Government Actuary's Department

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Pensions News

Welcome to the new look GAD Public Service Pension Scheme newsletter, as you can see we have revamped the newsletter to a format more consistent with other GAD publications and which provides more space to discuss major issues.

Sue Vivian

Head of Public Service Pensions

Valuations

2016 – the end?

We're pleased to be able to report that the 2016 valuation reports have now been issued following publication of the further amending directions by HM Treasury on 14 February 2019. The amendments implemented the policy intention of pausing the cost cap process as announced in the written ministerial statement made by the Chief Secretary to the Treasury on 30 January 2019 and following the Court of Appeal's judgment in the McCloud and Sargeant case (challenging the legality of transitional protection).

The valuation reports set out the employer contribution rates payable from 1 April 2019. The new rates represent significant increases ranging from 5% to 13% of pensionable pay.

The outcome of the McCloud and Sargeant case may mean the valuations need to be revisited. If the judgment is overturned on appeal the WMS committed to unpausing the cost cap. If the judgment stands it is less clear how and when any allowance for the impact on each scheme will be reflected. A decision on the application to appeal to the Supreme Court is expected next month.

Before the next round

2020 isn't far away and there are a couple of things we'd like to bring to your attention.

Data improvements: The reformed valuation framework posed data challenges for all schemes with none able to provide fully complete and reliable data for the 2016 valuations. Each scheme's valuation report contains recommendations about data for the next valuation. We will be writing to each scheme individually with suggestions on what actions could or should now be taken forward. We recognise any recommendations will pose financial and resourcing challenges and will seek to work collaboratively with you and your administrators.

Valuation tracking: Private sector pension schemes are required by law to annually review how the results of the last valuation are expected to have changed. We are planning to undertake a similar exercise for the PSPA schemes. Rather than doing this annually (and recognising we are already 3 years beyond the last valuation date) we will focus instead on future changes in the parameters which have most impact on the results. Whilst there is no guarantee that future directions will similarly reflect any change in these parameters we feel it will provide useful information about the direction of travel. We'll be in touch further about this in due course.

Actuarial factors - guidance notes

As you will be aware actuarial factors have been reviewed following the October 2018 decision to reduce the SCAPE discount rate. This review resulted in new factors being issued for almost all calculations requiring them. We prioritised issuing the factor tables but are now starting to update the associated guidance notes. These notes confirm to administrators how to apply the factors and give worked examples. Updating these guidance notes is a significant task - across all the schemes there are around 600 notes. We are planning to complete the updates by the end of summer.

Other news

Resource Accounts: Supplementary Estimates for 2018-19 were finalised early in 2019. Most contained a provision for potential additional liabilities arising from the Court of Appeal ruling on transitional protection, totalling £29.5 billion across the public service schemes (as reported at the Spring Statement). GAD have also provided actuarial figures to support schemes' Main Estimates for 2019-20. The accounting implications of the ruling will continue to emerge in the months to come and may impact Supplementary Estimates for 2019-20. Changes in provisions, unlike the impact of experience and assumption changes on liabilities, pass through voted expenditure and may impact on schemes' control limits.

OBR projections: OBR published its new Economic and Fiscal Outlook report alongside Spring Statement 2019. The report includes projected public service pension payments and shows projected net annual expenditure by the schemes falling from 0.6% of GDP in 2018-19 to 0.3% of GDP in 2019-20 because of increased employer contribution rates. There is an equivalent increase in departments' expenditure on employer contributions, reflected in resource DEL.

The unfunded schemes each contribute their own projections to the OBR's report. GAD provides support in various forms to schemes for these forecasts, ranging from detailed modelling for larger schemes, simple and models for smaller schemes, quality assurance or "sense check" of departments' own models and support with communications and reporting. Over the coming months, we are looking to review and adapt the work we do for schemes on OBR projections, identifying opportunities presented by our newly-acquired actuarial software. Your usual GAD contact will welcome your thoughts on how this might best apply to your scheme.

GMPs: With the long-running project of schemes reconciling GMPs with HMRC's records finally drawing to a close rectification exercises are now beginning. The more recent Lloyd's Bank and BT cases continue to highlight further challenges for schemes holding GMPs.

GAD Contacts

AFPS:	Alan Dorn
Fire:	Samantha Watts
Judges:	Michael Scanlon
LGPS:	Michael Scanlon
NHS:	Sue Vivian
NI Schemes:	George Russell
PCSPS:	Steve Lewis
Police:	Samantha Watts
RCPS:	Sandra Bell
Scotland Schemes:	George Russell
TPS:	Matt Wood
UKAEA	Ian Sharpe