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To: Chief Executives (All Employers)
NIC-ICTU

Circular 08/2018
27 September 2018

Government Announcement on Public Service Pension Schemes and Associated Consultation by Department of Finance

Key Points

HM Treasury has announced that, in compliance with cost-control mechanisms made in the Public Service Pension Schemes Act, it is *likely* that schemes will need to improve members' benefits.

It follows that if members' benefits improve, employers' costs will rise. However, it is too early to determine if employers' contribution rates will rise for the NILGOSC scheme at the next valuation because of additional factors.

The Department of Finance is currently consulting on the assumptions used to value the Public Service Pension Schemes. NILGOSC has a few recommendations to make on the proposed legislation, and will use the opportunity to advise the Department of Finance (DoF) of the undesirability of pension cost increases.

Suggested action: Note the potential for scheme changes and cost implications, and consider responding to the DoF consultation.

Background

In 2015, following the review by Lord Hutton, Public Service Pension Schemes changed in the UK. The major changes were a shift from a 'final salary' based pension to a 'career average' pension and an increase in retirement age. Also included was the introduction of a 'cost-cap' mechanism.

The intention of the 'cost-cap' was to share better any increases in scheme costs between the employers and the members. For the Local Government Pension Scheme the process works as follows:-

1. The Government agrees the assumptions used to value a measure of future scheme costs.
2. The Department for Communities (with assistance of the Government Actuary's Department) sets a benchmark cost (expressed at a percentage of pay) for the scheme as at 31 March 2013. The cost was set at 17%.
3. The Department for Communities re-calculates the cost as at 31 March 2016 (retrospectively).
4. If the revised cost exceeds the benchmark by more than 2% then the benefits of the Scheme are reduced to bring the cost back to 17%. If the revised cost is more than 2% lower than the benchmark then the scheme benefits have to be improved to bring the cost back up to 17%.

The re-calculation of the 'cost-cap' referred to above is underway by the Government Actuary Department and is due to be published later this year.

Very importantly, the 'cost-cap' mechanism is a separate process to the triennial valuation which our scheme uses to value its assets and liabilities, and then set the employer contribution rates for the next three year period. The 17% figure referred to above is only used for comparison purposes and is not an indicator of employer contribution rates. Our next valuation will be as at 31 March 2019, which will set the employer rates from 1 April 2020.

Employee contribution rates do not change as a result of the triennial valuation. These rates are set in legislation.

Government Announcement

On 6 September 2018 Liz Truss, Chief Secretary to the Treasury published a consultation[1] on the 'cost-cap' assumptions. More importantly, accompanying the publication was a statement[2] by the Minister, which gave an indication of what the results of the 'cost-cap' valuation could show when published later this year. She stated that "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**".

The Department for Communities has indicated that the revised cost of the LGPS in Northern Ireland per the 'cost-cap' process is likely to be more than 2% below the benchmark when finally published. Therefore, scheme benefits will have to improve. It is in the process of considering which benefits to alter and is consulting with the Scheme Advisory Board.

On 10 September the Department of Finance (DoF) issued its own consultation on the 'cost-cap' assumptions. It can be accessed on the following link:- https://www.finance-ni.gov.uk/publications/public-service-pensions-valuations-and-employer-cost-cap-amendment-directions-northern-ireland-2018. The Department is inviting comments from all persons with an interest in public service scheme valuations. Responses should be sent to: DOFpensionspolicy@finance-ni.gov.uk or Public Service Pensions, Waterside House, 75 Duke Street, Londonderry, BT47 6FP no later than **5pm on Friday 19 October**. Following the end of the consultation, DoF will issue a response before finalising Directions.

NILGOSC Commentary

There is a serious disconnect between the Government 'cost-cap' process and our Scheme valuation used to set employer contribution rates. This is because the LGPS is a funded scheme unlike the other public service schemes. The 'cost-cap' process was introduced to protect public funds but it appears that, as a result of its implementation, scheme benefits will become more generous and therefore the cost of the scheme will rise, the polar opposite of Government's original intention.

The Department of Finance is seeking comments on the assumptions used for the 'cost-cap' valuations. NILGOSC has identified a small number of technical points regarding the Directions which it will submit to DoF. In addition to commenting on the specific legislation

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[1] https://www.gov.uk/government/publications/public-service-pensions-2016-valuations-supplementary-documents?utm_source=be118d6c-f23b-44d9-b319-6daad9493cf2&utm_medium=email&utm_campaign=govuk-notifications&utm_content=immediate

[2] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2018-09-06/HCWS945/

we will also be commenting that the 'cost-cap' process is not suited to the funded LGPS and that we have been clearly told by scheme employers that they are unable to bear any increase to scheme costs from existing budgets. Once issued, our short response will be published on our website at www.nilgosc.org.uk/news. We suggest that you also make the Department aware of your views.

Finally, employer contribution rates have already been set until 31 March 2020. The rates for the three years from 1 April 2020 will be set when we undertake the Scheme's own triennial valuation at 31 March 2019. At the time of writing the outlook for the Scheme's funding position is looking positive so it may well be that the healthy returns we have received on the fund's assets will outweigh the additional costs that arise due to the increase in members benefits but it is too early to have any certainty. The preliminary results from the Scheme's own valuation will be known in late 2019.

David A Murphy

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