



Department
of Health

NHSPS and NHSPS 2015 (England and Wales)

Actuarial assumptions for bulk transfer calculations
from or to funded schemes

June 2015

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Guidance

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Target audience:

Contracting authorities, commissioners, bidders, contractors, providers of NHS services, and their respective actuarial advisers

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Prepared by

Department of Health

Contents

- Contents..... 4
- Introduction 5
 - Demographic assumptions 5
 - Financial assumptions 5
 - Further information 6

Introduction

This note sets out the actuarial assumptions which are used for the NHSPS and/or NHSPS 2015 to calculate the total bulk transfer amount required by the schemes (for transfers from funded schemes) or the total bulk transfer amount payable by the schemes (for transfers to funded schemes). These assumptions will be used for all bulk transfers where terms are agreed on or after 1 May 2015 (unless exceptionally agreed otherwise).

These assumptions are used both for calculating the value of the liabilities in the NHSPS and/or NHSPS 2015, and for determining the service/pension credits which are required to be provided to transferring staff in line with the Fair Deal policy (i.e. on a mirror basis, or on a basis of actuarial equivalence where there are benefit differences between the NHSPS schemes and the funded scheme).

Demographic assumptions

The demographic assumptions are identical to those which were used in the actuarial valuation of the NHSPS as at 31 March 2012. Full details of those assumptions can be found here:

<https://www.gov.uk/government/publications/nhs-pension-scheme-actuarial-valuation>

Financial assumptions

The value of the accrued pension and retirement lump sum liabilities in the NHSPS and/or NHSPS 2015 will be calculated on the assumptions set out in (i) below. That value will be compared with the total of the cash equivalent transfer values in the NHSPS and/or NHSPS 2015 to determine the bulk transfer requirement/ bulk transfer payment at the Vesting Date. This bulk transfer requirement/ bulk transfer payment will then be adjusted to allow for investment returns between the Vesting Day and the date of settlement in accordance with (ii) below

(i) (a) *Real discount rate* relative to CPI

Yield before retirement: Average of the British Government index-linked gilt yields at the Vesting Day for terms over 15 years at the 0% and 5% inflation assumptions plus 2¾ % per annum.

Yield after retirement: Average of the British Government index-linked gilt yields at the Vesting Day for terms over 15 years at the 0% and 5% inflation assumptions plus 1¼ % per annum.

(b) *Gross discount rate (for valuing GMP element)*

Yield before retirement: Based on the British Government gilt yields for terms of 20 years at the Vesting Day plus 2 % per annum.

Yield after retirement: Based on the British Government gilt yields for terms of 20 years at the Vesting Day plus ½ % per annum.

(c) *Real salary increases* relative to CPI

Real salary inflation will be assumed to be 2¼ % per annum. This is exclusive of any promotional salary scale.

(ii) *Investment Roll-up*

The bulk transfer requirement/ bulk transfer payment at the Vesting Day shall earn the total rate of return from an investment in index-linked British Government Stock for terms over 15 years (with reinvestment in the stock, as appropriate) plus 2 % per annum until the date that the calculations are agreed. For the short period from the date of agreement of the calculations to the date of settlement the payment will be rolled-up in line with the prevailing Barclays Bank base rate.

Although the NHSPS/NHSPS 2015 currently provide pension increases (in payment and deferment) which follow directly changes in consumer prices, this is not always the case for private sector schemes used for broad comparability, which may have capped pension increases in deferment and/or payment. The assumptions to be used for capped pension increases, linked to RPI or CPI, are as follows:

	In payment (annual cap)	In deferment (overall cap)
RPI	CPI + 1.15%	
CPI with a cap of 2.5%	CPI less 0.8%	CPI less 0.35%
CPI with a cap of 3%	CPI less 0.65%	
CPI with a cap of 5%	CPI less 0.2%	CPI less 0.1%
RPI with a cap of 2.5%	RPI less 1.55%	RPI less 0.9%
RPI with a cap of 3%	RPI less 1.25%	
RPI with a cap of 5%	RPI less 0.5%	RPI less 0.15%

The assumptions used for caps at other levels are available on request.

Further information

Please contact NHS Pay, Pensions and Employment Services using the following email address; nhs_pp&e_services@dh.gsi.gov.uk

Department of Health/NHS Pensions

4th June 2015