



HM Treasury

## The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2021

The Treasury make the following Directions in exercise of the powers conferred on them by sections 11(2) and 12(3) of the Public Service Pensions Act 2013(a).

In accordance with section 11(4) of that Act, these Directions are made following consultation with the Government Actuary.

### Citation and entry into force

1. These Directions may be cited as the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2021, and come into force the day after the day on which they are signed.

### Amendment of the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014

2. The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014(b) are amended as follows.

#### Amendment of Part 1: General

3. In direction 2 (interpretation)—

(a) at the appropriate places insert—

“change in liabilities after the remedy period” means the difference between post-remedy liabilities and pre-remedy liabilities accruing after the transitional protection closure date, calculated in accordance with direction 52;

“change in liabilities before the remedy period” means the difference between post-remedy liabilities and pre-remedy liabilities accrued before the remedy period, calculated in accordance with direction 51;

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(a) 2013 c. 25.

(b) The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 were amended by The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2014, The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) (No. 2) Directions 2014, The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) (No. 3) Directions 2014, The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2015, The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) (No. 2) Directions 2015, The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2016, The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2018, and The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment and Savings) Directions 2019. These directions are available electronically from: <https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations-and-the-employer-cost-cap-mechanism-supplementary-documents>; <https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations>; and <https://www.gov.uk/government/publications/public-service-pensions-changes-to-2016-valuations>.

“change in liabilities in the remedy period” means the difference between post-remedy liabilities and pre-remedy liabilities accruing during the remedy period, calculated in accordance with direction 50;

“change in member contributions after the remedy period” means the difference in member contributions expected to be paid to the scheme after the remedy period as a result of the transitional protection remedy, calculated in accordance with direction 54;

“change in member contributions in the remedy period” means the difference in member contributions expected to be paid to the scheme during the remedy period as a result of transitional protection remedy, calculated in accordance with direction 53;

“cost cap cost of the scheme” means the contribution rate which is compared against the employer cost cap and which reflects the cost of the scheme, calculated in accordance with direction 57;

“cost cap valuation report” means the report prepared by the scheme actuary in accordance with direction 48 for the purpose of determining the cost cap cost of the scheme;

“cost cap valuation results” means the numerical values stated in accordance with direction 48(e) in the cost cap valuation report prepared by the scheme actuary;

“employer cost cap” has the same meaning as in section 12 of the 2013 Act;

“post-remedy assumptions” means the assumptions used to calculate the cost cap liabilities in the first valuation report but modified by any additional or revised assumptions made where direction 55(2) applies;

“post-remedy benefits” means the post-remedy benefits as determined in accordance with direction 49;

“post-remedy member contributions” means the post-remedy member contributions paid, payable or assumed to be payable in respect of the post-remedy benefits, as determined in accordance with direction 49;

“pre-remedy benefits” means the benefits used to determine the cost cap liabilities in the first valuation report;

“remedy period” means, for the purpose of directions 49 to 56, the period beginning on (and including) the day after the closing date and ending on (and including) the day before the transitional protection closure date;

“transitional protection remedy” has the meaning given in direction 49(2);

“transitional protection remedy cost” means the element of the cost cap cost of the scheme that reflects the transitional protection remedy, calculated in accordance with direction 56;

“transitional protection closure date” means 1st April 2022.

- (b) in the definition of “closing date”—
  - (i) for “the date specified in section 18(4) of the 2013 Act” in subparagraph (a) substitute “the date as it was specified in section 18(4) of the 2013 Act immediately before the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2021 come into force”;
  - (ii) for “the date determined by the” in subparagraph (b) substitute “the date that has been determined immediately before the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2021 come into force by any”;
- (c) in the definition of “SCAPE discount rate”, after “results”, insert “or cost cap valuation results”.
- (d) in the definition of “valuation report”, for “22” substitute “22A for the purpose of calculating the employer contribution correction cost; and “first valuation report” means a valuation report for a valuation with an effective date determined in accordance with direction 6(1)”.

#### **Amendment of Part 2: Valuations**

- 4.** In direction 3 (Meaning of “a scheme”)—
  - (a) after “made” insert “or deemed to be made”;
  - (b) after “single scheme” insert “(unless otherwise indicated in these Directions)”.
- 5.** In direction 5 (Scheme Actuary), after “report” insert “and a cost cap valuation report”.
- 6.** After direction 5 (Scheme Actuary) insert—
 

**“5A.** The cost cap valuation report may be signed after the valuation report has been signed”.
- 7.—(1)** In direction 9 (Membership and other data)—
  - (a) after direction 9(1) insert—
 

**“(1A)** Before preparing the cost cap valuation report, the scheme actuary must specify—

    - (a) the scheme membership data and any other data in relation to the closing date of the connected schemes; and
    - (b) the scheme membership data and any other data in relation to the effective date;
    - (c) that they require to prepare the cost cap valuation report.”
  - (b) in direction 9(2), after “paragraph (1)” insert “or (1A)”;
  - (c) in direction 9(4), after “results” insert “or the cost cap valuation results”.
- 8.** In direction 10—
  - (a) after “valuation results” insert “or cost cap valuation results”;
  - (b) for “directions 11 to 19” substitute “directions 11 to 18”.
- 9.** In direction 11(1), omit “to calculate the valuation results”.
- 10.** In direction 14—
  - (a) omit “When calculating the valuation results”;
  - (b) after “Pensions (Increase) Act 1971” insert “(and which comes into force before the start of the implementation period)”.
- 11.** In direction 15 omit “When calculating the valuation results”.
- 12.** In direction 16 omit “When calculating the valuation results”.
- 13.** In direction 17 omit “When calculating the valuation results”.
- 14.** In direction 18 omit “When calculating the valuation results”.

15. Before direction 19, insert the heading “The valuation report”.
16. In direction 19, for “All” substitute “When calculating the valuation results, all”.
17. After direction 20, omit the heading “The valuation report”.
18. After direction 22 insert—

**“Contents of the valuation report: employer contribution correction cost**

- 22A. The valuation report prepared by the scheme actuary must also include a statement of—
- (a) the prior value of the cost cap fund calculated in accordance with direction 30;
  - (b) the cost cap contribution yield calculated in accordance with direction 31;
  - (c) the cost cap income calculated in accordance with direction 33;
  - (d) the cost cap benefits paid calculated in accordance with direction 34;
  - (e) the cost cap net leavers liabilities calculated in accordance with direction 35;
  - (f) the cost cap notional investment returns calculated in accordance with direction 36;
  - (g) the value of the cost cap fund calculated in accordance with direction 37;
  - (h) the cost cap liabilities calculated in accordance with direction 39;
  - (i) the cost cap future service cost calculated in accordance with direction 40;
  - (j) the cost cap past service cost calculated in accordance with direction 41;
  - (k) the employer contribution correction cost calculated in accordance with direction 42; and
  - (l) the cost cap difference calculated in accordance with direction 42A.”
19. After direction 46 insert—

**“Application of Part 2 to a scheme providing benefits for employees of the Secret Intelligence Service or the Security Service.**

46A. Directions 48 to 57 do not apply in relation to a first valuation of a scheme providing benefits for employees of the Secret Intelligence Service or the Security Service.”.

20. In direction 47(4)—
- (a) for “National Assembly for Wales Members’ Pensions Scheme”, substitute “Members of the Senedd Pension Scheme”;
  - (b) after subparagraph (b) insert—
- “(ba) directions 22A(a), 22A(c) to 22A(h) and 22A(j) do not apply;”;
- (c) in subparagraph (d), for “and 41” substitute “, 41 and 43A”; and
  - (d) in subparagraph (e), for “National Assembly for Wales” substitute “Senedd”.

21. After direction 47 insert—

**“The cost cap valuation report**

**Contents of the cost cap valuation report**

48. The cost cap valuation report prepared by the scheme actuary must include—
- (a) a summary of any additional data determined in accordance with direction 55(2) including any checks, adjustments or projections made to the data by the scheme actuary;
  - (b) a statement of the assumptions used by the scheme actuary in preparing the report, including—
    - (i) a summary of any additional or revised assumptions determined by the responsible authority in accordance with direction 55(2);

- (ii) a statement of how regard has been had to the matters listed in direction 19 (as modified by direction 55(4)) in making any additional or revised assumptions; and
- (iii) an illustration of the main sensitivities of the cost cap valuation results to the assumptions used;
- (c) a statement that the cost cap valuation results have been calculated in accordance with the requirements as to data, methodology and assumptions specified by these Directions;
- (d) a summary of the regulations, directions and professional standards applicable to the preparation of the cost cap valuation report;
- (e) a statement of—
  - (i) the employer contribution correction cost that was calculated in accordance with direction 42 and stated in the first valuation report,
  - (ii) the change in liabilities in the remedy period calculated in accordance with direction 50,
  - (iii) the change in liabilities before the remedy period calculated in accordance with direction 51,
  - (iv) the change in liabilities after the remedy period calculated in accordance with direction 52,
  - (v) the change in member contributions in the remedy period calculated in accordance with direction 53,
  - (vi) the change in member contributions after the remedy period calculated in accordance with direction 54,
  - (vii) the transitional protection remedy cost calculated in accordance with direction 56, and
  - (viii) the cost cap cost of the scheme calculated in accordance with direction 57;
- (f) a comparison of the cost cap cost of the scheme identified in the cost cap valuation report with the employer cost cap in accordance with direction 59;
- (g) where the cost cap cost of the scheme has gone beyond the margins on either side of the employer cost cap specified in Regulations made under section 12(5) of the 2013 Act, a statement to that effect to notify the responsible authority;
- (h) an analysis of the difference between the employer cost cap and the cost cap cost of the scheme, identifying and quantifying any noticeable differences caused by—
  - (i) a change in the average age of members;
  - (ii) a change in the average normal pension age of members (whether resulting from a change in state pension age or otherwise);
  - (iii) a change in the expected member contribution yield;
  - (iv) scheme experience or a change in assumptions relating to—
    - (aa) new entrant profiles;
    - (bb) mortality rates;
    - (cc) rates of age retirement;
    - (dd) rates of early and late retirements;
    - (ee) rates and severity of ill health retirements;
    - (ff) resignations and opt-outs;
    - (gg) rates of rejoining service;
    - (hh) general earnings growth until 31st March 2023;
    - (ii) promotional earnings increases;
    - (jj) members' dependants;
    - (kk) take up of commutation options; and
    - (ll) any other relevant factor or consideration and

- (i) any other matters that the scheme actuary considers to be relevant.

#### The cost cap valuation report: cost cap cost of the scheme

### Post-remedy benefits and post-remedy member contributions

**49.**—(1) Post-remedy benefits and post-remedy member contributions are the benefits and member contributions stated in the first valuation report (save to the extent that those benefits and member contributions are determined in accordance with these Directions to have changed as a result of the transitional protection remedy), being in particular:

- (a) the benefits that have accrued and are accruing in a scheme to those members of that scheme who are not entitled to the transitional protection remedy and the member contributions paid or payable in respect of those benefits; and
- (b) the benefits that have accrued or are assumed to have accrued and are accruing or assumed to be accruing in or before the remedy period to those members of that scheme who are entitled to the transitional protection remedy and the member contributions paid or assumed to have been paid or payable or assumed to be payable in respect of those benefits; and
- (c) the benefits that are assumed to be accruing after the transitional protection closure date to those members of that scheme who are entitled to the transitional protection remedy, being the benefits in the scheme made (or deemed to be made) under section 1 of the 2013 Act, and the member contributions that it is assumed will be paid in respect of those benefits.

(2) For the purpose of these directions the “transitional protection remedy” means:

- (a) for members of a scheme other than for local government workers or the judiciary who were in pensionable service on or before 31st March 2012 and on or after the day after the closing date of a connected scheme (including those with a qualifying break in service of not more than 5 years or linked service), the accrual of pension benefits in a connected scheme in respect of any pensionable service in the remedy period with the assumed right to choose on benefit crystallisation to have accrued pension benefits either in that connected scheme or in the scheme made under section 1 of the 2013 Act in respect of all pensionable service in the remedy period;
- (b) the assumed right for members of a scheme for the judiciary who were: (i) in pensionable service (in a connected scheme) on or before 31st March 2012; and (ii) in pensionable service (in a scheme made under section 1 of the 2013 Act) on or after the day after the closing date of a connected scheme or had the option to join a scheme (made under section 1 of the 2013 Act) on 1st April 2015 (including those with a qualifying break in service of not more than 5 years or linked service), to choose following the end of the remedy period to have accrued pension benefits either in that scheme made under section 1 of the 2013 Act or in a connected scheme in respect of all pensionable service in the remedy period; or
- (c) the assumed extension of the statutory underpin, as set out in the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014(a) and Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014(b) (and modified as appropriate), to cover all qualifying members of a scheme for local government workers who were in service on 31st March 2012 and on or after the day after the closing date of a connected scheme (including those with a qualifying break of not more than 5 years or linked service).

### Change in liabilities in the remedy period

**50.**—(1) The change in liabilities in the remedy period must be calculated as at the effective date as—

$$A - B$$

where—

- 
- (a) S.I. 2014/525.
  - (b) S.S.I. 2014/233.

**A** is the value of the liabilities corresponding to the post-remedy benefits that have accrued and are expected to accrue over the remedy period; and

**B** is the value of the liabilities corresponding to the pre-remedy benefits that have accrued and are expected to accrue over the remedy period.

(2) For the purpose of calculating **A** in paragraph (1), the data, methodology and assumptions used to calculate the cost cap liabilities in the first valuation report must be used, except where direction 55 applies.

(3) For the purpose of calculating **B** in paragraph (1), the data, methodology and assumptions used to calculate the cost cap liabilities in the first valuation report must be used.

### **Change in liabilities before the remedy period**

**51.**—(1) The change in liabilities before the remedy period must be calculated as at the effective date as—

$$\mathbf{A - B}$$

where—

**A** is the value of the liabilities that relate to the post-remedy benefits accrued before the closing date by members who were in pensionable service at that date; and

**B** is the value of the liabilities that relate to the pre-remedy benefits accrued before the closing date to members who were in pensionable service at that date.

(2) For the purpose of calculating **A** in paragraph (1), the data, methodology and assumptions used to calculate the cost cap liabilities in the first valuation report must be used, except where direction 55 applies.

(3) For the purpose of calculating **B** in paragraph (1), the data, methodology and assumptions used to calculate the cost cap liabilities in the first valuation report must be used.

### **Change in liabilities after the remedy period**

**52.**—(1) The change in liabilities after the remedy period must be calculated as at the effective date as—

$$\mathbf{A - B}$$

where—

**A** is the value of the liabilities that relate to the post-remedy benefits expected to accrue to all members who are entitled to the transitional protection remedy over the period from and including the transitional protection closure date until the date that each member is expected to leave service, with that leaving date assessed in line with post-remedy assumptions; and

**B** is the value of the liabilities that relate to the pre-remedy benefits expected to accrue to all members who are entitled to the transitional protection remedy over the period from and including the transitional protection closure date until the date that each member is expected to leave service, with that leaving date assessed in line with post-remedy assumptions.

(2) For the purpose of calculating **A** in paragraph (1), the data, methodology and assumptions used to calculate the cost cap liabilities in the first valuation report must be used, except where direction 55 applies.

(3) For the purpose of calculating **B** in paragraph (1), the data, methodology and assumptions used to calculate the cost cap liabilities in the first valuation report must be used.

### **Change in member contributions in the remedy period**

**53.**—(1) The change in member contributions in the remedy period must be calculated as at the effective date as—

$$\mathbf{A - B}$$

where—

**A** is the value of normal member contributions expected to be paid in respect of the remedy period by members with post-remedy benefits, assuming that those contributions are paid at the same time as the related benefits accrue; and

**B** is the value of normal member contributions expected to be paid in respect of the remedy period by members with pre-remedy benefits, assuming that those contributions are paid at the same time as the related benefits accrue.

(2) For the purpose of calculating **A** in paragraph (1), the data, methodology and assumptions used to calculate the cost cap liabilities in the first valuation report must be used, except where paragraph 55 applies.

(3) For the purpose of calculating **B** in paragraph (1), the data, methodology and assumptions used to calculate the cost cap liabilities in the first valuation report must be used.

### **Change in member contributions after the remedy period**

**54.**—(1) The change in member contributions after the remedy period must be calculated as at the effective date as—

$$\mathbf{A - B}$$

where—

**A** is the value of normal member contributions expected to be paid by all members with post-remedy benefits who are entitled to the transitional protection remedy, assuming that these contributions are paid at the same time as the related benefits accrue, in respect of the period from and including the transitional protection closure date until the date that each member is expected to leave service, with that leaving date assessed in line with post-remedy assumptions; and

**B** is the value of normal member contributions expected to be paid by all members with pre-remedy benefits who are entitled to the transitional protection remedy, assuming that those contributions are paid at the same time as the related benefits accrue, in respect of the period from and including the the transitional protection closure date until the date that each member is expected to leave service, with that leaving date assessed in line with post-remedy assumptions.

(2) For the purpose of calculating **A** in paragraph (1), the data, methodology and assumptions used to calculate the cost cap liabilities in the first valuation report must be used, except where direction 55 applies.

(3) For the purpose of calculating **B** in paragraph (1), the data, methodology and assumptions used to calculate the cost cap liabilities in the first valuation report must be used.

### **Updated data or assumptions to reflect the impact of transitional protection remedy**

**55.**—(1) This direction applies where—

- (a) the responsible authority, having obtained advice from scheme actuary, determines that the data or the assumptions determined in accordance with direction 19(a) used to calculate the cost cap liabilities in the first valuation report no longer constitute the responsible authority's best estimates or are insufficient for the purpose of calculating the change in liabilities and member contributions in directions 50 to 54; and
- (b) the determination in paragraph (a) results from the impact of the transitional protection remedy (as defined in direction 49(2)).

(2) Where paragraph (1) applies, additional or revised data or assumptions must be determined by the responsible authority, having taken the advice of the scheme actuary, so that the assumptions and data used to calculate the change in liabilities and member contributions in directions 50 to 54 constitute the responsible authority's best estimates and are sufficient for that purpose.

(3) Any additional or revised assumptions determined by the responsible authority in accordance with paragraph (2) must be determined in accordance with direction 19, as modified by paragraph (4).

(4) For the purpose of paragraph (3) of this direction only, direction 19 is modified as follows—



- (a) for “when calculating the valuation results, all other assumptions used by the scheme actuary, other than those detailed in direction 11 to 18”, substitute “when calculating the change in liabilities and member contributions under directions 50 to 55, any additional or revised assumptions determined by the responsible authority in accordance with the requirements of those directions”;
- (b) omit subparagraph (a);
- (c) in subparagraph (d)(iii), omit the words “(including relevant data that becomes available after the effective date)”;
- (d) omit subparagraph (e).

**Transitional protection remedy cost**

**56.**—(1) The transitional protection remedy cost must be calculated as—

$$A + B + C - (D + E)$$

where—

**A** is the change in liabilities in the remedy period calculated in accordance with direction 50;

**B** is the change in liabilities before the remedy period calculated in accordance with direction 51;

**C** is the change in liabilities after the remedy period calculated in accordance with direction 52;

**D** is the change in member contributions in the remedy period calculated in accordance with direction 53; and

**E** is the change in member contributions after the remedy period calculated in accordance with direction 54.

(2) The transitional protection remedy cost as calculated under paragraph (1) must be stated to the nearest 0.1% of pensionable payroll, as a contribution rate payable over the implementation period.

(3) For the purpose of calculating the transitional protection remedy cost the data, methodology and assumptions used to calculate the cost cap liabilities in the first valuation report must be used (save to the extent otherwise indicated in these Directions).

**Cost cap cost of the scheme**

**57.** The cost cap cost of the scheme must be calculated as—

$$A + B$$

where—

**A** is the employer contribution correction cost that was calculated in accordance with direction 42 and stated in the first valuation report; and

**B** is the transitional protection remedy cost calculated in accordance with direction 56.

The cost cap valuation report: special applications

**58. Application of Part 2 (cost cap valuation report) to Members of the Senedd Pension Scheme**

In relation to the cost cap valuation report of the Members of the Senedd Pension Scheme, Part 2 of these Directions applies with the following modifications—

- (a) directions 48(a), (b), and (e)(ii) to (vii) do not apply;
- (b) directions 49 to 56 do not apply; and
- (c) in direction 57, the cost cap cost of the scheme must be calculated as—

$$A + 7.5\%$$

where—

A is the employer contribution correction cost that is calculated in accordance with direction 42.

## PART 3: EMPLOYER COST CAP

### Comparison with the employer cost cap

**59.**—(1) At the first and each subsequent valuation of a scheme, the scheme actuary must compare the cost cap cost of the scheme identified in the cost cap valuation report with the employer cost cap.

(2) Where the cost cap cost of the scheme has gone beyond the margins on either side of the employer cost cap specified in Regulations made under section 12(5) of the 2013 Act, the scheme actuary must notify the responsible authority.

### Application of Part 3 to a scheme providing benefits to employees of the Secret Intelligence Service or the Security Service

**60.** In relation to a scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, Part 3 does not apply.”

Signed



07/10/2021

*Conrad Smewing*

Director, Public Spending  
for Her Majesty's Treasury