



Public Sector Pensions

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7th June 2017



Agenda & Takeaways

- SCAPE -
The most crucial but least appreciated interest rate in the UK
- Public sector benefit fractions and revaluation
- A 12 figure benefit reduction value, "actuarial equivalence", non-application of s67 and a potential professional dilemma.
- Key words -
Sustainability. Intergenerational fairness. Public interest.



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Background

- Lord Hutton reports 2010-11
- Public Service Pensions Act 2013
- Career average revalued earnings (CARE) schemes from 1st April 2015
- Increased member contributions
- Later normal retirement age - most linked to state pension age
- CPI indexation



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Pension Boards

- Public sector appointment (and advert)
- Independent chair and vice chair for each scheme
- Employee and employer representatives (central and local government involvement)
- Trustee/non executive director type role
- Administration and communication focus
- Limited actuarial involvement
- Pension Advisory Boards



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Idiosyncrasies

- Pre and post April 2015
- Across historic schemes e.g. 1992, 2006, 2015 and part time employees.
- North & south, east & west, North Channel
- Revaluation S9 PSPA 2013 - H M Treasury dictates (May each year) increase or decrease - the latter with "affirmative Commons procedure"
- State pension age change (deferreds)
- Contract based promises
- Legal challenges

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Tax payer comfort?

Cost Cap (or corridor)

- H M Treasury - March 2014
- "Actuarial valuations and the employer cost cap mechanism"
- 32 pages of Directions
- 44 pages of guidance under principles of –
- completeness, no bias, consistency, clarity, cost control, sustainability and interestingly immunity from SCAPE , long term earnings changes and actuarial methodology.
- Scottish Firefighter's; 15.8% +/- 2% (Employee contribution; 8.5% - 17.0%)
- Actual earnings increases, longevity and ill health

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SCAPE

- Superannuation Contributions Adjusted for Past Experience
- Reduced in 2011 from RPI+3.5% to CPI+3%
- £10bn+ per annum contribution impact
- Budget 2016 -> CPI + 2.8%, OBR, economic growth
- £2bn per annum employer impact from 2019-20
- RPI -> CPI, eclipses 1997 ACT change?
- Whole of Government Accounts 2012-13 (CPI+1.8%) ~ £105bn (unfunded)

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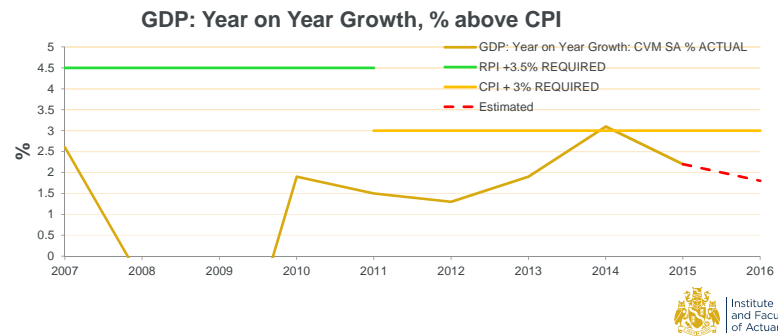
SCAPE setting

- Historic **RPI**+3.5%
- Hutton Review, 2011 consultation and drop to **CPI**+3.0%
(RPI – CPI indexation also implemented)
- ACM Freedom of Information (Fol) Request
GAD – H M Treasury correspondence 23rd March 2011
Alternatives – ILGS, RoF (private), social time preference rate.
- Regular and scheduled review in 2016, drop to CPI+2.8%
ACM Fol; GAD – H M Treasury correspondence 11th March 2016
Reflecting long term GDP growth, OBR report of early March
£2bn pa added to employer budgets 2019-20

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SCAPE – actual v expected

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Employer Covenant?

- We're borrowing £3,000 per second at 1/8% coupon, at negative real rates
- Your other national debt
- Balance sheet, £1.5tn unfunded contractual pensions (RPI and CPI+)
- 1% shortfall in any one year eclipse most election promises!
- Millions of stakeholders
- But accountable - WoGA, FoI, 5-yearly reviews
- Vested personal interests?

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Consequences? Headlines? Questions?

- Politicians guarantee future austerity.
- Please confirm which schools and which hospitals will be closed because of the 2010-20 pensions assumption fantasy?
- Please confirm which new crimes won't be investigated and which new area's fires will be left to burn in future?
- Is the actuarial profession to blame for hiding this pie-in-the-sky assumption?
- Why are so few aware of this other spiralling national debt?
- Would all private sector pension deficits disappear with CPI+2.8% returns?
- How many MPs have heard of SCAPE?

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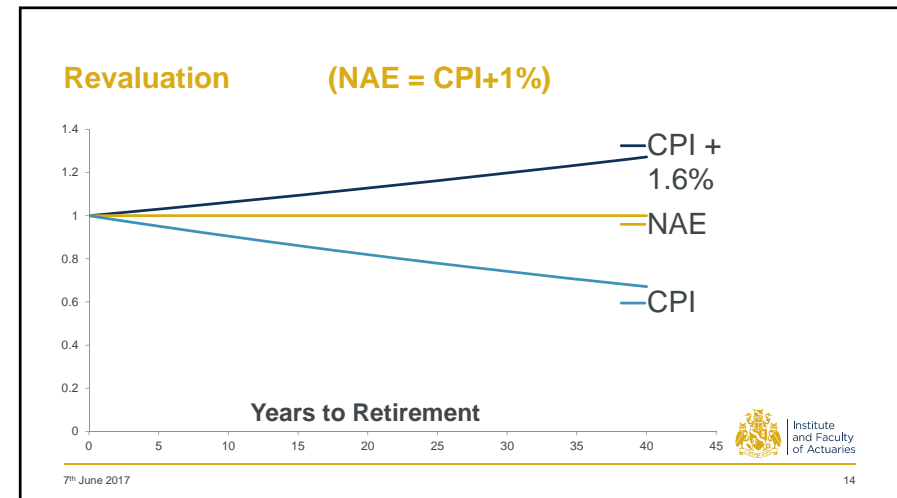
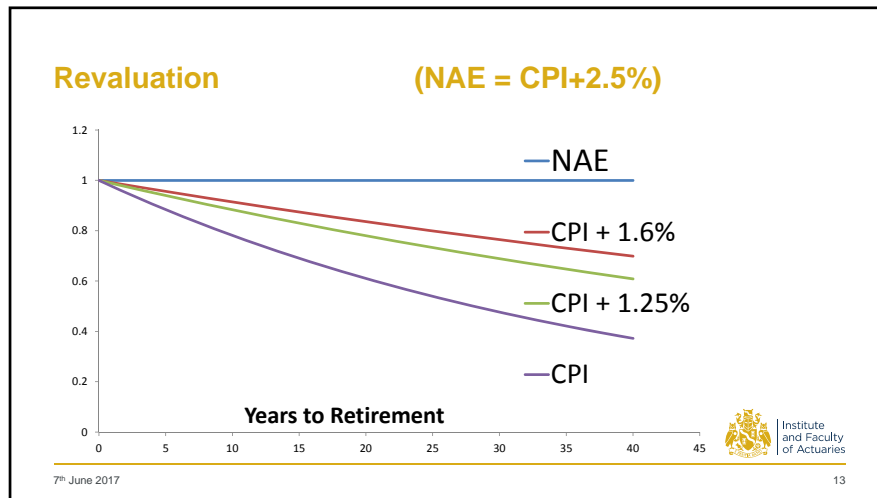
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Benefit fractions and revaluation

Scheme	Pension Fraction	In Service Revaluation ~	March 2017 Award
Local Government	1/49	CPI	1.0%
NHS	1/54	CPI+1.5%	2.5%
Police	1/56.1	CPI+1.25%	2.25%
Teachers	1/57	CPI+1.6%	2.6%
Firefighters (Scot/Eng.)	1/61.6 / 1/59.7	(NAE)	2.6%
Civil Service (alpha)	2.32% (~1/43)	CPI*	1.0%

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Like private like public

- LTA - Lifetime (Tax) Allowance
- TAA - Tapered Annual Allowance
- GMP reconciliation
- Case law/issues
- Workloads
- Communications
- Systems/digitalisation
- Data



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Case Law

- Mr William Milne from Strathclyde
- 1998 commutation factors, 2006 retirement
- <https://www.pensions-ombudsman.org.uk/wp-content/uploads/PO-1327.pdf>
- "actuarial equivalence"
- GAD compensation - interest, tax but not expenses;
- Police and firefighters affected
- National Audit Office report February 2017
- £711m total compensation



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Aside – professional

- TAS100, Clause 3.5 1st July 2017
- “Communications shall state when assumptions are set by a user, a third party or by regulation. Communications shall state whether any assumptions set by a user or a third party are **not reasonable** for the purpose of the technical actuarial work and provide an indication of their impact on the actuarial information.”
- 1st sentence – user, third party, regulation
- 2nd sentence – user, third party
- I&FoA PSS - Professional Support Service 2017/421 – “used for funding”
- Damages awards and public sector pension valuations

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Questions

Comments

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