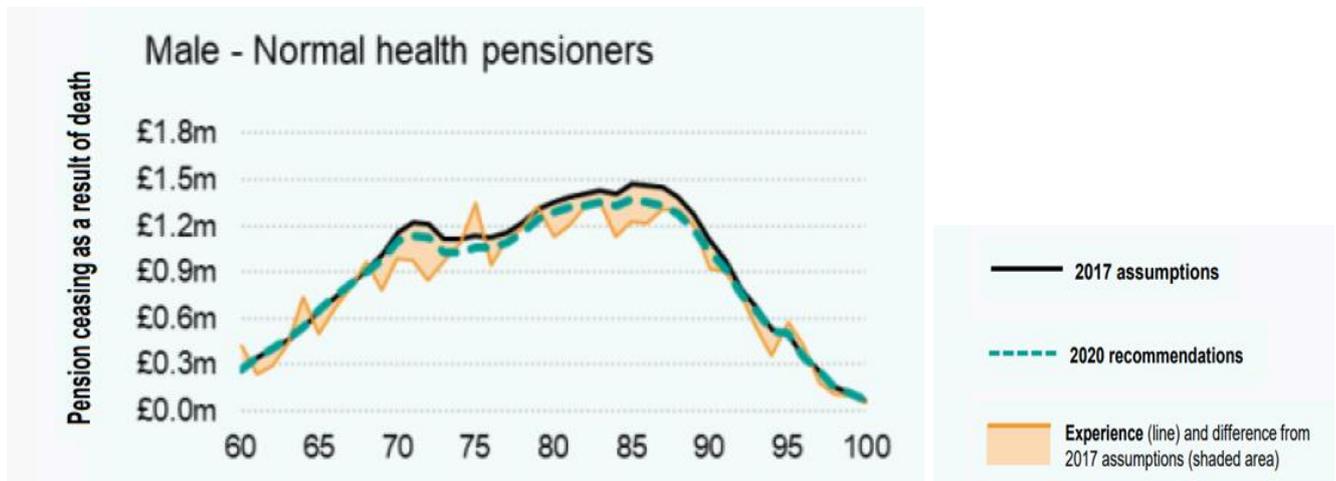




2024 Valuation: Scheme-set Assumptions

This note is addressed to the Local Government Pension Scheme (Scotland) Advisory Board (the 'SAB'). It sets out responses to the questions raised by the SAB in relation to the scheme-set assumptions training presented by GAD, at a meeting on 3 December 2025.

1. **SAB Question:** What are the amounts on the y-axis of the following chart showing? This chart was included in the mortality after retirement section.



GAD Response:

- The y-axis represents the amount of pension that stopped being paid as a result of people dying at each age over the inter-valuation period.
- Using our previous assumption, we can work out what amount of pension we expected to stop at each age because of members dying.
- For each age, we can then compare:
 - the actual amount of pension that stopped because people died (**orange jagged line** in the chart above), with
 - the amount we expected to stop (**black line** in the chart above) and assess whether more or less pension stopped, than had been allowed for in previous valuation assumptions.

Navigating risk | Cutting through complexity

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- The process of setting the new 2020 assumption essentially involves adjusting the black line to better reflect actual experience; the result is the new assumption shown by the green dotted line.

Why use an approach focusing on pension amounts, rather than lives?

- An alternative option that could be applied is to look at a lives-based approach, which focuses on number of deaths (and compares the actual number of deaths to the number expected).
- However, for our purposes, an amounts-based approach is preferred because this approach gives more weight to the longevity of members with larger pensions.
- Giving more weight to larger pensions better reflects the relative size of the financial liabilities each member represents to the scheme, and therefore, provides a mortality assumption that is more appropriate for valuing the scheme's overall liabilities.
- This contrasts with a lives-basis, which gives equal weight to every member, regardless of their pension size.
- We can illustrate this by way of a simplified example:
 - There are 4 people at the start of the period.
 - 1 person (out of 4) dies during the period.
 - The lives-based mortality rate is 25%.
 - Under an amounts-based approach:
 - There are 4 pensions in payment at the start of the period: 3 of £100 and 1 of £700 (total £1,000).
 - One of the members with the £100 pension dies, and so, £100 out of £1,000 of pension has ceased.
 - Therefore, the amounts-based mortality rate is 10%.
- The amounts-based method captures that, despite one member dying, the scheme is still paying out 90% of its obligations (rather than 75%). This approach more accurately reflects the true financial impact of deaths, and ensures that members with larger pensions, who typically live longer, are given appropriate weight in the mortality assumptions.

2. SAB Question: The 12:1 commutation terms seem penal. Is there anything that can be done to change these?

GAD Response:

- The commutation terms where £12 of lump sum is provided for every £1 of member's annual pension given up (12:1) is explicitly written into the Scheme's regulations.
- [The Local Government Pension Scheme \(Scotland\) Regulations 2018](#)
 - 32.— ... a member entitled to a retirement pension under the Scheme may ...commute the retirement pension payable (including any revaluation adjustment), or part thereof, at a rate of £12 for every £1 of annual pension commuted.
- These are the same terms that apply for benefits that are currently being accrued in many other public service pension schemes across the UK.
- As discussed at the meeting, it is worth bearing in mind that:

- the lump sum is paid tax-free, while any pension taken instead, would be taxed at the member's marginal rate of income tax.
- commutation is an option available to the member, but they do not need to make use of it. Depending on their own personal financial circumstances, and assuming they have access to all relevant information, the member can decide whether or not to commute part of their pension into a lump-sum cash payment.

3. SAB Question: Is there any impact on the valuation of the changes being made in relation to the Normal Minimum Pension Age (NMPA)? Could it lead to a surge of retirements ahead of the change taking effect?

GAD Response:

- The Finance Act 2022 increases the normal minimum pension age (NMPA) from 55 to 57 with effect from 6 April 2028 for most UK registered pension schemes, subject to specific protections and exceptions.
- Most members of public service schemes such as the LGPS (Scotland), who were already in the scheme before 4 November 2021, are expected to have protection so that they can still take all their scheme benefits from age 55 after April 2028.
- However, members who joined the LGPS (Scotland) on or after 4 November 2021, are not expected to qualify for these protections, and so an NMPA of 57 will generally apply to their benefits.
- As a result, only a relatively small cohort of the existing membership is expected to be directly affected by the change to the NMPA.
- It is too early to forecast with any certainty the effect of the change to the NMPA on the behaviours of members who joined the LGPS (Scotland) after 4 November 2021. An approximate allowance might be considered for the upcoming valuation.
- In any event, the actuarial reductions applied to early retirement mean that any later retirements will have minimal influence on the valuation results.
- The potential effect will be kept under review at future valuations.

4. SAB Question: How might the proposed changes to address the Gender Pensions Gap affect the results of the valuation, now and in the future?

GAD Response:

- The Scottish Government has consulted on:
 - Extending the window for buying back lost pension during authorised unpaid absences from 30 days to one year, or until the member leaves that employment.
 - Making the final 26 weeks 'additional' maternity leave, adoption leave and shared parental leave during which reduced or no pay is received, automatically pensionable, with the cost being met by the employer.
 - Allowing all authorised unpaid absences over 30 days to be automatically pensionable.

- Effect on the costs of benefits built up to date:
 - Our understanding is that any changes in relation to this would take effect from a future date.
 - As such, there would be no direct impact on the cost of the benefits that have already been accrued in the Scheme.

- Effect on the cost of benefits being built up going forward:
 - As part of a valuation, we estimate the amount of money that needs to be put aside to cover the costs of benefits being built up in each year going forward.
 - This cost is then considered as a proportion of pensionable pay e.g. 25% of pensionable pay.
 - All else being equal, the amount of benefits earned in each year would be expected to rise if the proposed changes go ahead and also to the extent that members take the relevant leave.
 - However, this is not expected to directly increase the underlying cost of pension being earned, rather it might act to increase pensionable service for the relevant members and hence increase employer contributions associated with this service.

- More generally, the associated costs are likely to be very small in the wider context of the scheme.

- Valuation Assumptions:
 - Whilst the direct impact on the cost of benefits is discussed above, there might be a need to consider any wider assumptions made in light of these changes.

 - For example:
 - Opt-out rates
 - Increased support around career breaks may mean more members return to work, when they might have otherwise left employment altogether.
 - This could mean lower overall withdrawals from the scheme.
 - Scheme costs tend to be relatively insensitive to small changes in assumptions in relation to withdrawal.

 - Retirement ages
 - If they were able to, many individuals may have opted to retire earlier to, for instance, allow them the time to care for family.
 - The changes may mean individuals are more inclined to return to work at a later point and then carry on working for many years ahead.
 - Conversely, it could be that, if the proposals go ahead, members will have accrued a higher pension at an earlier age, than they might have otherwise done. This may mean the individual is able to retire earlier.

 - Life expectancies
 - There is a strong link between wealth and longevity.

- It is possible that higher pension could improve the life expectancy of those members who make use of the changes in benefit provisions.
- In addition, if more females make up the overall membership, and these changes are expected to benefit females more than males, the average overall life expectancy of scheme members will increase, given females are expected to live longer than males currently.

- These impacts are all speculative only at this stage and might be considered relatively minimal in the wider context of the scheme. There will be a need to understand what evidence emerges on any changes in behaviour, if the proposed changes go ahead.

- In addition, it might be difficult to understand whether any changes in behaviour are caused by the above changes in isolation, or if there are other factors that are influencing this.

Government Actuary's Department
February 2026