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Dear Sir/Madam

Public Service Pensions: Cost Control Mechanism Consultation

Thank you for the opportunity to respond to the above consultation. I am doing so on behalf of the Northern Ireland Local Government Officers' Superannuation Committee (NILGOSC) which is the public body responsible for administering the Local Government Pension Scheme for Northern Ireland (LGPS NI). I have provided a response to each of the questions set out in the consultation document.

Question 1: Do you agree that a reformed scheme only design would achieve the right balance of risk between scheme members and the Exchequer (and by extension the taxpayer), and would create a more stable mechanism?

Not agreed. The Reformed Scheme Only Design means that there will be no cost control mechanism for the legacy benefits which is not appropriate for the LGPS NI where the Exchequer is not providing funding to meet any additional cost. The risk of additional cost for these benefits in the LGPS has been exacerbated by the Government decision to link the legacy benefits to final salaries rather than index-linked revaluation. A cost control mechanism for the LGPS is needed to cover all liabilities, not just those of the reformed schemes or future benefits. It is also unknown from the consultation how the LGPS underpin will be treated in a reformed only scheme design.

Question 2: Do you agree with the Government's intention to widen the corridor? If not, why not?

As a scheme administrator we would not wish to see a change in scheme rules at every valuation. This is confusing for members and further adds to the complexity of the LGPS NI.

That said, the figures provided by GAD indicate that with a 2% corridor we can expect changes to schemes every 20 years if the Reformed Only model is adopted. This appears reasonable to us and therefore we would not agree with the intention to widen the corridor.

If the Reformed Only model is not adopted then we would agree with the Government intention to widen to corridor in order to provide stability.

Question 3: Do you think that a corridor size of +/-3% of pensionable pay is appropriate? If not, why not?

If the Reformed Only model is not adopted then we would agree with the Government intention to widen to corridor to 3% in order to provide stability. However, widening the corridor would increase the scale of rectification necessary were a breach to occur.

Question 4: Do you agree with the proposal to introduce an economic check?

We agree that some mechanism needs to be found to prevent the perverse outcomes identified. This is even more pertinent to the LGPS NI where a separate triennial valuation is used to set employer contributions rates outside of the Cost Cap process. The mechanism needs to address the issue of member benefits improving at the same time as employer contribution rates increase as well as the opposite scenario of benefits falling at the same time as employer contribution rates reduce.

Question 5: Do you think that the SCAPE discount rate, as it currently stands, is an appropriate economic measure for the cost control mechanism?

No. This has resulted in a disconnect between the current cost cap valuations and the Scheme's triennial valuation to set employer contribution rates. Unlike the unfunded public service pension schemes, the SCAPE discount rate is not used to set employer contribution rates in the LGPS NI. The appropriate discount rate for the LGPS NI is the discount rate used for the fund's triennial actuarial valuation.

Question 6: If the SCAPE methodology changes, and the Government considers that the SCAPE discount rate is therefore not an appropriate measure for the cost control mechanism, then do you think that a measure of expected long-term GDP should be used instead? If not, please set out any alternative measures that may be appropriate in this scenario. Please consider in the context of the separate review of the SCAPE methodology currently being undertaken by HM Treasury.

As set out in the response to question 5, the appropriate discount rate for the LGPS NI is the discount rate used for the fund's triennial actuarial valuation. We are not convinced that a measure of expected long-term UK GDP is a good proxy for our scheme's discount rate because the discount rate takes into account a global investment return outlook rather than a UK only outlook.

Question 7: Do you envisage any equalities impacts from the proposals to reform the cost control mechanism that the Government should take account of?

No.

Yours sincerely

David Murphy
Chief Executive