

Costing of proposed Scheme Design

Build up of costs and cost reconciliation tables

This document has been prepared by GAD at the request of the LGPS Project Team and should only be read in conjunction with our letter of 30 May and the limitations and other references contained therein. The tables in this document have been set out in a format designed by the Project Team, with GAD supplying the relevant numbers (to 2 decimal places as requested).

Important Background Information

- The costs are estimated based on membership data at 2010. There were some issues and inconsistencies regarding the 2010 membership data, these are highlighted in our letter to DCLG of 14 October 2010.
- The breakdown of expected costs / savings have been rounded to the nearest 0.01% of pay. It is difficult to carry out independent reasonableness checks on contribution rate figures rounded to two decimal places. Therefore, we would place less emphasis on exactness / certainty of figures that are rounded to two decimal places (our normal approach is to provide figures to one decimal place).
- The expected costs / savings shown depend on the order in which they are given in the table, therefore looking at individual rows may be misleading.
- These costings are based on our understanding of the intentions of the Project Team in each of their proposals. If this intention differs from our understanding then the resultant costs may be different.
- The expected cost of the current scheme in the reconciliation table below is as set out in our letter of 30 January 2012. This document should be read in conjunction with that letter and the limitations contained therein.
- We have not allowed for the automatic link between SPA and longevity improvements going forward (i.e. we have costed SPAs as set out in our e-mail of 23 April).
- These figures should be treated as being approximate.

1. Build up of costs

		Retirement at SPA
		Cost at 2014
DB Structure	CARE with actual pay	19.20
Accrual Rate	1/49th	
Revaluation rate	CPI	
Normal Pension Age	Linked to State Pension Age	
Employee contribution yield	As current scheme - 6.5%	0.00
Lump sums	As current scheme (12:1)	-1.41
Ancillary benefits	Ill Health benefits	0.80
	Death in Service benefits	0.32
	Death in Deferment benefits	0.11
	Survivors benefits (at 1/160 accrual)	1.06
Early and late retirement	From age 55 on a cost neutral basis	0.00
Abatement	Remove	0.00 ¹
Accrued rights	Fully protected with final salary link	0.00
Start date	Apr-14	0.00 ²
Admitted Body Status	As current scheme	0.00 ¹
Transitional protection	Underpin for members aged 57 to 59 in new scheme	0.00
Vesting period	2 years	-0.19
Option to combine	As per current scheme	0.00 ¹
Optional arrangement	'Life balance' 50/50 contribution/accrual	-0.47
Existing transitional protection spread over 7 years		0.09
Total		19.51

1. GAD have not costed this element of the proposed scheme design

2. The start date of the initial' scheme (i.e. with a 19.20% cost) is assumed to be 2014 so there is no cost to this element of the proposed scheme design.

2. Reconciliation of costs

		plus/minus	TOTAL
	Current scheme		21.73
DB Structure	CARE with actual pay	-0.13	21.60
Accrual Rate	1/49th	4.84	26.44
Revaluation rate	CPI	-4.41	22.03
Normal Pension Age	Linked to State Pension Age	-1.46	20.57
Employee contribution yield	As current scheme - 6.5%	0.00	20.57
Lump sums	As current scheme (12:1)	0.00	20.57
Ancillary benefits	Survivors see note. Ill health as per 2008 scheme	-0.24	20.33
Early and late retirement	From age 55 on a cost neutral basis	0.00	20.33
Abatement	Remove	0.00 ³	20.33
Accrued rights	Fully protected with final salary link	0.00	20.33
Start date	Apr-14	-0.06	20.27
Admitted Body Status	As current scheme	0.00 ³	20.27
Transitional protection	Underpin for members aged 57 to 59 in new scheme	0.00	20.27
Vesting period	2 years	-0.19	20.08
Option to combine	As per current scheme	0.00 ³	20.08
Spreading of existing transitional protection over 7 years		-0.10	19.98
Optional arrangement	'Life balance' 50/50 contribution/accrual	-0.47	19.51
	TOTAL		19.51

3. GAD have not costed this element of the proposed scheme design

Notes

1. State Pension Age – includes an allowance for the recently announced change to State Pension Age that brings forward the date at which SPA moves to 67 from 2034-2036 to 2026-2028. SPAs have been estimated at 2014.
2. Survivor benefits – change from 3/8ths of member's pension in current scheme to 160ths accrual rate in the proposed design.
3. Transitional protection – underpin – the “better off” test is only applied on age retirement at State Pension Age.
4. Transitional protection – existing CRA – the expected cost of maintaining existing CRA protection has been spread over 7 years. Members with CRA protection have been rolled forward from 2010 to 2014 in an approximate manner.

5. Vesting period – expected saving from a 2 year vesting period has been allowed for in an approximate manner.
6. Option arrangement – only the member's benefits are halved (contingent benefits and death benefits remain at 100%). The expected saving is on the basis that 10% of active members who are all on relatively low salaries (less than £21,000 FTE) elect for the 50/50 option.
7. Under existing Transitional Regulations (SI2008/238) some members are eligible to retire with an unreduced pension before age 65 until 2016 (with tapered protection until 2020). The expected cost of maintaining this transitional protection is 0.19% pa of pensionable pay at 2014 reducing thereafter until transitional protection ends in 2020. If this expected cost is capitalised and spread as a fixed percentage of payroll over a seven year period from 2014 the expected cost is 0.09% pa. The 0.10% expected saving in the reconciliation table, which arises from spreading the cost of transitional CRA protection, is the difference between the 0.19% pa expected cost in 2014 and the 0.09% pa expected cost of maintaining this protection when the capitalised cost is spread as a fixed percentage of pensionable pay over a 7 year period.

Third Party Reliance and Liability

This short note has been prepared for the LGPS Project Team as agreed with DCLG. This note should not be issued to third parties without consulting GAD first. If it is released then it should be ensured that:

- > it is released in full
- > the advice is not quoted selectively or partially
- > GAD is identified as the source of the advice, and
- > sufficient background material is provided to put these figures into context

Third parties whose interests may differ from those of the LGPS Project Team should be encouraged to seek their own actuarial advice where appropriate.

Other than DCLG and the LGPS Project Team, no person or third party is entitled to place any reliance on the contents of this note, except to any extent explicitly stated herein, and GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this note. If any contents of this note are to be used to inform any Government policy decisions GAD should be consulted before those decisions are made.

Ian Boonin

Government Actuary's Department
30 May 2012