Government Actuary's Department

Civil Service Pension Scheme

Cost control valuation as at 31 March 2016

Cost cap valuation report

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In this report, terms written in ***bold italics*** are defined in the Glossary.

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1. Summary

Background

Cost control mechanism introduced

- Established to ensure a fair balance of risks between scheme members and the taxpayer
- Introduced by section 12 of Public Service Pensions Act 2013 and policy details set out in HMT paper of March 2014

2012 valuation: Employer cost cap set at 18.5% pay

- Set in Regulation 159 of the 2014 Regulations, based on the 2012 valuation
- If at subsequent valuations the cost of the scheme is outside a ±2% corridor above / below the employer cost cap, the 2013 Act requires action to be taken to bring costs back to the target cost

2016 valuation: Pause of cost control mechanism

- HMT announcement 30 January 2019: followed the McCloud/Sargeant judgment and was implemented in February 2019 by the ***Directions***
- The 2016 valuation dated 26 February 2019 set the employer contribution rate to be 27.0%* of pay with effect from 1 April 2019

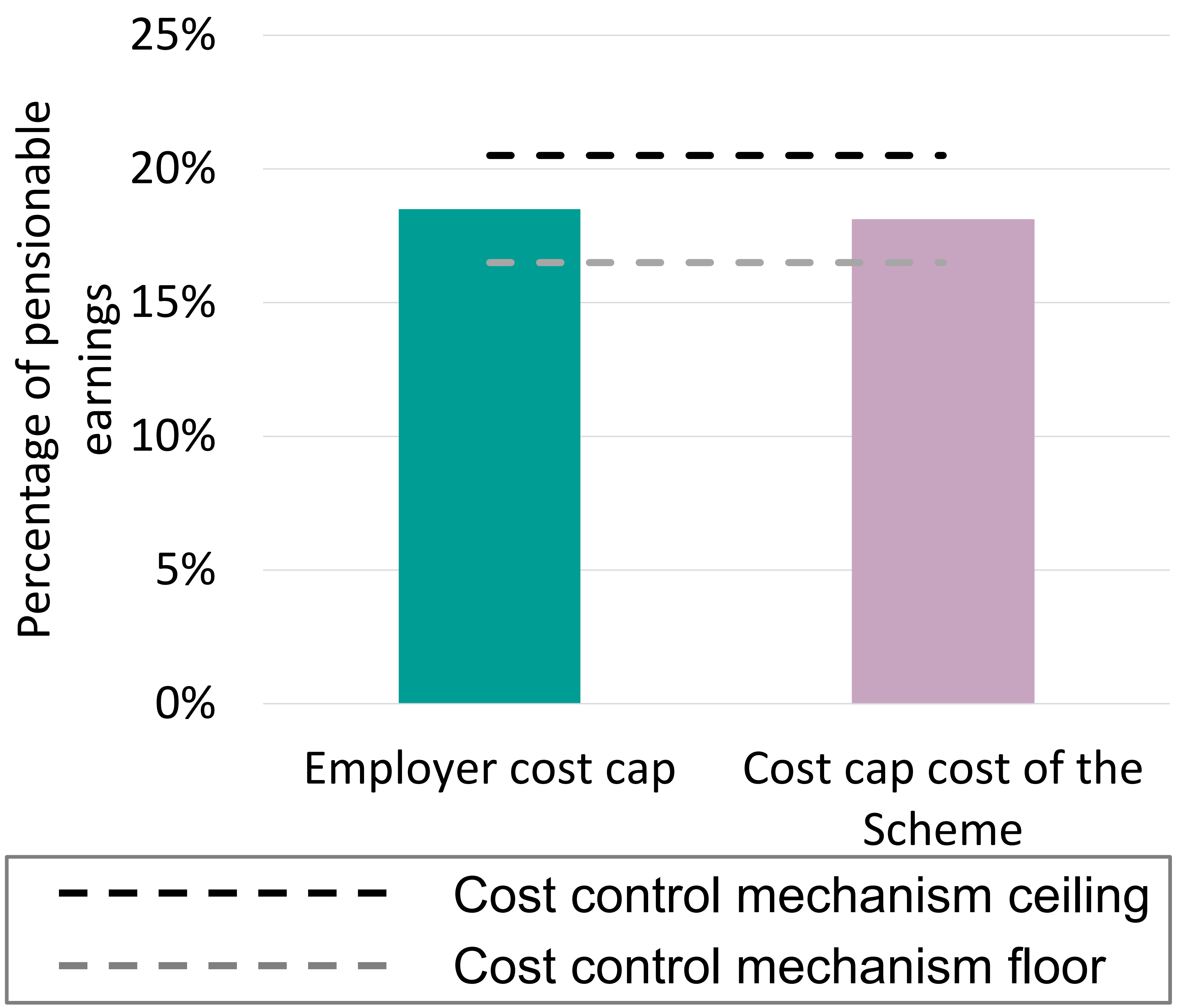
2016 valuation: Completion of cost control mechanism

- HMT announcement 16 July 2020: the pause would be lifted and the costs of transitional protection remedy would be taken into account.
- HMT Amendment Directions dated 7 October 2021 set the detailed requirements, and further information is available in the Government Actuary's letter of 6 October 2021

* Before administration expenses of 0.32% of pensionable pay

Summary of results

This report has been commissioned by and is addressed to the Minister for the Civil Service and sets out the ***cost control valuation results*** of the Civil Service Pension Scheme as at 31 March 2016 (see Appendix A: Reliance for further details).



The ***cost cap cost of the scheme*** is

-0.4%

below the ***employer cost cap***.

The result lies within the ± 2% corridor specified in ***HMT regulations***.
This result means that no changes to benefits or member contributions are required.

The results of this cost control valuation are not used to set the employer contribution rate. HMT has confirmed that changes to the employer contribution rates resulting from the 2020 valuations will take effect from April 2024.

The ***employer cost cap*** was determined at the 2012 valuation in accordance with section 12 of Public Service Pensions Act 2013

2. Results

Cost cap cost of the scheme

Data, assumptions and methodology

We have been instructed by the Minister for the Civil Service, following consultation with relevant stakeholders, to adopt the best estimate assumptions recommended in our formal advice on the assumptions, methodology and data dated 23 November 2021. A summary of the main assumptions is set out in Appendix F of the 2016 valuation dated 26 February 2019 .

Calculation of the cost cap cost of the scheme

The ***cost cap cost of the scheme*** has been calculated as follows, in accordance with the ***Directions***:

Cost cap cost of the scheme	=	Employer contribution correction cost	+	Transitional protection remedy cost
18.1%		13.1%		5.0%

The calculation of the transitional protection remedy cost is set out in Appendix B.

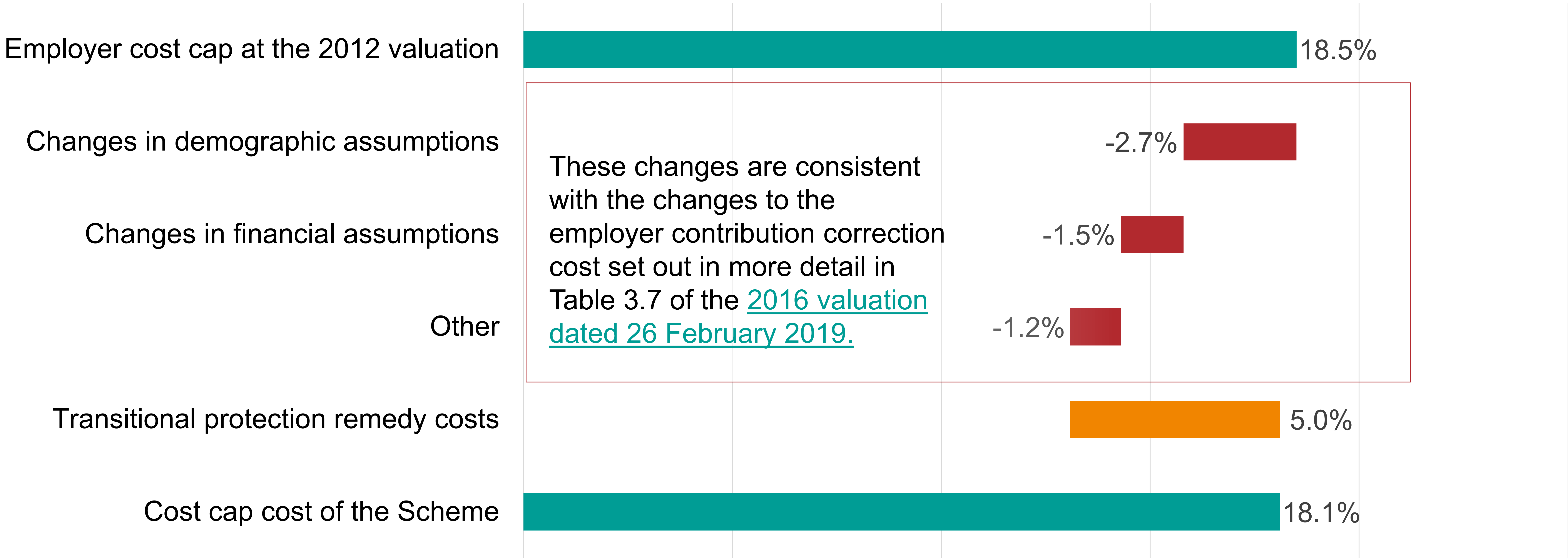
Comparison with employer cost cap

The ***cost cap cost of the scheme*** is 0.4% below the ***employer cost cap***. The ***cost cap cost of the scheme*** is within the ± 2% corridor. This result means that no changes to benefits or member contributions are required.

Cost cap cost of the scheme	18.1%
Employer cost cap	18.5%
Difference	-0.4%

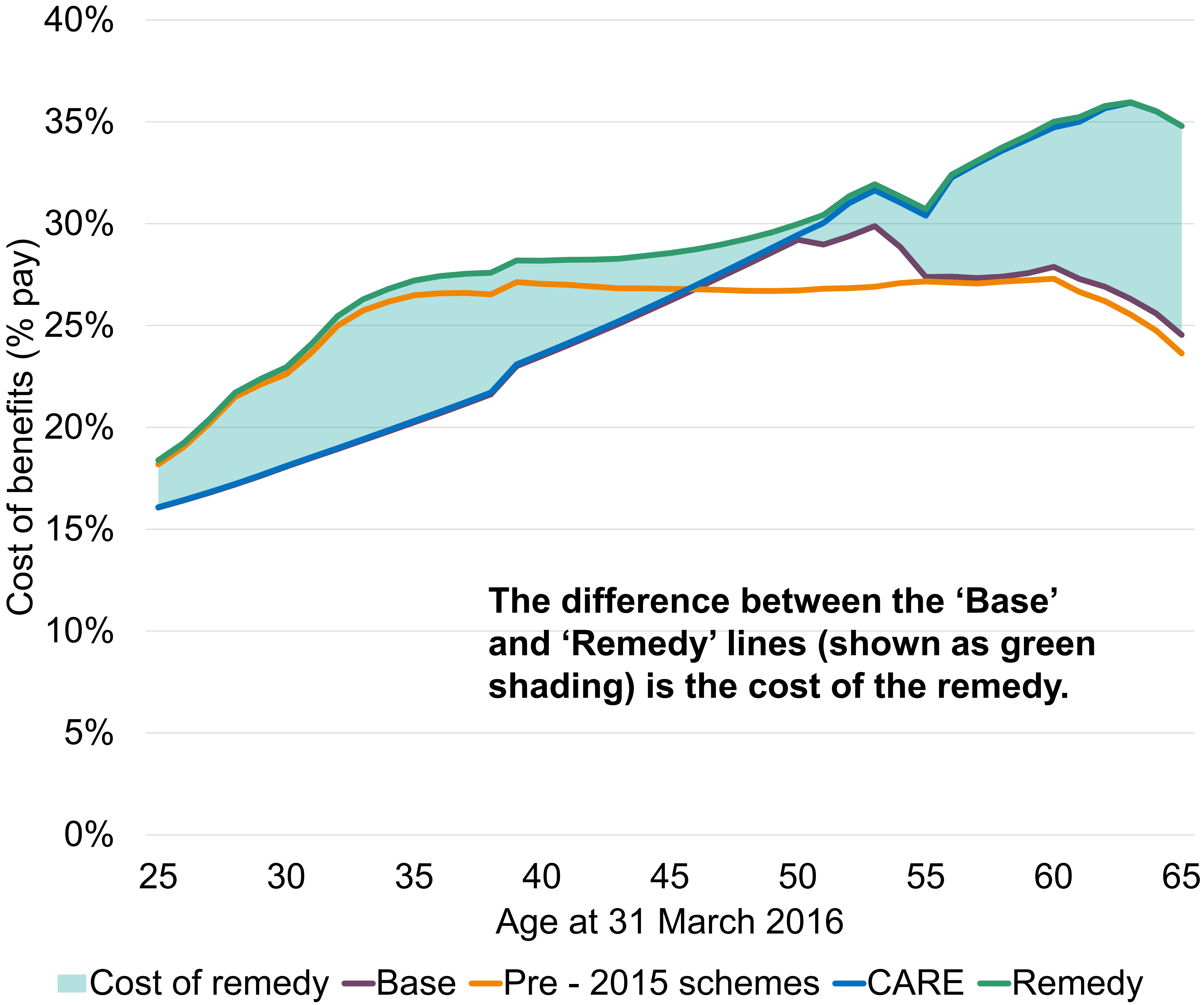
Analysis of change in cost cap cost of the scheme

The chart below shows the key reasons for the difference between the cost cap cost of the scheme and the employer cost cap. Changes in financial and demographic assumptions set by HM Treasury reduce the cost cap cost of the scheme. This is offset by an increase in cost cap cost of the scheme driven by the transitional protection remedy costs.



Results – Cost by age

This chart shows the cost (as a percentage of pensionable salary) by age of different benefits:



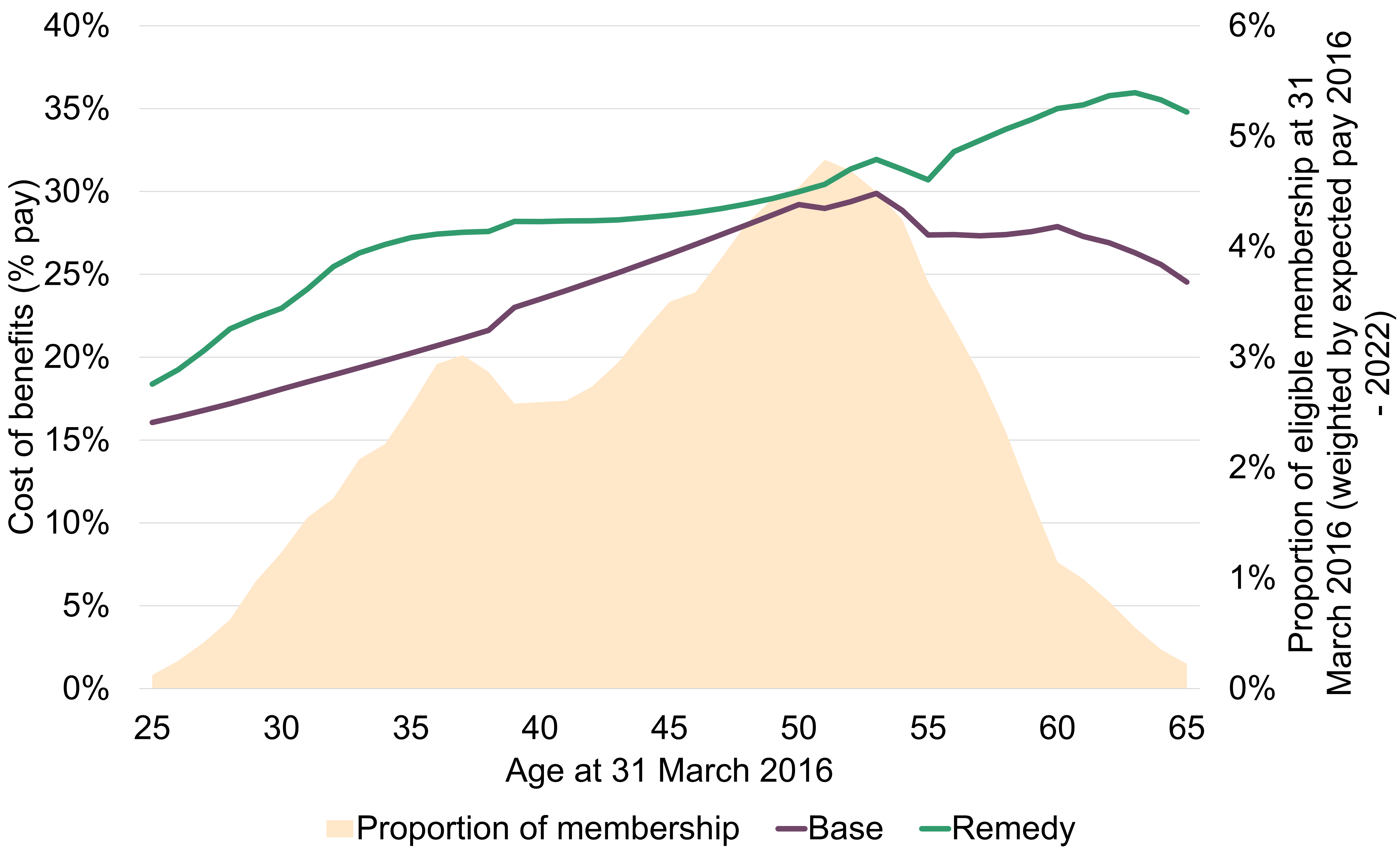
The 'pre-2015' line shows the weighted average cost of the pre-2015 final salary schemes.

The 'CARE' line shows the cost of the post-2015 scheme – at older ages it is higher than the 'pre-2015 line' due to the higher accrual rate.

The 'Base' line shows the cost of the benefits under the transitional protection arrangements: CARE for younger unprotected members, transitioning towards pre-2015 for older protected members.

The 'Remedy' line shows the cost of the benefits under deferred choice underpin. Remedy benefits can be more valuable than CARE and pre-2015, for example if CARE is better for early leavers and final salary is better for long stayers.

Results – Cost by age with membership by age



The biggest increases in cost of benefits will be for younger members where the final salary scheme is more valuable and for older members where the CARE scheme is more valuable.

However, a significant proportion of the membership lies between these two extremes where the increase in the cost of benefits is lower (ie where the remedy and base lines are close together).

3. Sensitivities

Key sensitivities

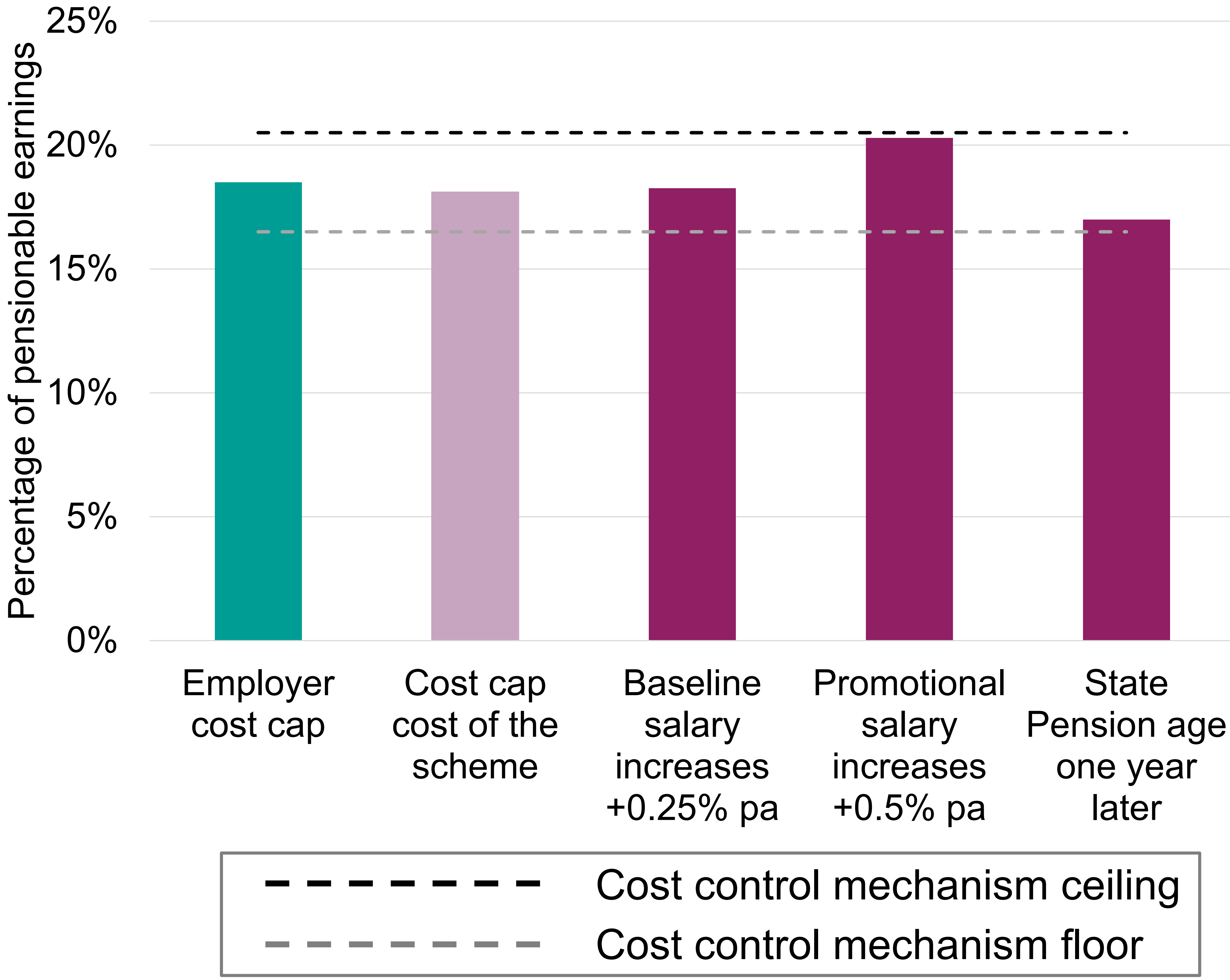
This section illustrates the main sensitivities of the cost control valuation results to the assumptions adopted to illustrate the range of reasonable outcomes which might have been determined at this valuation had different assumptions been used.

The chart shows the employer cost cap and the cost cap valuation result from this report, then shows what the cost cap valuation result would have been if the following changes were made to the assumptions:

- Baseline salary increases +0.25%
- Promotional salary increases +0.5%
- State Pension age one year later

They are not intended to show the possible range of variation in assumptions which might be considered at future valuations and in light of future experience.

Additional information on sensitivities can be found in Appendix C.



4. Future valuations

Future valuations

Reform of cost control mechanism	• Following a review by the Government Actuary and a HMT consultation, the Government intends to reform the cost control mechanism as follows:
	  • Move to reformed scheme only
	  • Widen the cost control 'corridor' from ±2% to ±3% of pensionable pay
	  • Introduce an economic check

2020 valuation	• The Government is aiming to implement all three proposals above in time for the 2020 valuations • Legislation to implement these proposals will be taken forward when parliamentary time allows
Possible outcomes	• The full impact of the review can only be assessed once the proposals are confirmed, and detailed implementation instructions provided in the ***Directions*** • The following page sets out our high-level view of the key factors which may affect future cost control valuations
Future impact of these results	• The remedy cost calculations are subject to a number of uncertainties, including in relation to eligibility data, future salary increases and future retirement ages • Depending on the details of the ***Directions*** for the 2020 valuations, any difference between the actual cost of remedy as it emerges and the cost anticipated in this valuation may affect future cost control valuations

Future valuations - outcomes

The table below sets out our high-level view of the key factors which may affect the core cost control mechanism (ie excluding the economic check) at future valuations in the medium term. The table includes an assessment of the size of the impact of these factors, as well as the potential direction of the impact (ie whether it will increase or decrease costs) – further details are provided overleaf. Each item is considered separately; a combination of these items could have a larger impact than is considered likely for any of those items individually.

	Factors potentially affecting results of future valuations	Potential impact on cost cap cost of the scheme, compared with employer cost cap	Direction of impact on costs to the scheme
Expected to occur	Changes allowed for in this 2016 valuation	✓	⇩
	Further anticipated changes to mortality assumptions	✓	⇩
Likely to occur	Legislative and policy changes	✓✓	⇳
	Financial and demographic experience	✓	⇳
Possible but less likely to occur	Unanticipated change in average age of the membership	✓	⇳
	Assumption changes:		
	- long term experience effects	✓	⇳
	- directed assumptions (including any further emerging change to mortality assumptions)	✓	⇳

✓ = impact may be more than 0.5% of pay but, although possible, is quite unlikely to be more than 3% of pay
✓✓ = impact may be more than 3% of pay
⇧ = increase in costs ⇩= decrease in costs ⇳= costs could increase or decrease

Future valuations - outcomes

Factors potentially affecting results of future valuations	Explanation of impact
Changes allowed for in this 2016 valuation	The employer cost cap was set based on the assumptions at the preliminary (2012) valuation. Changes to demographic assumptions (in particular mortality) recognised at this 2016 valuation will continue to result in downward cost pressures at the 2020 valuation (if all else remains equal).
Further anticipated changes to mortality assumptions	The latest 2018-based ONS population projections anticipate further slow downs in improvements to mortality rates, which will result in further downward cost pressures.
Legislative and policy changes	Impacts can vary based on other legal challenges and legislative/policy changes.
Financial and demographic experience	If experience is not in line with the assumptions made, a gain or loss will emerge over an inter-valuation period.
Unanticipated change in average age of the membership	The future scheme membership may differ from that projected at this valuation.
Assumption changes:	
- long term experience effects	Assumption changes at future valuations, in light of scheme experience, may have substantial effects on the results.
- directed assumptions (including any further emerging change to mortality assumptions)	Some of the assumptions set in the ***Directions*** are likely to change for each valuation.

There is further detail on these factors at section 5 of the 2016 valuation dated 26 February 2019.

Appendices

Appendix A Reliance

This report has been prepared for the use of the Minister for the Civil Service in accordance with sections 11 and 12 of the Public Service Pensions Act 2013.

The ***cost cap valuation results*** have been calculated in accordance with the requirements as to data, methodology and assumptions specified by the ***Directions***.

GAD has been appointed as scheme actuary by the Minister for the Civil Service to carry out an actuarial valuation of the Civil Service Pension Scheme as at 31 March 2016 (the effective date), as required by Regulation 158 of the ***2014 Regulations***.

The cost cap valuation report required by the ***Directions*** comprises this report read alongside our advice on assumptions, methodology and data and the 2016 valuation reporting in the table below.

Area	Document
2013 Act	Sections 11 and 12 of the Public Service Pensions Act 2013
Scheme regulations	Regulations 158 and 159 of the 2014 Regulations
Directions	The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014, as amended, including in particular amendments made by the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2021 See also the Government Actuary's letter dated 6 October 2021
Remedy	HMT consultation response dated 4 February 2021
Assumptions, methodology and data	Formal advice on the assumptions, methodology and data dated 23 November 2021.
2016 valuation	Published 2016 valuation reports dated 26 February 2019: • Report on membership data • Advice on assumptions • Valuation report

Appendix A Reliance

This work has been carried out in accordance with the applicable Technical Actuarial Standards: TAS 100 and TAS 300 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

This report has been prepared for the use of the Minister for the Civil Service, to report on cost cap valuation results in accordance with sections 11 and 12 of the Public Service Pensions Act 2013. The information and advice in this report should not be relied upon, or assumed to be appropriate, for any other purpose or by any other person.

We are content for the Minister for the Civil Service to release this report to third parties, provided that:

- it is released in full;
- the advice is not quoted selectively or partially;
- GAD is identified as the source of the report, and;
- GAD is notified of such release.

Third parties whose interests may differ from those of the Minister for the Civil Service should be encouraged to seek their own actuarial advice where appropriate. 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 report.

GAD is not responsible for any decision taken by Cabinet Office, except to the extent that the decision has been made in accordance with specific advice provided by GAD. Advice provided by GAD must be taken in context and is intended to be read and used as a whole, not in parts. GAD does not accept responsibility for advice that is altered or used selectively. No significant action should be taken based on oral advice alone. Clarification should be sought if there is any doubt about the intention or scope of advice provided by GAD.

GAD relies on the accuracy of data and information provided by myCSP. GAD does not accept responsibility for advice based on wrong or incomplete data or information provided by myCSP.

Throughout this report the totals given for summed data may not be exactly the same as the sum of the components shown due to rounding effects.

Appendix A Reliance

As required by the ***Directions***, this report is based on data as at 31 March 2016, and the assumptions are the same as those adopted in the 2016 valuation report. No allowance has been made for any events after 31 March 2016, except for any allowance detailed in the 2016 valuation report. In particular, there is no specific allowance for the impact of the following:

- Covid-19 (or any other pandemics)
- Any changes to benefits and member contributions since the 2016 valuation report (save to the extent that those benefits and member contributions are determined in accordance with the ***Directions*** to have changed as a result of the transitional protection remedy), including in particular any changes as a result of the following:
  - GMP equalisation, further to the Lloyds ruling in October 2018, including the GMP indexation changes announced in March 2021
  - Survivor benefit equalisation, relating to survivor benefits for opposite–sex widowers and surviving male civil partners as detailed in a Written Ministerial Statement made by the Chief Secretary to the Treasury on 20 July 2020.
  - Any other legal cases
- Actual public service pension increases / CARE revaluations awarded in April 2019, April 2020 and April 2021.
- Development in mortality expectations after the 2016 valuations were signed, including in particular the ONS 2018-based population projections, which assumed lower life expectancy increases than the 2016-based projections

Appendix B Remedy cost

The ***Directions*** require the transitional protection remedy cost to be calculated as follows:

	Remedy cost component	**Value**	
		% of pensionable earnings	£ million
A	Change in liabilities in the remedy period	5.0%	2,400
B	Change in liabilities before the remedy period	0.0%	0
C	Change in liabilities after the remedy period	0.0%	0
D	Change in member contributions in the remedy period	0.0%	0
E	Change in member contributions after the remedy period	0.0%	0
	Transitional protection remedy cost A + B + C – (D + E)	5.0%	2,400

The remedy cost will emerge in the form of increased pension payments over the coming decades as eligible members retire and receive their pensions.

Appendix C Sensitivities

This section illustrates the main sensitivities of the cost control valuation results to the assumptions adopted including those set out in the ***Directions*** and those set by the Minister for the Civil Service.

The table shows the sensitivities relative to the employer contribution correction cost and the transitional protection remedy costs. The ***cost cap cost of the scheme*** is the sum of these two sensitivities, as shown.

The assumptions determined by the Minister for the Civil Service are set as best estimate based on available evidence. The sensitivities shown for the the Minister for the Civil Service determined assumptions are intended to illustrate a range of reasonable outcomes which might have been determined at this valuation had different assumptions been used. They are not intended to show the possible range of variation in assumptions which might be considered at future valuations and in light of future experience.

Directed assumptions	Employer contribution correction costs	Increase in Transitional protection remedy costs	Cost cap cost of the scheme
Discount rate in excess of CPI (-0.25% pa)	-0.3%	0.3%	0.0%
Pension increases as applicable to pensions in payment and deferred pensions (+0.25% pa)	-0.1%	0.1%	0.0%
Long term rate of public service earnings growth in excess of CPI (+0.25% pa)	-0.2%	0.4%	0.2%

Appendix C Sensitivities

Directed assumptions	Increase in		
	Employer contribution correction costs	Transitional protection remedy costs	Cost cap cost of the scheme
Short term rate of public service earnings growth (+0.25% pa to each short term rate)	0.4%	0.1%	0.5%
CARE revaluation rate (+0.25% pa to price measure revaluation rates)	0.0%	-0.3%	-0.3%
Allowance for future mortality improvements (reduction in mortality improvements such that (period) life expectancy lower by around 1.25 years over a period of 75 years)	-1.2%	-0.1%	-1.3%
State Pension age (SPa for 2015 scheme one year later than under current directions)	-1.8%	0.7%	-1.1%
Allowance for commutation as directed (additional 2% of pension assumed to be commuted for cash)	-0.2%	0.0%	-0.2%
Shortfall spreading period (spreading period increased by 5 years)	0.6%	-2.7%	-2.1%

Appendix C Sensitivities

Assumptions set by the Minister for the Civil Service	Employer contribution correction costs	Increase in Transitional protection remedy costs	Cost cap cost of the scheme
Membership profile: 2 years older on average over implementation period	1.1%	0.3%	1.4%
Mortality rates: 5%* heavier rates of pensioner mortality	-0.5%	0.0%	-0.5%
Age retirement rates: members without full protection to retire (on average) one year later than currently assumed	-0.2%	0.1%	-0.1%
Commutation (other than as directed) all eligible members of Classic commute 2% of pension more than assumed	-0.1%	0.0%	-0.1%
Ill-health retirement: 5%* increase to assumed rates	0.0%	0.0%	0.0%
Ill-health retirement: 5%* increase in proportion assumed to receive higher tier benefits	0.0%	0.0%	0.0%
Proportions partnered: 5%* more members assumed to have qualifying partners at death	0.3%	0.0%	0.3%
Resignations and opt outs: 5%* higher numbers assumed to leave voluntarily before retirement (net of rejoiners)	0.0%	-0.1%	-0.1%
Promotional pay increases: 0.5% higher promotional pay increases than assumed	1.3%	0.9%	2.2%

* All these represent multiplicative increases to rates, i.e. 5% means rates 1.05 times higher.

Appendix D Glossary

Many of the terms below are defined by regulations and in such cases this glossary is intended to assist in understanding.

Transitional protection remedy/remedy, also known as the **'**McCloud / Sargeant remedy' means benefit changes resulting from the Court of Appeal ruling on 20 December 2018 in relation to the McCloud judgment, as set out in Direction 49(2) of the ***Directions***.'

The ***cost cap cost of the scheme*** means the contribution rate which is compared against the ***employer cost cap*** at the first and each subsequent valuation of a scheme. Apart from the impact of the **transitional protection remedy**, the ***cost cap cost of the scheme*** is set out in more detail in the completed 2016 valuation reporting.

The ***employer cost cap*** is the contribution rate, that was determined at the 2012 valuation, to cover the cost of benefits accruing over the implementation period as if all active members were in the 2015 Scheme and had no pre 2015 Scheme service, minus the expected average contribution rate payable by members over the implementation period. This can be thought of as a baseline cost for the scheme under the cost control mechanism.

Pensionable earnings is the part of pay that is included for the purposes of determining contribution requirements and benefit payments.

Appendix D Glossary

The ***2013 Act*** means the Public Service Pensions Act 2013.

The ***2014 Regulations*** means the Public Service (Civil Servants and Others) Pensions Regulations 2014.

The ***Directions*** means The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014, as amended, including in particular amendments made by the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2021.

HMT regulations means the Public Service Pensions (Employer Cost Cap) Regulations 2014.