



Government
Actuary's
Department

Local Government Pension Scheme

McCloud / Sargeant litigation: Equalities impact

16 July 2020

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Executive summary

1. This note has been put together to help MHCLG understand how LGPS members are likely to be affected by the proposed McCloud underpin remedy from an equality point of view. The impact of the remedy is analysed by sex and age.
2. The analysis presented considers the result of applying the remedy to members who joined before 1 April 2012.

Analysis by sex

Figure 1a: Percentage of currently protected, eligible and expected to benefit from remedy split by sex

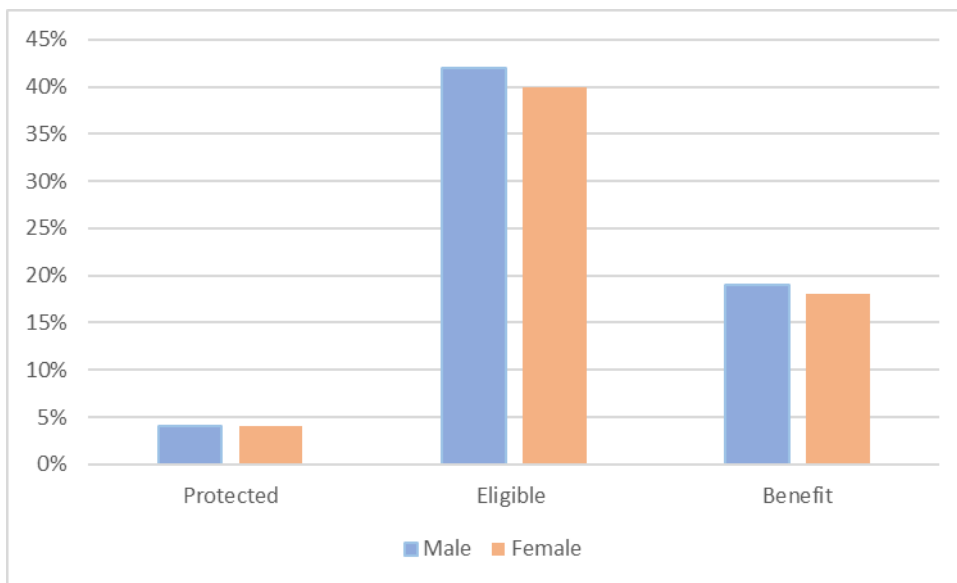
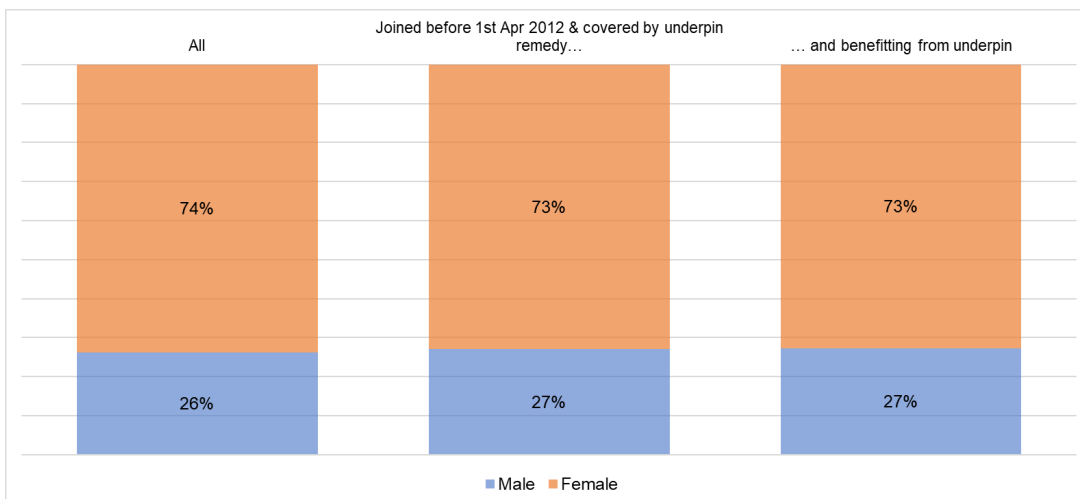


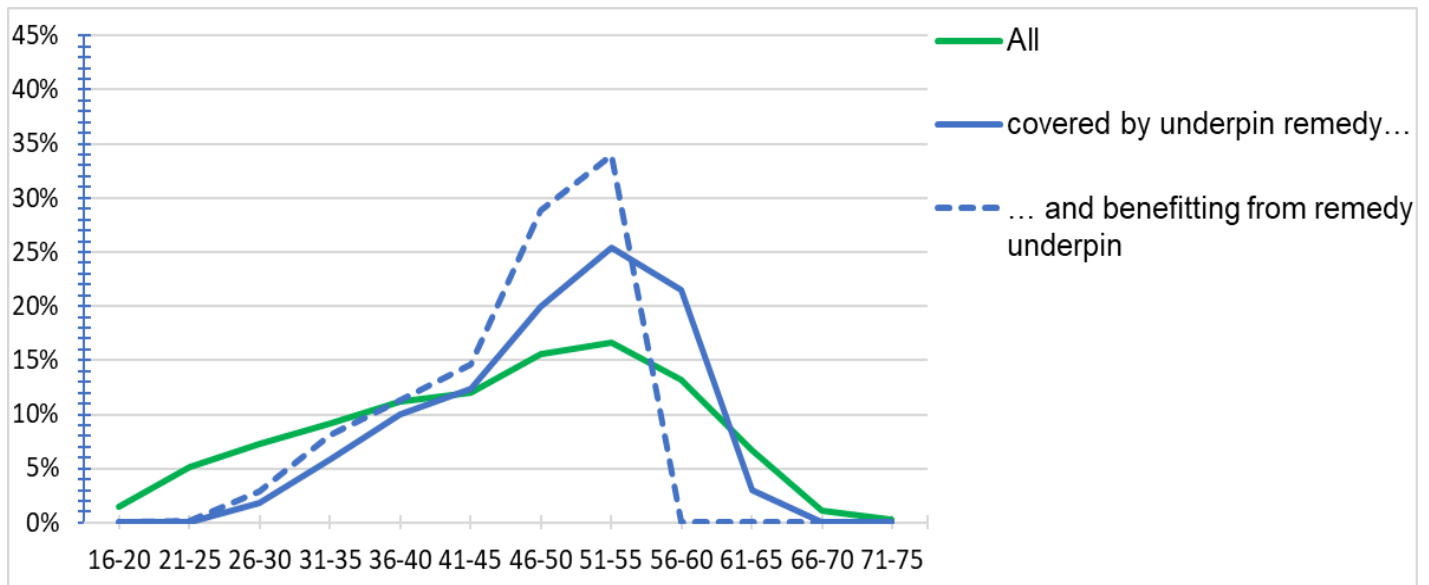
Figure 1b: Remedy coverage and benefit by sex



3. Figure 1a shows the proportions of women and men who currently have underpin protection (far-left bar), the proportion who would be eligible for remedy (second bar) and expected to benefit from remedy (third bar).
4. Figure 1b shows that 74% of all active members are women (far-left bar). Of members who qualify for the underpin remedy, 73% are women under the remedy (second bar). Of members who qualify and also benefit from the remedy, 73% are women (third bar).
5. We can observe that the proportion of men and women who are both eligible for remedy and those who are expected to benefit from remedy broadly matches the profile of the scheme.

Analysis by age

Figure 2: Remedy coverage and benefit by age as at 31 March 2019



6. Figure 2 shows that:
 - a) The majority of active members are aged between 41 and 60 (green line).
 - b) The majority of members who qualify for the remedy are also aged between 41 and 60, although this age group qualifies to a larger extent (between ages 41-60, the solid blue line is higher than the green line). Younger members are less likely to qualify as a greater proportion of these members joined after 2012. Members aged 62 and over will already have protection (and hence not benefit from remedy).
 - c) The majority of members who qualify and also benefit from the remedy are aged between 41 and 55 (dashed blue line)
7. Figure 2 therefore indicates that the remedy proposals have different impacts across different age groups (note that if the impact was the same on all age groups the two blue lines would closely mirror the green line).

Introduction

8. The Local Government Pension Scheme (England and Wales) (LGPS) introduced a new CARE benefit structure with effect from 1 April 2014 ('the 2014 scheme'). For members who were 10 years or less from Normal Retirement Age on 1 April 2012 (ie aged 55 or above¹), an underpin was provided based on the existing final salary scheme ('the 2008 scheme'). In December 2018, the Court of Appeal found that similar transitional provisions in the pension schemes for firefighters and the judiciary resulted in unlawful age discrimination. The Government believes that the difference in treatment will need to be remedied across all affected public service pension schemes, including LGPS².
9. MHCLG have commissioned GAD to prepare data on the number of members who may be affected by the remedy by sex and age, so that they can consider the equality impacts of the proposed remedy. GAD have prepared this note for MHCLG for that purpose.

Underpin: eligibility

10. This note is based on data on the active members of LGPS as at 31 March 2019. These members can be split into three groups:
 - a) Those already eligible for the underpin under the regulations as they stand
 - b) Those who are not currently eligible for the underpin, but would be eligible under the proposed remedy
 - c) Those who are not eligible for the underpin (even after remedy)

Underpin: members expected to benefit

11. Members who are eligible for the underpin may, on taking their benefits, either:
 - a) Benefit from the underpin: Receive a higher pension because the underpin of the final salary scheme benefits is greater than the CARE benefits. Members are more likely to benefit from the underpin if they remain in the scheme for many years and receive significant salary increases over this time.
 - b) Not benefit from the underpin: Receive their CARE pension without any uplift, because it is higher than the final salary scheme benefits
12. In the remainder of this note, we consider the number of members qualifying for the underpin (and those subsequently expected to benefit from the underpin) according to:
 - a) Sex
 - b) Age (and sex)

Data

13. The analysis is based on member data as at 31 March 2019. Exclusions made to the data are described in Appendix A.

¹ Except for a small minority of members who had a normal retirement age of 60 in the 2008 scheme.

² Public Service Pensions: Written statement - HCWS1725 15 July 2019
<https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/>

Assumptions

14. In order to estimate the number of members who are expected to ultimately benefit from the remedy underpin, it is necessary to make assumptions about members' future careers, in particular how long they remain in the scheme and their future pay increases (both pay awards and individual promotion or progression pay).
15. The analysis in this note is based on the assumptions recommended for the 2016 valuation under HM Treasury directions, including the assumption that earnings increase at 2.2% above CPI.
16. The estimated number of members expected to benefit from the remedy underpin is sensitive to the assumed increase rates for earnings and CPI (which is used in the 2014 scheme CARE revaluation). For example, if earnings were to increase in line with CPI (rather than 2.2% above CPI) then we would expect very few members to benefits from the underpin.
17. This analysis of the number of members expected to benefit from the remedy underpin is based on an average member at a particular age and sex and the 2016 valuation assumptions. Allowing for variations in individual members' future service or salary progression may produce different figures, because the underpin may bite for 'high flyers' with significant salary progression, but not for those with less salary progression. In addition, based on our current calculations we can only identify if members of a particular age and sex will on average benefit based on their expected future method of exit (ie retirement, withdrawal, ill health retirement, or death in service).
18. The analysis of the number of members expected to benefit should be treated with some caution because of the sensitivity to assumptions and the limitations in the methodology discussed above. Some features of this analysis may not be realistic for every individual, however, the analysis does indicate the broad pattern of members expected to benefit.
19. Further details of the assumptions are set out in Appendix B.

Compliance and limitations

20. This work has been carried out in accordance with the applicable Technical Actuarial Standard TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.
21. Important limitations are set out in Appendix C.

Analysis by sex

Summary

22. The tables that follow analyse the number of members who would qualify for the remedy and the number who would be expected to benefit by sex. The key results are:
- In terms of number of members, the majority of LGPS active members are women, and so the majority of those who would qualify for the remedy and would be expected to benefit from it are women
 - About 40% of women who are active members as at 31 March 2019 are expected to have underpin eligibility extended to them, compared with 42% of men.
 - Around 18% of women and 19% of men who are active members as at 31 March 2019 are expected to benefit from having the underpin eligibility extended to them.

Table 1: Proportion of members covered and expected to benefit from remedy split by sex

	remedy	
	Covered by underpin remedy	Benefitting from remedy
Male population	42%	19%
Female population	40%	18%

Analysis

23. The following tables considers the number of members in each of the following three categories, split by sex and remedy proposal.
- Those already eligible for the underpin under the regulations as they stand
 - Those who are not currently eligible for the underpin, but would be eligible under the proposed remedy
 - Those who are not eligible for the underpin (even after remedy)

Table 2: Members with different potential underpin status

	Total members (000s)		Men (000s)		Women (000s)	
	Count	%	Count	%	Count	%
Group A: Member of the scheme on 1 Apr 2012 – underpin protection	63	4%	19	4%	44	4%
Group B: Member of the scheme on 1 Apr 2012 – no underpin protection	675	40%	182	42%	492	40%
Group C: Not a member of the scheme on 1 Apr 2012	939	56%	238	54%	702	57%
Total	1,676		439		1,238	

24. There is a marginally higher proportion of male members who have underpin protection and a higher proportion of female members who joined the scheme on or after either remedy date. Whilst these characteristics work in opposite directions the overall impact is that proportionally more male members may be expected to be eligible for the remedy underpin than female members.
25. The following paragraphs consider members in Group B, that is members who are not already eligible for the underpin, but would be under the proposed remedy and on taking their benefits in the future would expect to receive an underpin.

Table 3: Group B members expected to benefit from remedy

	All members	Men	Women
Number of members expected to benefit (000s)	309	85	225
Proportion of members expected to benefit (as a proportion of all members)	18%	19%	18%

26. Again the sex difference of the remedy is small; with males have a marginally higher expectation of gaining from the remedy than women; 19% compared to 18%.
27. The key results are that the sex proportions are almost identical between:
- Members who qualify for the remedy
 - Members who benefit from the remedy

Analysis by age and sex

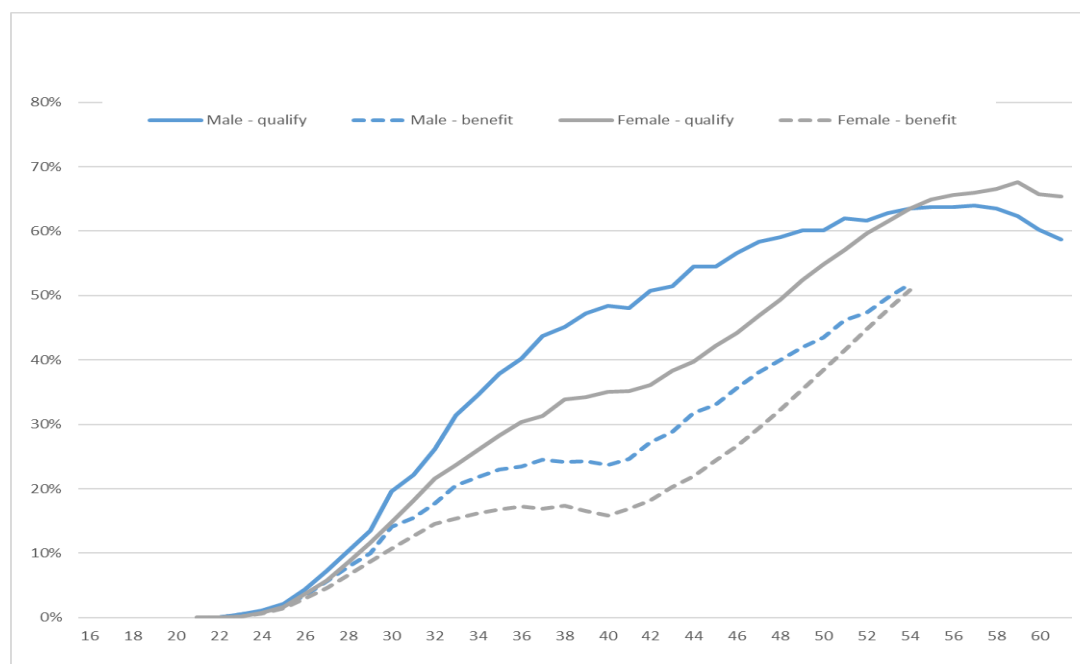
Summary

28. The charts and tables that follow analyse the number of members who would qualify for the underpin and the number who would be expected to benefit by age and sex. The key results are:
- In terms of number of members, just under 80% of the LGPS are aged between 31 and 60; with the highest proportion in the range 46 to 55.
 - Members aged 62 and over in 2019 will not be affected by the remedy (having been within 10 years of retirement on 1 April 2012, and hence protected)
 - Younger members are less likely to qualify for the underpin as a result of the remedy
 - Even where younger members qualify for the underpin, they are expected to be less likely to benefit from it, because they are more likely to leave service and so not obtain the pay increases require to make the final salary benefits higher than CARE
 - Considering age and sex, at each age
 - Men are more likely to qualify for the underpin than women
 - Men are more likely to be expected to benefit from the underpin than women

Analysis

29. The charts and tables that follow analyse the number and proportions of members who would qualify for remedy and who would be expected to benefit by age and sex. Men are more likely to qualify for the remedy up to age 54 and more likely to benefit from the remedy at all ages where a benefit is observed. This is a result of salary progression being higher for men than women, and the expected number of voluntary leavers being lower for men.

Figure 2: Proportion of members who qualify and benefit from remedy



30. Table 4 and Figures 4-5 indicate:

- a) Members aged 62 and over in 2019 will not be affected by the remedy as they would already qualify.
- b) More generally members aged 55 or older (on 31 March 2019) are not expected to benefit from the remedy given the shorter time period for salary increases to accrue. However, for members below this age the lower voluntary withdrawal at older ages increases the likelihood of members benefitting from the remedy underpin.
- c) Younger members are less likely to qualify for the underpin as a result of the remedy. Given the higher turnover of employees at younger ages (and therefore the small percentage having been in employment prior to 1 April 2012) the proportion expected to qualify for an underpin generally increases with age.
- d) Even where younger members qualify for the underpin, they are expected to be less likely to benefit from it, because they are more likely to leave service and so not obtain the pay increases require to make the final salary benefits better than CARE.
- e) Men are more likely to qualify for the underpin than women (because a greater proportion of women joined after 2012; despite a marginally higher proportion of men being eligible for the existing underpin)
- f) Men are more likely to be expected to benefit from the underpin than women because they are more likely to qualify for the underpin, and the higher assumed salary progression and lower voluntary withdrawal rates for men compared to women means they are expected to be more likely to benefit
- g) However, there are higher numbers of female members in the age bands where the proportion of members expected to both qualify for the remedy underpin and expected to benefit from the remedy underpin is highest; which results in a more even sex split overall.

31. In summary, male members are both more likely to be eligible for and benefit from the remedy at almost all relevant ages.

32. Figures 4-5 are shown as tables below.

Table 4: Members who qualify for the remedy, by age and sex

Age	Male members			Female members			All members		
	Total number of members 000s	Qualify for extended underpin 000s	Proportion of total qualifying	Total number of members 000s	Qualify for extended underpin 000s	Proportion of total qualifying	Total number of members 000s	Qualify for extended underpin 000s	Proportion of total qualifying
16-20	10	0	0%	16	0	0%	26	0	0%
21-25	29	0	1%	57	0	1%	86	1	1%
26-30	36	4	11%	86	8	9%	122	12	10%
31-35	41	12	31%	113	27	24%	153	39	26%
36-40	44	20	45%	144	48	33%	189	68	36%
41-45	44	23	52%	158	61	38%	202	84	41%
46-50	57	33	59%	204	101	50%	261	135	52%
51-55	69	44	63%	209	128	61%	278	171	62%
56-60	64	40	63%	159	105	66%	222	145	65%
61-65	36	6	16%	77	14	19%	112	20	18%
66-70	8	0	0%	12	0	0%	20	0	0%
71-75	2	0	0%	3	0	0%	5	0	0%
All	439	182	42%	1,238	492	40%	1,676	675	40%

Table 5: Members expected to benefit from remedy, by age and sex

Age	Male members			Female members			All members		
	Total number of members 000s	Number of members benefitting 000s	Proportion of total benefitting	Total number of members 000s	Number of members benefitting 000s	Proportion of total benefitting	Total number of members 000s	Number of members benefitting 000s	Proportion of total benefitting
16-20	10	0	0%	16	0	0%	26	0	0%
21-25	29	0	1%	57	0	1%	86	1	1%
26-30	36	3	8%	86	6	7%	122	9	7%
31-35	41	8	20%	113	17	15%	153	25	16%
36-40	44	11	24%	144	24	17%	189	35	18%
41-45	44	13	29%	158	32	21%	202	45	22%
46-50	57	23	40%	204	67	33%	261	89	34%
51-55	69	27	39%	209	78	37%	278	105	38%
56-60	64	0	0%	159	0	0%	222	0	0%
61-65	36	0	0%	77	0	0%	112	0	0%
66-70	8	0	0%	12	0	0%	20	0	0%
71-75	2	0	0%	3	0	0%	5	0	0%
All	439	84	19%	1,238	225	18%	1,676	309	18%

Appendix A: Data

33. This note is based on the data provided in 2019. For the purpose of this analysis, the following manipulations have been made:

	Sex & Age analysis
Input data	1,919,064
Excluded duplicate records so analysis is by member, not employment record; only members with unique combination of NI number, sex and date of birth are included	242,572
Used for analysis	1,676,492

34. The data has been provided by the administering authorities and their actuarial advisors. We have relied on the general completeness and accuracy of this data for this report. We have carried out limited checks on the data but these do not represent a full independent audit of the data supplied. In particular, GAD has relied on the general completeness and accuracy of the information supplied without independent verification.

Appendix B: Assumptions

35. This note is based on the assumptions recommended for the 2016 valuation, as detailed in our note “Local Government Pension Scheme (England and Wales) Actuarial valuation as at 31 March 2016 Advice on assumptions” of 3 October 2019. The limitations associated with these assumptions set out in that note also apply to this advice.

36. The estimated cost of extending the underpin is sensitive to assumptions that have different impacts on the benefits payable under the 2014 scheme and the underpin benefits, in particular assumptions regarding:

- a. Future increases in salaries and CPI
- b. Promotional salary increases
- c. Withdrawal (ie leaving active membership without an entitlement to immediate benefits)

37. Section 9 of the Advice on assumptions report of 3 October 2019, sets out how the promotional salary increase assumption is analysed in detail, but the key information is copied below:

9.4 To formulate a recommended assumption we compared the scheme experience to the assumption adopted for the 2013 valuation. Two types of analysis can be considered.

- > **Profile analysis:** This considers the overall active membership as at 31 March 2016 and compares average (whole time equivalent or ‘WTE’) pensionable pay at each year of age with that at other ages. This analysis illustrates how (average WTE) pay varies by age and may be a suitable basis on which to set an age related pay scale.
- > **Starter/ender analysis:** This analysis would consider only those members who were in active membership at both the 2013 and 2016 valuation dates. For those members we would calculate their increase in pensionable pay (WTE) over the period (net of assumed general pay increases) and compare the average increase with that assumed. The rates of assumed increase being based on the members’ ages over the intervaluation period and the 2013 valuation assumptions. This analysis would illustrate how actual promotional pay increases have impacted actual members which could form a suitable basis on which to set an age related pay scale.

9.5 In practice we were able to do starter/ender analysis, but we proposed assumptions based on the profile analysis because data for the second analysis, where available, include general increases, promotional pay increases and so called pay drift. These components were not able to be separated because:

- > The headline pay increases we were provided were for Local Authority employers only, pay awards for other employers could be significantly different and we have no data for these.
- > The period in question was atypical because of general austerity, auto-enrolment and the high number of withdrawals experienced.

38. Section 7 of the Advice on assumptions of 3 October 2019, sets out how the withdrawal assumption is analysed in detail, but the key information is copied below:

7.6 In setting the withdrawal assumption, we analysed actual withdrawal experience over the three years to 31 March 2016, adjusted this for the rate at which members rejoin, then took the average of the implied net withdrawal rate and the assumption adopted in 2013.

7.7 Data analysed suggested a very high level of voluntary withdrawal from service, relative to the assumption set for the 2013 valuation. The period since 31 March 2013 has however been affected by auto-enrolment: people being automatically enrolled into the Scheme, then leaving shortly afterwards, which would have served to push up the incidence of voluntary withdrawal from service.

39. The following table sets out the main financial assumptions.

Table B1: Financial assumptions

Discount rate	2.4% pa real; 4.45% nominal			
Pension increases	2.0% pa			
Long term salary growth	4.2% pa, 2.2% pa in excess of assumed CPI			
Short term variations in assumptions	Year	Gross discount rate	Pension increases ³	Salary growth
	2016/17	3.42%	1.0% ⁴	1.2%
	2017/18	5.47%	3.0% ⁵	2.2%
	2018/19	4.65%	2.2%	2.1%
	2019/20	4.24%	1.8%	2.3%
	2020/21	n/a	n/a	2.6%
	2021/22	n/a	n/a	2.8%
	2022/23	n/a	n/a	3.0%

40. The following graph sets out the assumed promotional pay salary scales:

Table B2: Promotional salary scales for all members

Age	Men	Women
20	90	95
25	92	96
30	100	100
35	105	103
40	109	104
45	112	106
50	115	107
55	115	107
60	115	107
65	115	107

³ Relates to the Pension Increase made in the April following the year end

⁴ Order made for 2016/17

⁵ Order made for 2017/18

41. The following chart sets out the assumed decrements:

Table B3: Voluntary withdrawal rates for all members

Age	Men	Women
20	0.117	0.128
25	0.092	0.102
30	0.073	0.081
35	0.057	0.064
40	0.045	0.051
45	0.035	0.040
50	0.028	0.032
55	0.022	0.025
60	0.017	0.020
65	0.014	0.016

Appendix C: Limitations

42. These results show the estimates of the expected impact of the remedy assuming the proposed remedy applies to joiners prior to 1 April 2012. The actual number of members impacted will depend on the individual circumstances of each member.
43. This estimate is based on 2016 valuation assumptions. If different assumptions were adopted, results would be different.
44. In preparing this advice, we are aware that our analysis may be affected by risks arising from the impact of the COVID-19 pandemic. At this stage, the full impact of the COVID-19 pandemic is not known and will remain uncertain until further evidence is available. No adjustments have been applied to the analysis to reflect these risks. To the extent that COVID-19 impacts individual members' future salary growth and the future career paths it will impact which members' are expected to benefit from the underpin and hence this analysis.
45. This note is based on data as at 31 March 2019, which has undergone quality checks and manipulations by GAD and also been manipulated according to Appendix A; however we have relied on the data provided.
46. Other than MHCLG, no person or third party is entitled to place any reliance on the contents of this report, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this report.
47. GAD are not legally qualified and our advice does not constitute legal advice. Advice in this area should be sought from an appropriately qualified person or source.
48. The form of remedy has not yet been legislated and if the final remedy differs from the assumptions made here, results will be different.