NILGOSC
NORTHERN IRELAND LOCAL GOVERNMENT OFFICERS' SUPERANNUATION COMMITTEE

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Circular 05/2021

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Dear Colleagues,

HM Treasury Consultation on Proposals to Reform the Cost Control Mechanisms in Public Service Pensions

This circular has been issued to draw employing authorities' attention to the recent consultation issued by HM Treasury (HMT) on reforming the cost control mechanisms in public service pension schemes. The consultation was launched on 24 June and closes at 11.45pm on 19 August. It is relevant to the Local Government Pension Scheme in Northern Ireland ("LGPS (NI)") and HMT has said it welcomes input from stakeholders in Northern Ireland schemes.

The consultation is available on the following link: https://www.gov.uk/government/consultations/public-service-pensions-cost-control-mechanism-consultation. Details on how to respond are on page 5 (2.12 to 2.14) of the consultation document. The consultation has also been published on NILGOSC's website.

Background to the cost control mechanisms

The Independent Public Service Pensions Commission recommended in 2011 that the new public service pension schemes should have an employer cost control mechanism that would protect the taxpayer from unforeseen increases in costs and maintain the value of pensions for members if costs fell. If the costs decreased/increased by more than a specified

percentage of pensionable pay (later set at 2%), then the member benefits were increased or reduced to bring the cost of that scheme back within target.

The Department of Finance made provision for these cost control mechanisms in the Public Service Pensions Act (NI) 2014 and a cost-sharing mechanism was introduced into the reformed LGPS (NI) from 1 April 2015.

Provisional 2016 cost control results calculated by the Government Actuary indicated a breach of the cost cap floor by all the public service pension schemes that were assessed. The Government then announced it was asking the Government Actuary to review the cost control mechanism as it appeared that the mechanism was too volatile. The Government Actuary published its report in May 2021 and concluded that:

- the legacy schemes were the main driver for the breaches as they were caused primarily by a reduction in assumed pay increases and a reduction in life expectancy. Both risks were largely addressed within the reformed schemes by moving to a career average revalued earnings structure, rather than final salary, and linking retirement age to state pension age.
- it was a ‘perverse outcome’ as the provisional 2016 valuation results would have led to benefit improvements that would have resulted in further increases to employer contribution rates.
- the current corridor (percentage increase/decrease) was too narrow.

The consultation proposals

The consultation proposes three changes, all of which were recommendations by the Government Actuary in its report:

- Moving to a reformed scheme only design and removing any allowance for legacy schemes in the cost control mechanism. This ensures consistency between the set of benefits being assessed and the set of benefits potentially being adjusted.
- Widening the corridor from 2% to 3% of pensionable pay. This aims to achieve a better balance between stability and responsiveness to the cost control mechanism.

- Introducing an economic check so that a breach of the mechanism would only be implemented if it would still have occurred had the long-term economic assumptions been considered.

NILGOSC response to the consultation

We are currently considering the content of the consultation and will publish our response on the same consultation page of our website ahead of the closing date. Employers may wish to use this response to inform their own response.

If you have any questions regarding this circular then please do not hesitate to contact either myself (zena.kee@nilgosc.org.uk) or any member of the Pensions Development Team.

Yours sincerely

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