Item 2

Fire Pension Board

27 November 2018

Impact of reducing the SCAPE Discount Rate

Recommendation

The Board are invited to comment on and note the impact of the adjustment to the SCAPE discount rate on the public service pension schemes.

1.0 Background

1.1 The unfunded public service pension schemes (with WCC these are Fire schemes, Teachers pension scheme, and NHS pension scheme) are subject to an actuarial valuation every four years. The purpose is to assess the value of pension rights being built up, so that total contributions (from employers and employees) can be set a level to reflect this.

1.2 The valuations undertaken are in accordance with Treasury directions which, among other things, specify the 'discount rate' that should be applied in order to assess the present costs of future benefits.

1.3 The discount rate is a method which reflects future payments in today's terms. In a funded scheme like the Local Government Pension Scheme (LGPS) the discount rate will reflect anticipated investment return on a portfolio of assets – the discounted value of future payments represents the amount of money that needs to be invested today in order to meet those future payments.

2.0 The Discount Rate - SCAPE

2.1 Contributions for unfunded public service pension schemes are set using the SCAPE discount rate – a method developed by the Government in the absence of a fund of assets.

2.2 Keeping all other assumptions unchanged, a lower discount rate would result in higher contribution rates at the next scheme valuations. The effect on the schemes will vary depending on the different generosity of scheme benefits and member profiles of those schemes.

2.3 On 6 September, the Chief Secretary to the Treasury provided an update to Parliament on the actuarial valuations of the public service pension schemes.

2.4 As part of the update, the Chief Secretary announced a proposed further reduction to the discount rate used to assess the cost of future payments; the SCAPE rate. The 2016 budget announced reduction in the annual rate from 3% above CPI to 2.8% above CPI and further reduction to CPI plus 2.4% is proposed.

2.5 It is anticipated that the current Firefighters Pension Schemes average employer rate of 17.6% will be increasing to 30.2% for the period 1 April 2019 to 31 March 2023.

2.7 However, indications in the Chancellor's statement of 30 October 2018 are that Treasury has set aside broadly similar amounts in departmental spending limits (at a national level) to allow public sector employers to meet the additional costs associated with changes to the discount rate.

3.0 Cost Control Mechanism

3.1 The Treasury undertakes quadrennial valuations of the public service pension schemes. This is the first time a full assessment of the pension schemes has taken place since the Government introduced the reformed schemes in 2015 (2014 for the LGPS).

The reform of the schemes addressed the rising cost of pensions rebalancing taxpayer and member costs to ensure public pensions were put on an affordable and sustainable footing.

3.2 As part of the reforms introduced by the Public Service Pensions Act required that each scheme should introduce a cap expressed as a percentage of pensionable pay. If the four yearly valuation shows that the costs of a scheme as risen more than 2% above the cap or have fallen more than 2% below the cap, action will need to be taken to return costs to the level of the cap.

The cap is based on future accrual costs and does not account for scheme deficits which are out of scope of the assessment because it would be unfair to consider accrued benefit entitlement for preserved and pension members in a potential assessment of a contribution rate for current active members.

The cap for the four schemes for WCC employees are:

Local Government Pension Scheme	19.5%
Teachers' Pension Scheme	10.9%
Firefighter Pension Scheme	16.8%
NHS Pension Scheme	11.6%

3.3 A breach in the ceiling results in a reduction in benefits for employees and a breach in the floor results in an increase in benefits or lower contributions.

3.4 In addition to the lowering of the discount rate the Treasury announced that some, if not all, schemes are expected to breach the cost control floor as “member” costs measured by the cost control mechanism have decreased by more than 2% of pensionable pay.

3.5 The unfunded public service pension schemes are therefore potentially facing an increase in employer contributions and an increase in the benefits available to scheme members from April 2019 to March 2023.

4.0 The Local Government Pension Scheme (LGPS)

4.1 The LGPS has a triennial valuation cycle and because it is a funded pension scheme and administered locally, the discount rate is agreed and set locally.

4.2 The LGPS has an additional cost control mechanism where the future service cost is operated by the LGPS Scheme Advisory Board. This additional process will be allowed to complete before the HM Treasury cost control mechanism is tested. It is not therefore possible to give any indication of what the outcome might be.

5.0 Next Steps

5.1 Over the coming weeks and months Treasury will confirm amendments to employer contribution rates and accrual rates (if any) for the unfunded public service pension schemes.

5.2 The Government Actuary’s Department will issue amended scheme factors following the reduction to the SCAPE discount rate. For example, these factors impact on the amount of a transfer value payable from the public service pension schemes, both the funded and unfunded schemes.

Supporting Documents

None

	Name	**Contact Information**
Report Author	Neil Buxton, Pension Services Manager	neilbuton@warwickshire.gov.uk: 01926 412195
Head of Service	John Betts, Head of Finance	johnbetts@warwickshire.gov.uk
Strategic Director	David Carter, Joint Managing Director	davidcarter@warwickshire.gov.uk
Portfolio Holder	Councillor Kam Kaur	cllrkaur@warwickshire.gov.uk