

**Unfunded Public Service Pension Schemes
2006 Cashflow Projections
Methodology, assumptions and data**

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Table of Contents

1	Introduction	3
2	Data	4
3	Financial Assumptions	7
4	Demographic assumptions overview	8
5	Pensioner mortality	9
6	In-service mortality	10
7	Withdrawals from service	11
8	Progression of pensionable pay	12
9	Age retirements	13
10	Ill-health retirements	15
11	New entrants	16
12	Employment growth and benefits	19
13	Grossing-up	20
14	Final Notes	21

1 Introduction

- 1.1 This note has been prepared by the Government Actuary's Department (GAD) and HM Treasury to describe the assumptions and methodology used to produce the projections of cash flow from unfunded public service pension schemes underlying the 2006 Long-Term Public Finance Report (LTPFR). The Report shows the projected cash outflow in respect of pension and lump sum payments from the unfunded schemes as a percentage of projected GDP at ten yearly intervals for 50 years. GAD provided Treasury with the projected benefit payments and employee contributions in constant price terms and Treasury have used this in conjunction with its own projections of GDP to calculate the projected percentage of GDP.
- 1.2 Treasury have requested these projections in order to test the affordability and sustainability of current policies in terms of the annual demands for cash to finance them in the longer term. The projections therefore are based on currently announced policy, but are not intended as statements of future policy.
- 1.3 Projections of gross expenditure in the five biggest families of unfunded schemes – those covering the NHS (NHSPS), Teachers (TPS), the Civil Service (PCSPS), Armed Forces (AFPS) and the Police (PPS) were calculated with a grossing-up factor applied to allow for the other unfunded schemes. This is different from last years report (2005) which was based on explicit modelling of only the three biggest schemes (NHSPS, PCSPS and TPS). As at March 2005, when the total accrued liabilities of unfunded schemes stood at a total of £530 billion in published resource accounts, these five occupational groups accounted for about 96% of that liability
- 1.4 The projection model aggregates members into groups based on their age, sex and the pension scheme to which they belong. Members in each group are assumed to have the same characteristics in terms of their average salary and service or pension. The probability that they will change their status in a particular year (e.g. moving from active service to deferred member or deaths of pensioners) is also the same for all individuals in each group. The model projects movements of membership and cashflows over each financial year, commencing with 2006/07.
- 1.5 The rest of this note describes the data used for the projections and the assumptions adopted for the projections.

2 Data

- 2.1 As with the 2005 LTPFR projections, the latest available valuation data for the schemes have been taken and uprated in line with information contained in the latest relevant resource accounts for NHSPS, PCSPS, TPS and AFPS. The data have also been uprated to make an allowance for the inclusion of Scotland and Northern Ireland (NHSPS and TPS), and Northern Ireland (PCSPS).
- 2.2 The three largest unfunded schemes (NHSPS, TPS and PCSPS) are subject to a periodic valuation undertaken by the scheme actuaries (Hewitt, Bacon and Woodrow (HBW) for the PCSPS and GAD for the other schemes). In addition, less exhaustive valuation exercises may be conducted from time to time to inform policy discussions and new data or new assumptions at hand will be reflected in valuations conducted annually to feed into resource accounts. (The relationship between annual accounts and the LTPFR projections is discussed at the end of this note.)
- 2.3 The 2005 LTPFR projection assumptions were based on the actuarial assumptions used in the then most recently available formal scheme valuations - NHSPS (2003), PCSPS (2003) and TPS (2001). The base data used in the 2005 LTPFR came from the same sources, with a rating-up to be consistent with the 2005 resource accounts.
- 2.4 For the 2006 LTPFR projections more recent information on the TPS was available and for this scheme base data as at 2004 have been used, rated-up to be consistent with the basis of the 2006 resource accounts.
- 2.5 Data for the AFPS were provided as at March 2005, rated-up to be consistent with the basis of the 2006 resource accounts. The projections of the PPS used data provided as at March 2003 in respect of English Police authorities rated-up in line with actual numbers of serving officers and actual pay and pension increases since then. This was further uprated to allow for Scottish, Welsh and Northern Irish police authorities. The AFPS and PPS were not explicitly modelled for the 2005 LTPFR.
- 2.6 The projections implicitly assume that the age profiles of schemes have not changed since the previous actuarial valuation. A more refined model might make allowance for the fact that, for example, in the TPS there is a concentration of members in their 50s and each year this group gets one year older, changing the membership profile. This means that the pattern of forthcoming retirements from this group and subsequent recruitment of replacements is different from the more refined model. However, this is a short-term effect.
- 2.7 Most of the schemes have a number of deferred members aged over normal pension age (NPA). Some of these members may have died and the scheme not notified, or they may have simply not claimed their benefits. Some of this second group may subsequently claim their pension. After uprating the data, we have removed deferred members aged over normal pension age. This makes approximate allowance for future deferred members not claiming on time and avoids a short-term peak in projected cashflows which is not expected to occur.
- 2.8 No allowance has been made for the PCSPS Partnership plan, which involves employer contributions to third-party personal pension products. The employer contributions score as public expenditure as they are made but the purchase of annuities from these plans and the payment of pensions under those annuity contracts do not score as public expenditure. The Cabinet Office estimates that 5,500 civil servants have opted for PCSPS Partnership, which is less than one percent of the current active membership of the other PCSPS arrangements.

Unfunded Public Service Pension Schemes: 2006 Cashflow Projections
Methodology, assumptions and data

Table 1 Starting data for the projections

	2005 Projections			2006 Projections				
	NHS	PCSPS	TPS	NHS	PCSPS	TPS	AFPS	PPS ^(vi)
No of Contributing Members (million)	1.45	0.64	0.66	1.53	0.64	0.71	0.19	0.14
Total Salary (£ billion)	⁽ⁱⁱⁱ⁾ 34.3	14.4	23.1	36.1	14.7	23.4	5.7	3.7
Average salary (£)	23,700	22,500	^(v) 35,100	23,600	23,000	32,800	29,700	27,500
Total No of Pensioners (million)	0.61	0.57	0.55	0.62	0.58	0.54	0.35	0.1
Total Pension In Payment (£ billion)	3.4	3.1	4.7	3.7	3.2	4.7	2.6	0.1
Average pension in payment (£)	5,600	5,300	8,500	6,000	5,400	8,700	7,600	11,600
Total No of Deferreds (million) ^(iv)	0.46	0.29	0.40	0.48	0.30	0.30	0.30	0.01
Total Preserved Pension (£ billion)	0.8	0.8	0.9	0.8	0.8	0.7	0.6	0.1
Average deferred pension (£)	1,700	2,700	2,200	1,600	2,800	2,300	2,000	4,300

Unfunded Public Service Pension Schemes: 2006 Cashflow Projections
Methodology, assumptions and data

Notes:

- i.* Figures cover the whole of the United Kingdom and monetary amounts are in cash terms. AFPS and PPS were not modelled explicitly in 2005.
- ii.* All salaries are estimated actual rates of salaries (i.e. not full time equivalent) at April of the particular year, except where indicated. Total pensions in payment and averages derived from them are estimated actual rates of pension as at April, including allowance for the pension increase applied in April and will differ from outturn figures for total pensions paid in the financial reporting year reported in the notes to pension scheme resource accounts for financial years 2004-05 and 2005-06.
- iii.* April 2005 NHS salary includes a 3.5% pay uplift for existing staff to allow for 'one-off' effects of Agenda for Change. No adjustment was applied to April 2006 since the effects of Agenda for Change are assumed to have appeared in the base data.
- iv.* All deferred data are before adjustment in respect of members aged over normal pension age.
- v.* Full time equivalent salary.
- vi.* The 2005 projection data is as at April 2005, and the 2006 projection data is as at April 2006 except that the PPS data is as at March 2003. This is the most up to date comprehensive data available for the PPS, and covers England and Wales only. The data at 31 March 2003 was rolled forward to April 2006 using the projection model, allowing for the pension increases, changes in salaries and the number of serving police officers that are known to have occurred in the interim. An adjustment was made so that the injury pensions included in the data as at 31 March 2003 were excluded from the cashflow projections.

Unfunded Public Service Pension Schemes: 2006 Cashflow Projections
Methodology, assumptions and data

3 Financial Assumptions

- 3.1 Earnings growth in excess of the Retail Prices Index (RPI) is assumed to be 2% each year, as specified by the Treasury for the baseline projections in the LTPFR. Variants with 1¾ and 2¼% earnings growth in excess of RPI each year were also generated. Earnings growth in excess of RPI is defined by Treasury to be equal to productivity growth in the long-term.
- 3.2 In 2005, GAD were asked by the Treasury to adopt a real earnings growth rate which produces an increase in average pay per member of 2% pa compounded over the 50 years projection period.
- 3.3 The projected average pay per member depends on the starting membership profile and salary progression, as well as how the profile develops over time as leavers are replaced by new entrants. The membership profiles, for both current members and new entrants, are different between schemes. To achieve an increase in average pay per member of 2% pa compounded over 50 years for each individual scheme, different assumed annual real earnings growth rates were derived in each group in 2005: 2.35% for NHSPS, 1.9% for PCSPS and 2.7% for TPS.
- 3.4 In the 2006 projections, a real earnings growth rate of 2% has been adopted for all schemes. The increase in average pay per member may not be 2% a year due to the effect of promotional salary increases and the difference between the average of pay of those leaving and joining active service. This method makes better allowance for the effect on total salary rolls of features in the age and salary profile of active members.
- 3.5 In order to express results in constant price terms, zero RPI was assumed.

4 Demographic assumptions overview

- 4.1 The demographic assumptions that have been adopted for NHSPS, PCSPS, TPS and AFPS are not scheme-specific except that the assumptions for age-retirement assumptions differ where differences in the benefit structure would justify this.
- 4.2 Each of the principal demographic assumptions is considered below.
- 4.3 The main changes to the demographic assumptions since the 2005 projections are:
 - 4.3.1 Pensioner longevity improved in line with the GAD 2004-based population projections.
 - 4.3.2 Rates of voluntary withdrawal from active service increased in line with experience.
 - 4.3.3 Age retirement decrements left unchanged, but with allowance for consultation document proposals.
- 4.4 AFPS has been modelled for the first time. In general the assumptions adopted for the AFPS reflect the experience of the three biggest schemes. Data split by gender is not readily available for the AFPS so, for simplicity, assumptions used for female AFPS members have been kept similar to those of male members due to the relatively low number of female members of this scheme.
- 4.5 The Police Pension Scheme has been modelled independently of the other schemes. The demographic assumptions adopted for PPS are considered to be best estimates of what future PPS experience may be.
- 4.6 The assumptions adopted for NHSPS, TPS, PCSPS, AFPS and PPS are considered in more detail below.

5 Pensioner mortality

5.1 Pensioner mortality for NHSPS, TPS, PCSPS and AFPS is assumed to be 85% of that underlying the GAD 2004-based population projections. Assumed mortality in the 2005 projections was assumed to be 85% of that underlying the GAD 2003-based population projections. This reflects the experience of members of contracted-out pension schemes who experience lower mortality than the general population.

Table 2 Life expectancies of males reaching age 65:

	2005	2015	2025	2035	2045	2055
2006 projections	20.5	21.6	22.4	23.3	24.2	24.8
2005 projections	20.1	21.0	21.6	22.2	22.6	22.9

Table 3 Life expectancies of females reaching age 65:

	2005	2015	2025	2035	2045	2055
2006 projections	23.0	24.0	24.8	25.7	26.4	27.0
2005 projections	23.0	23.8	24.3	24.8	25.2	25.4

5.2 In contrast the cohort life expectancies are lower for individuals experiencing 100% of the mortality rates underlying the 2004-based population projections:

Table 4 Life expectancies underlying the GAD 2004-based population projections

	2005	2015	2025	2035	2045
Male	19.4	20.5	21.3	22.2	23.1
Female	22.1	23.0	23.8	24.7	25.5

5.3 The pensioner mortality that has been assumed for members of the PPS is as follows:

Table 5 Life expectancies of PPS Members reaching age 65 retiring in normal health

	2005	2015	2025	2035	2045	2055
Male	20.5	21.2	21.8	22.3	22.6	22.9
Female	23.5	24.3	24.8	25.3	25.6	25.8

Unfunded Public Service Pension Schemes: 2006 Cashflow Projections
Methodology, assumptions and data

6 In-service mortality

6.1 The 2005 projections for NHSPS, TPS, PCSPS and AFPS adopted an assumption for in-service mortality based on actual experience. This assumption has been retained for the 2006 projections.

Table 6 Assumed number of deaths per 10,000 members of staff in the year following the age stated

Age	Male	Female
20	4	2
25	5	2
30	6	3
35	7	5
40	9	7
45	15	11
50	23	15
55	40	22
60	60	30

6.2 Different assumptions were adopted for the PPS projections, these were as follows:

Table 7 Assumed number of deaths per 10,000 members of staff in the year following the age stated

Age	Male	Female
20	5	3
25	5	3
30	5	3
35	5	3
40	5	3
45	5	4
50	7	5
55	10	7
60	16	12

Unfunded Public Service Pension Schemes: 2006 Cashflow Projections
Methodology, assumptions and data

7 Withdrawals from service

- 7.1 The 2005 rates were based on the experience of the most significant work groups within the NHSPS and PCSPS.
- 7.2 The latest experience from the three biggest schemes suggests that the withdrawal rates should be higher, particularly at the middle/late ages. The table below sets out the assumptions for the 2006 projections.

Table 8 Assumed number of withdrawals per 10,000 members of staff in the year following the age stated

Age	2005 Assumptions		2006 assumptions	
	Male	Female	Male	Female
25	1044	1153	891	945
30	684	742	756	806
35	396	450	621	668
40	216	247	486	529
45	162	186	351	391
50	107	155	216	252
55	18	82	45	54
60	0	0	0	0

- 7.3 For the PPS, members in their first two years of membership are assumed to leave at the rate of 500 per 10,000 members. After that the rates assumed are as follows.

Table 9 Assumed number of withdrawals per 10,000 members of staff in the year following the age stated.

Age	Male	Female
25	295	405
30	167	249
35	94	136
40	50	63
45	21	33
50	9	20
55	0	0
60	0	0

8 Progression of pensionable pay

8.1 In 2005 assumed salary progression, over and above general salary inflation (assumed to be 2% in excess of RPI in the base scenario), was based on the experience of the most significant work groups within NHSPS and PCSPS. This experience suggested that the disparity between male and female promotional increases had reduced (mainly reflecting the NHSPS experience – the disparity in PCSPS was not as marked). TPS and AFPS experience is not inconsistent with these assumptions, so no change has been made. No explicit allowance was made for the future impact on NHS pay scales of the implementation of 'Agenda for Change' or the agreement of new contracts for GPs and Hospital Consultants (although see footnote iii to table 1).

Table 10 Salary scale based on an index of 100 at age 20

Age	Male	Female
20	100	100
25	131	130
30	168	157
35	201	176
40	224	187
45	237	192
50	249	196
55	253	200
60	256	202

8.2 For the PPS, the following salary scale has been used.

Table 11 Salary scale based on an index of 100 at 0 years service

Completed Years of Service	Males and Female
0	100
5	134
10	158
15	166
20	170
25	175
30	179
35	181
40	181

9 Age retirements

9.1 The underlying assumptions used for the 2005 LTPFR projections remain appropriate for individuals with NPA 60 since TPS experience is not inconsistent with the assumptions previously adopted. These are set out in the table below.

Table 12 Assumed age retirement pattern - NPA 60 Members

Age	Male	Female
Retirement Spread	60-65	60-65
Average retirement age	62.1	61.5

9.2 Special Class members in the NHS who have NPA 55 have slightly different retirement assumptions to reflect their right to retire before 60 with unreduced benefits.

9.3 Members assumed to only have benefits subject to NPA 65 are assumed to retire at age 65.

9.4 The 2005 LTPFR projections were derived by the Treasury as the simple average of two separate projections made by GAD: one on the basis of staff retaining normal pension age of 60; and the other on the basis of new entrants having NPA65 and existing staff migrating to NPA65 for future service after 2013. This was done in line with policy intention at the time.

9.5 On that basis, for the projection of cash flows in the NPA 65 scenario all new staff were assumed to retire at age 65, staff aged over 52 were assumed to retire in line with table 12 above and existing staff below age 51 were assumed to retire in line with table 13 below – effectively phasing-in NPA65.

9.6 The consultation documents for TPS and NHSPS provide for existing members to retain NPA 60 in the future so the assumptions in table 12 have been adopted for these members. However, since the shape of PCSPS reforms have yet to be finalised, members of the PCSPS were treated in a manner consistent with the 2005 LTPFR.

Table 13 Assumed age retirement pattern - PCSPS NPA 65 existing active members

Age	Now aged 17 to 33		Now aged 34 to 43		Now aged 44 to 53	
	Male	Female	Male	Female	Male	Female
Retirement Spread	62-65	61-65	60-65	60-65	60-65	60-65
Average retirement age	64.6	64.6	64.1	63.5	62.9	62.9

9.7 Members of the AFPS are often able to retire before 60 with an unreduced pension providing they have sufficient service. The rules vary between officers and other ranks in the AFPS 1975 scheme and are different in the 2005 schemes. The assumptions adopted for AFPS members are as follows.

Table 14 Assumed age retirement pattern - AFPS active members

Age	Officers in AFPS75	All other members
Retirement Spread	38-56	41-56
Average retirement age	47.8	43.7

Unfunded Public Service Pension Schemes: 2006 Cashflow Projections
Methodology, assumptions and data

9.8 For the PPS different assumptions have been assumed for members of the old PPS (mainly applicable to pre 2006 entrants) and members of the new PPS (mainly applicable to post 2006 entrants). In addition, different retirement assumptions have been assumed based on the member's age at joining PPS. The assumptions adopted are outlined below.

Table 15 Assumed age retirement pattern - Old PPS active members

Age	20	25	30+
Retirement Spread	50-60	50-60	55-60
Average retirement age	50.8	54.9	56.3

Table 16 Assumed age retirements - New PPS active members

Age	20 and Under	23	25+
Retirement Spread	55-60	55-60	55-60
Average retirement age	55.2	56.3	56.7

10 Ill-health retirements

10.1 Experience of NHSPS, TPS, PCSPS and AFPS is consistent with the assumptions adopted in 2005, so the 2005 assumptions have been retained. Where members are assumed to have NPA 65, modified rates are used at the later ages to allow for ill health retirements after age 60.

Table 17 Assumed number of ill-health retirement per 10,000 members of staff in the year following the age stated

Age	Male	Female
25	4	6
30	8	13
35	15	20
40	23	28
45	36	40
50	59	59
55	119	119
60*	180	180

* Extrapolated for members with NPA 65.

10.2 As in previous projections, for simplicity, ill-health pensioners are assumed to have the same mortality as normal pensioners, except in the PPS where ill health pensioners are assumed to have a shorter life expectancy than normal retirement pensioners.

10.3 For PPS, it has been assumed that ill health retirements are going to be different in the old PPS (mainly applicable to pre 2006 entrants) to the new PPS (mainly applicable to post 2006 entrants).

Table 18 Assumed number of ill-health retirement per 10,000 members of staff in the year following the age stated

Age	Old PPS	New PPS
25	11	8
30	19	15
35	29	23
40	40	31
45	63	50
50	112	89
55	0	0

11 New entrants

- 11.1 In the 2006 LTPFR projections the new entrant profiles for the NHSPS and PCSPS are the same as those used for the 2005 projections, with an across the board increase to average starting salaries in cash terms of 4.4% . This increase is based on the increase in national average earnings from March 2005 to March 2006. For the TPS, data and experience from the 2004 valuation have been used and for the AFPS data and experience as at March 2005 were used.
- 11.2 For the 2005 projections, the TPS New Entrant data were based on data from the 2001 valuation.
- 11.3 The tables below summarises the assumptions for the distribution of new entrants adopted for the 2006 projections for NHSPS, TPS, PCSPS AFPS and PPS.

Unfunded Public Service Pension Schemes: 2006 Cashflow Projections
Methodology, assumptions and data

Table 19.1 Assumed new entrant profiles for NHSPS, PCSPS and TPS

	NHSPS			PCSPS			TPS		
	Age	Proportion at each age (%)	Salary at joining (£)	Age	Proportion at each age (%)	Salary at joining (£)	Age	Proportion at each age (%)	Salary at Joining (£)
Males	18	1	12,600	18	4	15,700	22	4	21,600
	23	4	18,000	23	9	19,100	27	7	22,900
	28	5	24,000	28	6	21,300	32	5	24,500
	33	4	25,100	33	5	22,700	37	4	25,000
	38	3	26,000	38	5	23,500	42	3	25,000
	43	2	25,000	43	4	23,600	47	2	25,100
	48	1	23,200	48	4	23,700	52	2	24,700
	53	1	19,800	53	4	23,000	57	2	23,800
	58	1	17,200	58	3	20,700	62	1	22,200
Females	18	4	11,600	18	7	15,400	22	19	21,500
	23	16	17,500	23	13	18,400	27	20	22,700
	28	12	19,700	28	9	20,500	32	8	23,200
	33	11	16,700	33	7	20,300	37	7	22,200
	38	11	14,600	38	6	19,500	42	6	21,900
	43	10	14,200	43	6	19,100	47	4	21,900
	48	7	14,100	48	4	19,000	52	2	21,900
	53	5	13,400	53	3	18,100	57	2	21,200
	58	2	12,800	58	1	17,600	62	1	20,800

Salaries are actual rate of salary (rather than full time equivalent) for a member joining the scheme in April 2006.

Unfunded Public Service Pension Schemes: 2006 Cashflow Projections
Methodology, assumptions and data

Table 19.2 Assumed new entrant profiles for AFPS and PPS

AFPS*			PPS			
Age	Proportion at each age (%)	Salary at joining (£)	Sex	Age	Proportion in each age range (%)	Salary at joining (£)
			Males	<19	1	20,400
				19-23	27	20,400
				24-28	30	20,400
20	70	21,400		29-33	12	20,400
25	23	26,500		34-38	4	20,400
30	5	25,300		39-43	1	20,400
35	1	36,600		44+	0	20,400
40	5	41,000				
45	0	43,800	Females	<19	0	20,400
50	0	53,300		19-23	9	20,400
				24-28	10	20,400
				29-33	4	20,400
				34-38	1	20,400
				39-43	0	20,400
				44+	0	20,400

Salaries are actual rate of salary (AFPS) or full time equivalent rate of salary (PPS) for a member joining the scheme in April 2006.

* AFPS new entrants are assumed to have the characteristics of males due to the lack of data split by gender and the relatively small number of female members of this scheme.

12 Employment growth and benefits

- 12.1 Consistent with the 2005 LTPFR projections, GAD were asked by the Treasury to assume the following employment growth rates:
- 12.1.1 For NHSPS, the workforce grows by 2.5% pa from April 2006 to March 2008 after which the workforce stays constant. This increases the present workforce from an estimated 1.53 million at the projection date, April 2006, to 1.61 million in year 2008/09 and thereafter.
- 12.1.2 For PCSPS, there is a net loss of 2.5% pa from April 2006 to March 2008 after which the workforce stays constant. This reduces the workforce from 0.64 million at the projection date to 0.61 million in financial year 2008/09 and thereafter.
- 12.1.3 For TPS, there is no change in the workforce throughout the projection period with the number stays at 0.71 million.
- 12.1.4 The workforce in AFPS and PPS is assumed to remain constant throughout the projection period.
- 12.2 The assumptions in respect of the NHSPS, PCSPS and TPS reflect policy adopted following the 2004 spending review.
- 12.3 Where a scheme has already started its NPA 65 scheme (AFPS and PPS), the new scheme is modelled. TPS and NHSPS have published consultation documents on their new schemes and the consultation proposals have been modelled. Since PCSPS reforms have not yet been finalised, it has been modelled in the same way as in 2005. For simplicity, all new schemes are assumed to commence for new entrants from April 2006.
- 12.4 The two separate scenarios modelled for PCSPS NPA reform are described above. We have also assumed that PCSPS members will be permitted at retirement to commute pension for a higher tax-free cash lump sum in line with the provisions of the Finance Act 2004. Pension is assumed to be commuted at the rate of £12 cash for each £1 a year of pension commuted. As in 2005, it is further assumed that 50% of members will take the maximum cash available and the remainder will commute pension (if necessary) to receive a lump sum of 3/80 of salary for each year of service.

13 Grossing-up

- 13.1 The 2005 GAD projections covered just the three largest unfunded public service pension scheme groups (Civil Service, Teachers, NHS) scaled-up to allow for their Scotland and Northern Ireland equivalents. The Treasury applied adjustments to derive figures representing a projection for all unfunded schemes.
- 13.2 In 2005 the Treasury applied a grossing-up process to capture features of other unfunded public-sector schemes, with special allowance made for AFPS and the Firefighters' Pension Scheme and making use of existing cashflow projections in respect of the PPS.
- 13.3 For the 2006 projections, the AFPS has been modelled explicitly as have the cashflows in respect of Police Pension Scheme liabilities in England and Wales.
- 13.4 PPS cashflows in respect of the rest of the UK are assumed to be 13% of England and Wales PPS cashflows. Cashflows in respect of the Firefighters' Pension Scheme are assumed to be 21% of those in respect of the Police Pension Scheme. These factors are based on statistics published by the Chartered Institute of Public Finance and Accountancy (CIPFA).
- 13.5 Cashflows in respect of the remaining unfunded schemes are assumed to be 2.2% of the cashflows in respect of NHSPS, TPS and PCSPS combined. This grossing-up percentage is based on the ratios of the schemes' liabilities reported as at 31 March 2005.

14 Final Notes

- 14.1 The demographic assumptions that have been adopted are not scheme-specific except in cases where differences in the benefit structure would justify this and in respect of the Police Pension Scheme. The model provides useful information about the shape of each scheme's cashflows distribution. However, the absolute values of scheme-specific cashflows need to be interpreted carefully. Whilst the overall results are reasonable for the purpose of the exercise, the scheme specific results might not be appropriate for other purposes.
- 14.2 It is almost certain that actual experience each year will differ from the assumptions adopted in the LTPFR due to short-term fluctuations. Care should be taken when comparing results against actual cashflows arising in future years. The results presented are projections – not forecasts – which should be reviewed in light of updated information available.
- 14.3 No allowance has been made for deferred pensioners to take cash equivalent transfer values (CETVs) to extinguish their liabilities with the scheme or for members to retire early with an actuarially reduced pension. This has an impact of spreading and delaying the timing of cashflows in respect of them.
- 14.4 No explicit allowance has been made for the aggregation of service of those members who leave a scheme and rejoin in future (or who take advantage of 'club' transfers within the public sector. No allowance has been made for the effect of Guaranteed Minimum Pensions. The pattern of AFPS payments to those who retire below age 55 has also been simplified.
- 14.5 The accrued liability, and the rate at which additions are made to it by further accruals over time, is a different quantity from the cash flow projections published in the LTPFR. The total liability of unfunded schemes of £530 billion as at March 2005 represents only past service by scheme members up to that date, and it will take longer than the 50 year horizon of these projections for these liabilities to be fully paid out. The cashflow projections include both liabilities accrued to date and those accrued in the future by existing pension scheme members and future pension scheme members. Spending in the future will be increasingly the result of entitlements accrued in the future as spending due to entitlements already accrued gradually falls to zero.
- 14.6 The LTPFR projections relate to the cash outgoings which appear in resource accounts as pensions in payment and lump sums paid. The inflows arising from employee contributions have also been projected. Schemes are required to report a number of additional accounting entries such as the annual interest charge and the value of accrued liabilities. Changes to actuarial assumptions such as mortality will affect both the projected cash flows and the value of liabilities, but changes to financial discount rates will not affect the projected cashflows.