GOVERNMENT ACTUARY'S DEPARTMENT

Actuarial assumptions for broad comparability assessments
Consultation on the differential between RPI and LPI assumptions

Background
Under the government's Fair Deal policy, staff transferred from a public service pension scheme must be offered membership of a 'broadly comparable' scheme. GAD is responsible for setting the actuarial assumptions used for assessing broad comparability.

Benefits from public service schemes are fully indexed before and after retirement in line with the Retail Prices Index (RPI). In contrast, many broadly comparable schemes apply caps of 2.5% pa or 5% pa on indexation (limited price indexation or LPI). This means that the assumed differentials between RPI and LPI increases are important in assessing broad comparability. A background note on this subject can be found at the following link.

Comparability/Background_Note_on_the_Differential_between_RPI_and_LPI

GAD is currently considering reviewing the actuarial assumptions for broad comparability assessments. While there are many assumptions to consider, two of the most significant are the differential between RPI and LPI (as discussed above) and future life expectancies.

Assumed life expectancies are kept under regular review within GAD, taking account of recent information such as the latest (2008-based) national population projections.

To ensure that the assumptions for the differential between RPI and LPI take account of the range of views expressed, we wish to consult with stakeholders, actuaries and other experts on this subject.

We do not intend to update the assumed differentials between RPI and LPI on a regular cycle in future. However, we plan to keep them under review to reflect any significant changes in future inflation expectations.

RPI/LPI: current assumptions
The current broad comparability assumptions can be found at the following link.

Comparability/Actuarial_Assumptions_for_Assessment_of_Broad_Comparability

The assumptions for RPI and LPI are as follows:

Differential between:	Assumption
In payment:	
> RPI and LPI with **5%** annual cap	0.75% pa
> RPI and LPI with **2.5%** annual cap	1.75% pa
In deferment:	
> RPI and LPI with **5%** pa cap over period of deferment	0.25% pa
> RPI and LPI with **2.5%** pa cap over period of deferment	Not yet in place

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Consultation questions

Consultation question 1
For each of the four differentials above, what is your view of a 'best estimate' assumption[1] (or range of assumptions) over the typical time horizons[2] when these increases will apply? Please give a brief description of the rationale used in reaching your view.

Notes
1. *Please do not consider margins for prudence (eg to protect members from uncertainty)*
2. *Typical time horizons are broadly the next 25 years for deferred revaluation, and between 25 years and 50 years in the future for increases in payment.*

Consultation question 2
Do you have views on any other assumptions used for assessing broad comparability (economic or demographic)? If so, please let us know your thoughts.

Note
The current assumptions are set out at the following link:

Comparability/Actuarial_Assumptions_for_Assessment_of_Broad_Comparability

How to respond
Please send responses to Alan Dorn (alan.dorn@gad.gov.uk; 020 7211 2622) by **19 March 2010.**
If you prefer, please feel free to request your actuarial advisors to reply on your behalf.

Confidentiality
Responses will only be used within GAD for the purpose of informing our consideration of broad comparability assumptions. Responses will not be shared in whole or part with any other party.

Government Actuary's Department
February 2010