



Government
Actuary's
Department

Northern Ireland Civil Service Pension Scheme

Cost cap valuation as at 31 March 2016
Assumptions, methodology and data

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9 February 2022



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At GAD, we seek to achieve a high standard in all our work. We are accredited under the Institute and Faculty of Actuaries' Quality Assurance Scheme. Our website describes [the standards](#) we apply.



Purpose

This report was commissioned by the Northern Ireland Department of Finance (DoF) and is addressed to them. We understand it will be made available to the Scheme Advisory Board.

The purpose of this report is to set out our proposed approach to the cost cap valuation as at 31 March 2016 for the Principal Civil Service Pension Scheme (Northern Ireland) ('pre-2015 scheme') and the Civil Servants and Others Pension Scheme (Northern Ireland) ('post-2015 scheme') (together the 'Northern Ireland Civil Service Pension Scheme' (NICSPS) or 'the scheme') and to assist DoF with their decision making. It is important that DoF test the assumptions and methodology adopted for the 2016 valuation signed in early 2019 in light of the transitional protection remedy. DoF will also need to ensure it is content with the approach we have taken in respect of eligibility of members for the transitional protection remedy.

The report provides advice to DoF on these matters, as required by Direction 55.

We would be pleased to provide advice on any alternative approaches which DoF would like to consider in relation to any of the proposals in this report.

DoF should consult with stakeholders as required on the contents of this report and confirm to GAD that it is content with the assumptions, methodology and the approach to data that DoF will adopt for the 2016 cost cap valuation.

Next steps

DoF should consider the following recommendations and either confirm that they are content or instruct us to adopt alternative approaches:

- 1 No changes from the 2016 valuation assumptions
- 2 The calculation methodology we recommend, as set out in section 2
- 3 Derivation of member eligibility from available data, as set out in section 3



1. Assumptions



2016 assumptions

The assumptions set by DoF used in the 2016 cost cap valuation report must be the same as those adopted in the 2016 valuation reports signed in early 2019, **unless those assumptions are not best estimates or are insufficient for the purpose as a direct result of the impact of the transitional protection remedy.** This may apply because the original 2016 assumptions:

1. May be insufficient for the 'better-of' calculations we need to perform to value the remedy
2. May not be best estimate because member behaviour may change in light of the remedy

DoF should consider the following recommendation and either confirm that they are content or instruct us to adopt alternative assumptions:

Recommendation

We recommend no changes from the 2016 valuation assumptions.

The assumption about workforce reductions adopted at the 2016 valuation is insufficiently detailed to calculate the cost of remedy. We recommend assuming that these workforce reductions have resulted in a proportionate reduction to the cost of remedy.

In making the recommendations below in Appendices 1C to 1F we have tested that the possible impact of any potential changes driven by analysis of data described does not exceed the 0.25% materiality limit described in Appendix 2A. We set out further details in Appendices 1A to 1F.

2. Methodology



Calculation methodology

DoF should consider the following recommendations on calculation methodology and either confirm that they are content or instruct us to adopt alternative approaches:

Recommendations

- A materiality limit of 0.25% of pay (DoF may propose an alternative)
- Members choose the higher valued benefit at retirement under Deferred Choice Underpin
- Remedy costs are assessed for the period 2015-2022, with costs in respect of 2015-16 assumed to be equal to the costs in 2016-17
- There is no allowance for costs of remedy in respect of member contributions
- There is no allowance for the cost of reinstating members who opted out of the pension scheme
- There is no allowance for the costs of protected members' post-2022 benefits accruing in the post-2015 scheme, rather than their pre-2015 scheme
- Tax and other impacts are excluded from the calculations

We set out further details in Appendices 2A to 2G.

Remedy cost - components

The Directions list five components of the transitional protection remedy costs. The following table sets out a summary of the calculation of each of these components, based on the methodologies above.

Remedy cost component	Calculation
Change in liabilities for the remedy period	Based on Deferred Choice Underpin (see Appendix 2B)
Change in liabilities pre remedy period	Nil: no changes to assumptions
Change in liabilities post remedy period	Assumed nil: treatment of protected members' post-2022 benefits and no change to assumptions (see Appendix 2F)
Change in member contributions during the remedy period	Assumed nil (see Appendix 2D)
Change in member contributions post remedy period	Assumed nil: treatment of protected members' post-2022 benefits and no change to assumptions (see Appendix 2F)

3. Data: Member eligibility for the transitional protection remedy



Determining members in scope for remedy

Summary of methodology

It is critical to identify members in the 2016 valuation data who are in scope for the transitional protection remedy. Broadly, as set out in the Department of Finance consultation response, members in service before 1 April 2012 and on or after 1 April 2015 are in scope of the transitional protection remedy. We have identified the following members as being in scope of the transitional protection remedy:

- Date of Joining before 1 April 2012, or
- Protected or Tapered Protected Status (even if recorded Date of Joining after 1 April 2012)

However, this will not always accurately identify members in scope, for the reasons set out on the next slide.

Following discussions with the Department of Finance, we do not expect these limitations to have a material impact on the results and we do not require any additional data to prepare the cost cap valuation report.



Determining members in scope for remedy

Limitations of methodology

We have identified the following potential sources of inaccuracy:

- a. The Date of Joining is after 1 April 2012 and reflects the date joined current employment but the member may have had previous qualifying employments which commenced prior to 1 April 2012.
- b. The Date of Joining item is not always clearly defined and may not be correctly recorded by administrators.
- c. Date of Joining is before 1 April 2012 but the member may have had a disqualifying break in service (for example, five years or more) or was not an active member of the scheme as at 31 March 2012 or 31 March 2015.
- d. The Date of Joining is after 1 April 2012 and reflects the date first joined scheme but the member may have had previous service in a different scheme which brings them in scope for the transitional protection remedy.



Summary

Summary of active data as at 2016

30,648

Active members of the NICSPS as at 31 March 2016

£807m

Active salary roll as at 31 March 2016

Members in scope for remedy

27,950

Active members in scope for remedy

92%

of the active membership as at 31 March 2016 is in scope for remedy (based on actual pay)

Determining members in scope for remedy



Data used is that collected for the valuation as at 31 March 2016 (and the previous valuation). We have not requested any further data.

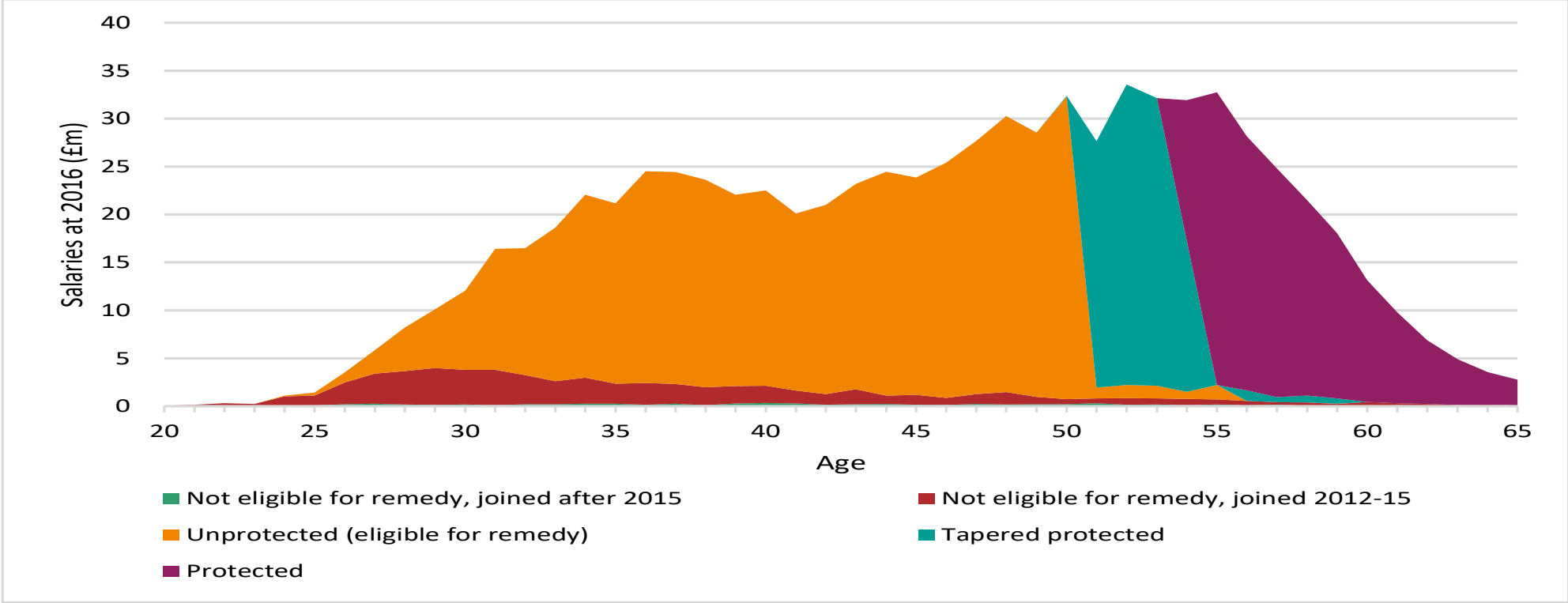
Data uncertainty

There is **residual data uncertainty** in relation to members in scope for remedy which could affect the valuation results.

An impact of between **-0.3% and +0.3%** on the cost cap contribution rate

The sensitivity to the left shows the impact on the cost cap contribution rate if 5% more or less active members are eligible for remedy than assumed.

Membership in scope for transitional protection remedy

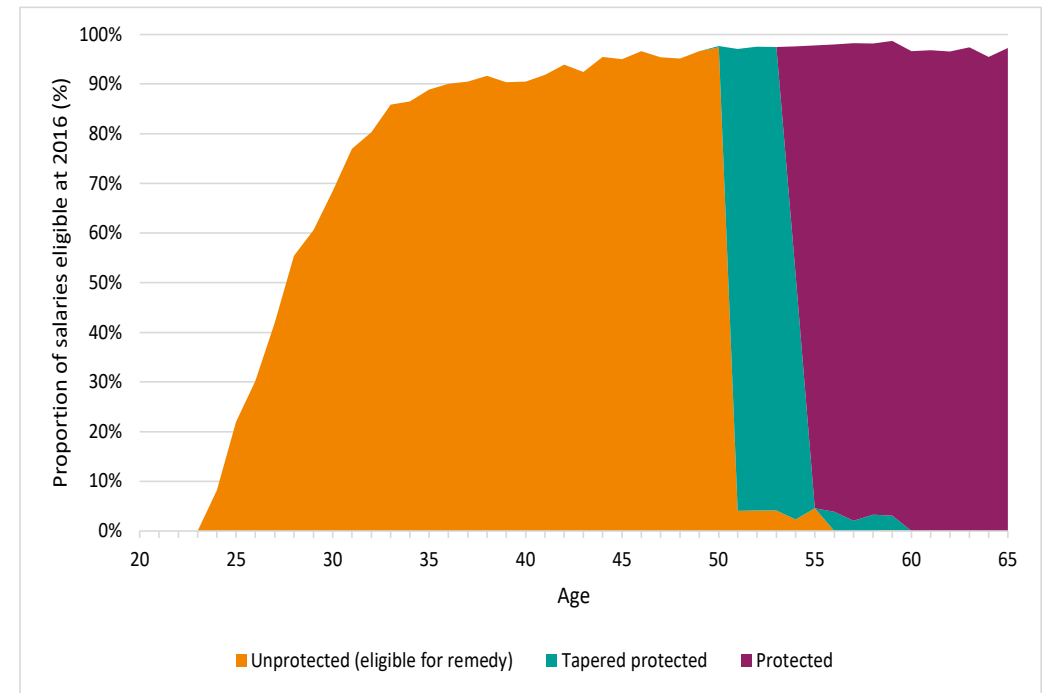


Summary statistics at 31 March 2016 – Actives

Protection status as at 31 March 2016

Section	Number of members	Salary £m
Protected members	6,182	177
Tapered protected members	3,739	106
Eligible unprotected members	18,029	459
Ineligible and joined between 2012-2015	2,382	59
Ineligible and joined after 1 April 2015	316	7
Total	30,648	807

Proportion of members eligible for the transitional protection remedy

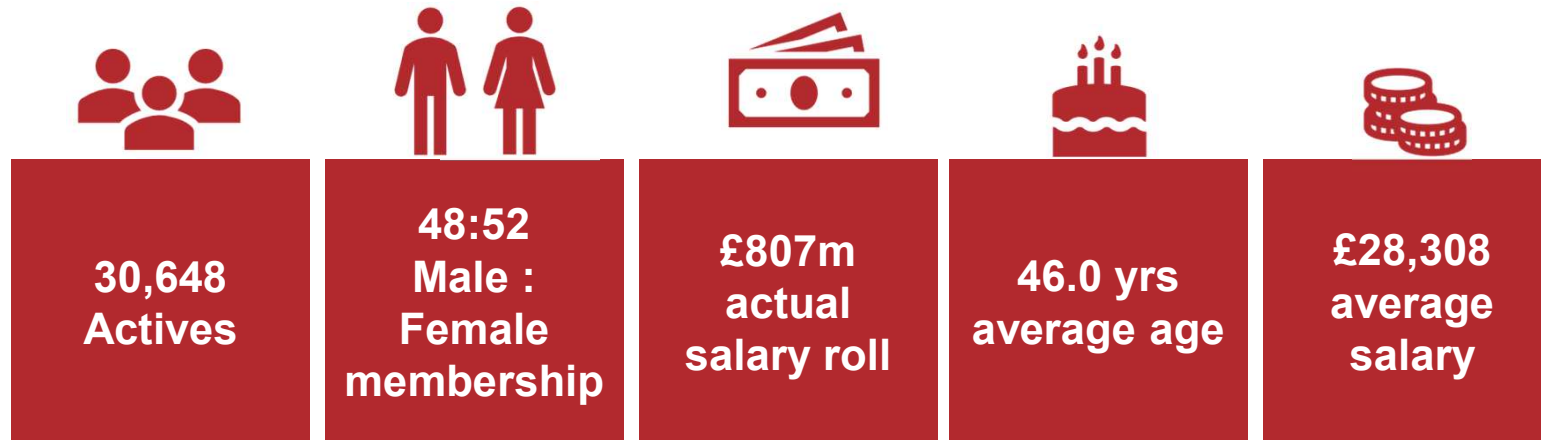


4. 2016 data: Quality and uncertainties



Active data as at 31 March 2016

Summary statistics



Data quality

2016 valuation data adjustments

Data was received from DoF for the 2016 valuation. This was generally reasonable for the purposes of the valuation calculations, however, some aspects of the data were incomplete and/or unreliable for certain elements of our calculations. The results of this valuation therefore rely on assumptions and adjustments in respect of incomplete and/or unreliable data. As stated in our reports dated 11 March 2019, in GAD's opinion these adjustments are reasonable and appropriate for the purpose of this actuarial valuation. However, it should be noted that the results in the 2016 valuation report might have been different if more reliable data had been available. GAD have subsequently received data for the valuation as at 31 March 2020, and the process of checking that data and reconciling it with the data as at 31 March 2016 is ongoing.

Where can I find out more?

Details of the 2016 valuation data provided including any checks and adjustments made to the data are set out in the [2016 valuation data report](#). Details of the assumptions made for data uncertainties are set out at Appendix C of the [2016 valuation assumptions report](#).



5. Reliance and limitations



Limitations

Data

As set out in the 2016 data report issued on 11 March 2019, GAD has relied on data and other information supplied by DoF or their appointed administrator as described in the report. GAD has not sought independent verification around its general completeness and accuracy.

Any checks that GAD has made are limited to those described in that report, including those relating to the overall reasonableness and consistency of the data. These checks do not represent a full independent audit of the data supplied.

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.

Macro-level risks

The Directions permit changes to the 2016 valuation data and assumptions only as a direct result of the impact of the transitional protection remedy. In preparing this advice, we have therefore not made any adjustments for material macro-level risks or uncertainties, such as climate-related risk.



Reliance

Reliance and sharing

This report has been prepared for the use of DoF and will be made available to the Scheme Advisory Board.

No other 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.

Compliance statement

This report has been prepared 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.



Appendix 1: Assumptions



Appendix 1A: Direction requirements

The Directions require that assumptions set by DoF used in the 2016 cost cap valuation report must be the same as those adopted in the 2016 valuation reports signed in early 2019, **unless those assumptions are not best estimates or are insufficient for the purpose as a direct result of the impact of the transitional protection remedy** [Direction 55].

Where this applies, DoF must determine new assumptions:

- having obtained advice from GAD
- following such consultation of such persons (or representatives of such persons) as DoF considers appropriate
- that are best estimates, and do not include margins for prudence or optimism
- that have regard to:
 - previous valuation assumptions
 - the analysis of demographic experience in the 2016 valuation report
 - relevant data from any other source
 - any emerging evidence about historic long-term trends or long-term trends expected in the future

Appendix 1B: Assumptions not affected by remedy

The following summarises assumptions set by DoF which we have not considered further as part of this work on the basis that we see no reason why they would be inappropriate as a direct result of the transitional protection remedy:

- Mortality before and after retirement
- Ill-health retirement
- Proportion married / partnered
- Age differences between spouses / partners
- Commutation of pension for a lump sum in excess of any defined lump sums



Appendix 1C: Age retirement

The original 2016 age retirement assumptions distinguished between members depending on whether they were:

- Protected (all pre-2015 scheme service) – retire earlier
- New entrants after 2015 (all post-2015 scheme service) – retire later
- Transition members (some pre-2015 service and some post-2015 scheme service) – retire in-between the two groups above

As a result of the transitional protection remedy, those in scope for remedy have the option of taking pre-2015 scheme benefits for service up to 2022, and so such members might be expected to behave more like protected members and retire earlier, which could increase the cost of remedy.

Analysis

We recommend that the existing age retirement assumptions continue to be adopted.

We have considered adjusting retirement patterns with a greater weighting towards the pre-2015 scheme age retirement assumption. Our analysis has shown the impact of such a change in the retirement assumption would be immaterial to the results of this valuation, based on the approach adopted in the 2016 valuation.

Appendix 1D: Salary scales

For the purposes of an actuarial valuation, it can be appropriate to set a long-term assumption that reflects the 'average' expected experience of scheme members. However, this does not take account of more granular variations in pay growth, which may impact on the valuation of an underpin.

Analysis

We recommend retaining the original salary scale assumptions.

The original 2016 valuation assumptions do not differentiate between members except on the basis of gender and current salary band. We have therefore investigated whether adopting three alternative salary scales (low/medium/high) and applying these to the population in-scope of the transitional protection remedy of a typical scheme would materially impact on the transitional protection remedy cost.

Our analysis has shown the impact of such a change in the salary assumption would be immaterial to the results of this valuation.



Appendix 1E: Withdrawal

Like salary scales, different groups of members may have withdrawal rates that are higher or lower than the average adopted at the 2016 valuation. In theory, this could affect the cost of the transitional protection remedy.

Analysis

Although it would be possible to further refine the withdrawals assumption by splitting the population into groups (low withdrawal rates, medium withdrawal rates, high withdrawal rates), we would not suggest further work in this area because:

- The analysis we have carried out on salary scales indicates the impact of changes to salary scale are immaterial. Sensitivity analysis indicates that the transitional protection remedy cost is less sensitive to withdrawals than salary scales.
- The existing withdrawal assumption provides for a probability distribution of withdrawals at each future age, which is more refined than the existing salary scale assumptions and therefore should already better reflect differences between members than the salary scale assumptions.



Appendix 1F: Turnover

‘Turnover’ is a collective term for the set of assumptions we use to project a population of active members. As part of this valuation, we will project the number of members who are eligible for the transitional protection remedy from the data as at 31 March 2016 out to 31 March 2022. At the 2016 valuation, for the purposes of spreading any past service surplus or deficit it was assumed that the size of the workforce reduced, consistent with the future payroll estimates provided by DoF to OBR. The assumption about workforce reductions adopted at the 2016 valuation is insufficiently detailed to calculate the cost of remedy, because the assumptions adopted at the 2016 valuation did not specify whether the workforce reductions were due to member exits or reductions in recruitment. We recommend an assumption that the workforce reductions have a proportionate impact on the cost of remedy, by assuming that under the assumed workforce reductions some members in scope of remedy leave earlier than currently assumed in the long-term valuation assumptions.



Appendix 1F: Turnover continued

Analysis

We recommend applying a reduction of 10% to the remedy cost calculated based on the long-term assumptions adopted at the 2016 valuation. This is in proportion to the reduction in workforce size from 2016 to 2019-23 assumed at the 2016 valuation.

The assumption that the reductions in the size of the workforce will reduce remedy costs over the remedy period 2015-22 in proportion to the reduction in payroll from 2016 to 2019-23 is necessarily broad-brush, noting in particular the different time periods. In some cases reducing the size of the workforce will have no impact on remedy costs (eg exits of members who joined after 2012, or reduced recruitment), but in other cases the impact on remedy cost of an exit will be much higher than the impact on pay (for example, due to the break in the final salary link). This assumption is intended to be best estimate, and does not include margins for prudence or optimism.



Appendix 2: Methodology



Appendix 2A: Materiality limits

In preparing the valuation results, we may adopt specific simplifications provided they are not expected, in aggregate, to have a material impact on the valuation results. In this context, we propose that an estimated aggregate **impact of less than 0.25% of pay** would be regarded as immaterial. DoF should let us know if you would like us to work to an alternative materiality limit; in particular it may be appropriate to work to a tighter limit if the valuation results are close to the cost cap ceiling or floor.

Details

The impact of a simplification is the estimated difference between the valuation results (as calculated using the simplification) and the valuation results if calculated in full detail. Such simplifications may relate to the data requested, the form of assumptions adopted, or the calculations performed. For example, the liabilities in respect of historic added years contracts may be sufficiently small that it would be disproportionate to value them to the same level of details as other liabilities, so we may adopt simplifications.

Note that the data used and the assumptions adopted have a much greater impact on the valuation results. These impacts are discussed at chapter 4 of the [2016 valuation report](#), and for example a decrease in the discount rate of 0.25% pa would increase the employer contribution rate by 5.3% of pay.



Appendix 2B: Member choice

Under the Directions, eligible members accrue benefits in their pre-2015 scheme, with the assumed right to choose on benefit crystallisation to have accrued pension benefits for the remedy period either in that pre-2015 scheme or in the post-2015 scheme. We assume that on benefit crystallisation the member takes the higher valued benefit, valuing £1 pa pension as £20.

Details

We have valued the remedy benefits by projecting the member's benefits for the remedy period in both their pre-2015 scheme and the post-2015 scheme. Benefits are valued in each contingency (eg retirement or death), at each future date and for each eligible individual, using the same demographic assumptions (eg retirement ages) for both the pre-2015 and post-2015 scheme calculations.

In determining which benefits members will choose, we have taken account of the member's pension after commutation (valuing £1 pa pension as £20) and lump sum (both commuted lump sum and any automatic lump sum). The chosen benefit structure is then valued using the valuation assumptions (ie pensions are not valued using the 20:1 factor in the final results and explicit allowance is made for contingent survivor pensions).



Appendix 2B: Member choice continued

This approach is only likely to be inaccurate where the difference in value between the pre-2015 and post-2015 schemes is relatively small and therefore represents a relatively small proportion of the overall cost of the transitional protection remedy. We are satisfied that taking a more accurate approach would have an immaterial impact on the overall results.



Appendix 2C: Remedy benefits accrual period

The costs of remedy are assessed for the remedy period between 1 April 2015 and 31 March 2022, calculated as follows:

- 1 April 2016 to 31 March 2022: Costs are calculated prospectively based on membership data as at 31 March 2016.
- 1 April 2015 to 31 March 2016: Costs assumed to be in line with cost for service from 1 April 2016 to 31 March 2017.

Details

The direct calculation of costs for the period 2015 to 2016 is challenging both in terms of data requirements and calculation methodology. Since the data we would require is unlikely to be available and the overall impact of this period is small compared with the overall uncertainty in the calculation, the approach appears the most reasonable and practical.



Appendix 2D: Member contributions

The contribution rates in the pre-2015 and post-2015 schemes are the same and we understand that the pensionable pay definitions are also equivalent. We would therefore not expect there to be any differences in member contributions as a result of remedy.



Appendix 2E: Opt-outs

Some individuals would have been eligible for the transitional protection remedy but opted out of the scheme. We understand that members who opted out due to the changes to the pension scheme may be eligible to apply to have their opt-out reversed and benefits reinstated. This may lead to an additional cost for accrual prior to 2016 and may also affect the cost of benefits accruing after 2016.

Analysis

Although there is a potential cost, we recommend making no allowance for these additional liabilities. This is on the basis that we have limited data on which to assess the number of members who would be eligible for this reinstatement, and what evidence we do have indicates costs are unlikely to be material.



Appendix 2F: Protected members: post-2022 benefits

Under the 2015 scheme reforms, protected members would accrue benefits in their pre-2015 scheme until retirement, which could be after 2022 if members work beyond their scheme's normal pension age (NPA). These members will now be moved into the post-2015 scheme from 2022. This will typically result in a small cost because the post-2015 scheme is often more valuable for older members working after NPA than the pre-2015 schemes.

Analysis

Our analysis shows that the costs associated with protected members working beyond 2022 would be immaterial.



Appendix 2G: Exclusions

The calculated costs of remedy make no allowance for the following:

- Any tax impact on members or HMRC, consistent with the treatment at the 2016 valuation
- Any impact of tax compensation schemes associated with the remedy
- Members' additional voluntary contributions or transfers-in, the value of which are assumed to be unchanged as a result of remedy
- Pension debits and credits on divorce, which are assumed to be cost neutral to the scheme
- Any adjustments made in respect of Public Sector Transfer Club transfers

