retirement based on National Average Earnings (or its equivalent).

This effectively redistributes the pension benefits being earned by members that experience sluggish pay growth (usually low paid staff or those with broken service records) and those that experience high pay growth (usually well paid staff). This concept is usually difficult for members to understand but looking at extreme examples can help explain the redistribution:

- A low paid employee with low salary increase prospects - this type of employee will likely be better off in a CARE scheme over the long term as the revaluation rate would likely outstrip their average salary increases over their working life.
- A high flier experiencing high pay increases / promotions - this type of employee will likely be worse off in a CARE scheme as revaluation will not keep pace with their salary progression.

### Retirement age

The Basic State Pension is payable from each citizen's SPA. Over the past couple of years, successive governments have altered the SPA from 65 (60 for women) up to a proposed age of 68 for those born around or after 1978. These changes have been in response to evidence of the increasing longevity of the population (i.e. pensions paid for longer if people live longer). By linking benefits to SPA (rather than 65), the retirement ages of the scheme can be adjusted to keep pace with longevity to control costs provided increases in SPA are realistic. This provides a saving in cost relative to the current scheme as benefits will be paid for a shorter time (all else being equal).

The LGPS 2008 scheme had a retirement age of 65 which, at the time the Regulations were written, was in line with SPA (for men and eventually women). Therefore, despite appearances, this change is just keeping the relationship between the LGPS and the Basic State Pension intact.

## Comparing the Reference Scheme and the Proposed 2014 Scheme

As mentioned above, the Government allowed for negotiations on each scheme in order to manage Union demands. Therefore, while the Reference Scheme was the basis of negotiation we expected to see deviation from this. However, any deviation had to 'cost' no more than the Cost Ceiling (as described above).

### Change in accrual

All public sector schemes have adopted the CARE and SPA proposals (not including uniformed benefits). However, differences emerged in terms of accrual rates, revaluation rates and protections. In the LGPS, they have agreed to increase the accrual rate from $1/60^{th}$ to $1/49^{th}$. This would increase the cost of the scheme considerably as members will earn more pension for each year of service.

### Protections

Any retirement age protections from the 2008 scheme would still apply. Most notably, if a member reaches their 'Rule of 85' age (when years of service plus age equal 85 subject to a minimum age of 60) before 2020 they will be able to take their pension at that age without any reductions.

In addition, anybody with a normal retirement age before 2022 would be guaranteed to be no worse off under the proposed scheme. This will affect members aged 57 to 59 on 1 April 2014 whose SPA will increase to 66. The benefit they would have received at retirement had there been no scheme reform will be compared against the pension they will receive under the proposed scheme (allowing for an early retirement reduction as they would go at 65 on the old scheme). They will get the higher of the two figures. Under the current climate, it is likely the new scheme will give the higher benefit for most of those concerned.

Both of these protections have a cost associated with them.

### Revaluation

In isolation, both the above changes would have increased the cost of the scheme. Therefore, savings needed to be found elsewhere to offset this change such that the total cost was within the Cost Ceiling. One source of savings was found by reducing the revaluation rate applied to pension from date earned to retirement date from National Average Earnings to CPI. By revaluing at a lower level, pension earned early in a member's career will have significantly less value at retirement than if National Average Earnings are used. This is because, typically, National Average Earnings is higher, on average, than CPI over the long term.

### 50:50 Scheme

Another source of savings was achieved with the introduction of a 50:50 option. Under this option a member can opt to pay half the contribution for half the pension benefit. All other protection benefits, such as death benefits, ill-health retirements and spouses pensions would be unchanged (there is uncertainty as to these protection benefits).

This was an expected but welcome change that may enhance participation and prevent opt-outs. However, an unintended consequence (probably) of the 50:50 option is that highly paid or long serving members may opt in to this 50:50 scheme. This would likely be done if the member is in danger of (or is already) breaching annual or lifetime tax allowances.

### Conclusions

The differences between the 2008 LGPS and the Reference Scheme have been communicated poorly which has led to misconceptions on the effects of the new scheme. However, my view is that the Reference Scheme would have resulted in high quality and more fairly distributed pensions. The proposed scheme has retained many of the properties of the Reference Scheme; however, the higher accrual rate and reduction in revaluation (when compared to the Reference Scheme) have diluted some of the redistribution of pension wealth.

However, it should be noted that GAD used a single set of assumptions when calculating the 'costs' of the Reference Scheme and the proposed scheme for comparison against the Cost Ceiling. Should these assumptions not be borne out in practice, the 'cost' of the schemes could be materially different to those used during negotiations. In fact, there is a real danger that the proposed scheme could be more expensive than the current scheme for some employers (and for whole funds under certain scenarios) in the short term.

I have carried out some modelling to show the effects on future service funding of the proposed scheme below.

# 3 Effect on employer contribution rates of proposed scheme

## Introduction

This section looks at the Future Service Rate that currently applies for the Fund as a whole, based on the current LGPS and the proposed 2014 LGPS. A brief analysis of the key reforms and their individual effect on the contribution rate is also provided.

Furthermore, as agreed, we have provided a summary of the impact the proposed scheme will have on three particular employers: Suffolk County Council, Babergh District Council and Suffolk Police Authority.

## Data, method and assumptions

### Data

The data used for my analysis was the 2010 formal valuation data. However, I have removed 15% of the membership via random selection in order to approximately allow for any effects arising from the significant staff cuts and outsourcings that have taken place since March 2010.

A summary of the data used is provided in Appendix 1.

### Method

The method used for the analysis was the Projected Unit Method, which is described in the Fund's 2010 valuation report.

### Assumptions

As mentioned earlier, GAD used specific assumptions when setting out the ‘costs’ of the Reference Scheme and proposed 2014 LGPS scheme (for comparison with the Cost Ceiling). These assumptions are different to those that I would adopt for the Suffolk fund when setting contribution rates.

Therefore, the results presented below are based on the prevailing ongoing valuation assumptions for the Fund, updated to reflect market conditions at 30 June 2012.

I have assumed no changes in the allowance for future longevity (or any other demographic assumptions) since the 2010 valuation.

Details of the assumptions I have adopted for this exercise are provided in Appendix 2. Please note that the assumptions that will be appropriate at the next formal valuation of the Fund (in 2013) may ultimately differ from those used for the purposes of this paper.

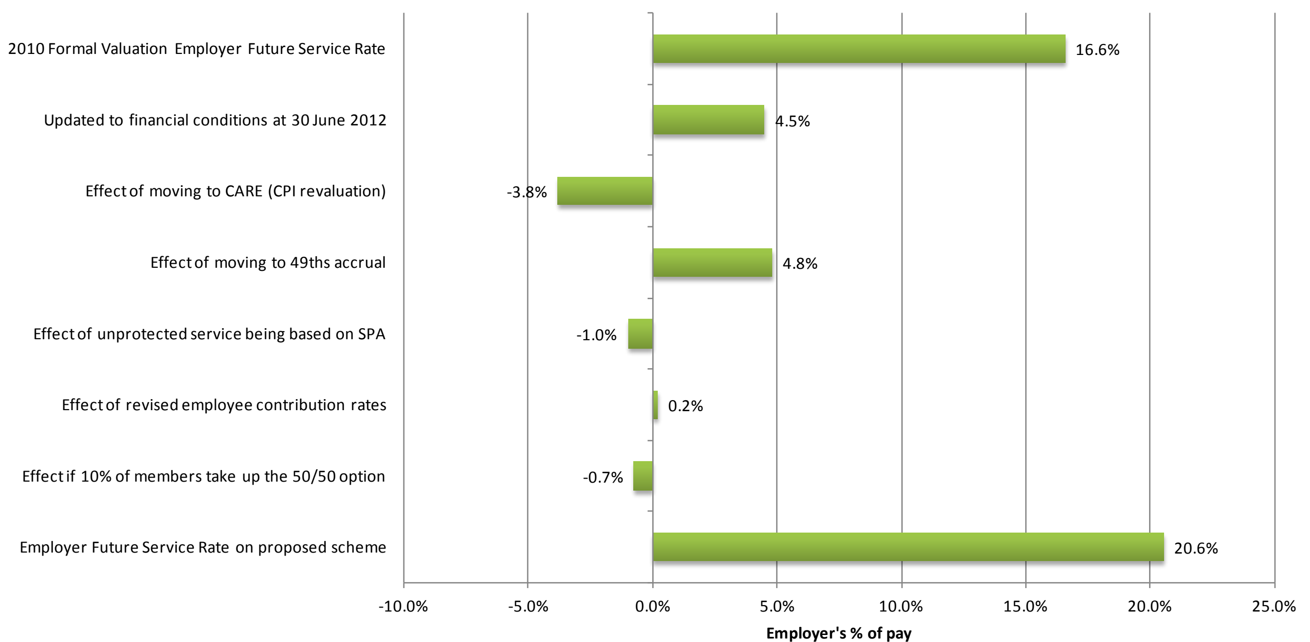
## Results - Whole Fund

The Future Service Rate (as a percentage of pay) for the Fund as a whole was determined to be 16.6% at the previous formal valuation at 31 March 2010.

The table below summarises the corresponding rate for both the current scheme and proposed LGPS 2014 scheme, based on updated financial assumptions at 30 June 2012:

| Scheme | Future Service Rate (% pay) |
|---|---|
| Current LGPS | 21.1% |
| Proposed LGPS 2014 | 20.6% |
| ***Saving*** | ***-0.5%*** |

An analysis of the movement in the Future Service Rate since is shown graphically below:




## Comments

Based on the data and assumptions above and the proposed reforms as they stand, the new scheme would result in a saving of around 0.5% of pay at 30 June 2012 for the Fund as a whole. This compares with GAD's assertion that, for a typical LGPS fund, there would be savings in the region of 1.5% to 2.0% of pay from the proposed scheme.

The difference between the two analyses reflects the differences between the data and assumptions adopted.

Some further comments on the movement in Future Service Rate are provided below:

### Move to current financials

Since the 2010 valuation, bond yields, from which we derive discount rates, have fallen significantly. While this has been partially offset by a reduction in inflation, the overall effect has been to drive up the cost of future benefit accrual.

The overall net effect of moving onto updated financials as at 30 June 2012 is an increase in the Future Service Rate of 4.5% of pay (from 16.6% to 21.1%).

### Adoption of CARE with CPI revaluation

The overall effect for the Fund is a saving of about 3.8% of pay.

The effect of moving to CARE is highly dependent on the Fund's membership profile. Taken in isolation, moving from final salary to CARE will result in winners and losers amongst members – this largely depends upon the how the revaluation of accrued pension under CARE compares with actual salary increases under final salary.

In the case of the proposed new scheme, savings are highly dependent on the assumptions made for salary growth for the previous final salary scheme relative to the assumed CPI revaluation rate. Ignoring short term pay freezes, the salary growth assumption is 2%pa higher than the CPI assumption over the long term. This factor probably has a bigger influence on the savings made than the impact of moving from a final salary benefit design to CARE.

### Adoption of a 49th's accrual rate

By adopting an accrual rate of 1/49th, members will accrue more pension than if a 1/60th accrual was retained. In fact they will get around 22% more pension for each year of service. The effect of this on the future service cost amounts to an increase of around 4.8% of pay for the Fund as a whole.

### Redefining NRA as SPA

As described earlier, the reform proposal is that service from 1 April 2014 will accrue based on a Normal Retirement Age (NRA) pegged to the definition of State Pension Age (SPA). This will lead to some members' NRA increasing from 65 to 68 (assuming the proposal to increase SPA is passed). By retiring later, pensions will be paid for a comparatively shorter time (assuming no changes in future life expectancy). Therefore, this change should result in a saving.

However, a proportion of members will have their retirement ages protected - most notably those reaching their 'Rule of 85' age prior to 2020. As a result, the level of savings between funds (and more importantly employers) will be sensitive to the relative proportions of people that are eligible for these protections.

The overall effect of moving NRA to SPA results in a saving of 1.0% of pay for the Fund as a whole (allowing for assumed protections).

### Revising the definition of employee contributions

The proposed new scheme advocated a change in the method for determining employee contributions. Under the current scheme, employee contributions are banded based on full-time equivalent salary.

Under the proposed scheme, employee contributions will still be banded but they will now be based on actual salary. Taken in isolation, this would mean that part-timers are likely to see a reduction in their contribution rate (implying an extra burden for employers). However, this reduction is countered somewhat by increasing the employee rates on members at higher salary levels.

The net result is that this change should have little effect at whole fund level but could cause deviations at employer level depending on proportions of part-time staff compared to full-time staff and proportions of high-earners compared to low-earners.

The overall net effect of this proposal is a 0.2% of pay increase in the Fund's average employer contribution rate.

### Take-up of the 50:50 scheme

It is difficult at this stage to estimate the level of interest members will have in the 50:50 scheme (especially at an individual employer level). GAD assumed that take-up would be around 10% of low paid members (those earning less than £21k). This outcome may be possible for an open employer (as new joiners may opt into this scheme). However, it may be less likely for a mature closed employer where the membership is well established.

The approximate employer savings that would be gained by ***all*** members opting for the 50:50 scheme could be around 7% of pay. Therefore, if the take-up rate was indeed 10% we would expect savings in the region of around 0.7% of pay.

A large proportion of the 'savings' introduced by the new scheme were dependent on reaching the 10% take-up level. Therefore, if this level is not achieved, the new benefits package may not produce the savings envisaged by the Government (and consequently sponsoring employers). However, it should be noted that the spread of people taking this option (in terms of age, salary, etc) can also affect the savings. For example, a high paid individual near retirement taking this option would result in more substantial savings than if a low paid, young new entrant took up this option.

### Results – selected employers

In the table below, I have looked at the effect of the proposed new scheme on future service rates for three selected employers. Again, calculations are based on assumptions as at 30 June 2012.

| | Future Service Rate (% pay) | | | |
|---|---|---|---|---|
| **Scheme** | **Suffolk CC** | **Babergh DC** | **Suffolk Police** | **Whole Fund** |
| Current LGPS | 20.9% | 22.6% | 20.3% | 21.1% |
| Proposed LGPS 2014 | 20.6% | 22.6% | 18.6% | 20.6% |
| ***Saving*** | ***-0.3%*** | ***0.0%*** | ***-1.7%*** | ***-0.5%*** |

### Comments

The (liability weighted) average age of an employer's active membership will play a big role in the level of savings that materialise (if any). In this case, the average age of active members across the whole Fund is 51 whereas for Suffolk CC, Babergh and Suffolk Police it is 52, 53 and 49 respectively.

For employers with higher average ages, the cost of future benefits will be less affected by the move from final salary to CARE with (lower) CPI revaluation as they have less time to retirement. The increase in cost as a result of the increase in accrual rate from 1/60th to 1/49th outweighs the saving of the move to CPI revaluation. In addition, older members are more likely to benefit from the protections, so increasing the cost of future benefits. It is possible that the new scheme could actually be more expensive than the current scheme for certain employers (i.e. those with average ages in the mid-to-high 50s).

Conversely, employers with lower average ages are likely to see that the move to the 2014 scheme will produce higher savings as the impact of future benefits being revalued in line with long term CPI compared to salary increases will be more significant. In addition younger members will not retain protected retirement ages.

### Conclusions

When the new scheme was announced, GAD anticipated savings in the region of 1.5% to 2.0% for a typical LGPS fund. However, it was also expected that the impact would vary from fund to fund and from employer to employer. In its current form, the proposed new benefit structure looks to be marginally less expensive (0.5% of pay) for the Suffolk Fund over the long term when compared to the current final salary scheme.

However, any savings/costs from the new scheme are likely to be dwarfed by the significant upward pressure being put on contributions rates by the deterioration of financial market conditions.

Furthermore, it must be noted that the proposed new scheme does not affect benefits accrued by members prior to its introduction (as accrued rights will be protected). Deficits will have increased substantially from the 2010 valuation and will likely form a larger proportion of the Fund's contribution rate at the next formal valuation in 2013.

Therefore, the main focus should still be on managing the impact of market pressures on contribution rates rather than the dwelling on the effects of scheme change. It needs to be stressed that, as things currently stand, LGPS reform will not be a "magic bullet" that will result in lower contribution rates.

# 4 Other issues

## Effects of opt-outs and auto enrolment

### Opt outs

One of the main concerns of scheme reform was the risk of members opting out if employee contributions were to increase or benefits reduced (or if this is the impression left on members). Due to the funded nature of the LGPS, contribution increases have been mostly avoided for low paid members and a 50:50 option has been introduced to encourage member participation and offer choice. This should help to reduce the risk of members opting out. However, well paid employees will experience contribution increases. It is possible that many of the members have been in the Fund for some time or are nearing retirement. The improvement in accrual and CPI revaluation on a CARE benefit is generous for this group which may help to mitigate opt outs. Therefore, I would not expect opt outs being a significant risk for LGPS funds relative to other factors impacting on membership, such as recent redundancy exercises.

### Auto-enrolment

Eligible members will be automatically enrolled into the LGPS from various staging dates (depending on the size of their employer). There is a risk that this could severely change the membership profile of employers, albeit this would be for future service only. As a result, this may have an effect on the future service cost. More importantly, the employer will now need to pay future service contributions for the auto-enrolled members thus increasing the absolute amount of contributions paid to the Fund.

Therefore, auto-enrolment and subsequent opt-outs, together with the possibility of members opting for the 50:50 option, introduces a lot of uncertainty in the contribution rate itself. More importantly, it could increase labour costs for employers going forward.

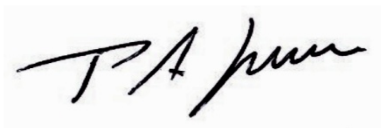
We have therefore not sought to model any scenarios until we have enough credible data on these issues.

# 5 Conclusions

Employers' contributions paid to the Fund are likely to increase significantly if all things hold equal up to the valuation date. My findings show that:

- Deteriorating market conditions mean that, as at 30 June 2012, the Fund's future service employer contribution rate will have increased to around 21.1% of pay (from 16.6% at the 2010 formal valuation);
- From this starting point of 21.1%, the proposed LGPS 2014 scheme will result in a saving to the Fund's future service contribution rate of around 0.5% of pay;
- The level of savings (if any) will vary from employer to employer. A key factor will be the average age of an employer's active membership and the degree of protections that will apply in relation to retirement age.

I would be happy to discuss the contents of this paper in more detail, if required.



Peter Summers FFA

For and on behalf of Hymans Robertson LLP

31 August 2012

# Appendix 1 - Data

**Active membership data**

| Membership | Number | FTE Pay(£000) |
|---|---|---|
| Male | 4,424 | 114,080 |
| Female | 11,602 | 242,482 |
| Total | 16,026 | 356,562 |

# Appendix 2 - Assumptions

## Financial assumptions

| Organisation:<br>Purpose:<br>Date: | The Fund<br>Funding<br>31 March 2010 | The Fund<br>Funding<br>30 June 2012 | HMT<br>Cost Ceiling<br>Fixed |
|---|---|---|---|
| Discount rate | 6.1% | 4.5% | 5.0% |
| Salary increases | 5.3%* | 4.4%* | 4.3% |
| Pension increases | 3.3% | 2.4% | 2.0% |

* Salary increases are assumed to be 1% p.a. nominal for two years after the valuation, reverting to the long term assumption shown thereafter.

Please note that the funding bases are market based and therefore change over time. HMT (Her Majesty's Treasury) assumptions, which were used by GAD when valuing the Reference Scheme and proposed scheme against the Cost Ceiling, are fixed (i.e. they do not rely on day-to-day changes in market conditions).

## Demographic assumptions

The demographic assumptions used when valuing benefits on the Fund's funding basis were those used for the 2010 formal funding valuation of the Fund. Details of these can be found in the formal valuation report.

The demographic assumptions used by GAD when evaluating the Reference Scheme and the proposed changes against the Cost Ceiling can be found in GAD's paper entitled "Assessment of cost ceiling and scheme-specific proposals" dated 22 September 2011.

## Retirement Protections

I have assumed that all members who reach their 'Rule of 85' age prior to 2020 will take all their benefits at that age. All other members will opt to take their benefits on reaching their individual SPA (including those earned up to 31 March 2008).

I have assumed that a majority of members that are guaranteed to be no worse off under the new scheme (i.e. those reaching their normal retirement age under the 2008 scheme by 2022) will receive a better benefit under the proposed scheme. Therefore, I have based my figures on the assumption that post 2014 service will accrue benefits in line with the proposed scheme.

# Appendix 3 - Actuarial standards

The following Technical Actuarial Standards[2] are applicable in relation to this report:

- TAS R – Reporting;
- TAS D – Data;
- TAS M – Modelling; and
- Pensions TAS

The advice and information given in this report and accompanying Schedule of Results (which together with any covering emails, the formal valuation report dated 31 March 2011 and the LGPS 2010 Actuarial Valuations Briefing Note: Demographic Assumptions dated February 2010 comprise the aggregate report for this advice for the purpose of TAS R) comply with the above Standards.

[2] Technical Actuarial Standards (TASs) are issued by the Board for Actuarial Standards (BAS) and set standards for certain items of actuarial work, including the information and advice contained in this report.

# Appendix 4 – Comparison with Reference Scheme

## Introduction

As mentioned earlier, the "Reference Scheme" was a target package of benefits that was to be used as the basis for negotiation of benefit reforms. It was not set in stone - there was scope for negotiation on the precise design of the new LGPS benefit package as long as the resultant scheme did not exceed the "cost ceiling" set out by the Government.

The cost ceiling was effectively the valuation of the Reference Scheme, using assumptions set by the Government Actuary's Department (GAD) with input from Her Majesty's Treasury (HMT) and national model fund data.

It is important to note that the cost ceiling was a benchmark figure set for the purposes of the reform negotiations. It should not be interpreted as an upper limit to the future cost of the new scheme in practice.

## Analysis

There are two main points of interest here:

- How does the cost of the Reference Scheme compare with the cost of the proposed new LGPS that was ultimately negotiated and agreed?
- What is the impact of the differences in data between the national model fund and that of the Suffolk fund.

The table below summarises our analysis. Note that the rates quoted represent the Future Service Rates (employer plus employee contribution, excluding expenses) as a percentage of pay for each scenario, with ***all figures based on the GAD assumptions*** in Appendix 2.

| Data | Reference Scheme | Proposed 2014 Scheme | Difference |
|---|---|---|---|
| GAD Model Fund | 20.4% | 19.5% | **-0.9%** |
| Suffolk (Whole Fund) | 20.7% | 21.0% | **0.3%** |
| **Difference** | **0.3%** | **1.5%** | |

## Comments

It can clearly be seen that the Suffolk results do not follow the national results particularly closely. When looking at the Reference Scheme, the Suffolk cost is only 0.3% of pay higher than the national cost. However, for the proposed LGPS from 2014, the gap has widened significantly to 1.5% of pay. This suggests that Suffolk members benefit from the proposed changes more than the average LGPS member.

The above is for information only as the Fund will not use GAD assumptions and methods when setting contribution rates. In particular, the Fund will use funding assumptions based on market conditions as at 31 March 2013 when setting contributions from 1 April 2014 and methodologies as set out in the Funding Strategy Statement.