



Government
Actuary's
Department

Teachers' Pension Scheme (England and Wales)

Advice on assumptions

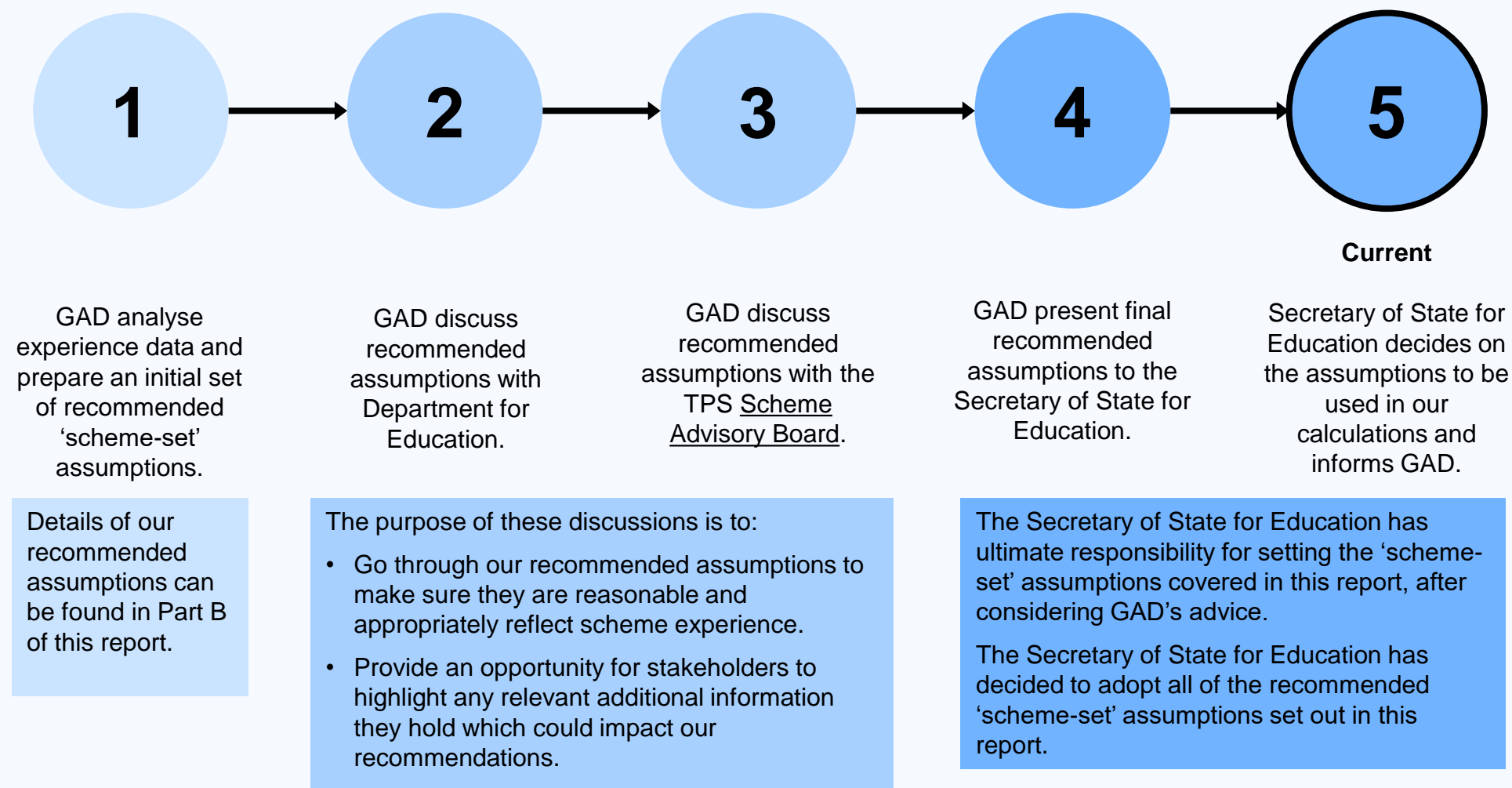
Actuarial valuation as at 31 March 2020

Neil Crombie and Hayley Schofield

























26 October 2023



Assumptions setting process



Highlights

Scheme-set assumptions			Our recommendations		
	Importance relative to scheme-set assumptions		Size of recommended changes		Impact of recommended changes on scheme costs
Mortality after retirement		Most		Small	 Higher costs
Proportion commuted		Average		Medium	 Lower costs
Retirement ages		Average		None	 No impact
Rates of leaving service		Average		Medium	 Lower costs
Promotional pay increases		Average		None	 No impact
Rates of ill-health retirement		Least		None	 No impact
Mortality before retirement		Least		None	 No impact
Family statistics		Least		None	 No impact

This table provides a summary of the 'scheme-set' assumptions and their likely bearing on the valuation results. It is intended to highlight areas of potential focus to aid with the process of deciding on the scheme set assumptions to be adopted.

These assessments are indicative, rather than precise. More information on the approach used can be found in **Section B1**.

Be aware that several of the most important valuation assumptions do not appear in this table as they will be directed by HM Treasury. The impact of these 'directed' assumptions could be much greater than that of the impact of 'scheme-set' assumptions.

Advice on assumptions



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Any terms that appear in this report in underlined text are defined in the Glossary.

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Part A: Background



Introduction

Who is this report for?

This report is addressed to the Secretary of State for Education. The Directions require the scheme actuary to carry out a robust analysis of the demographic experience of the scheme. The purpose of this report is to provide our analysis, advice and recommendations on the 'scheme-set' assumptions to be adopted for the actuarial valuation of the Teachers' Pension Scheme (England and Wales) as at 31 March 2020 as required.

This report is intended to help the Secretary of State for Education:

- understand the key assumptions about the future that need to be made in order to carry out the valuation
- understand the impact those assumptions can have on the valuation results
- decide on the 'scheme-set' assumptions to be adopted.

Why are assumptions important?

Assumptions are estimates of uncertain variables needed to carry out the actuarial valuation of the Teachers' Pension Scheme (TPS) as at 31 March 2020, in accordance with HM Treasury Directions.

The results of the valuation are critically dependent on the assumptions adopted. If what actually happens in the future turns out to be significantly different to these assumptions, employers could end up having over- or under-paid contributions, or benefit changes could be made when they otherwise wouldn't be.

Results

Assumptions

Assumptions about the future are used, together with data, to calculate valuation results.

Data

Types of assumptions

What assumptions are needed?

There are 2 main types of assumption:

- **Demographic assumptions.** These focus on member characteristics and help to determine when and for how long benefits are expected to be paid.
- **Financial assumptions.** These focus on financial factors and help to determine how much is expected to be paid to members.

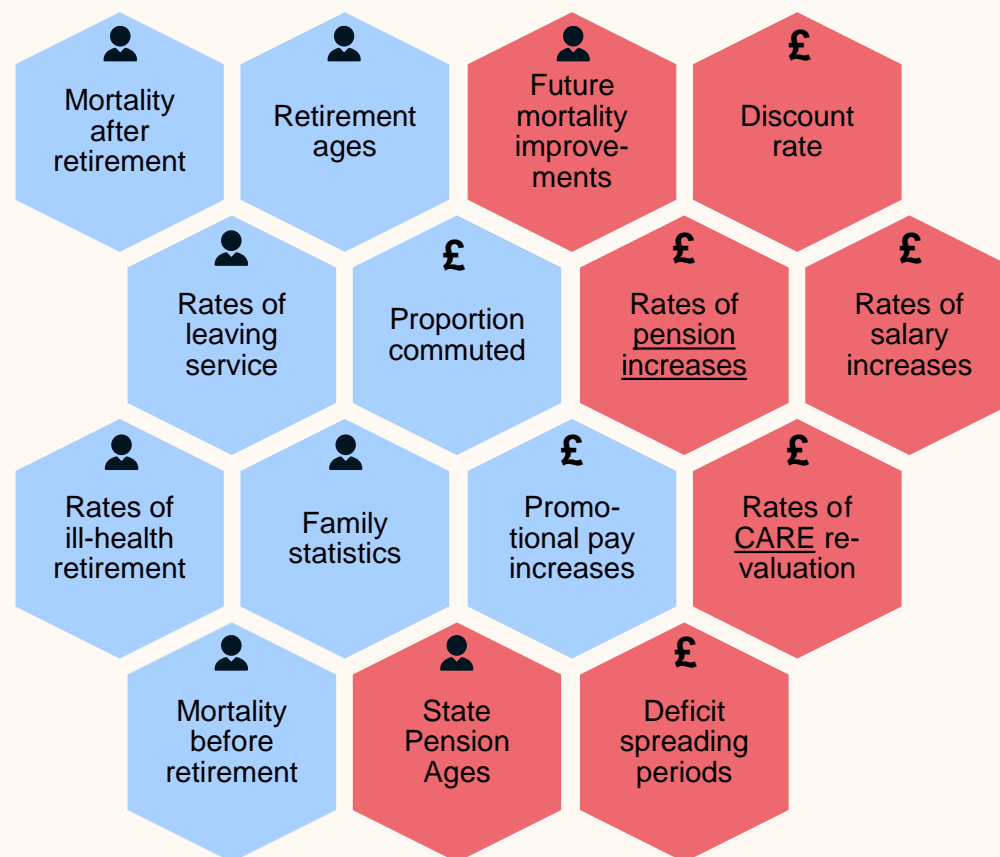
Together these assumptions determine how much needs to be set aside now, in order to meet future payments.

Who is responsible for assumptions?

There are 2 parties responsible for setting assumptions:

- The Secretary of State for Education, who is responsible for setting 'scheme-set' assumptions (after taking actuarial advice). These are usually demographic assumptions.
- HM Treasury, who are responsible for setting 'directed' assumptions through legislation. These are usually financial assumptions.

In this report we focus on 'scheme-set' assumptions, but directed assumptions are included for context. Directed assumptions are shown in Appendix C1.



Demographic assumptions

How are the assumptions used?

Demographic assumptions are used to predict what will happen to the status of members in the future, until their liability in the scheme is extinguished.

The chart to the right shows a simplified set of paths that an active member could follow. Demographic assumptions (shown in circles) are used to determine the likelihood that the member follows any given path.

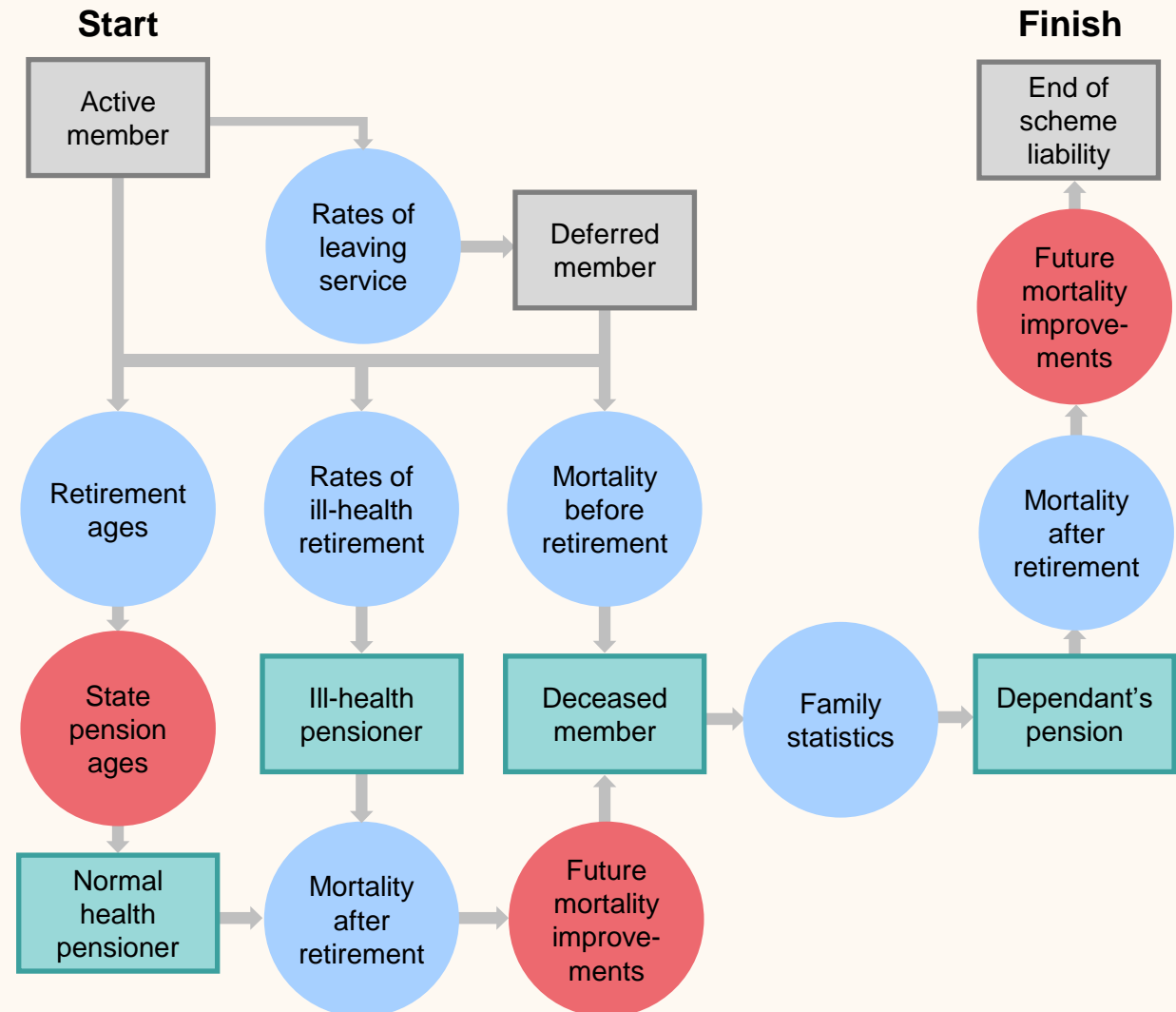
Most demographic assumptions are set by the scheme, rather than directed by HM Treasury.

■ Member status: **no benefits payable**

■ Member status: **benefits payable**

● **Scheme set**

● **Directed**



Financial assumptions

How are the assumptions used?

Financial assumptions are used to predict:

- the size of future benefits due to members
- the current cost of those benefits to the scheme.

The chart to the right shows a simplified summary of how these assumptions are applied.

The only financial assumptions set by the scheme are:

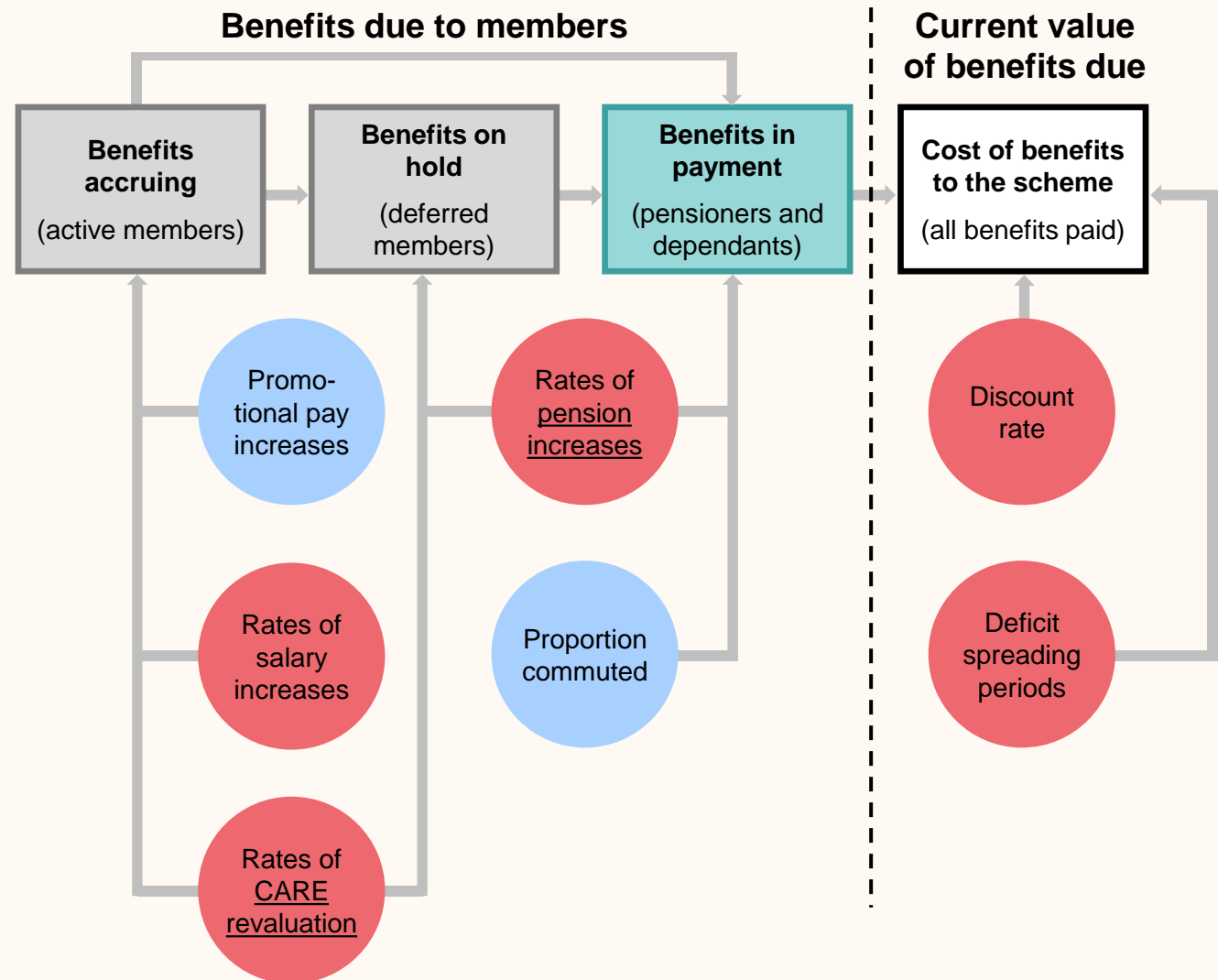
- promotional pay increases
- commutation proportions.

■ Member status: **no benefits payable**

■ Member status: **benefits payable**

● Scheme-set

● Directed



Setting assumptions

How are the assumptions decided?

We recommend 'scheme-set' assumptions after considering all relevant information. The picture to the right summarises the 3 main inputs.

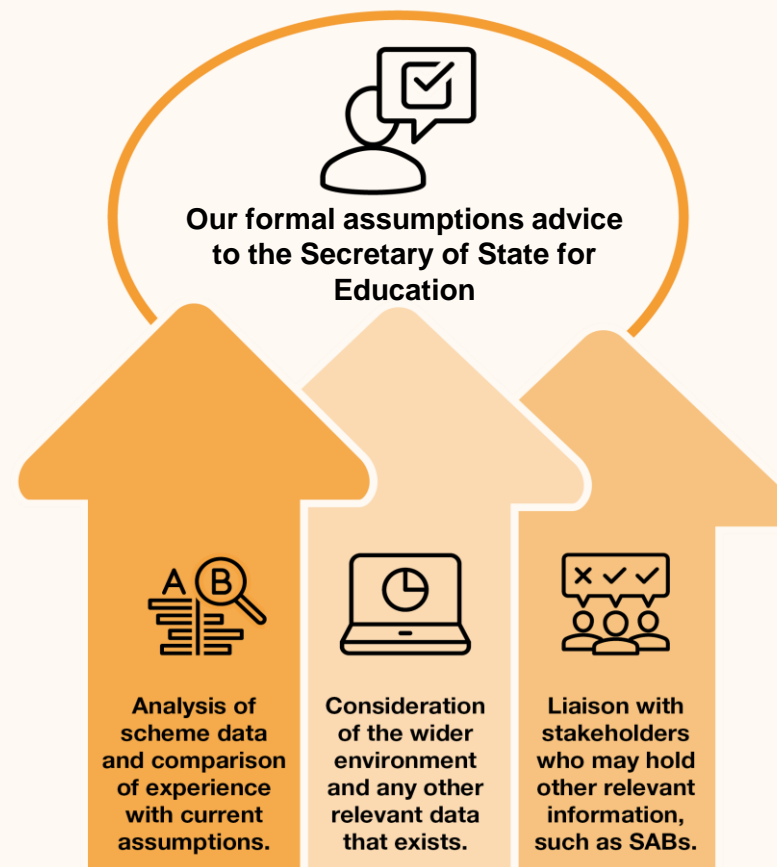
The Secretary of State for Education then decides on the 'scheme-set' assumptions to be adopted, after considering GAD's advice.

What rules need to be followed?

HM Treasury Directions specify that 'scheme-set' assumptions must be the Secretary of State for Education's best estimates of future experience. This means they cannot include any margins for prudence or optimism.

The Directions also require that assumptions must consider:

- previous valuation assumptions
- an analysis of demographic experience, where there is enough data to perform such an analysis
- any other relevant data, including anything that only became available after the date of the valuation
- Any emerging evidence about historic or expected future long-term trends.



The assumptions are required to be best-estimate, including an allowance for expected future GDP growth and life expectancy progression.

In our Results report dated 13 October 2023 we also consider three future climate scenarios; their potential impact on valuation assumptions; and how these in turn might impact on the cost of future benefits payable from the scheme.

Impact on employer contribution rates

Which assumptions are most important for setting employer contribution rates?

The chart to the right shows the importance of each assumption on employer contribution rates, relative to that of other assumptions. This shows that:

- there is a large degree of variation in the significance of each assumption
- the more significant assumptions tend to be directed by HM Treasury.

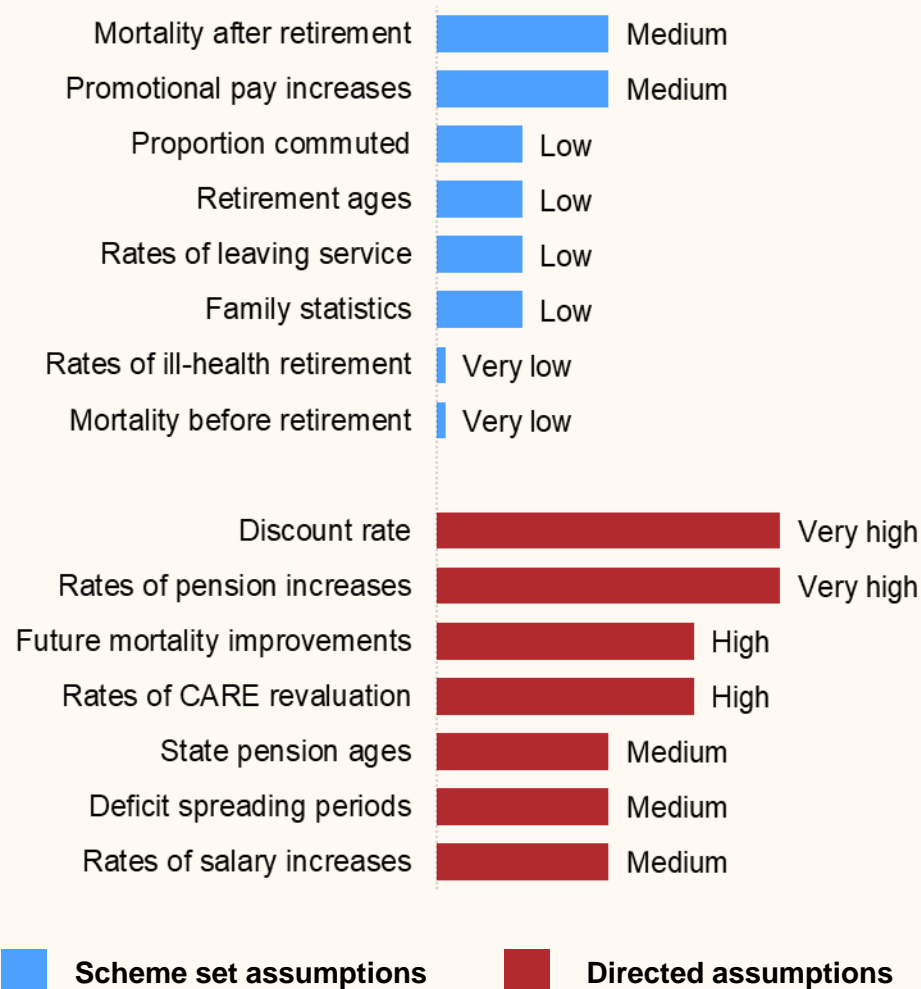
For example, the discount rate is shown as very highly significant compared to mortality before retirement. This means that even if the discount rate changes by a small amount, the impact on employer contribution rates could be very large compared to a fairly large change in mortality before retirement.

For context, the employer contribution rate is currently 23.6% of pensionable pay. In monetary terms, this was equivalent to employer contributions of £6.6 billion in 2022-23.

The rankings shown are approximate and are based on the relative significance of each assumption only. They are intended as an illustration and are not a prediction of potential future changes.

This comparison considers all assumptions and therefore differs to the earlier Highlights summary and the later Summary statistics.

Importance relative to all assumptions



Impact on the scheme's cost cap cost

Are the same assumptions important for calculating the cost cap cost?

The significance of each assumption on the cost cap cost can be very different to the significance of the same assumption on employer contribution rates. This is because the cost cap process was designed to exclude certain costs.

The chart to the right shows the significance of each assumption on the cost cap cost of the scheme, which itself tends to be lower than the employer contribution rates. This excludes the effect of the economic check.

It's important to be aware that even a small change in an assumption with low significance could result in cost cap thresholds being breached and member benefits being adjusted.

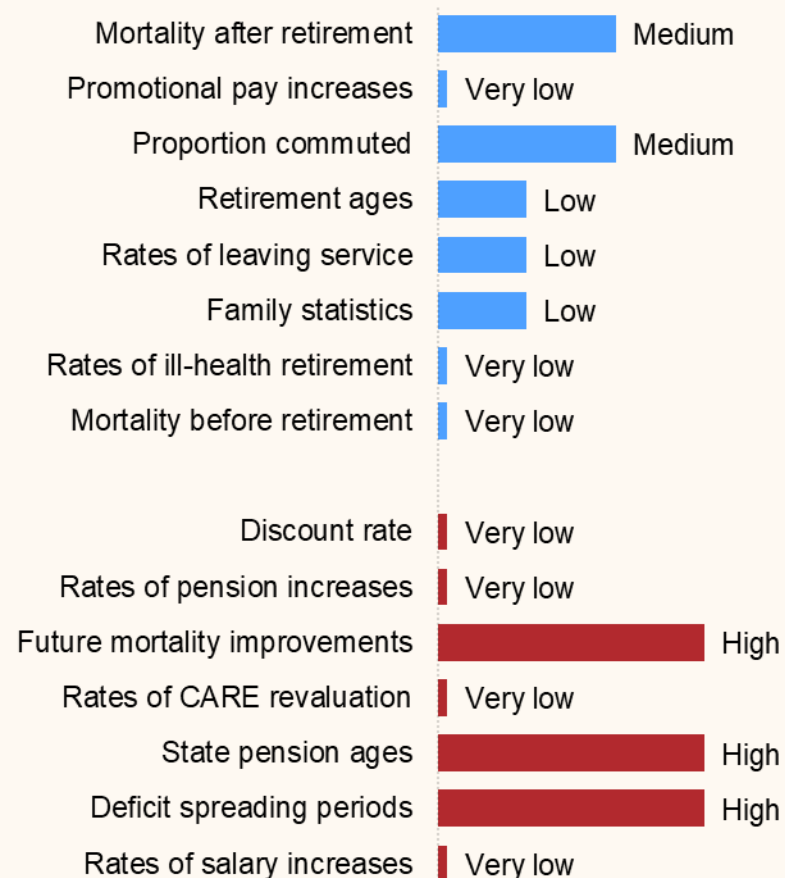
The main differences when compared to the significance of assumptions on the employer contribution rate are:

- Most financial assumptions, such as the discount rate, are not very significant to the cost cap cost
- The significance of directed assumptions (relative to scheme set assumptions) tends to be lower for the cost cap cost than for employer contribution rates.

For context, the current target cost of the scheme is 10.9% of pensionable pay.

As before, the rankings shown are approximate and are intended as an illustration, not a prediction of potential future changes.

Importance relative to all assumptions



Scheme set assumptions



Directed assumptions

Limitations

Data

In preparing this report, GAD has relied on data and other information supplied by the administrators of the TPS, Teachers' Pensions, as described in our Membership data report dated 13 October 2023. The limitations set out in that report apply equally to this report.

Unless stated otherwise, all data adjustments mentioned in that report apply equally to the data used for setting assumptions. Any additional data adjustments made solely for the purpose of setting assumptions are detailed in this report.

Assumptions

We have used the data provided to analyse the scheme experience and develop our recommended assumptions.

When considering appropriate assumptions, experience usually provides the most reliable evidence.

However, robust analysis of scheme experience will only be possible where there is both sufficient quality, and quantity, of data. The level of reliance that can be placed on assumptions derived from the analysis will also vary depending on these two factors.

Our recommended assumptions are long term and are not suitable for predicting short term future experience.

Sharing

This report has been prepared for the use of the Secretary of State for Education and the Department for Education. This report will be published as part of completing the 2020 valuation of the scheme, and we are content for the Secretary of State for Education and the Department for Education to release this report to third parties, provided:

- It is released in full
- The advice is not quoted selectively or partially;
- GAD is identified as the source of the report, and;
- GAD is notified of such release.

Other than the Secretary of State for Education and the Department for Education, no person or third party is entitled to place any reliance on the contents of this report, except to any extent explicitly stated herein. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this report.

Compliance statement:

This report has been prepared in accordance with the applicable Technical Actuarial Standards: TAS 100 and TAS 300 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

































Part B: Recommendations



B1. Summary



Summary statistics














Scheme-set assumptions	Assumption information		Our recommendations	
	Importance relative to scheme-set assumptions	Volatility of experience and unreliability of data	Size of recommended change	Impact of recommended changes on scheme costs
Mortality after retirement	 Most	 Low	 Small	 Higher costs
Proportion commuted	 Average	 Medium	 Medium	 Lower costs
Retirement ages	 Average	 Low	 None	 No impact
Rates of leaving service	 Average	 Low	 Medium	 Lower costs
Promotional pay increases	 Average	 High	 None	 No impact
Rates of ill-health retirement	 Least	 Low	 None	 No impact
Mortality before retirement	 Least	 Low	 None	 No impact
Family statistics	 Least	 Medium	 None	 No impact

This table provides a summary of the 'scheme-set' assumptions and their likely bearing on the valuation results. It is intended to highlight areas of potential focus to aid with the process of deciding on the scheme set assumptions to be adopted.

These assessments are indicative, rather than precise. More information on the approach used can be found on the next page.

Be aware that several of the most important valuation assumptions do not appear in this table as they will be directed by HM Treasury. The impact of these 'directed' assumptions could be much greater than that of the impact of 'scheme-set' assumptions.

Interpretation of summary statistics

	Importance relative to scheme-set assumptions	Volatility of experience and unreliability of data	Size of recommended changes	Impact of recommended changes on scheme costs
What does it show?	The importance of this assumption on <u>employer contribution rates</u> (ECR) and the <u>cost cap cost</u> (CCC) of the scheme, relative to other 'scheme-set' assumptions	The variability of experience and unreliability of data observed in the past. This can impact the weight we place on current experience.	The size of change we recommend, relative to the assumptions used at the last valuation.	The likelihood of our recommendations leading to higher or lower <u>employer contribution rates</u> (ECR) and <u>cost cap cost</u> (CCC) of the scheme
What is it based on?	Our actuarial judgement and the sensitivity analysis carried out at the last valuation.	Public service pension scheme experience at previous valuations	Assumptions recommended at this valuation and those used at the last valuation.	Our actuarial judgement and the sensitivity analysis carried out at the last valuation.
What are the possible ratings?	<p> Most</p> <p>An assumption that could plausibly impact the <u>ECR</u> or <u>CCC</u> by more than 1%.</p> <p> Average</p> <p>An assumption with an impact in between most and least.</p> <p> Least</p> <p>An assumption that could plausibly impact both the <u>ECR</u> and the <u>CCC</u> by less than 0.2%.</p>	<p> High</p> <p>A current or previous lack of credible data, or large changes in member behaviour.</p> <p> Medium</p> <p>Volatility of experience or unreliability of data classified in between high and low.</p> <p> Low</p> <p>A large pool of credible data that doesn't tend to change much.</p>	<p> Large</p> <p>An average change in assumption of over 25%.</p> <p> Medium</p> <p>An average change in assumption of between 10% and 25%.</p> <p> Small or None</p> <p>An average change in assumption of between 0% and 10%.</p>	<p> Higher</p> <p><u>ECR</u> and <u>CCC</u> likely to be higher.</p> <p> Lower</p> <p><u>ECR</u> and <u>CCC</u> likely to be lower.</p> <p> Uncertain</p> <p>Likely impact on the <u>ECR</u> and <u>CCC</u> is still uncertain. For example, if assumptions for different categories move in different directions.</p> <p> No impact</p> <p>Likely to be no material impact on the <u>ECR</u> or <u>CCC</u>.</p>

Significance, volatility and size of changes

The diagram to the right shows, for the scheme set assumptions:

- **Relative importance of assumption.** It's important to pay regard to the more significant assumptions, as any changes can have a big impact. Assumptions placed higher up the page are those that are more significant.
- **Volatility of experience and unreliability of data.** Assumptions placed further to the right of the page are also important to consider, as they are more volatile or have uncertain experience. This means that they are more likely to change substantially.
- **Size of recommended changes.** Larger changes are key as they are more likely to have a large impact on valuation results (although this also depends on how significant the assumption is). The coloured circles signify the size of our recommended change, as specified in the key below.

Key: Size of recommended changes

L Large **M** Medium **S** Small **N** None



B2. Mortality after retirement



Mortality after retirement





What does this assumption represent?

Mortality assumptions are a series of probabilities which represent the likelihood of a member dying at any given age. Different assumptions usually apply to different groups, e.g., for males and females, or normal health or ill-health retirees.

Baseline mortality rates are a “scheme-set” assumption and are the focus of this section.

Future mortality improvements are a directed assumption, and typically act to reduce baseline mortality rates in future years. They are directed to be in line with the improvements underlying the ONS-2020 population projections, which reflect the latest views on the long-term effect of the COVID-19 pandemic. The rate of improvements can be negative.

Summary statistics

Relative importance of assumption	Volatility of experience and unreliability of data	Size of recommended change	Impact of recommended changes on scheme costs
 Most	 Low	 Small	 Higher costs

Our recommendations and rationale

We recommend updating the baseline mortality rates for normal health pensioners and dependants, using an equal allowance for recent experience and the 2016 assumption to help smooth out volatility. This is consistent with the approach used for the 2016 valuation.

We recommend adopting a single baseline mortality assumption for both current and future ill health pensioners using an equal allowance for recent experience and the 2016 assumption for current ill health pensioners. This differs from the 2016 valuation when the assumption for future ill health pensioners was set equal to the standard ill-health table.

The ONS-2020 population projections allow for the impact of the COVID-19 pandemic, so it would be inappropriate to adjust the baseline mortality assumptions.

Baseline mortality rates are set by adjusting the ‘S3’ standard mortality tables issued in December 2018 by the Continuous Mortality Investigation (CMI). These tables are derived from a larger amount of public service data and so are more appropriate for the scheme than the S1/S2 tables adopted at the 2016 valuation.

There is a known issue with the unadjusted ‘S3’ standard tables over-estimating life expectancy. However, our approach of fitting the tables to the scheme’s experience negates this issue.

Practical implications

Mortality assumptions can be used to estimate the life expectancy of individual members. Higher life expectancies mean a higher cost of providing benefits, as benefits must be paid for longer periods of time.

The table below shows the impact of our recommended assumptions. For each category shown:

- The **first column** for males and females is the assumption adopted for the 2016 valuation.
- The **middle column** for males and females is the 2016 assumption, but updated to use a valuation date of 2020 and ONS-2020 improvements.
- The **last column** for males and females is the assumption we recommend for the 2020 valuation.

The changes between the first and middle columns show the impact of directed changes to future mortality improvements and the normal passage of time. The changes between the middle and last columns show the impact of our recommended changes to baseline mortality assumptions.

All numbers shown are cohort life expectancies that have been calculated allowing for future mortality improvements.

Life expectancies for normal health pensioners

	Males			Females		
	2016 valuation assumption	2016 assumption updated	2020 valuation recommendation	2016 valuation assumption	2016 assumption updated	2020 valuation recommendation
Current pensioners, age 65	88.3	87.4	87.7	90.3	89.6	89.8
Future pensioners, age 45	90.2	89.0	89.3	92.0	91.1	91.3

Recommendations in detail

		2016 Assumptions			2020 Recommendations		
Category		Standard table	Adjustment	Based on	Standard table	Adjustment	Based on
Normal health pensioners	Male	S2NMA_L	106%	Scheme experience	S3NMA	93%	Scheme experience
	Female	S1NFA_L	See footnote 1	Scheme experience	S3NFA	93%	Scheme experience
Current ill health pensioners	Male	See footnote 2	See footnote 2	Scheme experience	S3IMA	86%	Scheme experience
	Female	See footnote 3	See footnote 3	Scheme experience	S3IFA	102%	Scheme experience
Future ill health pensioners	Male	S2IMA	100%	UK-wide expectations	S3IMA	86%	Scheme experience
	Female	S2IFA	100%	UK-wide expectations	S3IFA	102%	Scheme experience
Dependants	Male	S2NMA	120%	Scheme experience	S3DMA	87%	Scheme experience
	Female	S2DFA	95%	Scheme experience	S3DFA	90%	Scheme experience

Footnotes:

1. Age-dependent adjustments to S1NFA_L: ≤79: 75%, 80-84: 86%, 85-89: 100%, ≥90: 108%
2. Age-dependent assumption: ≤75: 70% of S2IMA with an underpin of 119% of S2NMA; >75: 119% of S2NMA
3. Age-dependent assumption: ≤75: 85% of S2IFA with an underpin of 114% of S2NFA; >75: 114% of S2NFA

Details of our 2020 recommendations are set out in a separate document that will be published alongside this report.

Our approach

Analysis

We have analysed the scheme's mortality experience over the period 1 April 2016 to 31 March 2020.

Our analysis has been carried out on an 'amounts' basis (as opposed to a 'lives' basis).

An 'amounts' analysis gives more weight to members with larger pensions, better reflecting the impact they have on scheme costs. A 'lives' analysis on the other hand gives an equal weighting to every member being analysed.

As members with higher pensions tend to live longer, an 'amounts' analysis usually results in lighter mortality assumptions than a 'lives' analysis would, based on the same data.

Setting recommended assumptions

We recommend that all baseline mortality assumptions are based on the 'S3' series of standard tables.

Our general approach is:

- Identify groups of members we would expect to have different life expectancies, for example by gender and by health at retirement.
- Identify the most appropriate 'S3' table for each group. Where we have enough scheme experience, we carry out a series of statistical tests to find tables which best fit recent experience. This is approximate, so we apply judgement to select the most appropriate table.
- The last four years of experience may not accurately reflect the longer-term, so we generally 'smooth out' any excess volatility by setting adjustments based on an equal allowance for recent experience and the 2016 valuation assumptions, which were set using pre-2016 experience.
- Where there is not enough scheme experience, we look at assumptions from other groups of members or other schemes which may have similar experience, adjusted to allow for any available information.

The scheme administrator carries out a monthly Disclosure of Death Registration Investigation ('DDRI') process. This allows it to identify where members might have died, but notification may not yet have been received by the scheme. The DDRI recording can affect certain aspects of the data held on the administration system. Therefore, in processing the valuation data, it was necessary for us to adjust the raw data to ensure only genuine deaths occurring during the inter-valuation period were analysed.

Scheme experience: overall

Experience

Experience versus expectations show how accurate the assumptions have been in the past and can help inform setting future assumptions.

It should be noted that experience can be a very volatile measure for groups with small amounts of data, which then impacts the reliance we place on it.

Summary

The 2016 assumptions and the 2020 recommendations are largely in line with the baseline mortality experience. This can be seen through the distribution of deaths by age shown on the next page.

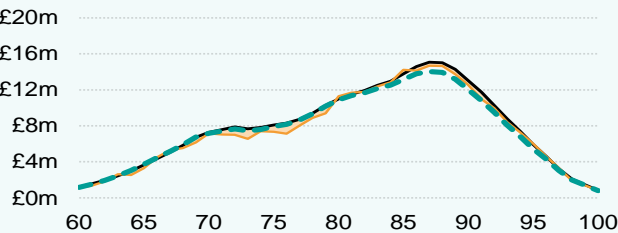
The table on page 22 show that the recommended 2020 baseline mortality assumption in isolation leads to slightly increased life expectancies. However, this has a relatively small impact on the overall change in life expectancies, which have reduced overall due to directed future mortality improvements.

As the S3 tables are a good fit, we recommend that the age-related assumptions adopted for the 2016 valuation can be replaced with a single scaling factor for each assumption.

Scheme experience: in detail

Pension ceasing as a result of death by age, split by category

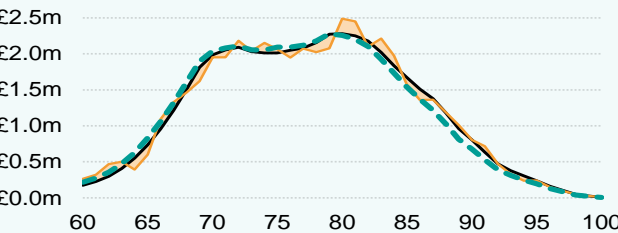
Male - Normal health pensioners



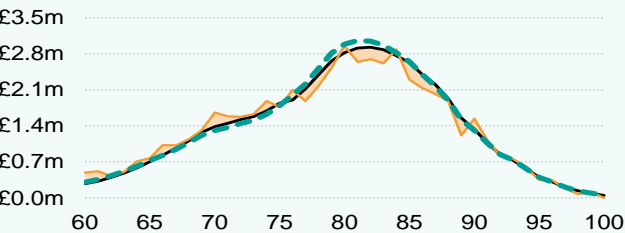
Female - Normal health pensioners



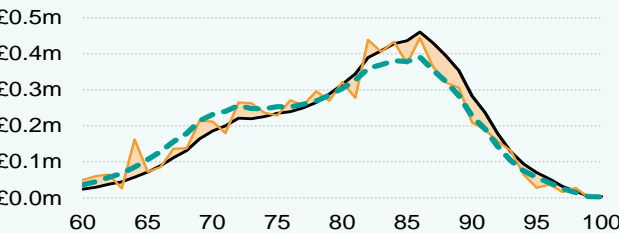
Male - Ill health pensioners



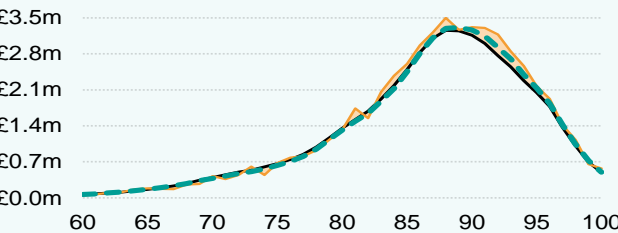
Female - Ill health pensioners



Male - Dependants



Female - Dependants



Scheme experience: in numbers

Category		Experience Actual pension ceasing due to death over 2016-2020	2016 Expectations Pension expected to cease under the 2016 assumptions	Experience ÷ 2016 Expectations	2020 Expectations Pension expected to cease under the 2020 recommendations	Experience ÷ 2020 Expectations
Normal health pensioners	Male	£312 m	£324 m	96.4%	£311 m	100.2%
	Female	£290 m	£291 m	99.5%	£289 m	100.3%
Ill health pensioners	Male	£51 m	£50 m	102.4%	£50 m	102.8%
	Female	£59 m	£58 m	102.8%	£58 m	101.3%
Dependants	Male	£7 m	£7 m	98.1%	£7 m	99.6%
	Female	£57 m	£55 m	104.5%	£55 m	103.7%

Details of our 2020 recommendations are set out in a separate document that will be published alongside this report.

Wider environment: COVID-19

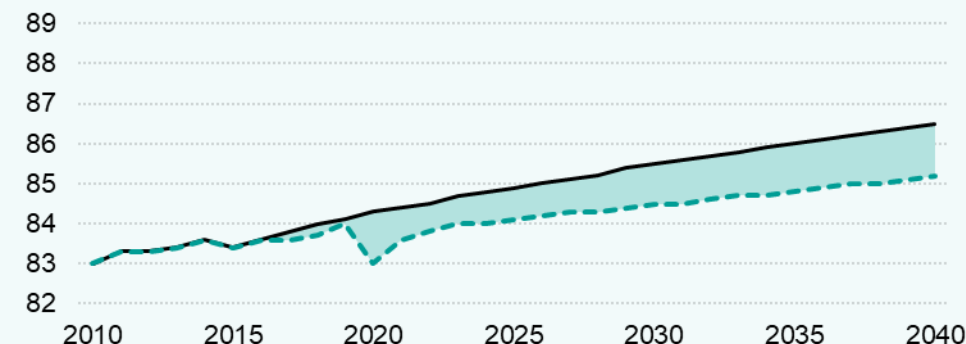
No explicit allowance has been made for the COVID-19 pandemic in our recommended assumptions for **baseline mortality rates**. Our recommendations are based on scheme experience up to 2020 so will only have included deaths from the very start of the pandemic. We do not expect these deaths to have had a material impact on our recommendations.

However, an explicit allowance is included in assumed **future mortality improvements**. These are directed to be in line with the improvements underlying the ONS-2020 population projections.

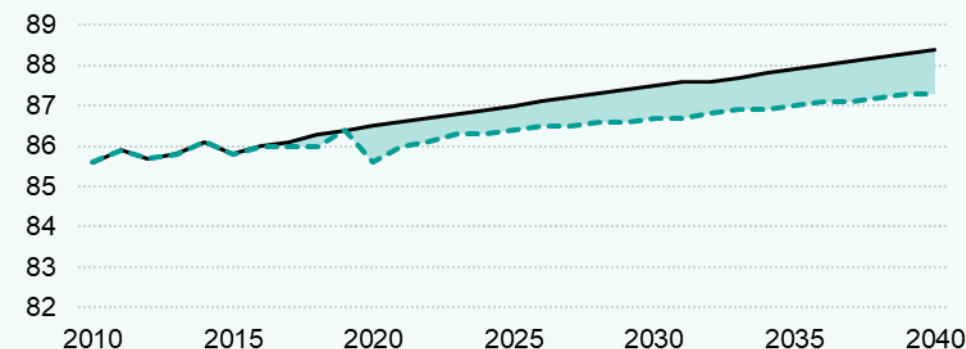
When deriving the ONS-2020 projections, a panel of mortality experts gave their views on the impact of COVID-19 pandemic on mortality rates in the short term. Based on this, short term adjustments were made to the 2019 to 2024 period to allow for estimated deaths in 2021 and an averaging of the experts' views on estimated improvements by age group over this period. Long term rates of future mortality improvement are not projected to change as a result of COVID-19.

The charts on this page show the impact of the ONS-2020 projections on future life expectancies for a typical UK male and UK female, aged 65. There is a clear drop in life expectancies in 2020 as result of the COVID-19 pandemic. In the longer term, even though mortality is expected to start improving again, the 2020 drop means we start from a lower baseline and the impact of COVID-19 will be with us long into the future.

Life expectancies for UK males, aged 65



Life expectancies for UK females, aged 65



Key:



Based on **ONS-2016 projections**, which were adopted for the 2016 valuation



Based on **ONS-2020 projections** (dotted line) and difference from the 2016 projections (shaded area)

B3. Proportion commuted



Proportion commuted

What does this assumption represent?





The proportion commuted represents the fraction of pension that members give up at retirement, in return for a single tax-free lump sum payment (subject to HMRC tax limits).

Commutation is a ‘scheme-set’ assumption for this valuation. In the 2016 valuation, it was ‘scheme-set’ for some groups of members and directed for other groups.

The proportion commuted is an important assumption because the value of the lump sum received is often less than the value of the pension given up. Higher proportions commuted therefore tend to lead to lower scheme costs.

The lump sum is typically calculated using a commutation rate of £12 lump sum for every £1 of annual pension given up. The commutation rate is not being reviewed in this valuation.

Summary statistics

Relative importance of assumption	Volatility of experience and unreliability of data	Size of recommended change	Impact of recommended changes on scheme costs
 Average	 Medium	 Medium	 Lower costs

Our recommendations and rationale

- For the **NPA 60 section**, we recommend increasing the assumed commutation proportion to 6% for both males (+1%) and females (+2%). This is due to continued higher commutation proportions since 2016, which reduces the employer contribution rate.
- For the **NPA 65 section**, we recommend retaining a commutation proportion of 17.5% for all members. As there are relatively few retirements over the period, this is based on the scheme’s own experience combined with experience from other large schemes (NHS E&W, CS GB and LGPS E&W).
- For the **2015 scheme**, we recommend retaining a commutation proportion of 17.5% for all members. There are too few 2015 scheme retirements to set an assumption, so we looked to the NPA 65 section assumption to inform our recommendation.

Practical implications

Commutation can drastically alter the timing and amount of benefit payments for individual members.

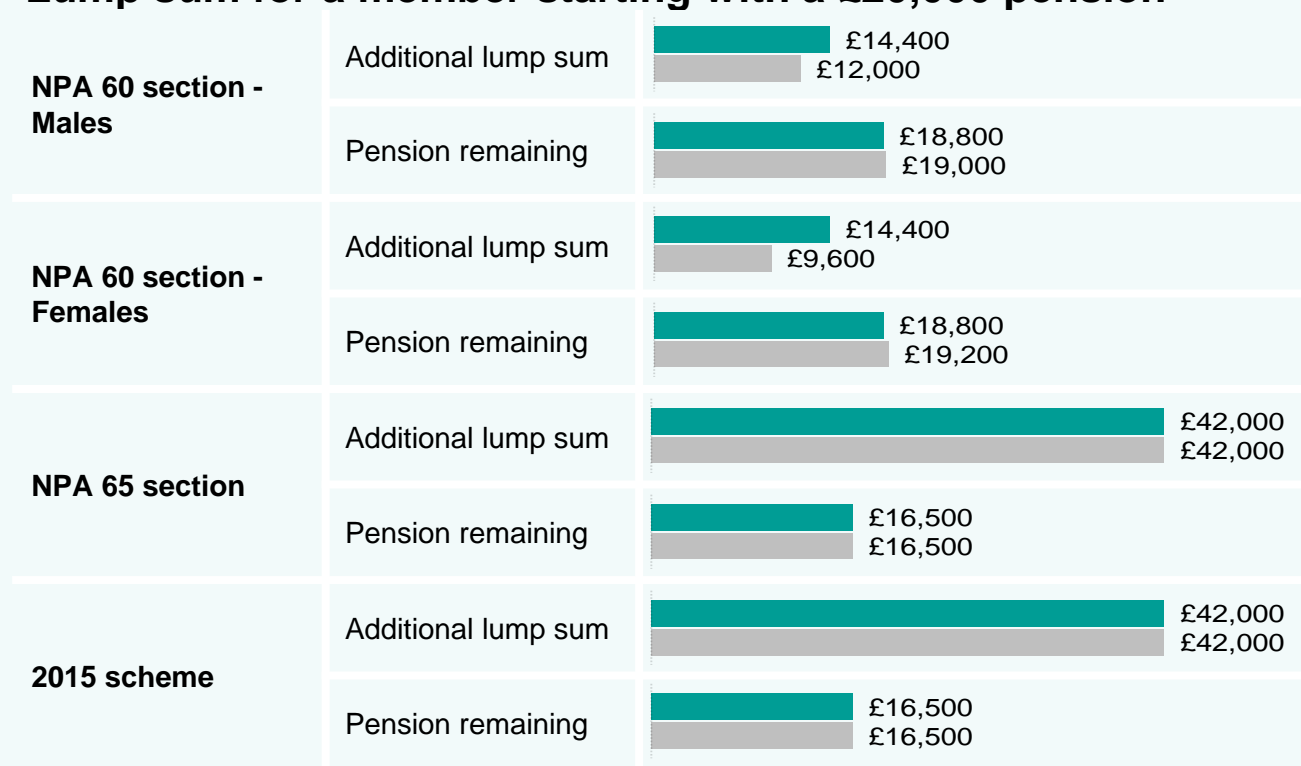
Members choose whether to commute based on their own individual circumstances. For example, their:

- Assessment of their future life expectancy
- Tax circumstances
- Preferences for higher future income vs an immediate lump sum.

The chart to the right shows the impact on assumed benefits of our recommended assumptions. For each category shown:

- The **top line** (■) shows the impact of the assumptions we recommend for the 2020 valuation.
- The **bottom line** (■) shows the impact of the assumptions adopted for the 2016 valuation.

Lump sum for a member starting with a £20,000 pension



In the NPA60 section, members also receive an automatic lump sum equal to three times pension.

Our approach

Analysis

We have analysed the scheme's commutation experience over the period 1 April 2016 to 31 March 2020.

Our analysis considered total pension that came into payment and total pension that was commuted and was carried out separately for groups expected to behave differently.

This approach places more weight on members with larger pensions, reflecting the bigger impact they can have on scheme costs.

Setting recommended assumptions

Our general approach is:

- Identify groups of members we would expect to commute in different ways, for example by gender, pension amount and scheme section.
- Compare recent commutation experience against the 2016 valuation assumptions.
- Where there is not enough scheme experience, we look at assumptions from other groups of members or other schemes which may have similar experience, adjusted to allow for any available information
- Recommend a change to the assumption only if evidence points to a material change to the valuation results. In these cases, our recommendation is to fully align the assumption to recent experience, as there is limited evidence for in-year volatility.
- We make no explicit allowance for HMRC limits, which already influence member behaviours, or for the McCloud judgment as this is unlikely have a significant impact on members' commutation choices.

For the NPA 60 Section, we remove all deferred members from the analysis as a reasonable simplification to exclude many historic deferred members who have no commutation rights in the scheme.

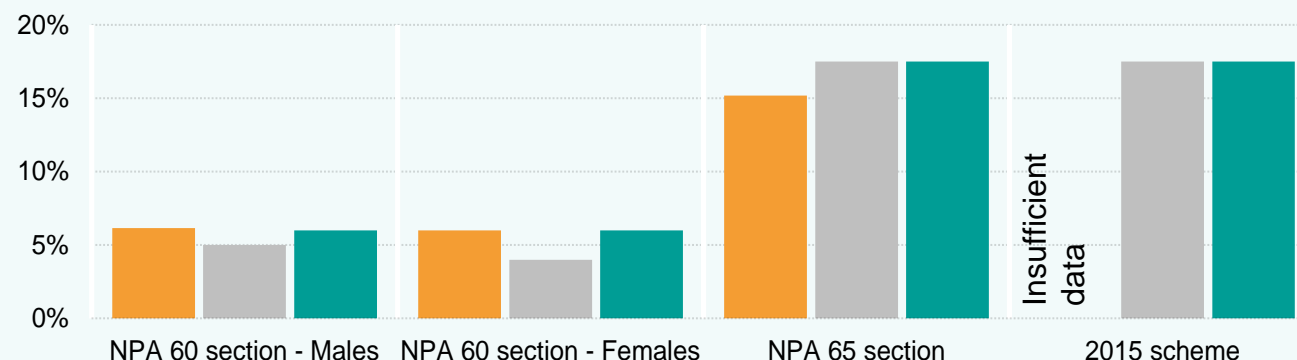
Scheme experience: overall

Experience versus expectations show how accurate the assumptions have been in the past and can help inform setting future assumptions.

- **actual experience** (orange) on the left – what has happened over the last 4 years.
- **2016 assumptions** (grey) in the middle – what we thought would happen, based on the assumptions adopted for the 2016 valuation.
- **2020 recommendations** (teal) on the right – what we would have expected to happen, had our recommended assumptions for the 2020 valuation been adopted for the 2016 valuation.

It should be noted that experience can be a very volatile measure for groups with small amounts of data, which then impacts the reliance we place on it.

Experience vs expectations



Summary

The NPA 60 section has seen a higher proportion of commutation in recent years compared to the 2016 assumption, as shown above. Updating for this experience will reduce the employer contribution rate, but will have no impact on the cost cap.

The NPA 65 section has seen a lower proportion of commutation in recent years compared to the 2016 assumption. However, this is over a small number of retirements, and other large schemes see significantly higher proportions of commutation (20% on average).

No analysis was carried out on the 2015 scheme due to low rates of retirement.

Scheme experience: in numbers

Category	Total pension coming into payment over 2016-2020 (before commutation)	Total pension commuted over 2016-2020	Experience Proportion of pension commuted over 2016-2020 (weighted by pension amount)	2016 Expectations Proportion of pension expected to be commuted under the 2016 assumptions	2020 Expectations Proportion of pension expected to be commuted under the 2020 assumptions
NPA 60 section - Males	£286 m	£18 m	6.2%	5.0%	6.0%
NPA 60 section - Females	£496 m	£30 m	6.0%	4.0%	6.0%
NPA 65 section	£17 m	£3 m	15.2%	17.5% (**)	17.5%
2015 scheme (*)	N/A	N/A	N/A	17.5% (**)	17.5%
Other large public service schemes (***)	£238 m	£48 m	19.9%	17.5% (**)	20.0%

* There was insufficient data to analyse the 2015 scheme. Therefore, we have not included any output in the table above.

** This assumption was previously HMT directed at the 2016 valuation.

*** Other large public service schemes data includes data from the National Health Service Pension Scheme (England and Wales) – 2008 section, Civil Service Pension Scheme (GB) – Non-Classic schemes and Local Government Pension Scheme (England and Wales) – Post 2008 section.

Details of our 2020 recommendations are set out in a separate document that will be published alongside this report.

B4. Retirement ages



Retirement ages

What does this assumption represent?




Retirement age assumptions are a series of probabilities which represent the likelihood of a member retiring and claiming their pension at any given age.

Different assumptions usually apply to groups who are expected to behave differently, e.g., for members with different Normal Pension Ages.

Retirement age affects:

- The benefits members receive e.g. earlier retirement ages for active members means lower benefits, as members will have built up those benefits over a shorter period of time.
- The length of time benefits will be paid for – although in most schemes this impact is offset by early retirement reductions and late retirement uplifts.

Summary statistics

Relative importance of assumption	Volatility of experience and unreliability of data	Size of recommended change	Impact of recommended changes on scheme costs
 Average	 Low	 None	 No impact

Our recommendations and rationale



Actual retirement experience for **the NPA 60 and NPA 65 sections** of the scheme between 2016-2020 was reasonably close to the expected position. Therefore, we recommend no change to the current assumptions.

There is insufficient data for the **2015 scheme** to undertake a robust analysis of experience. Therefore, we propose retaining the existing assumptions.

We recommend no change to the retirement assumptions for members with benefits in both the 2015 scheme and the legacy NPA 60 and NPA 65 sections. The McCloud judgment could result in many members exchanging up to 7 years' service from the SPa-linked 2015 scheme to earlier NPA legacy arrangements. However, allowance for this judgment within our assumption will not have a material impact on the valuation results and would rely on spurious predictions of future behaviour of members.

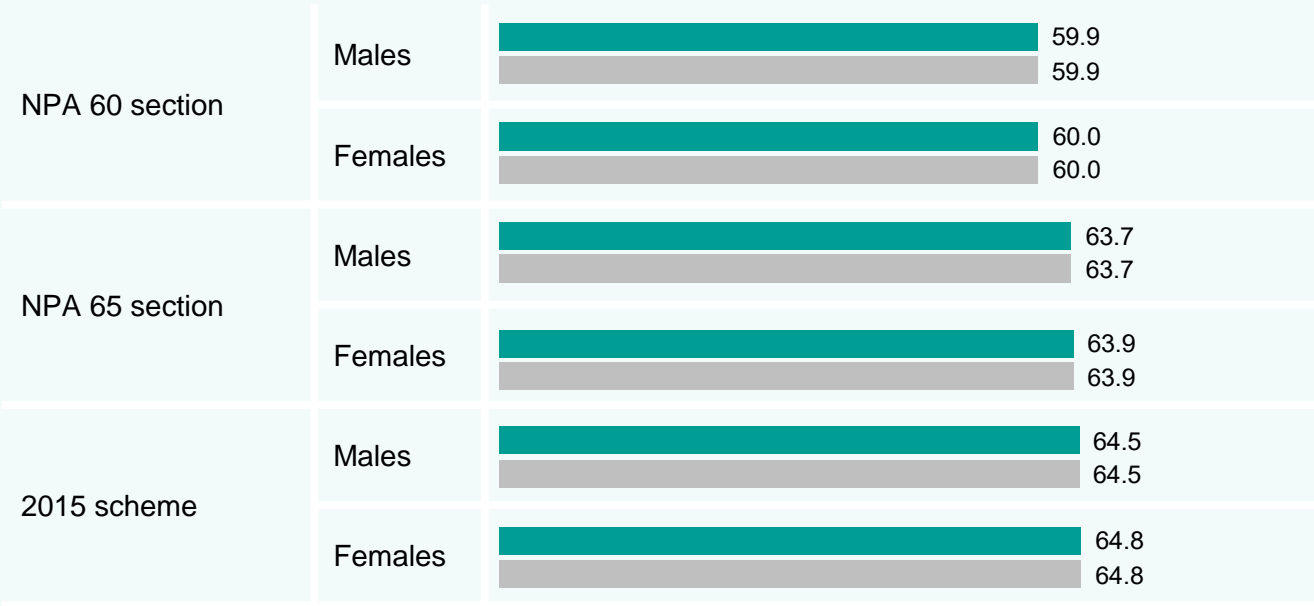
Practical implications

The chart to the right shows the impact of our recommended assumptions. For each category shown:

- The **top line** () shows the impact of the assumptions we recommend for the 2020 valuation.
- The **bottom line** () shows the impact of the assumptions adopted for the 2016 valuation.

The numbers shown in this example assume that members retire from active service. No allowance is made for the possibility of ill-health retirement, leaving service before retirement, or death in service. These assumptions are covered in other sections.

Expected retirement age for members now aged 45



Our approach

Analysis

We have analysed the scheme's retirement experience over the period 1 April 2016 to 31 March 2020.

This analysis is based on active members of the scheme. Deferred members are not analysed and are assumed to retire at their Normal Pension Age.

Setting recommended assumptions

Our general approach is:

- Identify groups of members we would expect to have different retirement patterns, for example by gender and scheme section.
- Compare recent retirement experience against the 2016 assumptions.
- Where there is not enough scheme experience, we look at assumptions from other groups of members or other schemes which may have similar experience, adjusted to allow for any available information.
- Recommend that the assumption is updated only if evidence points to a material change to the valuation results.
- We typically only recommend a change to the assumed number of retirements, leaving the age profile of the existing assumption unaltered. We only recommend a change to the age profile if we see evidence of a material and non-temporary step change in membership behaviour.
- The last four years of experience may not accurately reflect the longer-term, so if we recommend a change we generally 'smooth out' any excess volatility by basing our recommendation on an equal allowance for recent experience and the 2016 valuations assumptions, which were in turn set using pre-2016 experience.

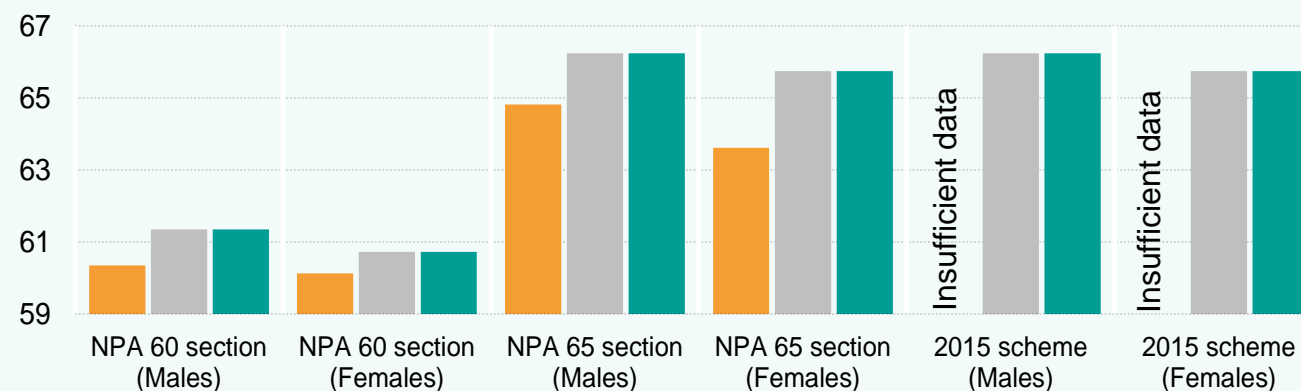
Scheme experience: overall

Experience versus expectations show how accurate the assumptions have been in the past and can help inform setting future assumptions.

- **actual experience** (orange) on the left – what has happened over the last 4 years.
- **2016 assumptions** (grey) in the middle – what we thought would happen, based on the assumptions adopted for the 2016 valuation.
- **2020 recommendations** (teal) on the right – what we would have expected to happen, had our recommended assumptions for the 2020 valuation been adopted for the 2016 valuation.

It should be noted that experience can be a very volatile measure for groups with small amounts of data, which then impacts the reliance we place on it.

Experience vs expectations: average retirement ages



Summary

For the NPA 60 and NPA 65 sections members have been retiring reasonably in line with rates assumed for the 2016 valuation. The average age of recent retirements are reasonably close to the 2016 assumptions, as shown above.

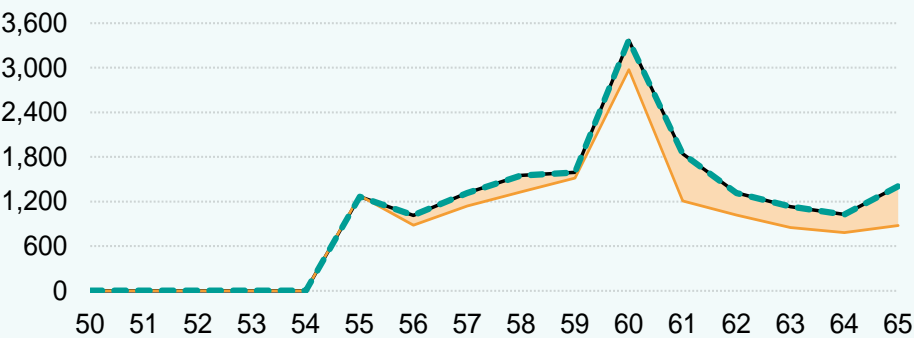
The number of retirements in the NPA 60 section are also reasonably close to the 2016 assumptions, as shown on the next page. The number of retirements in the NPA 65 section are lower than the 2016 assumptions. However, adjustments applied to member pensions on early and late retirement mean that allowing for this difference will not materially change the valuation results.

There is insufficient information to test the impact on the 2015 scheme.

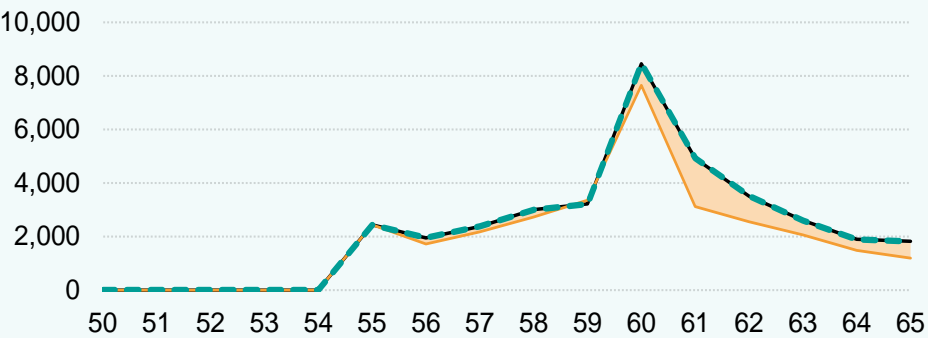
Scheme experience: in detail

Number of retirements by age, for members with accrued pension in the specified scheme, split by category

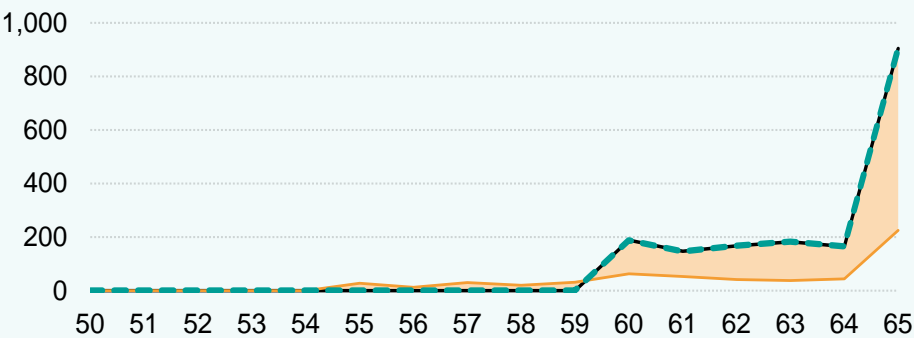
NPA 60 section (Males)



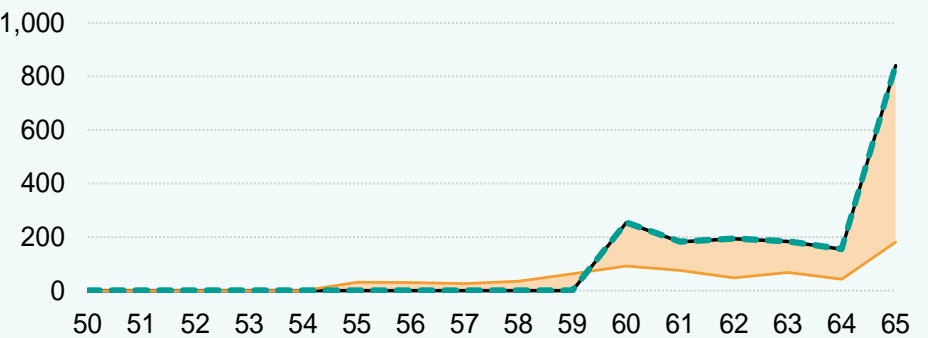
NPA 60 section (Females)



NPA 65 section (Males)



NPA 65 section (Females)



Scheme experience: in numbers

Category	Gender	Data Number of retirements over 2016-2020	Experience Average age at retirement for retirements over 2016-2020	2016 Expectations Expected average age at retirement under the 2016 assumptions	2020 Expectations Expected average age at retirement under the 2020 assumptions
NPA 60 section	Males	11,909	60.4	61.4	61.4
	Females	25,717	60.1	60.7	60.7
NPA 65 section	Males	597	64.8	66.2	66.2
	Females	64	63.6	65.7	65.7
2015 scheme (*)	Males	N/A	N/A	N/A	N/A
	Females	N/A	N/A	N/A	N/A

*The number of retirements from the 2015 scheme was insufficient to produce a robust analysis. Therefore, we have not included any output in the table above.

Details of our 2020 recommendations are set out in a separate document that will be published alongside this report.

Wider environment: McCloud

McCloud judgment

The McCloud judgment could result in many members exchanging up to 7 years' service from the SPa-linked 2015 scheme to earlier NPA legacy arrangements.

We have not made any allowance for this judgment in our recommendations, in line with the decisions taken for the 2016 cost control valuations which were issued in 2022.

The additional service in the legacy schemes may lead to earlier retirements than previously assumed. However, the magnitude of any change is by no means clear, if it occurs at all. There are many other factors that might be working in the other direction which may influence member behaviour, such as changes in the State Pension age.

We also analysed a hypothetical scenario for the McCloud judgment on member behaviour which suggested an immaterial impact on the 2020 valuation results.

Following consultation with the Department for Education, we do not see sufficient evidence to recommend any change to retirement ages following the McCloud judgment at this time.

Normal Minimum Pension Age

The Finance Act 2022 sets out that the minimum age at which most members can be permitted to draw their pension benefits will rise from 55 to 57 with effect from April 2028, to coincide with the rise of State Pension age to 67.

It is too early to speculate on the effect of this increased minimum age on member behaviours and the actuarial reductions applied to early retirement mean that any later retirements will have a minimal influence on the valuation results. Therefore, we recommend no change to the age retirement assumptions for the Finance Act 2022.

The effect of the 2022 Act should be kept under review at future valuations, when assumptions could be updated to ensure they mirror prevailing legislation.

B5. Rates of leaving service







Rates of leaving service

What does this assumption represent?

Rates of leaving service (sometimes referred to as withdrawal rates) are a series of probabilities which represent the likelihood of a member voluntarily leaving service (without retiring) at any given age.

Different assumptions are usually adopted for groups who are expected to behave differently, e.g., for males and females, or members with pensions in different sections of the scheme.

Summary statistics

Relative importance of assumption	Volatility of experience and unreliability of data	Size of recommended change	Impact of recommended changes on scheme costs
 Average	 Low	 Medium	 Lower costs

Our recommendations and rationale



Withdrawal experience has been higher than previously assumed and this is in line with experience in other public sector schemes. We recommend increasing the assumed rate of withdrawal for members below age 35 to reflect our analysis and wider public sector trends and data sources.

Indicative analysis suggests that this recommendation would reduce the employer contribution rate by around 0.3% of pay, which we consider large enough to justify a change.

Identifying long-term leavers has always presented a challenge. However, we are confident in the data used to form our recommendation, which we have also tested against other independent external sources (e.g. survey data).

Practical implications

The charts to the right show the likelihood of a member leaving service before retirement. For each category shown:

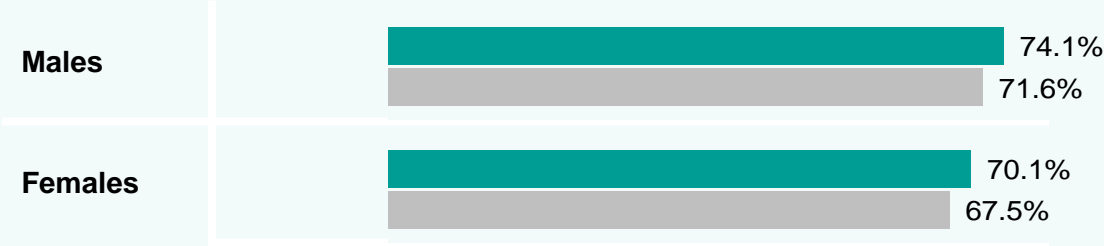
- The **top line** () shows the likelihood under the assumptions we recommend for the 2020 valuation.
- The **bottom line** () shows the likelihood under the assumptions adopted for the 2016 valuation.

The numbers shown assume that members either leave service or remain in service until age 65. No allowance is made for the possibility of early retirement, ill-health retirement, or death in service. These assumptions are covered in other sections.

Likelihood of leaving service before age 65 for a member now aged 45



Likelihood of leaving service before age 65 for a member now aged 30



Our approach

Analysis

We have analysed the scheme's experience over the period 1 April 2016 to 31 March 2020.

We have excluded all leavers who rejoined within 5 years from our analysis because after rejoining these members are treated as if they had never left the scheme.

Re-entry of members to pensionable service has been modelled by a 'net' withdrawal assumption for active members. This explicitly allows for a proportion of those leaving active service to return and is based on analysis undertaken on relevant member behaviour. No further explicit allowance has therefore been made in the valuation for a proportion of those deferred at the effective date to subsequently rejoin.

Setting recommended assumptions

Our general approach is:

- Identify groups of members we would expect to have different rates of leaving service, for example by gender and scheme section.
- Compare recent withdrawal experience against the 2016 assumptions.
- Where there is not enough scheme experience, we look at assumptions from other groups of members or other schemes which may have similar experience, adjusted to allow for any available information.
- Recommend that the assumption is updated only if evidence points to a material change to the valuation results.
- We typically only recommend a change to the assumed number of withdrawals, leaving the age profile of the existing assumption unaltered. We only recommend a change to the age profile if we see evidence of a material and non-temporary step change in membership behaviour.
- The last four years of experience may not accurately reflect the longer-term, so if we recommend a change we generally 'smooth out' any excess volatility by basing our recommendation on an equal allowance for recent experience and the 2016 valuations assumptions, which were in turn set using pre-2016 experience.

Scheme experience: overall

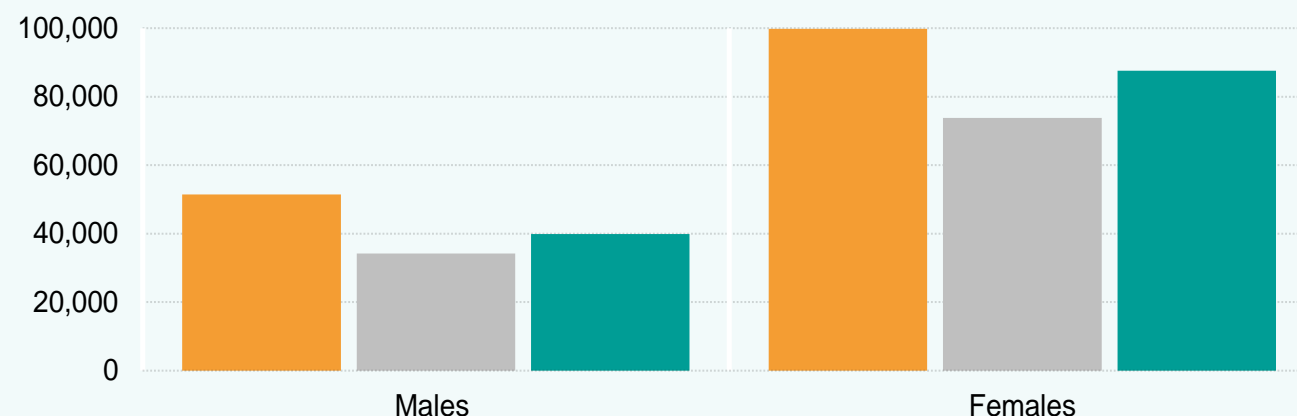
Experience versus expectations show how accurate the assumptions have been in the past and can help inform setting future assumptions.

The chart to the right and those on the following pages compare:

- **actual experience** (orange) on the left – what has happened over the last 4 years.
- **2016 assumptions** (grey) in the middle – what we thought would happen, based on the assumptions adopted for the 2016 valuation.
- **2020 recommendations** (teal) on the right – what we would have expected to happen, had our recommended assumptions been adopted for the 2016 valuation.

It should be noted that experience can be a very volatile measure for groups with small amounts of data, which then impacts the reliance we place on it.

Experience vs expectations: number of leavers



Summary

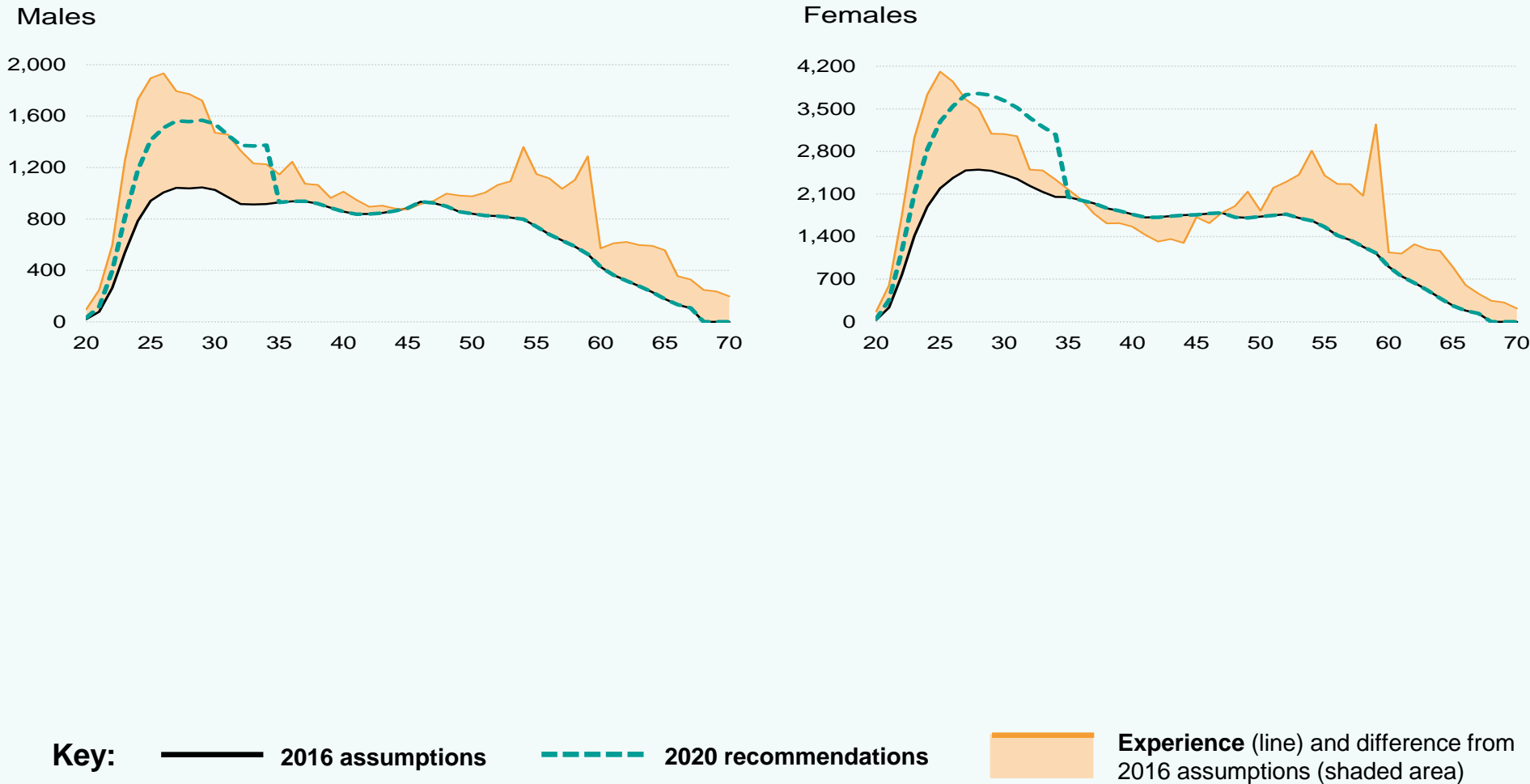
The chart above shows that there has been an increase in observed withdrawals compared to the 2016 assumptions. This follows a similar increase at the previous 2016 valuation. It is also in line with observations from other schemes of a general increase in withdrawals and indicative of a wider long-term trend across the public sector.

The charts on the next page show that the 2016 valuation assumed a lower level of withdrawals than emerged in experience, in particular at younger ages (below age 35) for both males and females. There are also increased rates of leaving over age 50 although we believe that this may be as a result of short serving supply teachers.

We recommend increasing rates of withdrawal by 50% at earlier ages to reflect our analysis and wider public sector trends and data sources.

Scheme experience: in detail

Number of leavers by age, split by category



Scheme experience: in numbers

Category	Experience Number of leavers over 2016-2020	2016 Expectations Expected number of leavers under the 2016 assumptions	2020 Expectations Expected number of leavers under the 2020 assumptions
Males	51,412	34,146	39,901
Females	99,853	73,782	87,573

Details of our 2020 recommendations are set out in a separate document that will be published alongside this report.

B6. Promotional pay increases



Promotional pay increases

What does this assumption represent?





Promotional pay assumptions are a series of pay increases that members are assumed to receive **in addition to** normal annual salary increases. The assumptions are usually tied to a member’s age or length of service.

Promotional pay increases are a ‘scheme-set’ assumption. **Salary increases** are a directed assumption and are not covered in this section.

Promotional pay increase assumptions are important as they help determine the value of ‘final salary’ benefits which make up a high proportion of scheme costs. The final salary proportion will reduce over time as more CARE benefits are built up in the reformed scheme, which are less dependent on promotional pay increases.

Costs of the McCloud remedy are highly sensitive to promotional pay increase assumptions

Summary statistics

Relative importance of assumption	Volatility of experience and unreliability of data	Size of recommended change	Impact of recommended changes on scheme costs
 Average	 High	 None	 No impact

Our recommendations and rationale

We recommend that the promotional pay increases assumptions adopted for the 2016 valuation are retained for the 2020 valuation.

For younger members, experience has been higher than assumed for the 2016 valuation. However, these members would not be expected to accrue final salary benefits and therefore promotional increases are less relevant to their benefit accrual.



Adjusting the assumptions for recent experience would not have a material effect on the valuation results.

Practical implications

The number and size of promotional pay increases can dramatically affect member benefits. This is especially true for final salary benefits (which are based on salary at retirement), but also true for career average benefits (which are based on earnings over a member’s working lifetime in the scheme).

The chart to the right shows the potential increase in salary at age 65 of a member currently aged 45 and paid £30,000 a year.

For each category shown:

- The **top line** () shows the impact of the assumptions we recommend for the 2020 valuation.
- The **bottom line** () shows the impact of the assumptions adopted for the 2016 valuation.

General (non-promotional) salary increases are set to be zero in the chart so that the impacts of different promotional pay assumptions can be seen more clearly. In practice a member’s salary will also be expected to increase due to general salary increases. The assumed rate of general salary increases is set by HM Treasury.

Salary at age 65 for a member now aged 45, and paid £30,000



Our approach

Analysis

We have analysed the scheme's salary growth experience over the period 1 April 2016 to 31 March 2020 by identifying members who appear in the data used for both the 2016 and 2020 valuations and analysing their pay growth over the 2016-2020 period. This is known as an "annual increase" analysis.

We have stripped out an allowance for known general pay increases in order to isolate the promotional elements of pay changes.

We have made no allowance for members moving between categories.

Setting recommended assumptions

Our general approach is:

- Identify groups of members where we see different levels of promotional increases. This has included gender in the past, and we continue to examine whether gender differences exist.
- Compare recent levels of promotional increases against the 2016 valuation assumptions
- Where there is not enough scheme experience, we look at assumptions from other groups of members or other schemes which may have similar experience, adjusted to allow for any available information.
- Recommend a change to the assumption only if evidence points to a material change to the valuation results.
- We typically only recommend an overall adjustment to the assumed promotional increases, leaving the age profile of the existing assumption unaltered. We only recommend a change to the age profile if we see evidence of a material and non-temporary change in membership behaviour.
- The last four years of experience may not accurately reflect the longer-term, so if we recommend a change we generally 'smooth out' any excess volatility by basing our recommendation on an equal allowance for recent experience and the 2016 valuations assumptions, which were in turn set using pre-2016 experience.

Scheme experience: overall

Experience versus expectations show how accurate the assumptions have been in the past and can help inform setting future assumptions.

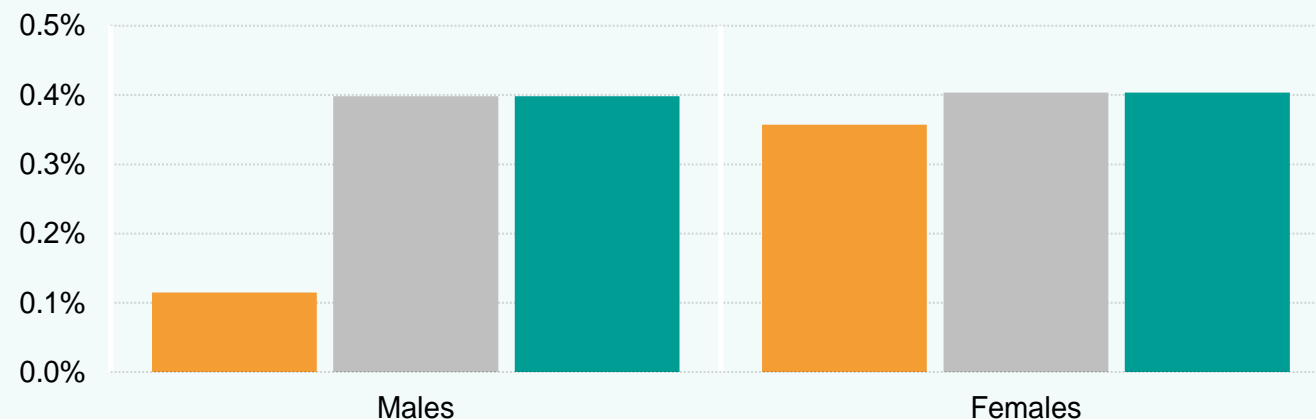
The chart to the right and those on the following pages compare:

- **actual experience** (orange) on the left – what has happened over the last 4 years.
- **2016 assumptions** (grey) in the middle – what we thought would happen, based on the assumptions adopted for the 2016 valuation.
- **2020 recommendations** (teal) on the right – what we would have expected to happen, had our recommended assumptions been adopted for the 2016 valuation.

All numbers exclude general (non-promotional) salary increases.

It should be noted that experience can be a very volatile measure for groups with small amounts of data, which then impacts the reliance we place on it.

Experience vs expectations: average annual increases from age 45 to 65



Summary

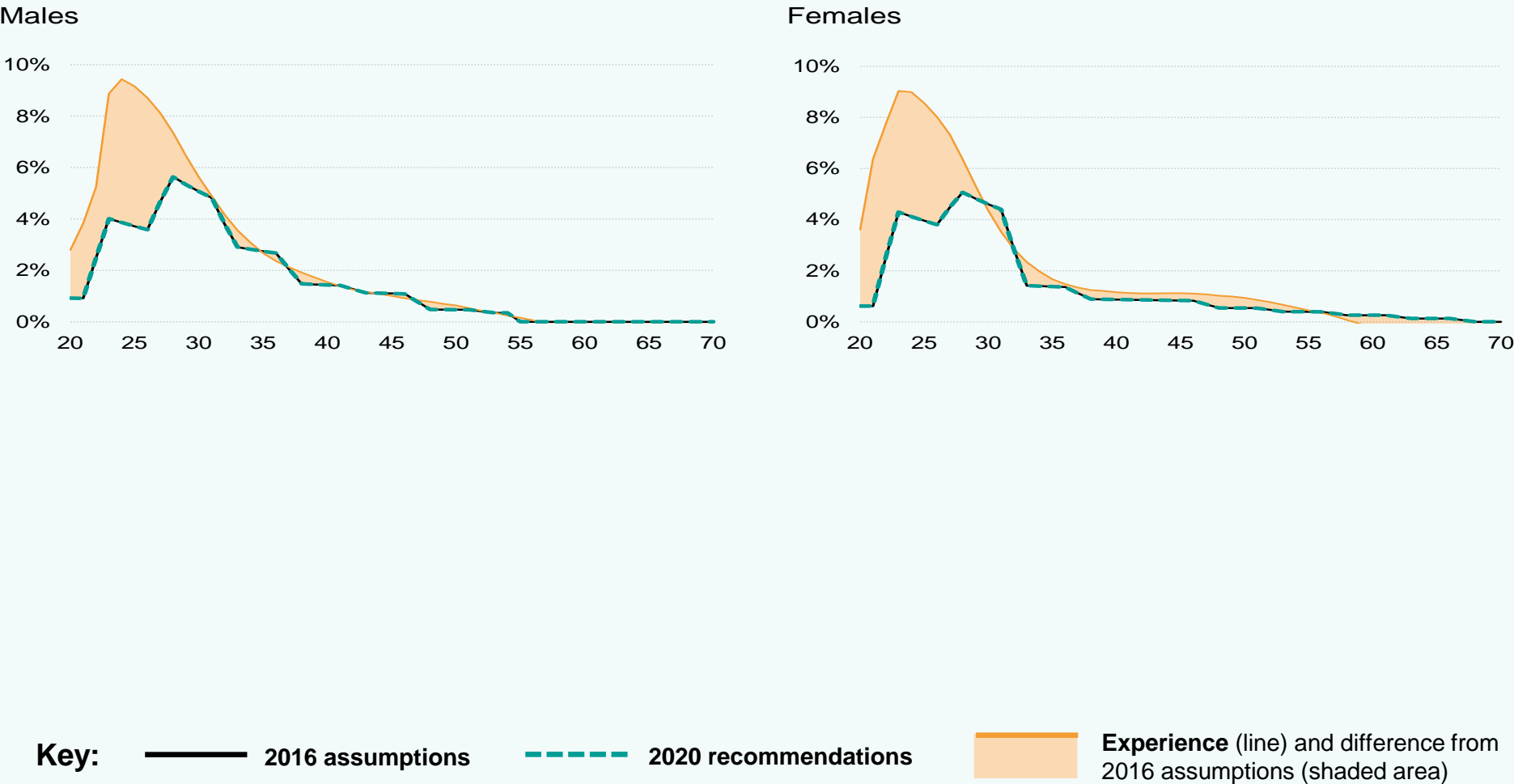
Overall, both male and female members have experienced lower promotional pay increases than expected, based on the 2016 assumptions. The differences are larger for members at younger ages who would not be expected to accrue any final salary benefits and therefore promotional increases are less relevant to their benefit accrual.

The promotional pay increases experienced by members at older ages, who would largely have accrued final salary benefits, are broadly in line with expectations.

Adjusting the assumptions for recent experience would not have a material effect on the valuation results.

Scheme experience: in detail

Annual promotional pay increases by age, split by category



Scheme experience: in numbers

Category	2016 payroll of analysed members	2020 payroll of analysed members	Experience Implied annual promotional pay increase, after removal of general salary increases	2016 Expectations Expected annual promotional pay increase under the 2016 assumptions	2020 Expectations Expected annual promotional pay increase under the 2020 assumptions
Males	£5.7 bn	£6.1 bn	0.1%	0.4%	0.4%
Females	£13.5 bn	£14.5 bn	0.4%	0.4%	0.4%

The 2016 payroll figures above include an allowance for known general pay increases from 2016 to 2020. The Experience and Expectations figures shown in the table above show the annual promotional pay increases to age 65 for a member now aged 45. Different rates would apply for different current age and retirement age combinations.

To assess the promotional experience over the period 2016-2020 it is necessary to estimate the impact of headline pay increases on the membership. For this analysis we use increases applicable to the Main / Upper pay scales. Where general increases for the leadership group have been lower than those for other teachers, this will act to slightly reduce the implied experience. However, this would not affect our conclusions or recommendations.

B7. Rates of ill-health retirement



Rates of ill-health retirement

What does this assumption represent?

Rates of ill-health retirement are a series of probabilities which represent the likelihood of a member retiring in ill-health at any given age.

Members are eligible for either upper-tier or lower-tier ill-health benefits, depending on the severity of their illness.

Summary statistics

Relative importance of assumption	Volatility of experience and unreliability of data	Size of recommended change	Impact of recommended changes on scheme costs
 Least	 Low	 None	 No impact

Our recommendations and rationale

Ill-health retirements have been lower than previously assumed, but the ages of those retirements were close to our assumptions. However, adjusting the assumption for recent experience will not make a material change to the valuation results, so we recommend that the 2016 valuations are retained.



Our experience runs to 31 March 2020, and as such misses most of the impact of COVID-19. There is anecdotal evidence that COVID-19 has increased the number of ill-health retirements, which supports retaining the current assumption.

There has been a higher proportion of lower tier retirements than previously assumed. Following discussions with the Department, we recommend updating the 2016 valuation assumption for the proportion of lower to higher tier ill-health retirements to be 50%:50% to reflect the long-term experience of the scheme, although this is not material to the employer contribution rate.

We would not expect the McCloud judgment to impact the number of ill-health retirements directly. However, the tests for the eligibility of members to receive ill-health benefits may differ between the legacy and reformed schemes. We would not expect this to have a material impact on future contribution rates as the legacy arrangements ceased on 1 April 2022.

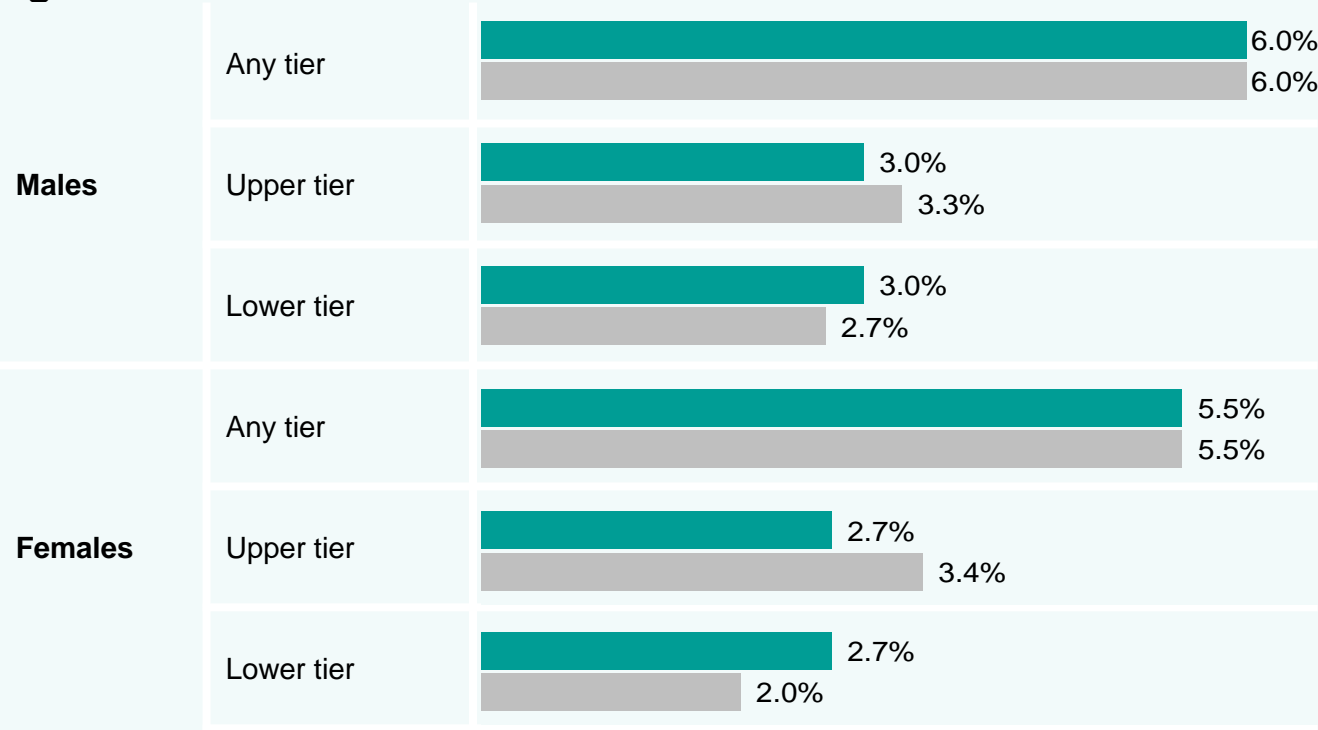
Practical implications

The chart to the right shows the likelihood of members retiring in ill-health before retirement. For each category shown:

- The **top line** () shows the likelihood under the assumptions we recommend for the 2020 valuation.
- The **bottom line** () shows the likelihood under the assumptions adopted for the 2016 valuation.

The numbers shown assume that members either retire in ill health or remain in service until age 65. No allowance is made for the possibility of early retirement, leaving service, or death in service. These assumptions are covered in other sections.

Likelihood of member now aged 45 retiring in ill-health before age 65



Our approach

Analysis

We have analysed the scheme's experience over the period 1 April 2016 to 31 March 2020.

As ill-health criteria sometimes differ between schemes, there is a chance that experience might have been slightly different if members in scope for the McCloud remedy were in a different scheme to currently. We expect the overall impact of this to be immaterial and have made no allowance for this possibility.

Setting recommended assumptions

Our general approach is:

- Identify groups of members we would expect to have different rates of ill-health retirement, for example by gender.
- Compare recent ill-health retirement experience against the 2016 assumptions.
- Where there is not enough scheme experience, we look at assumptions from other groups of members or other schemes which may have similar experience, adjusted to allow for any available information.
- Recommend that the assumption is updated only if evidence points to a material change to the valuation results.
- We typically only recommend a change to the assumed number of ill-health retirement, leaving the age profile of the existing assumption unaltered. We only recommend a change to the age profile if we see evidence of a material and non-temporary step change in membership outcomes.
- The last four years of experience may not accurately reflect the longer-term, so if we recommend a change we generally 'smooth out' any excess volatility by basing our recommendation on an equal allowance for recent experience and the 2016 valuations assumptions, which were in turn set using pre-2016 experience.
- The same approach applies to the proportions of ill-health retirements across the different severity tiers.

Scheme experience: overall

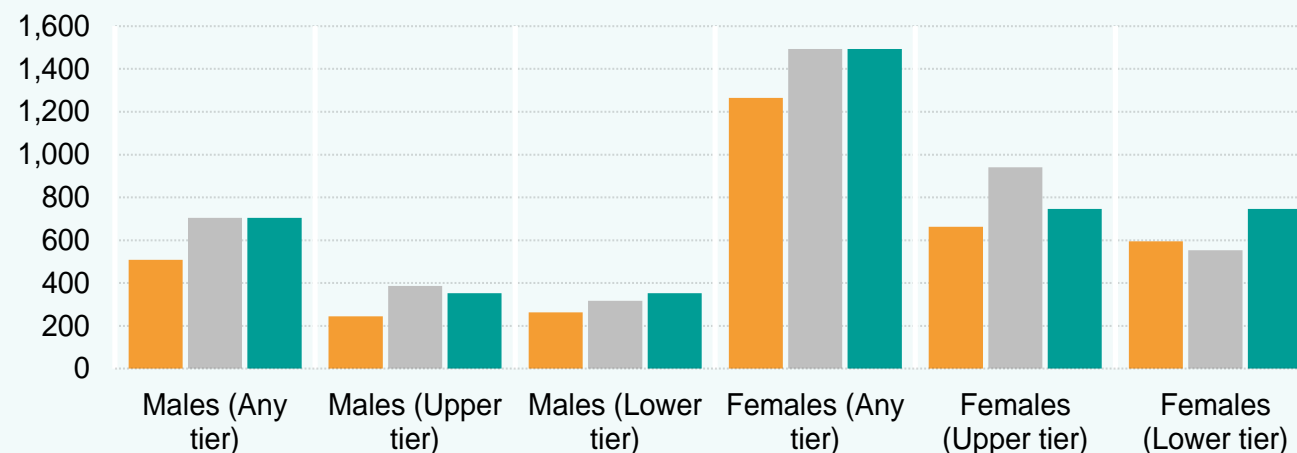
Experience versus expectations show how accurate the assumptions have been in the past and can help inform setting future assumptions.

The chart to the right and those on the following pages compare:

- **actual experience** (orange) on the left – what has happened over the last 4 years.
- **2016 assumptions** (grey) in the middle – what we thought would happen, based on the assumptions adopted for the 2016 valuation.
- **2020 recommendations** (teal) on the right – what we would have expected to happen, had our recommended assumptions been adopted for the 2016 valuation.

It should be noted that experience can be a very volatile measure for groups with small amounts of data, which then impacts the reliance we place on it.

Experience vs expectations: number of ill-health retirements



Summary

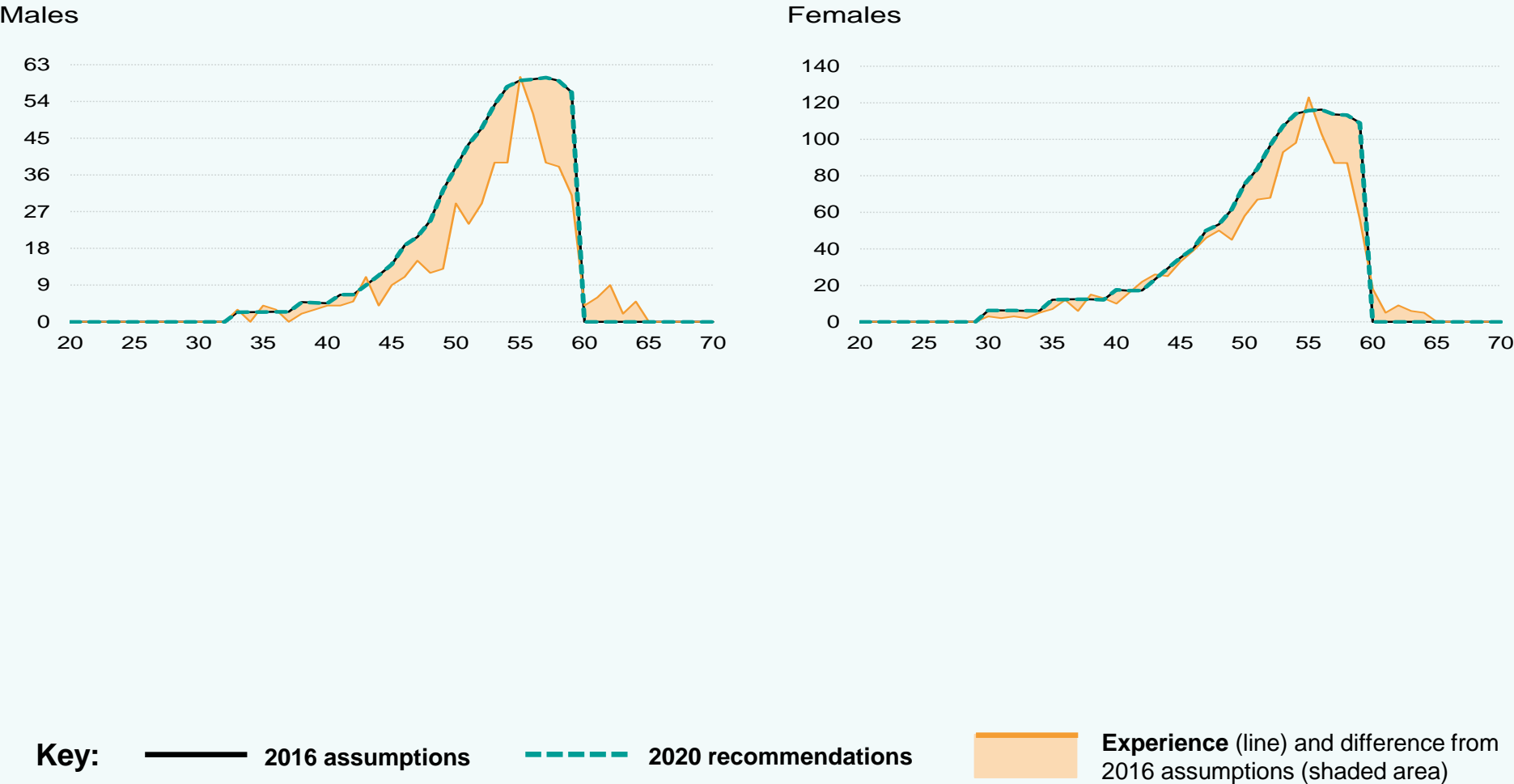
The chart above shows that there have been fewer ill-health retirements compared to the 2016 assumptions.

The charts on the next page show that the age profile of the recent ill-health retirements broadly match the 2016 assumptions, with an average age of around 53.

We separately considered the ill-health tiers. For the 2016 valuation 55% of males and 63% of females were assumed to retire with upper-tier benefits when leaving due to ill-health. Our analysis identified that around 48% of male and 53% of female actual retirements were with upper-tier benefits. We therefore recommend updating the assumption so that 50% of males and females are assumed to retire with upper tier benefits when leaving due to ill-health to be closer to the long term experience.

Scheme experience: in detail

Number of ill-health retirements by age, split by category



Scheme experience: in numbers

Category		Experience Number of ill-health retirements over 2016-2020	2016 Expectations Expected number of ill-health retirements under the 2016 assumptions	2020 Expectations Expected number of ill-health retirements under the 2020 assumptions
Males	Any tier (*)	508	704	704
	Upper tier	244	387	352
	Lower tier	263	317	352
Females	Any tier (**)	1,264	1,494	1,494
	Upper tier	663	941	747
	Lower tier	595	553	747

* Includes 1 retirement of unknown tier

** Includes 6 retirements of unknown tier

Details of our 2020 recommendations are set out in a separate document that will be published alongside this report.

Wider environment: McCloud

McCloud judgment

We would not expect the McCloud judgment to impact the number of ill-health retirements directly. However, the tests for the eligibility of members to receive ill-health benefits can differ between the legacy and reformed schemes.

Therefore, there may be an increased rate of ill-health retirement for in scope members, who may be reassessed under different rules. We would not expect this to have a material impact on contribution rates.

In addition, this ceased to apply from 1 April 2022 when all members moved into the reformed scheme.

B8. Mortality before retirement



Mortality before retirement

What does this assumption represent?

Mortality assumptions are a series of probabilities which represent the likelihood of a member dying at any given age. Different assumptions usually apply to males and females.

Mortality after retirement assumptions are used after members are assumed to retire and these and these are covered in Part B2.

Summary statistics

Relative importance of assumption	Volatility of experience and unreliability of data	Size of recommended change	Impact of recommended changes on scheme costs
 Least	 Low	 None	 No impact

Our recommendations and rationale

Actual death before retirement experience was not materially different to that expected at most ages. We recommend no changes to the current assumptions as this difference is not material to the contribution rate.

The analysed experience runs to 31 March 2020, and as such misses most of the impact of COVID-19. It is accepted that COVID-19 increased the number of deaths before retirement. However, we have made no allowance for this, as it is unlikely to have any material impact on the valuation results.

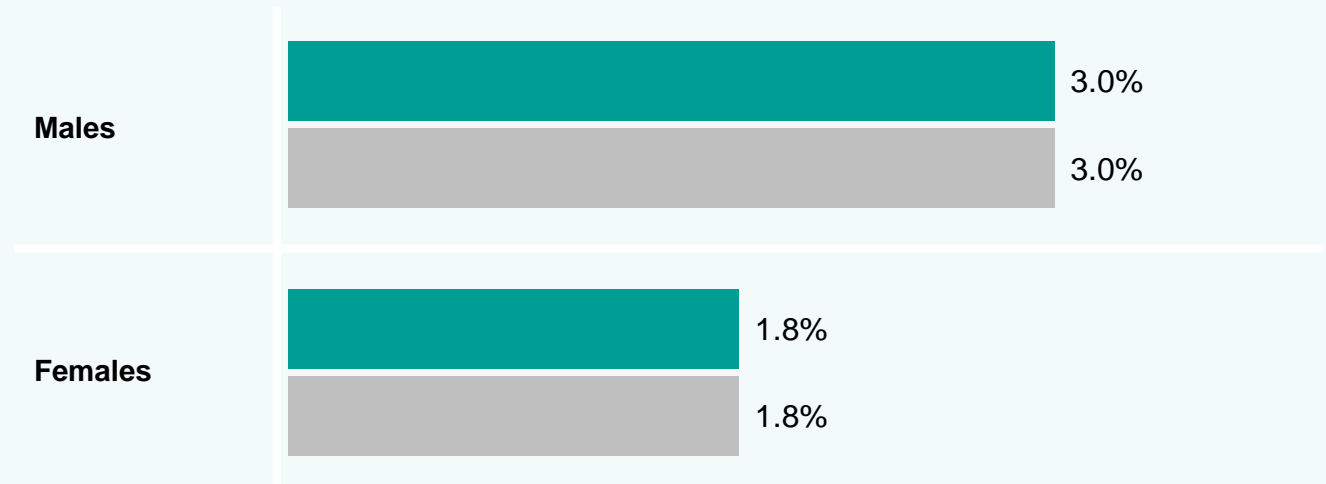
Practical implications

The chart to the right shows the likelihood of dying before retirement. For each category shown:

- The **top line** (■) shows the likelihood under the assumptions we recommend for the 2020 valuation.
- The **bottom line** (■) shows the likelihood under the assumptions adopted for the 2016 valuation.

The numbers shown assume that members either die or remain in service until age 65. No allowance is made for the possibility of early retirement, leaving service, or ill-health retirement. These assumptions are covered in other sections.

Likelihood of a member now aged 45 dying in service before age 65



Our approach

Analysis

We have analysed the scheme's pre-retirement mortality experience over the period 1 April 2016 to 31 March 2020.

Setting recommended assumptions

Our general approach is:

- Identify groups of members we would expect to have different rates of death before retirement, for example by gender.
- Compare recent pre-retirement death experience against the 2016 assumptions.
- Where there is not enough scheme experience, we look at assumptions from other groups of members or other schemes which may have similar experience, adjusted to allow for any available information.
- Recommend that the assumption is updated only if evidence points to a material change to the valuation results.
- We typically only recommend a change to the assumed number of pre-retirement deaths, leaving the age profile of the existing assumption unaltered. We only recommend a change to the age profile if we see evidence of a material and non-temporary step change in membership outcomes.
- The last four years of experience may not accurately reflect the longer-term, so if we recommend a change we generally 'smooth out' any excess volatility by basing our recommendation on an equal allowance for recent experience and the 2016 valuations assumptions, which were in turn set using pre-2016 experience.

Scheme experience: overall

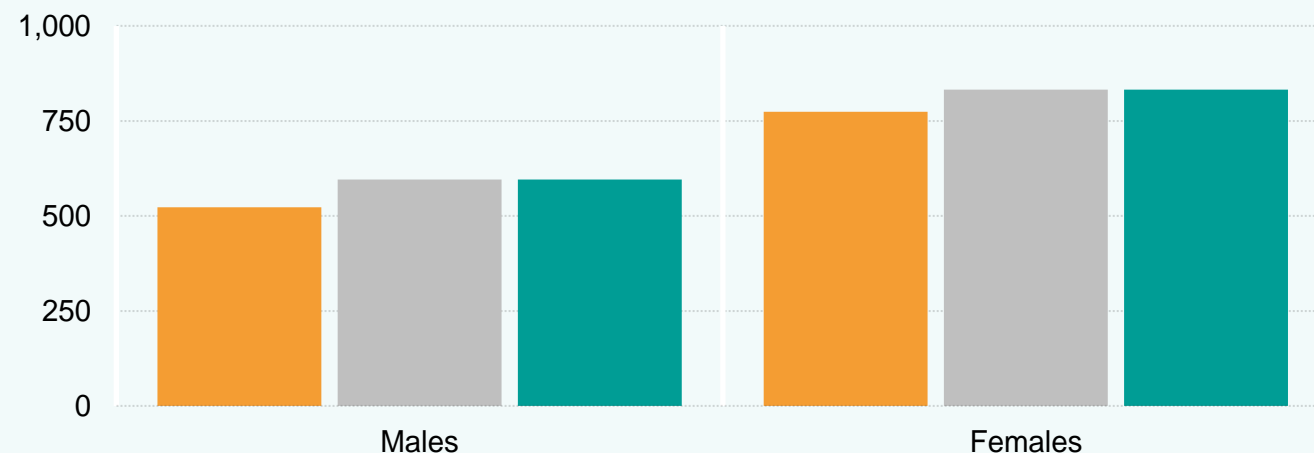
Experience versus expectations show how accurate the assumptions have been in the past and can help inform setting future assumptions.

The chart to the right and those on the following pages compare:

- **actual experience** (orange) on the left – what has happened over the last 4 years.
- **2016 assumptions** (grey) in the middle – what we thought would happen, based on the assumptions adopted for the 2016 valuation.
- **2020 recommendations** (teal) on the right – what we would have expected to happen, had our recommended assumptions been adopted for the 2016 valuation.

It should be noted that experience can be a very volatile measure for groups with small amounts of data, which then impacts the reliance we place on it.

Experience vs expectations: number of deaths before retirement



Summary

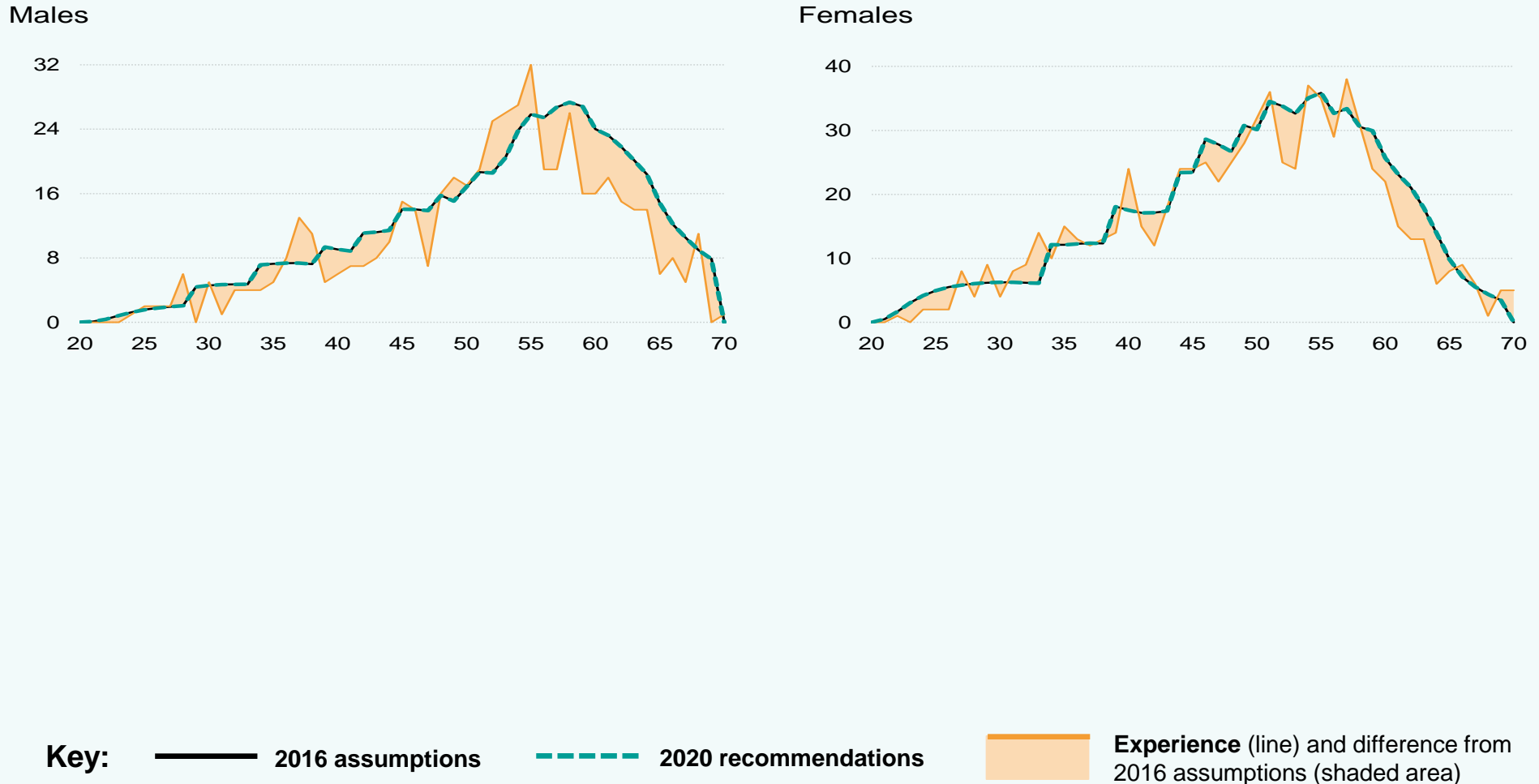
The charts above show that there have been slightly fewer deaths before retirement expected since 2016.

The charts on the next page show that the age profile of the recent deaths broadly match the 2016 assumptions, with average ages of death of around 52-53 for men and 50 for women.

The difference between the experience and the 2016 assumed number of deaths is not material to the contribution rate.

Scheme experience: in detail

Deaths before retirements by age, split by category



Scheme experience: in numbers

Category	Experience Number of deaths in service over 2016-2020	2016 Expectations Expected number of deaths in service under the 2016 assumptions	2020 Expectations Expected number of deaths in service under the 2020 assumptions
Males	523	596	596
Females	774	833	833

Details of our 2020 recommendations are set out in a separate document that will be published alongside this report.

B9. Family statistics



Family statistics

What does this assumption represent?

The term 'family statistics' covers several assumptions, including:


- the probability that an eligible partner exists
- the average age of that partner, compared to the member.

The assumptions are used to estimate the likelihood of a dependant's pension coming into payment when a member dies, and how long that pension will be paid.

For existing pensioners, we consider the likelihood of members having an eligible partner on 31 March 2020. For future pensioners, we consider the likelihood of members having an eligible partner at retirement, or earlier death.

Mortality assumptions apply independently to the member and assumed partner.

Summary statistics

Relative importance of assumption	Volatility of experience and unreliability of data	Size of recommended change	Impact of recommended changes on scheme costs
 Least	 Medium	 None	 No impact

Our recommendations and rationale

For the **current pensioner proportion married** assumptions (applicable to NPA 60 section members), we recommend no change to the 2016 assumptions. This is due to experience being broadly in line with the current 2016 assumptions.

For the **current pensioner proportion married/partnered** assumptions (applicable to NPA 65 section and 2015 scheme members), we recommend no change to the 2016 assumptions. There are too few deaths arising from the NPA 65 section and 2015 scheme to test the suitability of this assumption, so we looked to the ONS married and married/partnered assumptions to inform our recommendation.

For the **future pensioner proportion married and married/partnered** assumptions, we recommend no change to the 2016 assumptions.

For the **age difference** assumptions, we recommend no change to the 2016 assumptions. This is due to experience being broadly in line with the current 2016 assumptions.



For the **minor** assumptions such as minor dependants' pensions, dependants' gender and remarriage, we recommend no change to the 2016 assumptions.

Practical implications

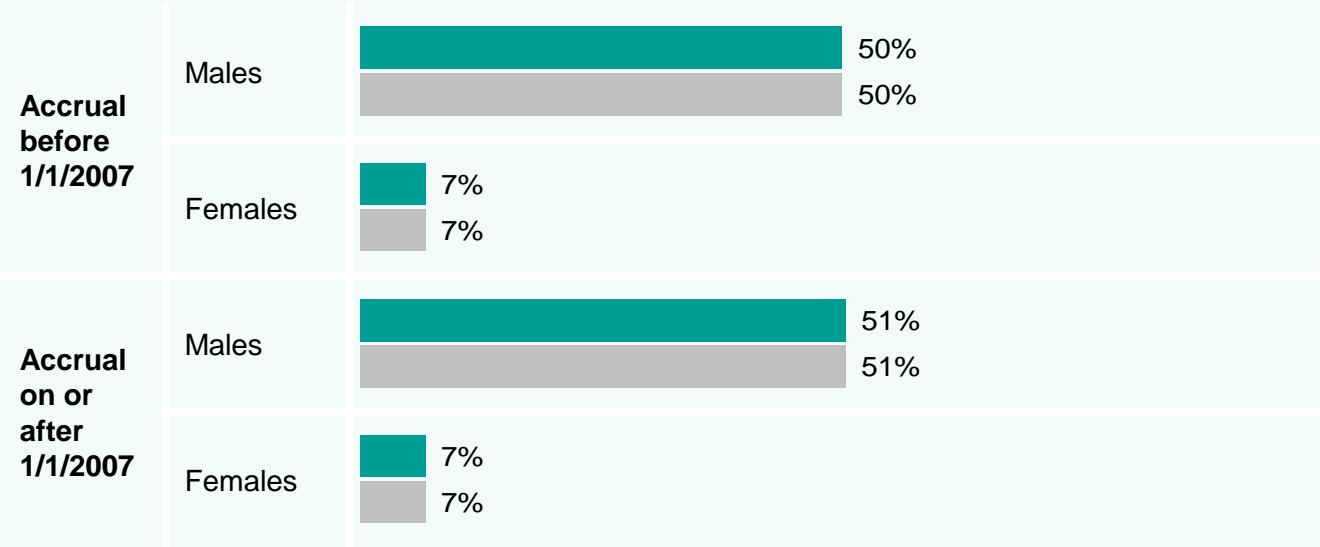
The chart to the right shows the likelihood that an eligible partner exists when a member dies. The likelihoods shown depend on:

- Assumptions about the existence of an eligible partner and that partner’s age (discussed in this section)
- Assumptions about the member and partner’s mortality (discussed in the mortality after retirement section).

For each category shown:

- The **top line** () shows the likelihood under the assumptions we recommend for the 2020 valuation.
- The **bottom line** () shows the likelihood under the assumptions adopted for the 2016 valuation.

Likelihood of an eligible partner existing at time of death*, for normal health pensioner who retired at age 65



*Assumed age at death for normal health male pensioners is 88 and for a female is 90, using the life expectancy assumptions we recommend for the 2020 valuation.

Our approach

Analysis

We have analysed the scheme's experience over the period 1 April 2016 to 31 March 2020.

Our analysis has been carried out on an 'lives' basis reflecting data available.

Setting recommended assumptions

Our general approach is:

- Identify groups of members we would expect to have different family statistics, for example by gender, and by section of the scheme, where there are differences in eligibility.
- Compare recent proportion married for members against the 2016 assumptions.
- Where there is not enough scheme experience, we look at assumptions from national statistics, other groups of members or other schemes which may have similar experience, adjusted to allow for any available information.
- Recommend that the assumption is updated only if evidence points to a material change to the valuation results.
- Recommend that the proportion married/partnered assumption remains aligned to the proportion married assumption in the absence of any experience data or evidence that would justify changing the proportion married/partnered assumption.
- We typically only recommend a change to the overall assumed proportion married or married/partnered, leaving the age profile of the existing assumption unaltered. We only recommend a change to the age difference if we see evidence of a material and non-temporary step change in membership behavior.
- The last four years of experience may not accurately reflect the longer-term, so if we recommend a change we generally 'smooth out' any excess volatility by basing our recommendation on an equal allowance for recent experience and the 2016 valuations assumptions, which were in turn set using pre-2016 experience.

Scheme experience: overall

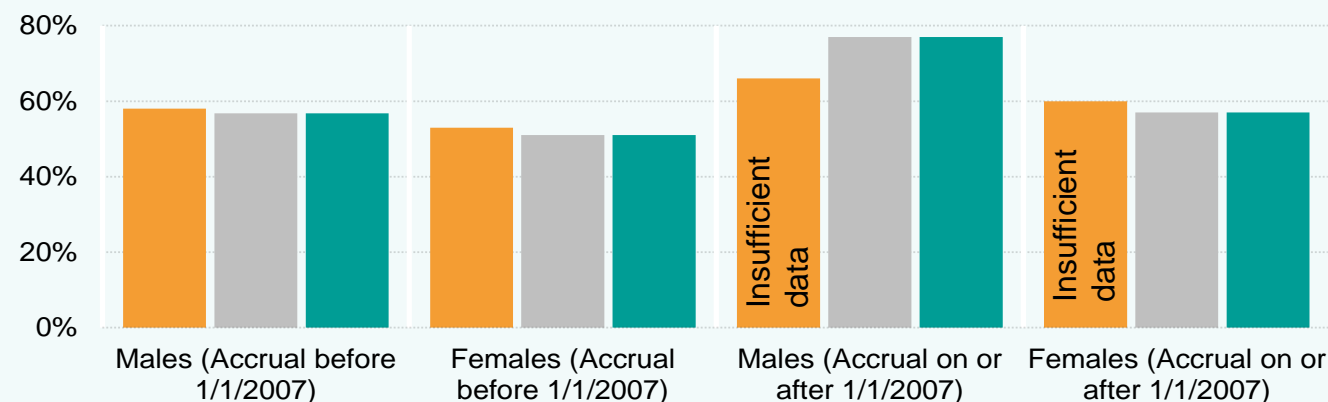
Experience versus expectations show how accurate the assumptions have been in the past and can help inform setting future assumptions.

The chart to the right and those on the following pages compare:

- **actual experience** (orange) on the left – what has happened over the last 4 years.
- **2016 assumptions** (grey) in the middle – what we thought would happen, based on the assumptions adopted for the 2016 valuation.
- **2020 recommendations** (teal) on the right – what we would have expected to happen, had our recommended assumptions been adopted for the 2016 valuation.

It should be noted that experience can be a very volatile measure for groups with small amounts of data, which then impacts the reliance we place on it.

Experience vs expectations: proportion married or married/partnered at death



Summary

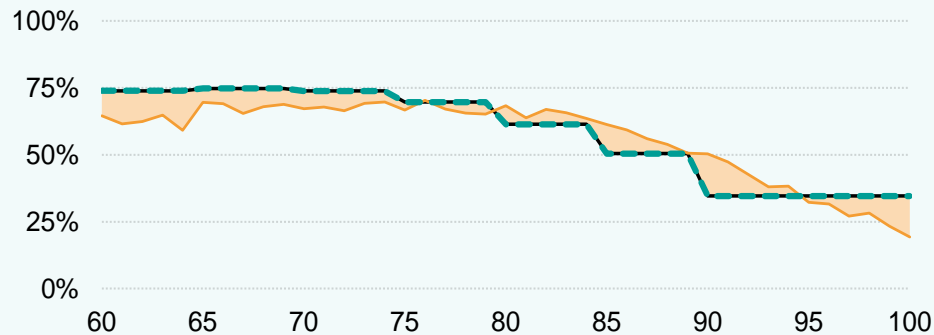
The **NPA 60 section (i.e. accrual before 1 January 2007)**, for both males and females, has seen a similar proportion married in recent years compared to the 2016 assumption, as shown above. The charts on the next page show that the age profile of the proportion married for recent deaths broadly match the 2016 assumptions.

There is insufficient information to test the impact on the **NPA 65 section and 2015 scheme (i.e. accrual on or after 1 January 2007)**, due to low rates of deaths and the output above and on the next page is for information only. However, ONS married and married/partnered statistics were considered when informing whether the married/partnered assumption remained appropriate. The ONS data supported no change to the gap between the married and married/partnered assumption.

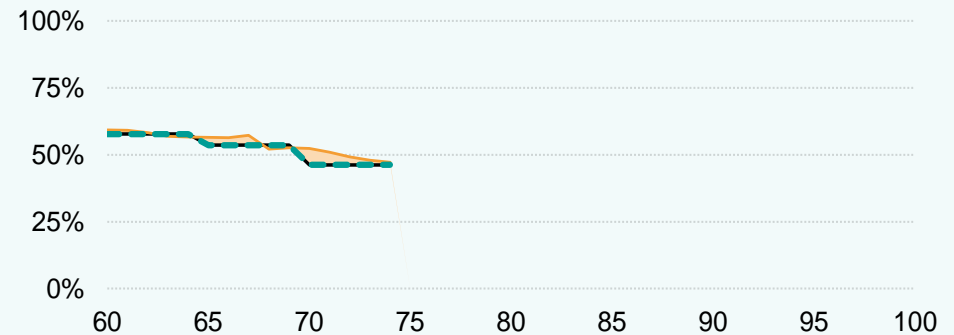
Scheme experience: in detail

Proportion married or married/partnered at death by age, split by category

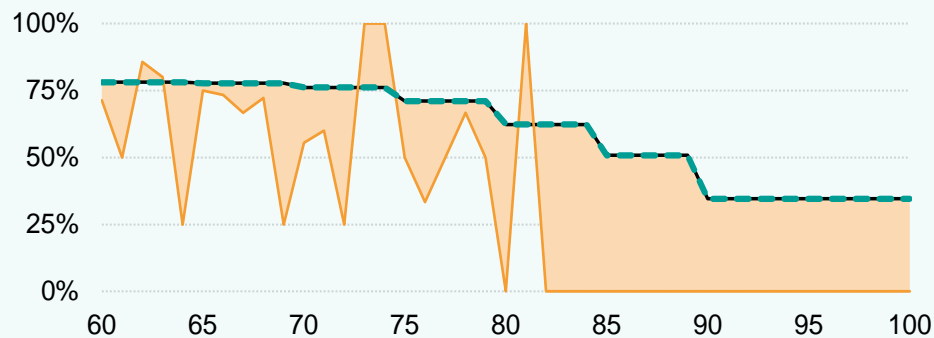
Accrual before 1/1/2007 (Males)



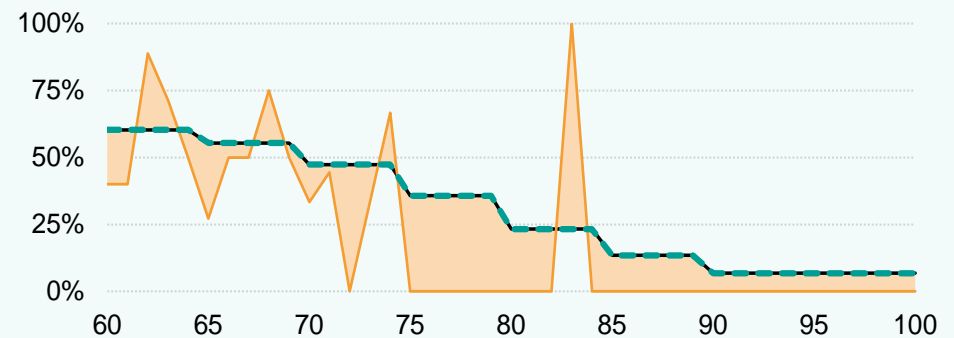
Accrual before 1/1/2007 (Females)



Accrual on or after 1/1/2007 (Males)



Accrual on or after 1/1/2007 (Females)



Key: — 2016 assumptions - - - 2020 recommendations

Experience (line) and difference from 2016 assumptions (shaded area)

Scheme experience: in numbers

Proportion married or partnered at death, by age and category

Category		Experience Number of member deaths over 2016-2020	Experience Actual number of dependant's pension coming into payment over 2016-2020, as a percentage of how many could have come into payment if every member who died had an eligible dependant	2016 Expectations Expected proportion married or partnered at death under the 2016 recommendations	2020 Expectations Expected proportion married or partnered at death under the 2020 recommendations
Accrual before 1/1/2007	Males	24,624	58%	57%	57%
	Females (*)	5,730	53%	51%	51%
Accrual on or after 1/1/2007 (**)	Males	165	66%	77%	77%
	Females	188	60%	57%	57%

(*) Female members aged 74 and younger.

(**) There was insufficient data to produce a robust analysis and therefore, the output included in the table above is for information only .

The analysis only covers deaths of members up to age 74. Above this age, there will be significant numbers of members with no service that counts for a spouse's pension. As a result, no dependant's pension will be payable for some members even if the member is married and so the experience does not provide a reliable measure of whether the member was married at death. See page 75 for further details.

Details of our 2020 recommendations are set out in a separate document that will be published alongside this report.

Scheme experience: overall

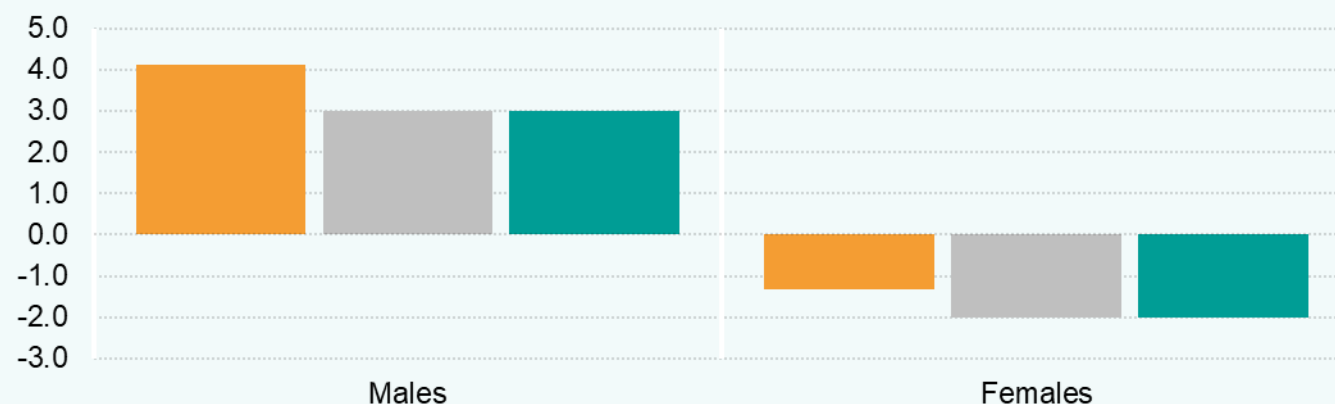
Experience versus expectations show how accurate the assumptions have been in the past and can help inform setting future assumptions.

The chart to the right and those on the following pages compare:

- **actual experience** (orange) on the left – what has happened over the last 4 years.
- **2016 assumptions** (grey) in the middle – what we thought would happen, based on the assumptions adopted for the 2016 valuation.
- **2020 recommendations** (teal) on the right – what we would have expected to happen, had our recommended assumptions been adopted for the 2016 valuation.

It should be noted that experience can be a very volatile measure for groups with small amounts of data, which then impacts the reliance we place on it.

Experience vs expectations: age difference at death



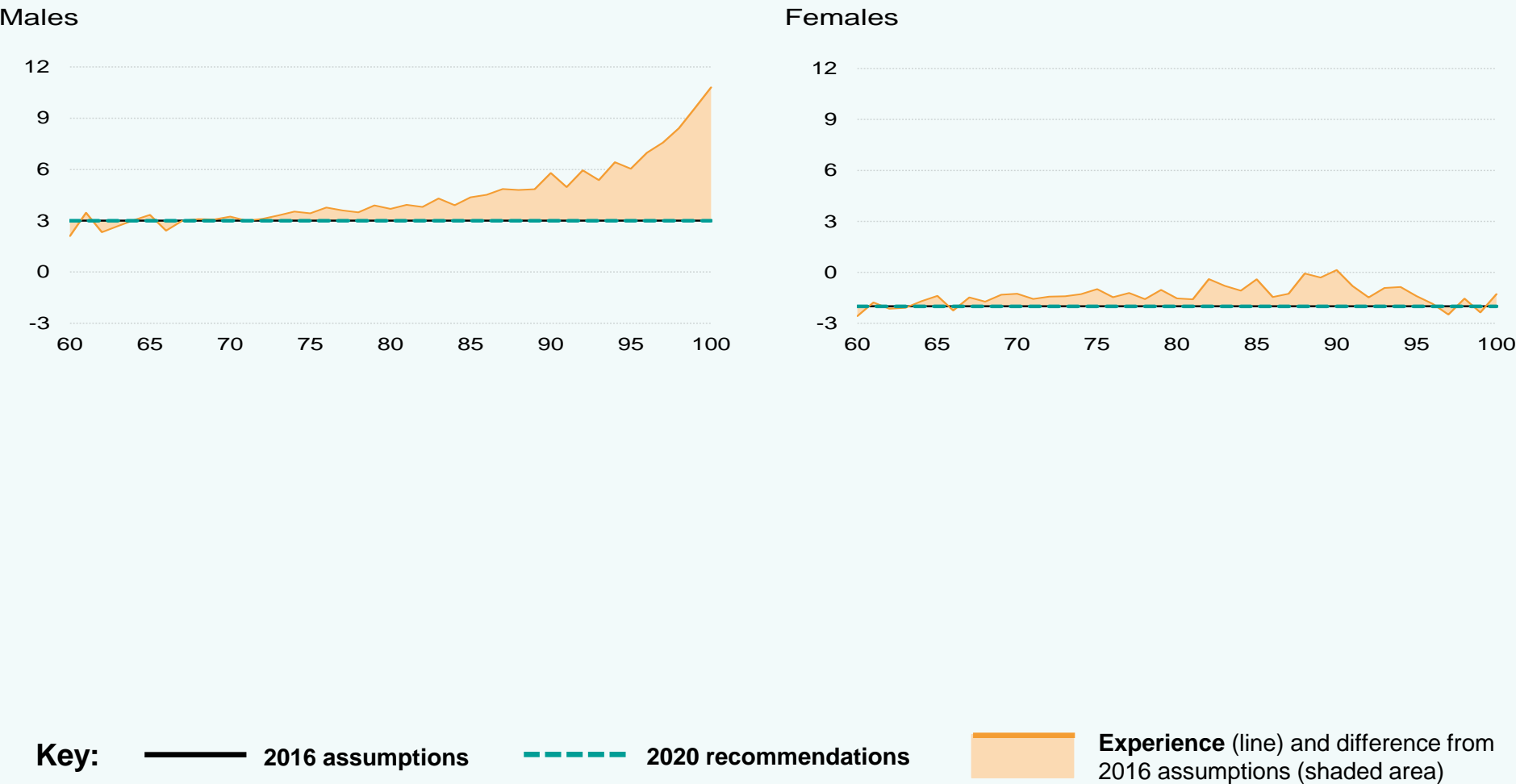
Summary

The charts above show that for both males and females the actual average age difference between members and spouse at death has been a slightly larger differential for male members and a slightly smaller differential for female members in recent years compared to the 2016 assumption. However, the charts on the next page show that the current assumptions are not unreasonable given the simplification of choosing a single age difference between a member and dependant, especially when considering the age of deaths that will result in dependants' pensions being paid for longer.

Also, the experience analysis continues to support a smaller age difference for female members than male members.

Scheme experience: in detail

Age difference between member and spouse or partner by age, split by category



Scheme experience: in numbers

Age difference between member and spouse or partner, by age and category

Category	Experience Number of member deaths over 2016-2020	Experience Average age difference between member and eligible spouse or partner at date of death (*)	2016 Expectations Expected age difference between member and eligible partner or spouse under the 2016 assumptions	2020 Expectations Expected age difference between member and eligible partner or spouse under the 2020 assumptions
Males	14,407	4.1	3	3
Females	7,315	-1.3	-2	-2

* The average age difference is weighted by total deaths resulting in an adult dependant pension.

Wider environment and other assumptions

Walker & Goodwin

The Goodwin legal challenge was brought against the Department for Education (DfE) in respect of survivors' benefits provided in the Teachers' Pension Scheme. The Goodwin challenge followed on from the Walker case (which ruled in 2017 that to treat same-sex spouses/civil partners less favourably than their opposite-sex equivalents constituted unlawful discrimination). TPS provided survivors' benefits to male widowers of female members based on service from 6 April 1988, whereas same-sex partners of male members were provided benefits based on service from 1 April 1972 (or 6 April 1978 if the marriage was after the last day pensionable service). Some other public service schemes have similar provisions and we previously identified that this could have a material effect for those schemes.

The Government announced in July 2020 that it had concluded that changes were required to the Teachers' Pension Scheme (England & Wales) to address this discrimination. The government believed this difference in treatment would also need to be remedied in other UK public service pension schemes with similar provisions.

However, the 2016-20 experience reflects survivors' pension rules before Goodwin. Therefore, it is reasonable to continue to look at female deaths for members aged 74 and below.

Minor dependants' pensions

No allowance has been taken for short term dependants' pensions or childrens' pensions (other than those already in payment), on grounds of immateriality.

Dependants' gender

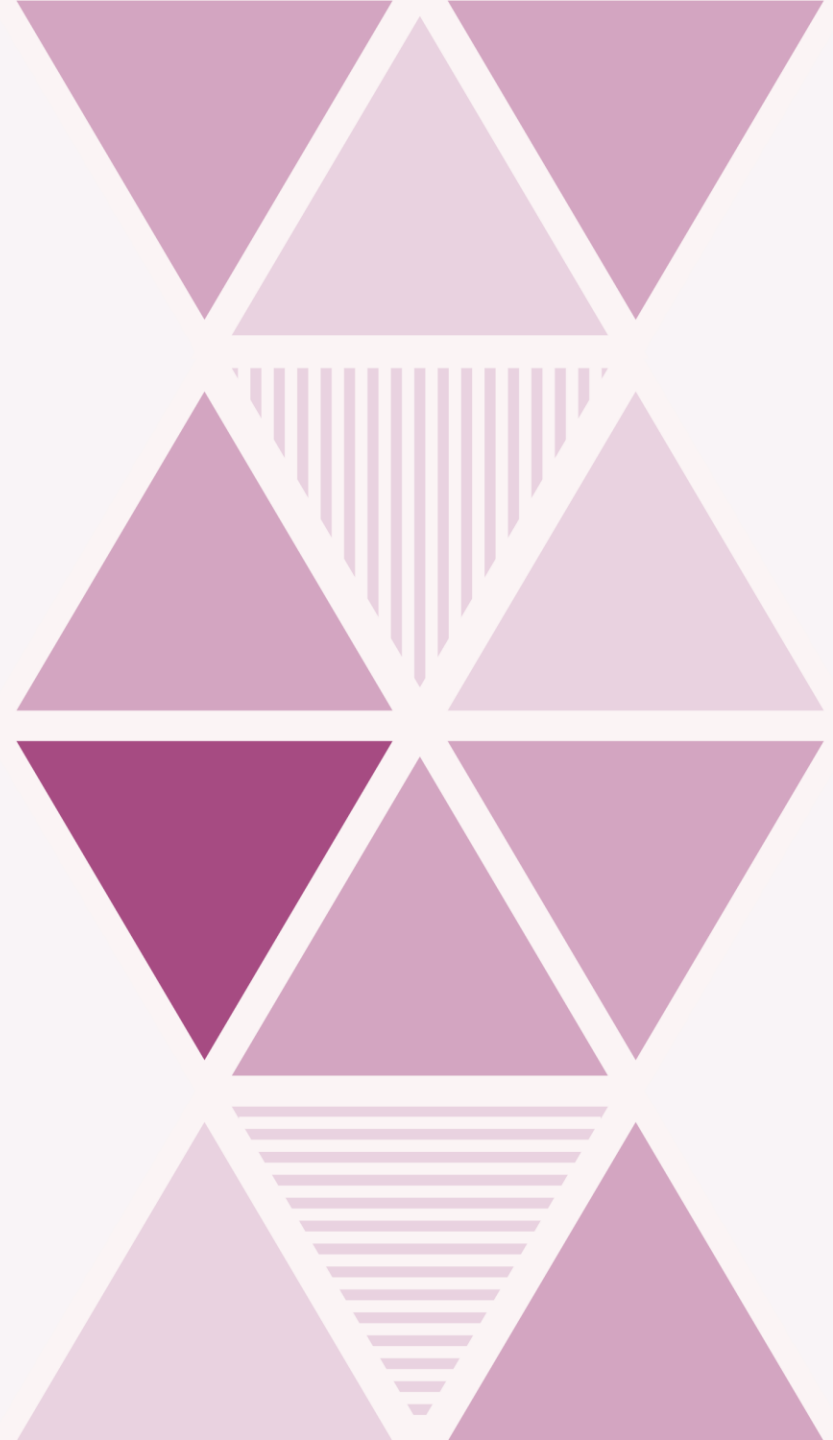
All dependants are assumed to be the opposite sex of the member, on the grounds of materiality.

Remarriage

No allowance is made for remarriage on the grounds of materiality.

In each case, the approach is the same as that adopted for the 2016 valuation.

Part C: Appendices

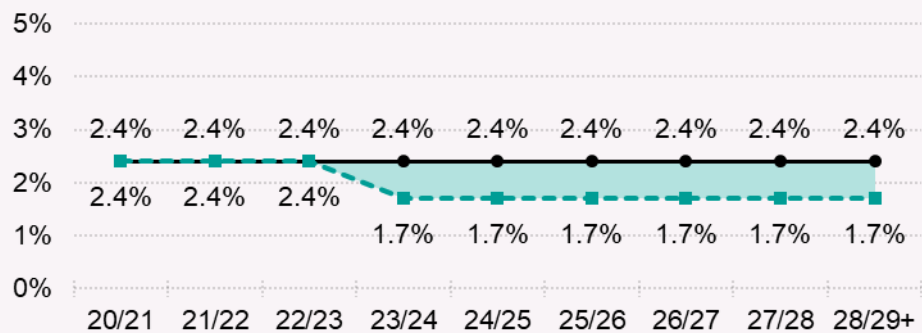


C1. Directed assumptions 1

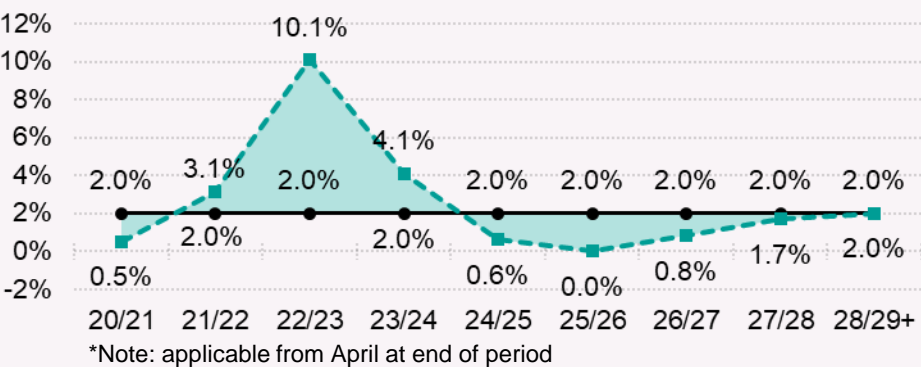
Annual financial assumptions

Taken from Directions dated 30 August 2023.

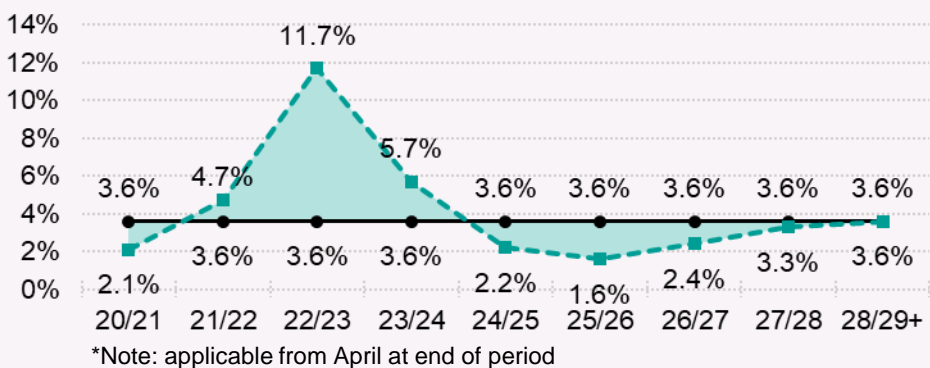
Discount rate, net of assumed pension increases



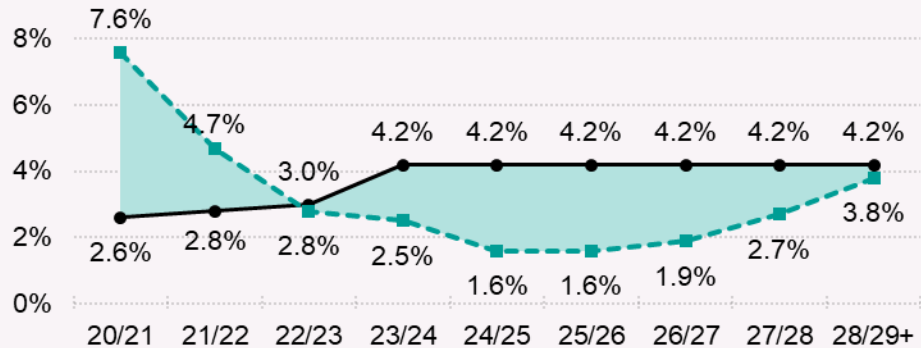
Rates of pension increases



Rates of CARE revaluation



Rates of salary increases



C1. Directed assumptions 2

Other directed assumptions

Taken from Directions dated 30 August 2023.

Assumption name	2016 assumption	2020 assumption
Deficit spreading periods	15 years	15 years
Future mortality improvements	In line with 2016-based ONS projections	In line with 2020-based ONS projections
State Pension ages	As legislated for in the Pensions Act 1995, Pensions Act 2007, Pensions Act 2011 and Pensions Act 2014	As legislated for in the Pensions Act 1995, Pensions Act 2007, Pensions Act 2011 and Pensions Act 2014

C2. Other minor assumptions 1

Active membership projections

Direction 12 requires the actuary to use the 'projected unit methodology' to calculate the valuation results. The valuation results require the calculation of the cost of benefit accrual over periods after the effective date (31 March 2020). This implicitly requires the actuary to estimate the membership to future dates in order to determine the valuation results.

Members of the legacy sections ceased to accrue benefits in these sections at 31 March 2022 and future accrual for all members is in the reformed section from 1 April 2022.

The expected cost of accruing benefits over periods after the effective date have been determined by assuming an overall stable population (age and pay profile) to the end of implementation period.

The approach incorporates the following assumptions:

- Members with past service in the legacy sections are assumed to retire in line with recent experience. This provides for some legacy section members to remain in active service in the reformed scheme beyond 2022 due to late retirement.
- The overall profile of the membership in terms of average age and pay distribution is assumed to remain constant over the period.
- The overall active membership will be in receipt of pensionable pay for each relevant year equal to that assumed for forecasting purposes.
- The State Pension age in the projected populations is assumed to be determined by the implied dates of birth and so the State Pension age mix changes over time despite the assumed stable population. This allows for the membership accruing benefits to change over the implementation period.
- Mortality is assumed to be projected forward to the relevant year of use in all cases.

C2. Other minor assumptions 2

Grouping of individual active member records

Individual active members have been grouped together for the purposes of calculating liabilities. This grouping is necessary to accommodate the volume of data within our valuation system. The approach taken to grouping the data has been tested to ensure it does not result in any distortion of the valuation results. The groupings are made for each section/scheme (i.e. NPA 60, NPA 65 or 2015), previous protection status (i.e. protected, tapered or unprotected), age and service.

Payroll projection

For the purposes of spreading any past service surplus or deficit, the future payroll estimates are assumed to be projected forward (only) in line with projections provided for the OBR Spring 2023 return to 2027-28, with subsequent payroll figures assuming a stable workforce size and using valuation assumptions.

Member contribution yield over implementation period

The Department for Education is currently consulting on revisions to the current structure. We have been instructed by the Secretary of State for Education to assume that contributions received into the scheme will align with the target member yield of 9.6% of pensionable pay over the relevant implementation periods.

C2. Other minor assumptions 3

McCloud calculation approach

The outcome of the remedy required to address the McCloud judgement is twofold:

- When benefits become payable, eligible members can select to receive them from either the reformed or legacy sections for the period 1 April 2015 to 31 March 2022.
- All active members still in the legacy scheme were transferred to the reformed scheme from 1 April 2022.

Members are likely to choose the option that provides them with the highest benefits. This impact was also allowed for in the 2016 cost cap valuation and we have followed the same approach for the 2020 valuation.

To allow for the McCloud remedy in our calculation methodology we have valued the 'better' benefits for groups of member when comparing benefits in their reformed and legacy sections.

Benefits are valued in each contingency (eg retirement or death), at each future date and for each eligible individual, using the same demographic assumptions (eg retirement ages) for both the reformed and legacy section calculations.

In determining which benefits members will choose, we have taken account of the member's pension after commutation (valuing £1 pa pension as £20) and lump sum (both commuted lump sum and any automatic lump sum).

The chosen benefit structure is then valued using the valuation assumptions (ie pensions are not valued using the 20:1 factor in the final results and explicit allowance is made for contingent survivor pensions).

C3. Glossary 1

CARE	CARE stands for Career Average Revalued Earnings and refers to a methodology whereby earnings over a member's working lifetime in the scheme are used in the calculation of their benefits in the reformed scheme.
CARE revaluation	The rate at which the CARE pension is revalued each year a member is an active member.
Cost cap cost (CCC)	<p>A measure of the cost of benefits being provided from the reformed scheme, which is then compared to a 'target cost'. The TPS target cost is set at 10.9% of pay.</p> <p>If the results of the valuation show that the cost cap cost is more than 3% of pensionable pay away from the target cost, and the cost of the scheme still results in a breach once the impact of the economic check is taken into account, changes must be made to the reformed scheme (e.g., to the benefits provided) to bring the cost cap cost back to the target cost.</p>
Directions	A document published by HM Treasury and referred to in the Public Service Pensions Act 2013, which sets out the process and requirements for carrying out valuations, including the results which need to be disclosed. Directions were first published in 2014 and have been amended several times since then.
Employer contribution rates (ECR)	<p>The percentage of scheme members' pensionable salaries which employers are required to pay in order to:</p> <ul style="list-style-type: none">• meet the costs of benefits currently being built up by active members• make good any shortfall in the notional amounts set aside to cover benefits already built up. <p>The result is heavily dependent on assumptions about future financial conditions and membership changes.</p>

C3. Glossary 2

McCloud	McCloud refers to a legal judgment made in December 2018. The England and Wales Court of Appeal upheld claims of age discrimination brought by some firefighters and members of the judiciary against 'transitional protection' rules. These rules determined the date on which some members would move between reformed and legacy sections of the scheme.
Normal pension age	<p>The age at which a member in normal health is entitled to unreduced benefits. This age varies in different scheme sections:</p> <ul style="list-style-type: none">• Age 60 for benefits in the NPA 60 section (members who joined the final salary scheme before 1 January 2007)• Age 65 for benefits in the NPA 65 section (members who joined the final salary scheme after 1 January 2007)• State Pension age (SPa) (ie currently ages 65 to 68 depending on date of birth) for the reformed scheme benefits (2015 Section)
Pension increase	Public service pensions are increased under the provisions of the Pensions (Increase) Act 1971 and Section 59 of the Social Security Pensions Act 1975.
Professional actuarial requirements	<p>The professional requirements that we have complied with when completing this actuarial valuation include:</p> <ol style="list-style-type: none">1. Technical Actuarial Standards: TAS 100 and TAS 300, issued by the Financial Reporting Council (FRC)2. The Actuaries' Code, issued by the Institute and Faculty of Actuaries (IFoA)3. The Civil Service Code. <p>GAD is also accredited under the IFoA's Quality Assurance Scheme. More details can be found in our terms of reference.</p>

C3. Glossary 3

Reformed and legacy sections	<p>The reformed section of the scheme is the section that was set up in line with the Public Service Pensions Act 2013, and which came into force on 1 April 2015. All non-reformed sections are known as legacy sections. This terminology is used in the McCloud judgment.</p>
Scheme Advisory Board	<p>The Board set up in line with section 7 of the the Public Service Pensions Act 2013, with responsibility for providing advice on potential changes to the scheme and other matters relating to the efficient administration and management of the scheme.</p> <p>Scheme Advisory Board is commonly shortened to ‘SAB’.</p>
Standard table	<p>The standard tables used for the mortality after retirement assumption are the SAPS tables. These are published by the Continuous Mortality Investigation (CMI) and based on the experience of defined benefit self-administered pension schemes. The ‘S2’ series are based on experience over the period 2004 to 2011. The S3 series of tables were published by CMI in December 2018 and these updated mortality tables cover experience between 2009 and 2016.</p> <p>The S3 series include tables for pensioners retiring in normal health (S3NXA), in ill health (S3IXA) and all pensioners (S3PXA), as well as for dependants (S3DXA). The tables are also split into “Heavy”, “Middle”, “Light” and “Very Light” subsets according to pension amount, as well as a table covering all amounts. The “Very Light” tables reflect the highest pension amounts.</p>