



Government
Actuary's
Department

SAB Basis 2022 Proposal

CMBDA November meeting discussion

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Purpose



The SAB basis is a set of assumptions providing a standardised actuarial valuation basis



This enables easy comparison between different Funds, but is not intended to provide a funding target or to set contribution levels



The precise basis is therefore less important than ensuring a consistent basis across all Funds



As the precise basis is less important than in other cases, adopting a simple approach consistent with that set previously may be worthwhile



Proposal

| Assumption | SAB basis 2019 | Proposal 2022 |
|-----------------------------|--|--|
| Discount rate | 4.45% pa | 4.45% pa |
| Pension increases | 2.00% pa | 2.00% pa |
| Earnings growth | 3.50% pa | 3.50% pa |
| Promotional salary scale | None | None |
| Pensioner base mortality | Set locally based on experience | Set locally based on experience |
| Mortality improvements | Core CMI_2018 model with long term improvements of 1.5% pa | Core CMI_2021 model (no allowance for 2020 and 2021 data) with long term improvements of 1.5% pa |
| Change to State Pension age | As legislated | As legislated |
| Commutation | 65% of maximum allowable | 65% of maximum allowable |
| 50/50 take up | 5% of all members | 5% of all members |

Other assumptions set locally based upon experience

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Points of note – discount rate

Previous assumptions based on HMT SCAPE discount rate for Public Service Pension Scheme valuations in force at the time

The SCAPE rate is under consultation but not yet updated

The existing SCAPE rate methodology bases the rate on long-term GDP growth expectations, as produced by OBR

Most recent OBR long-term growth expectations are lower than when the SCAPE rate was last updated

Given uncertainties, the proposal is to maintain the discount rate for the time being



Points of note – pension and earnings increases

Pension and earnings increases set to be consistent with the discount rate

Since the previous basis was set, inflation expectations (and hence pension increase expectations) have increased

Inflation expectations continue to fluctuate, and current high levels are not expected to persist in the longer term

Earnings increases are uncertain and will depend on a variety of factors

Maintaining the existing assumptions is consistent with maintaining the discount rate



Points of note – mortality improvements

The CMI produce regular updates of their mortality improvement projection model, based on latest England & Wales population mortality experience

Recent population mortality experience has been affected by the COVID-19 pandemic

The CMI model allows for mortality experience in 2020 and 2021 to be included or excluded from consideration when setting improvement factors

Given the unusual experience over 2020 and 2021 the proposal is to adopt the latest CMI model but to exclude experience from those years affected by COVID-19

Additionally, the proposal is to maintain the long-term rate of improvement used in the CMI model as 1.5% pa





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