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Cost control in the LGPS - A briefing note for members and employers

Summary

Under the new public service pension scheme framework, the costs of the pension schemes must be periodically assessed to ensure that the reforms are affordable and sustainable.

In the LGPS in England & Wales, there will be two mechanisms used to do this:

- a) the employer cost cap (ECC) process as operated by HM Treasury, and
- b) the future service cost (FSC) process as operated by the LGPS Scheme Advisory Board.

Both processes could lead to changes to the scheme design or to the level of members' contributions if the costs of the LGPS are shown to have moved sufficiently from the target.

The target cost for the FSC process is 19.5% as a total of employer and member contributions at a 2:1 ratio (13% relating to employers' contributions and 6.5% relating to members'). The proposed target cost for the ECC process is 14.6% of employer contributions alone.

The cost cap mechanisms are both mainly concerned with calculating the cost of providing benefits that have been accrued since the career average reforms took effect in April 2014. The total employer contributions targeted are therefore notional figures, and most employers will find they pay contributions that are different to these notional rates. There are some differences between the mechanisms in how the requirement to make changes to the Scheme is triggered, but under either process, movement of 2% or more in either direction will require changes to be made to bring the Scheme cost back to the target.

An employer perspective

The figures calculated under the cost control processes will be broadly used to answer the question, "How much does the career average benefits structure cost across the LGPS in England & Wales?"

The results of the cost control processes are therefore highly unlikely to correlate with the contribution rates payable by individual employers. There are two main reasons for this:

Local funding valuations are based on individual fund and employer experience and assumptions are made based on this experience. The cost control processes will be looking at Scheme experience nationally and consequentially making assumptions on this basis.

Local funding valuations will include consideration of all the benefits payable by each fund and employer in their participation in the Scheme - including costs relating to the pre-April 2014 final salary benefits structure.

In the event that reforms to the Scheme do result from either of the processes, employers will also need to be aware of the crucial need to communicate with their employees to ensure that they understand the changes that will be made.

Please refer to the [briefing note](#).

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