



Government
Actuary's
Department

Government Actuary's review of the cost control mechanism

Stakeholder engagement event – 23
October 2020

9 December 2020



Notes from stakeholder event

This event was attended by member and employer representatives from across the public service pension schemes from England, Wales, Scotland and Northern Ireland. This paper is provided to the attendees of the event as a summary of the key discussion points in relation to the review of the cost control mechanism, set out under the broad discussion areas highlighted in the agenda for the event. It is not intended to be comprehensive minutes of the event.

We are happy for stakeholders to contact GAD if they believe their comments at the event may have been mis-understood in this summary. Please contact GAD at ccreview@gad.gov.uk.

These notes are produced for the information of the attendees of the stakeholder event for the Government Actuary's review of the cost control mechanism. The notes may be shared with scheme managers and members of the Scheme Advisory Boards for the public service pension schemes covered by the cost cap mechanism. Please let us know if this is expected to cause any issues.

Introduction

The Government Actuary introduced this as an open review, considering whether the existing cost cap works and if there should be any changes, and that this event is seeking stakeholder comments both at a high level and considering greater detail.

High level comments on how the cost control mechanism is meeting the objectives

General agreement that member costs have genuinely fallen so should be recognised.

Objective of stability is important and not wise to have a cycle of floor and cap breaches.

Discussion on the objective of controlling the cost to the taxpayer. Noted that the cost control mechanism only considers member costs and so does not control employer costs.

Discussion that the three objectives are at conflict.

Views on how regularly it would be reasonable to expect there to be breaches of the cost control mechanism, examples of events that might be expected to lead to a breach and what type of events should be outside the scope of the cost control mechanism

The floor breach in the preliminary results of the 2016 valuation represented lower employee pay increases and the slowdown in longevity improvements, reflecting extraordinary events. Discussion that the slowdown in longevity is not a blip, but a trend to lower life expectancy improvements. Schemes have also seen many members leaving earlier than expected. The cost control mechanism would therefore have acted as intended to restore value.

Views on any specific aspects of the cost control mechanism For example: member vs employer costs; treatment of past and future service costs; differences between employer contribution rate and cost control mechanism; inter-generational impacts

The employer contribution rate is affected by changes in the discount rate but the discount rate doesn't change the true cost of providing benefits from the schemes.

Discussion that the cost cap mechanism should only be member-related. For example, if there is an improvement in life expectancy, members would justifiably face increased cost cap mechanism costs.

Cost control rectification options should include member contributions.

Inter-generational effects have been portrayed negatively but it is inherent in DB schemes. Member representatives don't believe that members see inter-generational fairness as an issue.

There have been many changes to pension arrangements prior to the cost control mechanism and members would like stability of the mechanism as the approach is now understood by members.

Scheme-specific elements, such as whether the mechanism should have any bespoke tailoring

Agreement that having a single cost control mechanism that applies across all schemes is preferable, so all are dealing with similar issues.

Scope for LGPS to differ slightly due to funded nature, but still working within the construction of the overall cost cap mechanism.

Next steps

No fixed date for conclusion of the review but required to feed into the 2020 valuation with the potential for also having some longer-term changes. This suggests the first half of 2021 for completing the Government Actuary's review, after which HMT will need to consider and this may include a formal consultation.

Confirmed that any changes from the review of the cost control mechanism will not apply until the 2020 valuation.

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