

Appendix no 1

From: Lorraine Bennett <Lorraine.Bennett@local.gov.uk>

Sent: 24 September 2018 13:57

To: Lorraine Bennett <Lorraine.Bennett@local.gov.uk>

Subject: Proposed discount rate change - impact on transfers and interfunds

Dear colleague

On 6 September 2018, the Chief Secretary to the Treasury, Elizabeth Truss, provided an update to Parliament on the actuarial valuations of the public service pension schemes. The impact for the LGPS in England and Wales is addressed in a statement from the scheme advisory board which is available at www.lgpsboard.org.

As part of the update, the Chief Secretary announced a proposed further reduction to the discount rate used to assess the current cost of future payments; known as the SCAPE rate, this discount rate is based on the Office for Budget Responsibility's long-term projections of GDP growth. The 2016 Budget announced a reduction in the annual rate from 3.0% above the Consumer Prices Index (CPI) to 2.8% above CPI and a further reduction to CPI plus 2.4% is proposed.

Whilst the announcement proposed using the discount rate of CPI plus 2.4% from 1 April 2019 for setting employer contribution rates for the unfunded pension schemes, the reduced rate will become effective for other purposes (such as in the calculation of actuarial factors in the LGPS) from the date is formally announced. We expect the announcement to be made in the next Budget (autumn) – the date of which has not yet been confirmed.

As last time, once the change is announced, transfer and interfund calculations will need to be put on hold until new actuarial factors are issued. Similar transitional arrangements will be put in place where a guaranteed transfer quote has been issued and the member elects to proceed with the transfer in the guarantee period. The transitional arrangements that were put in place when the last discount rate change was announced on 16 March 2016 can be viewed here <http://lgpslibrary.org/assets/actgui/ew/Note201610.pdf>

GAD are currently working on a revised set of actuarial factors which will be amended further for any change in SCAPE rate.

We will keep you updated.

Kind regards

Lorraine

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LGA Pensions Governance Conference – 17th/18th January 2019 – Bristol
For Booking and details see <https://www.local.gov.uk/events>

