

From **Major General N Marshall OBE**, Chief Executive Forces Pension Society



Forces Pension Society\_20210818\_Cost\_Control\_Public\_Consultation\_Response

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### **Public Service Pensions: cost control mechanism consultation: Forces Pension Society response**

This is the official response to the above-mentioned consultation from the Forces Pensions Society (FPS). The FPS is an independent, not-for-profit membership organisation that provides guidance and support to its members, serving and retired, from across the Armed Forces (AF) Community. At the time of writing the Society has 61,654 members. We have answered all seven questions as they apply to the Armed Forces Pension Schemes (AFPS), fully cognisant of the broader pressures on the UK's public finances, particularly at this time.

In determining our approach to this consultation, we have kept the following context uppermost in mind:

- (1) maintaining the value of a public service DB pension scheme to its members;
- (2) providing stability and certainty on member benefits and contribution levels – the mechanism should only be triggered by genuinely “extraordinary, unpredictable events”;
- (3) recognising the need to protect the Exchequer (and by extension taxpayers) from unforeseen costs. That said, the longer-term savings already secured by the Exchequer following the switch from legacy schemes to reformed schemes in 2015 suggests this is no longer an immediate priority.

It must be highlighted from the outset that the Cost Control Mechanism (CCM) worked exactly as it was intended to in 2016. Perverse outcomes were not a result of the CCM, rather a feature of external events (including the adjustments to SCAPE discount rates). Moreover, we are acutely aware of the ongoing legal process resulting from the 2016 valuation exercise and assume that any outcomes from this action will be dealt with separately from the reforms suggested in this consultation; we are monitoring this very closely to determine any applicability to the AFPS. With that context, our full answers follow below:

**Question 1: Do you agree that a reformed scheme only design would achieve the right balance of risk between scheme members and the Exchequer (and by extension the taxpayer), and would create a more stable mechanism?**

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A reformed scheme only design should create a more stable mechanism. The removal of some distortions caused by legacy scheme costs should also lead to an improved balance of risk for both scheme members and the Exchequer (taxpayer).

**Question 2: Do you agree with the government's intention to widen the corridor? If not, why not?**

For the AFPS a 2% corridor was likely to trigger CCM breaches because as the Government Actuary has noted the 2% corridor represents a relatively small margin compared to the scheme's long term contribution rate (34.6%). We therefore welcome that widened corridor as this should create greater stability, fewer breaches, and hence greater certainty of benefits.

**Question 3: Do you think that a corridor size of +/-3% of pensionable pay is appropriate? If not, why not?**

We acknowledge the risk of setting the corridor too wide; any resulting 'delta' of valuations close to the wider limits, and the increased severity of changes to benefits required to restore CCM equilibrium, need to be balanced against the risks of setting the corridor too narrow which risks more breaches and less certainty over benefits. We feel that a +/- 3% corridor is appropriate, particularly given the GA's own assessment that breaches will occur on average once every 10 valuations.

**Question 4: Do you agree with the proposal to introduce an economic check?**

No, and the motives behind introducing such a measure must be questioned. We understand such a policy was considered and rejected when the CCM was introduced. We feel that the CCM will be sufficiently stabilised by the first two proposals so as not to need the economic check. We acknowledge the possibility of perverse outcomes, but realistically if this is only on average once every 10 valuations then the Exchequer and scheme members should be able to cope. We feel that including SCAPE (or some other economic check mechanism) reduces the level of certainty and undermines the agreed practice that only costs affecting members benefits are included in the CCM.

**Question 5: Do you think that the SCAPE discount rate, as it currently stands, is an appropriate economic measure for the cost control mechanism?**

No. For the reasons highlighted in our reply to Question 4, we believe that the SCAPE discount rate is a technical assumption that has no bearing on member benefit levels as such it has no place in the CCM. This was acknowledged when the original CCM arrangements were agreed.

**Question 6: If the SCAPE methodology changes, and the government considers that the SCAPE discount rate is therefore not an appropriate measure for the cost control mechanism, then do you think that a measure of expected long-term GDP should be used instead? If not, please set out any alternative measures that may be appropriate in this scenario. Please consider in the context of the separate review of the SCAPE methodology currently being undertaken.**

We recognise that the SCAPE methodology serves as a means of allowing Government to fairly reflect costs for unfunded schemes cognisant of the possible future risks to Government income. However as mentioned above these are, at heart, technical assumptions only and they have no bearing on either the ultimate cost to the taxpayer, or the benefits the schemes provide. As such they should have no place in the CCM.

**Question 7: Do you envisage any equalities impacts from the proposals to reform the cost control mechanism that the government should take account of?**

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Nothing apparent at this stage of the process, providing the mechanism is applied to the reformed 15 schemes after the McCloud remedy period has finished.

FPS answers to the consultation question set ends.

Our final point is that any changes must be accompanied by a comprehensive, clear, and timely communications package, expressed in language all members will understand. Without this, trust risks being further undermined just as the Government is working to implement the positive outcome achieved to remedy the discrimination contained with the introduction of the 2015 schemes.

I trust this provides a clear explanation of our position in this matter. Any follow up or clarification required should be addressed to the undersigned in the first instance.



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