Important Information (Staff Transfers)

Actuarial assumptions for broad comparability assessments

Introduction

1. This note sets out the actuarial assumptions which are used by GAD in carrying out broad comparability assessments under the Government's Fair Deal policy.

2. Annex A of the Fair Deal 2013 policy contains guidance about how the actuarial assumptions to be used for broad comparability assessments should be derived. The actuarial assumptions set out in this document have been derived with reference to this guidance.

3. This note is provided for information only. It is not intended to be advice for any party and GAD can take no responsibility for any action or inaction taken partly or wholly on the basis of this note. Parties should seek their own advice as appropriate.

Application

4. This note replaces the previous corresponding announcement dated 1 July 2014.

5. The actuarial assumptions set out in this document will be used for broad comparability assessments carried out by GAD under the Fair Deal 2013 policy, until further notice. They will also be used for broad comparability assessments carried out by GAD under the Fair Deal 2004 policy.

6. They will be used for all new applications received by GAD on or after 1 March 2019. Applications received before 1 March 2019 will continue to be processed under the previous 1 July 2014 assumptions until 1 September 2019, or later in exceptional circumstances to be agreed on a case by case basis. Existing broad comparability certificates (and passport certificates) are not being withdrawn as a consequence of this change. There is therefore no requirement for contractors to replace an existing certificate on account of this change.

Financial assumptions

7. These are consistent with the long-term assumptions used for valuing public service pension liabilities, as set out in The Public Service Pensions (Valuation and Employer Cost Cap) (Amendment) Directions 2018 ('the Directions').

8. The main financial assumptions used are as follows:

   - Rate of increase of official pensions (in line with Pensions (Increase) Act 1971) = 2.0% pa

   - Price measure revaluations of career average re-valued earnings = 2.0% pa (nominal)

- Earnings measure revaluations of career average re-valued earnings
  = 4.2% pa (nominal)

- Rate of public service earnings growth
  = 4.2% pa (nominal)

- Discount rate
  = 4.45% pa (nominal)

9. Although the public service pension schemes currently provide pension increases which follow directly changes in consumer prices, this is not always the case for private sector schemes used for broad comparability, which may have capped pension increases in deferment and/or payment. The assumptions used for capped pension increases are as follows:

   - In line with the Pensions (Increase) Act 1971, or CPI (with no cap)
     = 2.0% pa

   - In line with the Pensions (Increase) Act 1971, or CPI, with an annual cap of 5%
     = 1.8% pa

   - In line with the Pensions (Increase) Act 1971, or CPI, with an annual cap of 2.5%
     = 1.2% pa

   - In line with the Pensions (Increase) Act 1971, or CPI, with an overall cap in deferment of 5% pa
     = 1.9% pa

   - In line with the Pensions (Increase) Act 1971, or CPI, with an overall cap in deferment of 2.5% pa
     = 1.65% pa

   - In line with RPI (with no cap)
     = 3.15% pa

   - In line with RPI, with an annual cap of 5%
     = 2.65% pa

   - In line with RPI, with an annual cap of 2.5%
     = 1.6% pa

   - In line with RPI, with an overall cap in deferment of 5% pa
     = 3.0% pa

   - In line with RPI, with an overall cap in deferment of 2.5% pa
     = 2.25% pa

   The assumptions used for caps at other levels are available on request.

Demographic assumptions

10. The demographic assumptions will be as specified in the Directions and, where the assumptions are scheme-specific, in line with the demographic analysis underlying the most recent scheme valuation undertaken under those Directions. In particular:

- *Post-retirement mortality assumptions*

  Scheme specific baseline post-retirement mortality assumptions are used (consistent with the last published actuarial valuation for the relevant public sector pension scheme), but allowance for future improvements in post-retirement mortality rates is based on the Office for National Statistics 2016 principal population projections for the United Kingdom, in line with the assumption set out in the Directions.

- *State pension age*

  State pension ages will be assumed to be in line with those set out in the Directions.

- *Commutation*

  For schemes where members are entitled to choose to surrender pension for a lump sum at a rate of £12 lump sum for every £1 of pension surrendered (and is not entitled to a fixed lump sum on retirement by scheme regulations), members will be assumed to surrender 17.5% of their pension for a lump sum at retirement.

  For schemes where members are entitled to a fixed lump sum on retirement by scheme regulations, members will not be assumed to surrender any of their pension for a lump sum at retirement.

  For schemes where members are entitled to choose to surrender pension for a lump sum at a rate other than £12 lump sum for every £1 pension surrendered (and are not additionally entitled to a fixed lump sum on retirement by scheme regulations), the assumptions to be used concerning commutation will be determined on a case by case basis.

Further information

11. Further information is available on request – please contact staff.transfers@gad.gov.uk.

Staff Transfers
Government Actuary's Department

18 February 2019