

## APPENDIX B

### Public Service Pensions - Scope of scheme-specific discussions

DCLG(11) PRG 81

The Government's position remains Lord Hutton's recommendations. It is for trades unions to put forward any proposals that differ from these. Any adjustments to risk control mechanisms will require Treasury approval. Any changes that result in changes to the level or timing of public expenditure will require Treasury approval.

Issue	Government position (Reference Scheme)	Scope for scheme-specific discussions	Sensitivities	Indicative costs (% of payroll) <sup>1</sup>
DB Structure	Career Average Revalued Earnings	For discussion	Costing a Final Salary	+0.1%
Accrual rate	1/65ths for the LGPS, NHSPS, PCSPS and TPS.	For discussion	Changing the accrual rate by '5ths' (eg the effect of moving from 65ths to 70ths)	55ths: +1.8% 65ths: -1.6%
Revaluation for active member	Earnings	For discussion	Prices	-3.7%
Revaluation for deferred members	Prices	For discussion	Earnings	+3.9%
Indexation of pensions in payment	Prices	Not for discussion	N/A	
Normal Pension Age	Linked to individual SPA to manage longevity risk, apart from for the Firefighters', who will have a pension age of 60, with future increases in line with changes to SPA.	For discussion (though alternative methods of managing longevity risk must be approved by the Treasury).	PRG ?	
Employee contributions rates	Increased by 3.2 percentage points on average by 2015, apart from the LGPS where an increase of 1.5 percentage points is assumed.	For discussion (though the Govt is committed to meeting the savings target set out at the SR of £2.8bn a year by 2014/15).	PRG ?	
Lump sums	Through optional commutation at 12:1 to HMRC max	For discussion	Optional commutation at 15:1 to HMRC max	+0.8%
Ancillary benefits	Same as in current open schemes	For discussion	PRG ?	
Rejoiners	Rejoiners within 5 years can link new and	For discussion	Remove link for	

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	previous service		rejoiners within 5 years	
Transferees from Club schemes	Treated as having continuous service	For discussion	PRG ? <sup>2</sup>	
Early and late retirement	Cost neutral basis	For discussion	PRG ?	
Abatement in existing schemes	Current scheme rules apply	For discussion	PRG ? <sup>2</sup>	
Accrued rights	Fully protected, with a final salary link for past service	Not for discussion	N/A	
Start date	April 2015	For discussion	PRG ?	
Transition	Protection of accrued rights, and final salary link for past service	For discussion	PRG ?	
Contingent benefits <sup>3</sup>	37.5% of member benefits	For discussion	50% of member benefits	+0.4%

<sup>1</sup> The indicative cost shows the effect of changing a single element with all other elements remaining unchanged. For example, under the DB Structure the indicative cost shown is the difference in cost of a Final Salary Scheme over a CARE scheme with all other elements of the Reference Scheme, with an accrual rate of 60ths, remaining unchanged. Additionally, it would not always be the case that a multiple of the sensitivity costed will lead to a cost or saving that is a multiple of that shown in the table. The sensitivities shown are rounded to the nearest 0.1% due to the “approximate” nature of the figures.

**We would advise that actual proposals should be costed separately/individually before any decisions are taken and finalised. Depending on actual proposals it may be necessary to review the underlying assumptions used.**

In costing the sensitivities we have not allowed for member behaviour, eg under a commutation factor of 15 we would expect a higher commutation take-up than that assumed for the Reference Scheme cost. We understand that HMT are responsible for the data, methodology and assumptions, and therefore any changes to assumptions, or where new assumptions are introduced, will need to be cleared with HMT.

A negative value represents a saving relative to the Reference Scheme.

<sup>2</sup> This was not allowed for in the Reference Scheme cost as there was insufficient data to make an assumption. We do not expect this to have a material impact if the new scheme has the same allowance. However, if there is a proposal to remove or review this then an assumption will be needed (and we understand that this assumption will need to be agreed with HMT).

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<sup>3</sup> This element is not contained in Annex B of DCLG (11) PRG77.

### Breakdown of reference scheme cost with 60ths accrual rate

The table below shows a breakdown of the Reference Scheme cost of 20.4% pa into the elements associated with each of the principal future potential contingencies on which benefits payments may be crystallised.

<b>Liability in respect of:</b>	<b>% pensionable payroll</b>
Normal age retirement benefits	8.8%
Ill health retirement benefits	1.5%
Withdrawal benefits	9.6%
Death benefits	0.5%
<b>Total</b>	<b>20.4%</b>