HM Treasury

Nick Donlevy

Director, Public Spending

HM Treasury

Martin Clarke, Government Actuary

Via email

24 August 2023

T 020 7270 4562

E Nick.Donlevy@hmtreasury.gov.uk

www.gov.uk/hm-treasury

Dear Martin

Public Service Pensions (Valuations and Employer Cost Cap) Directions 2023

1. In accordance with section 11(4) of the Public Service Pensions Act 2013 (the "2013 Act") I am formally writing to you for your professional opinion on the draft Public Service Pensions (Valuations and Employer Cost Cap) Directions 2023.

2. Section 11(2) of the 2013 Act enables HM Treasury to make Directions regarding valuations of the public service pension schemes that have been made under the 2013 Act, together with relevant connected schemes. Section 12(3) of the 2013 Act also enables HM Treasury to make Directions setting out how the employer cost caps will be set, and how the changes in the cost are to be measured for schemes made under the 2013 Act.

3. HM Treasury made such Directions, the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 (the "Directions") on 11 March 2014. The Directions were amended most recently[1]:

    a. in 2018 to update them for the next set of valuations (mainly with effective dates of 31 March 2016).

[1] For completeness, a full list of amendments: 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, The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment and Savings) Directions 2019 and The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2021.

b. in 2019 to pause the cost control element of the valuations (which is used to test whether a breach of the cost control mechanism (CCM) has occurred) while allowing for valuation reports to be signed that set out revised employer contribution rates.

c. in 2021 to allow the cost control element of the 2016 valuation process to be completed, taking into account the impact of the Government's policy to remedy the discrimination identified by the courts in the McCloud and Sargeant litigation.

4. In 2021 you completed a review of the CCM[2], and following a full public consultation process[3], the Government confirmed in October 2021 that it would implement 3 reforms to the CCM in time for the valuations of the public service pensions schemes with an effective date of 31 March 2020:

   a. Reformed scheme only design

   b. Wider 3% cost corridor; and

   c. Economic check

   The Public Service Pensions and Judicial Offices Act 2022 amended the 2013 Act to expressly provide for certain elements of these reforms. Then in 2023 the Government provided further details on the reformed scheme only design[4], in particular how it would operate with regard to those pension scheme members in scope of the remedy for the McCloud and Sargeant litigation. The reformed scheme only mechanism and economic check can be implemented in the Directions, whereas the 3% cost corridor is implemented in the Public Service Pensions (Employer Cost Cap) Regulations 2014, as amended.

5. HM Treasury has considered the changes needed for the Directions for the current valuations of the public service pensions schemes, with an effective date of 31 March 2020. Given the substantial number of changes, the Directions are being revoked and replaced instead of amended. It is on these replacement Directions I seek your professional opinion.

6. We are updating the Directions to primarily achieve 8 things:

   a. To remove specific Directions that related to the pause, and subsequent completion, of the cost control element of the 2016 valuation process, and to remove Directions that related to new public body pension schemes;

   b. To update the assumptions that the Directions require schemes to use in completing their valuations to current central best estimates[5];

   c. To implement the government's decision to change the SCAPE discount rate from 2.4% a year above CPI to 1.7% a year above CPI, which was confirmed in March 2023[6];

---

[2] https://www.gov.uk/government/publications/cost-control-mechanism-government-actuarys-review-final-report

[3] https://www.gov.uk/government/consultations/public-service-pensions-cost-control-mechanism-consultation

[4] https://www.gov.uk/government/publications/public-service-pensions-cost-control-mechanism-and-the-reformed-scheme-only-design

[5] A best estimate assumption should be taken to mean an assumption without any adjustment for prudence or optimism

d. To implement a reformed scheme only CCM;

e. To implement the economic check where there is a breach of the core CCM;

f. To deliver the process whereby the impact of a change in the discount rate and long-term earnings assumptions is excluded from the core assessment in the CCM in a way that is deliverable over multiple valuations;

g. To enable the employer cost cap to be set where required, in particular for the new Judicial Pension Scheme that opened in 2022 and the Civil Service (Other Crown Servants) Pension Scheme; and

h. To make miscellaneous changes to ensure the valuations operate as intended – for example relating to valuation timing cycles and the approach to rectification, and subsequent certification, of a breach in the CCM (following the economic check) in line with amendments made to the 2013 Act via the Public Service Pensions and Judicial Offices Act 2022 (the "2022 Act").

7. Our legal advisors have prepared the necessary Directions (set out in Annex A of this letter). We have shared drafts and taken advice from your department in considering the Directions and I am grateful to your officials for all their work. Annex B of this letter includes a more detailed technical explanation of the proposed Directions.

8. Our objectives for the valuations are:

   a. Completeness – employer and employee contributions, taken together, reflect the full costs of the benefits provided by public service pension schemes, including any past service effects that arise between valuations;

   b. No bias – assumptions used to assess costs should be best estimates, with no margin for prudence or optimism;

   c. Discount rate – the discount rate will be 1.7% a year above CPI, in line with the Office for Budget Responsibility's long-term growth forecasts, as set out in their July 2022 Fiscal Risks and Sustainability Report;

   d. Consistency - valuations of all public service schemes should be consistent, allowing for comparisons to be made across schemes, including over time. Where different scheme workforces have different characteristics, then there should be consistency in the way that assumptions are set;

   e. Clarity – the Directions should lead to valuation reports that include sufficient information to allow those who are technically competent to understand how the valuation has been carried out. Valuations reports should provide clear and transparent assessments of schemes' costs, and reports should include information that may be helpful to scheme members and stakeholders in understanding the costs of providing benefits;

   f. Cost control – the Directions ensure that the 2020 valuation report includes valuation results that measure changes in the costs of the schemes against the employer cost cap (in line with Section 12(4)(b) of the Act and as required by Section 12(5) of the Act);

---

[6] Via a Written Ministerial Statement on 30 March 2023: https://questions-statements.parliament.uk/written-statements/detail/2023-03-30/hcws697

g. Sustainability – for each scheme, the measurement of changes in the cost of the scheme against the employer cost cap (in line with Section 12(4)(b) of the Act and as required by Section 12(5) of the Act) includes effects of scheme experience and future valuation assumptions differing from the assumptions used to determine the employer cost cap;

h. Stability – for each scheme, the measurement of changes in the cost of the scheme against the employer cost cap exclude:

   - costs of the scheme which relate to the benefits accrued in legacy schemes i.e. those introduced prior to the introduction of the 2013 Act;
   - costs of the schemes which relate to the benefits associated with the remedy of the McCloud and Sargeant litigation;
   - changes in the cost of the new schemes which arise due to the effects of members having service in those legacy schemes.

i. Technical immunity – the core measurement of changes in the costs of the scheme against the employer cost cap excludes effects caused by changes to the discount rate, the long-term earnings assumptions or changes in the actuarial methodology used in the valuations; and

j. Validation – the Directions ensure that a breach of the cost control mechanism will be implemented only if it would have still occurred had the measurement of changes in the cost of the scheme against the employer cost cap included effects caused by changes to the long-term economic assumptions.

9. Please note that the validation objective is new, and the stability and technical immunity objective have been adjusted to reflect the reformed CCM in place for the 2020 valuations.

10. As has been noted in previous correspondence, the Treasury recognises that it is important that the Directions are kept under review in order to ensure that they deliver the Government's objectives. In particular, it was stated that the Treasury would review these Directions before each valuation round to ensure they remain fit for purpose.

11. I would be grateful if you could offer your professional opinion on these Directions (as set out in Annex A). In particular, I would welcome your views on the extent to which they meet the government's objectives and are technically complete and coherent.

Yours sincerely

Nick Donlevy

HM Treasury

The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2023

The Treasury make the following directions in exercise of the powers conferred on them by sections 11(2), 12(3), 12(4), 12(4A), 12(7A), 12(7B), 12(7C), 12A(2) and 38(7) of the Public Service Pensions Act 2013([7]).

In accordance with section 11(4) of that Act, these Directions are made after the Treasury have consulted the Government Actuary.

PART 1: GENERAL

Citation and entry into force

1. These Directions may be cited as the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2023 and come into force on the day after the day on which they are signed.

Revocation of previous Treasury directions

2. On coming into force of these Directions the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014([8]) are revoked.

Interpretation

3.—(1) In these Directions:

"analysis of the demographic experience" in relation to a scheme means an assessment of changes experienced by scheme members that impact on their expected benefits (such as career breaks, leaving

([7]) 2013 c. 25, as amended by section 92 and section 95 of the Public Service Pensions and Judicial Offices Act 2022.

([8]) 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, The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment and Savings) Directions 2019, and The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2021. 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.

pensionable service, retirement, ill health and death) and which can be assessed from data held by the scheme;

"closing date" means—

(a) in relation to an existing scheme as defined in Schedule 5 of the Public Service Pensions Act 2013 (the "2013 Act") the date as specified in section 18(4) of that Act in relation to that scheme; and

(b) in relation to a relevant scheme as defined in section 90(2) of the Public Service Pensions and Judicial Offices Act 2022([9]) (the "2022 Act") the date as specified in section 90(1) of that Act in relation to that scheme;

"core cost cap cost of the scheme" means the contribution rate calculated in accordance with direction 48 (i.e. it is the contribution rate which is compared against the employer cost cap and which reflects the cost of the scheme without allowing for the impact of a change in long-term economic assumptions);

"core cost cap fund" means a notional amount of money calculated in accordance with direction 41;

"core cost cap fund contribution rate" means the contribution rate calculated in accordance with direction 36;

"core cost cap income" means an amount of money representing income credited to the core cost cap fund, calculated in accordance with direction 37;

"core cost cap notional investment returns" means a notional amount of money added to the core cost cap fund of a scheme representing the growth of the core cost cap fund over time, calculated in accordance with direction 39;

"core cost cap past service cost" means the element of the core cost cap cost of the scheme that reflects past service costs stemming from the core cost cap fund, calculated in accordance with direction 43;

"cost cap benefits paid" means an amount of money representing benefits debited from the core cost cap fund and economic cost cap fund, calculated in accordance with direction 38;

"cost cap contribution yield" means the expected average contribution rate payable by members, calculated in accordance with direction 45;

"cost cap future service cost" means the element of the core cost cap cost of the scheme and of the economic cost cap cost of the scheme that reflects future service costs calculated in accordance with direction 44;

"cost cap implementation date", in respect of a particular cost cap valuation, means a date determined in accordance with direction 8(2);

"cost cap implementation period", in respect of a particular cost cap valuation, means the period following a cost cap valuation in which the cost cap future service cost as assessed by that cost cap valuation is assumed to be paid for the purposes of valuing a scheme, determined in accordance with direction 9(2);

"cost cap liabilities" means the liabilities of a scheme which are to be compared against: (i) the core cost cap fund to calculate the core cost cap past service cost; and (ii) the economic cost cap fund to calculate the economic cost cap past service cost, calculated in accordance with direction 34;

"cost cap valuation" means a valuation carried out for the purposes of section 12 of the 2013 Act;

"cost cap valuation report" means the report prepared by the scheme actuary in accordance with direction 25 for the purpose of a cost cap valuation;

"cost cap valuation results" in relation to a cost cap valuation means the numerical values stated in accordance with direction 25 in the cost cap valuation report prepared by the scheme actuary;

"cumulative future service technical immunity adjustment" in relation to a cost cap valuation means the future service technical immunity adjustment plus the cumulative future service technical immunity adjustment relating to the previous cost cap valuation, calculated in accordance with direction 47;

([9]) 2022 c. 7.

"economic 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 allowing for the impact of a change in long-term economic assumptions, calculated in accordance with direction 67;

"economic cost cap fund" means a notional amount of money calculated in accordance with direction 64;

"economic cost cap fund contribution rate" means the contribution rate calculated in accordance with direction 61;

"economic cost cap income" means an amount of money representing income credited to the economic cost cap fund, calculated in accordance with direction 62;

"economic cost cap notional investment returns" means a notional amount of money added to the economic cost cap fund of a scheme representing the growth of the economic cost cap fund over time, calculated in accordance with direction 63;

"economic cost cap past service cost" means the element of the economic cost cap cost of the scheme that reflects past service costs stemming from the economic cost cap fund, calculated in accordance with direction 66;

"effective date" means:

(a) with regard to a particular valuation or cost cap valuation of a scheme the date as at which the liabilities and assets of the scheme are to be assessed for the purposes of that valuation or cost cap valuation, in accordance with direction 7; and

(b) for the avoidance of doubt, where "effective date" is referenced in a calculation to be undertaken pursuant to these Directions, it is a reference to the effective date of the particular valuation or cost cap valuation to which the calculation being undertaken relates, unless otherwise specified.

"employer contribution rate" means the rate of contributions determined to be payable by an employer in respect of benefits accruing, or accrued, to members of a particular scheme, calculated in accordance with direction 32;

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

"first valuation" means—

(a) in relation to a scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, the valuation where the liabilities and assets of the scheme are assessed as at 31 March 2020;

(b) in relation to a scheme providing benefits to local government workers in Scotland, the valuation where the liabilities and assets of the scheme are assessed as at 31 March 2017; and

(c) where subparagraphs (a) or (b) do not apply, a valuation where the liabilities and assets of the scheme are assessed as at 31 March 2016;

"future service technical immunity adjustment" means the adjustment required when calculating the core cost cap cost of a scheme in order to exclude the impact of a change in the long-term economic assumptions arising since the previous valuation from the future service cost, calculated in accordance with direction 46;

"implementation date", in respect of a particular valuation, means a date determined in accordance with direction 8(1);

"implementation period", in respect of a particular valuation, means the period following a valuation in which the employer contribution rate as assessed for the purposes of that valuation is assumed by the scheme actuary to be paid for the purposes of valuing a scheme, determined in accordance with direction 9(1);

"inter-valuation period" means, in respect of a valuation or a cost cap valuation—

(a) for a scheme which provides benefits to local government workers in Scotland with an effective date of 31 March 2020, the period of three years before that date; or

(b) for a scheme which provides benefits to employees of the Secret Intelligence Service or the Security Service with an effective date on or before 31st March 2020 the period of five years before that date; or

(c) in any other case, the period of four years before the effective date;

"JPS 2015" means the scheme prescribed in the Judicial Pensions Regulations 2015([10]);

"JPS 2022" means the scheme prescribed in the Judicial Pensions Regulations 2022 ([11]);

"legacy connected scheme" in relation to a scheme made or deemed to be made under section 1 of the 2013 Act ("the 2013 Act scheme") means a statutory pension scheme other than a scheme made under that section that makes provision in relation to persons of the same description as the 2013 Act scheme;

"normal contributions" means contributions that members and employers are required to pay in respect of a member's membership of a scheme;

"notional assets" means a notional amount of money representing the assets of the scheme used to calculate the employer contribution rate;

"notional investment returns" means a notional amount of money added to the notional assets of a scheme representing the growth of the notional assets over time, calculated in accordance with direction 28;

"past service technical immunity adjustment" means the adjustment made when calculating the core cost cap fund in order to exclude the impact on past service of a change in long-term economic assumptions, calculated in accordance with direction 40;

"preliminary valuation"—

(a) in relation to a valuation of any new scheme made under section 1 of the 2013 Act, except a new scheme relating to the judiciary, means a valuation to be carried out in accordance with Part 2A of these Directions;

(b) in relation to a scheme for employees of the Security Service or Secret Intelligence Service is to be construed as equivalent to the supplemental valuation once such valuation has been carried out in accordance with Part 2A of these Directions; and

(c) in all other cases, means a valuation carried out in accordance with Part 3 of the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 as they were in force prior to 14 February 2019.

"prior value of the core cost cap fund" means the opening value of the core cost cap fund at the start of the inter-valuation period (or in, the case of a first cost cap valuation or reconstructed first cost cap valuation, at the closing date of the legacy connected scheme) to be used in a cost cap valuation, as calculated in accordance with direction 35;

"prior value of the economic cost cap fund" means the opening value of the economic cost cap fund at the start of the inter-valuation period (or in, the case of a first cost cap valuation or reconstructed first cost cap valuation, at the closing date of the legacy connected scheme) to be used in a cost cap valuation, as calculated in accordance with direction 60;

"proposed employer cost cap" means—

(a) in relation to the second valuation of a scheme governed by the JPS 2015, the contribution rate calculated in accordance with directions 51 to 53 of Part 2A of these Directions;

(b) in relation to a cost cap valuation of a scheme governed by the JPS 2022, the proposed employer cost cap calculated at the second valuation of the JPS 2015;

(c) in relation to a scheme for the Security Service or the Secret Intelligence Service, the contribution rate set out, or to be set out, in the supplemental valuation report in accordance with directions 51 to 53 of Part 2A of these Directions; and

(d) in all other cases, the employer cost cap calculated at the preliminary valuation.

([10]) S.I. 2015/182.

([11]) S.I. 2022/319.

"reconstructed first cost cap valuation" means, for a scheme in relation to which the first cost cap valuation was undertaken before these directions came into force, the calculations that are required to be made under direction 33A and direction 59A and which are made as if those directions had been in force at the time that the first cost cap valuation was undertaken, except that the assumptions used at that first cost cap valuation should be used instead of those specified in directions 15 to 19;

"reformed closed connected scheme" means a scheme made or deemed to be made under section 1 of the 2013 Act that makes provision in relation to persons of the same description as any other scheme made or deemed to be made under section 1 of the 2013 Act and which is closed to further accrual of benefits in respect of future service by the effective date;

"reformed opening connected scheme" means a scheme made or deemed to be made under section 1 of the 2013 Act that makes provision in relation to persons of the same description as any other scheme made or deemed to be made under section 1 of the 2013 Act and in which benefits in respect of future service can be accrued starting from a date on or after the effective date;

"SCAPE discount rate" means the Superannuation Contributions Adjusted for Past Experience discount rate used to assess the value of benefits accrued and accruing in a public service pension scheme in order to calculate valuation results or cost cap valuation results;

"scheme" (unless the context otherwise requires) means a scheme made or deemed to be made under section 1 of the 2013 Act and in which benefits in respect of future service can be accrued at the effective date;

"scheme actuary" means the actuary for the time being appointed in accordance with direction 4;

"supplemental valuation" means the valuation to be carried out in accordance with direction 50A for a scheme in respect of employees of the Security Service or Secret Intelligence Service;

"supplemental valuation report" means the valuation report for a scheme in respect of employees of the Security Service or Secret Intelligence Service that sets out a proposed employer cost cap, calculated under Part 2A of these Directions;

"the 2013 Act" means the Public Service Pensions Act 2013;

"the 2022 Act" means the Public Service Pensions and Judicial Offices Act 2022;

"total cumulative technical immunity adjustment" means the total adjustment that is made in the calculation of the core cost cap cost of the scheme, calculated in accordance with direction 68;

"transitional protection remedy" means the pension rights accruing to members pursuant to section 2(1), section 42(2), or section 78(1) of the 2022 Act, as applicable

"valuation" means a valuation carried out under section 11 of the 2013 Act;

"valuation report" means the report prepared by the scheme actuary in accordance with Part 2 of these Directions for the purpose of calculating the employer contribution rate; and

"valuation results" means the numerical values stated in the valuation report in accordance with direction 24.

(2) Except where otherwise provided, or where the context requires, any term not defined in these Directions which is defined in the 2013 Act or the 2022 Act has the same meaning as in the 2013 Act or the 2022 Act, as applicable.

Scheme Actuary

4.—(1) An actuary, referred to in these Directions as the "scheme actuary", must be appointed by the responsible authority to carry out a valuation of the scheme.

(2) The responsible authority must not appoint a person as the scheme actuary under paragraph (1) unless that person is, in the opinion of the responsible authority, appropriately qualified to carry out a valuation or cost cap valuation of the scheme in accordance with these Directions.

(3) The scheme actuary must carry out a valuation of the scheme and prepare a valuation report and a cost cap valuation report in accordance with these Directions.

5. As directed by the responsible authority, the scheme actuary must prepare either one report containing both the valuation report and the cost cap valuation report, or separate reports in respect of the valuation report and the cost cap valuation report.

6. Where the valuation report and cost cap valuation report are prepared separately, the responsible authority must specify to the scheme actuary whether the cost cap valuation report must be signed before or after the valuation report has been signed (as appropriate).

Effective date

7.—(1) In relation to a scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, the first valuation and cost cap valuation must have an effective date of 31 March 2020.

(2) The reconstructed first cost cap valuation of the scheme must have an effective date that is the same as the effective date of the first valuation of the scheme, and in particular—

(a) in relation to a scheme providing benefits to local government workers in Scotland, 31 March 2017; and

(b) in all other cases, 31 March 2016.

(3) The second valuation of the scheme must have an effective date—

(a) in relation to a scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, of 31 March 2024; and

(b) in all other cases, of 31 March 2020.

(4) The third and each subsequent valuation and cost cap valuation of a scheme must have an effective date which is four years later than the effective date of the second (or the last preceding) valuation or cost cap valuation, as appropriate.

Implementation date and cost cap implementation date

8.—(1) The implementation date must be—

(a) in relation to a valuation with an effective date of 31 March 2020, four years and one day after that date;

(b) in relation to a valuation with an effective date after 31 March 2020, three years and one day after that date.

(2) The cost cap implementation date must be three years and one day after the effective date of the cost cap valuation.

Implementation period and cost cap implementation period

9.—(1) The implementation period must be the period of four years starting on the implementation date except where the implementation date is determined in accordance with direction 8(1), in which case the implementation period must be the period of three years starting on the implementation date.

(2) The cost cap implementation period must be the period of four years starting on the cost cap implementation date.

Membership and other data

10.—(1) The scheme actuary must specify to the responsible authority, before carrying out the first and each subsequent valuation or cost cap valuation of a scheme, the scheme membership data and any other data in relation to the effective date that they require to carry out the valuation and prepare the valuation report.

(2) The responsible authority must designate a person to be responsible for ensuring that the data specified by the scheme actuary in accordance with paragraph (1) is provided to the scheme actuary and must inform the scheme actuary who that designated person is.

(3) The person designated in accordance with paragraph (2) can be the responsible authority, the scheme manager, or any other person or body in a position to ensure that the specified information is provided.

(4) The scheme actuary must use the scheme membership data and other data provided to them to calculate the valuation results or the cost cap valuation results.

Methodology and assumptions

11. When calculating the valuation results or cost cap valuation results, the scheme actuary must use the methodology and assumptions set out in directions 12 to 19, unless any contrary intention is specified in these Directions.

Projected unit methodology

12.—(1) The scheme actuary must use the projected unit methodology.

(2) When using the projected unit methodology, benefits must be attributed to periods of service in accordance with the requirements of International Accounting Standard 19: Employee Benefits.

Other methodology and assumptions

13. The scheme actuary must calculate contribution yields in accordance with directions 31 and 45 in respect of members' and employers' normal contributions only.

14.—(1) The scheme actuary must calculate–

(a) contribution rates in accordance with directions 30(1)(a) and (c);

(b) the core cost cap past service cost in accordance with direction 43; and

(c) the economic cost cap past service cost in accordance with direction 66.

on the assumption that these contribution rates will be payable for 15 years from the dates indicated in those directions.

15.—(1) Where relevant in carrying out any calculation pursuant to these Directions, the scheme actuary must in relation to any period in respect of which an order has been made under section 59 of the Social Security Pensions Act 1975([12]) to increase the rate of official pensions within the meaning of the Pensions (Increase) Act 1971 ([13]) use the rate of increase of official pensions provided by that order.

(2) Where the rate of increase required for carrying out a calculation pursuant to these Directions is not determined by the application of paragraph (1), the scheme actuary must assume that the rate is–

(a) 4.1% on 8th April 2024;

(b) 0.6% on 7th April 2025;

(c) 0.0% on 6th April 2026;

(d) 0.8% on 12th April 2027;

(e) 1.7% on 10th April 2028 and

(f) 2.0% on the first Monday in each tax year subsequently.

16. The scheme actuary must assume that the price measure revaluations of career average re-valued earnings under section 9 of the 2013 Act are the same as the rates of increases determined under direction 15.

17. —(1) The scheme actuary must in relation to any period in respect of which an order has been made under section 9(2) and 9(3) of the Public Service Pensions Act 2013 use the rate of earnings revaluation provided by that order.

([12]) 1975 c.60
([13]) 1971 c.56

(2) Where the rate of earnings revaluation required for carrying out a calculation pursuant to these Directions is not determined by the application of paragraph (1), the scheme actuary must assume that the rate is–

(a) 4.7% on the 1st April 2024;

(b) 1.6% on the 1st April 2025;

(c) 1.7% on the 1st April 2026;

(d) 1.9% on the 1st April 2027;

(e) 2.5% on the 1st April 2028; and

(f) 3.8% on 1st April in each year from 1st April 2029.

18. The scheme actuary must assume that the rate of public service earnings growth is–

(a) 7.6% during the calendar year ending on 31st March 2021;

(b) 4.7% during the calendar year ending on 31st March 2022;

(c) 2.8 % during the calendar year ending on 31st March 2023;

(d) 2.5% during the calendar year ending on 31st March 2024;

(e) 1.6% during the calendar year ending on 31st March 2025;

(f) 1.6% during the calendar year ending on 31st March 2026;

(g) 1.9% during the calendar year ending on 31st March 2027;

(h) 2.7% during the calendar year ending on 31st March 2028; and

(i) 3.8% during each calendar year from 1st April 2028.

19. The scheme actuary must also assume that:

(a) the SCAPE discount rate during each calendar year ending on the 31st March is the assumed rate of increases awarded by order made under section 59 of the Social Security Pensions Act 1975 to official pensions within the meaning of the Pensions (Increase) Act 1971 in the April immediately following 31st March of the year in question, compounded with 3.0% from 1st April 2015 to 31st March 2016, 2.8% from 1st April 2016 to 31st March 2019, 2.4% from 1st April 2019 to 31st March 2023 and 1.7% from 1st April 2023, except that for any time when there is no increase awarded, or assumed to be awarded, by order made under section 59 of the Social Security Pensions Act 1975 to official pensions within the meaning of the Pensions (Increase) Act 1971 as a result of the price inflation index used to calculate increases to official pensions being zero or a negative figure, the figure of that price inflation index must be used;

(b) the post-retirement mortality rates of scheme members will change in accordance with the changes in mortality rates published by the Office for National Statistics as part of the 2020 principal population projections for the United Kingdom;

(c) when determining the cost cap future service cost in direction 44 and the cost cap contribution yield in direction 45, no members of a scheme providing benefits to local government workers–

(i) in England and Wales ever have, or ever will, make an election under regulation 10 of the Local Government Pension Scheme Regulations 2013([14]); or

(ii) in Scotland ever have, or ever will, make an election under regulation 10 of the Local Government Pension Scheme (Scotland) Regulations 2018([15]);

(d) for members reaching state pension age after the date of these Directions, the state pension age–

(i) for members born after 5 October 1954 but before 6 April 1960, will be 66;

([14]) S.I. 2013/2356
([15]) S.S.I. 2018/141

(ii) for members born on or after 6 April 1960 but before 6 April 1977, will increase to 67 as set out in Schedule 2(1);

(iii) for members born on or after 6 April 1977 but before 6 April 1978, will be attained at the date set out in Schedule 2(2); and

(iv) for members born on or after 6 April 1978, will be 68.

PART 2: VALUATIONS AND COST CAP VALUATIONS

Application of Part

20.—(1) This Part applies to valuations and cost cap valuations of schemes made for the payment of pensions and other benefits to or in respect of persons specified in section 1 of the 2013 Act and any reference to a "scheme", a "legacy connected scheme", a "reformed closed connected scheme" or a "reformed opening connected scheme" is to be construed accordingly.

Assumptions

21. When calculating the valuation results or cost cap valuation results, all assumptions used by the scheme actuary, other than those detailed in directions 12 to 19, must–

(a) be determined by the responsible authority, having obtained and had regard to advice from the scheme actuary;

(b) be determined following discussions with such persons (or representatives of persons) as the responsible authority considers appropriate;

(c) be the responsible authority's best estimates and not include margins for prudence or optimism;

(d) be determined with regard to–

(i) previous assumptions (made in accordance with these Directions or otherwise);

(ii) the analysis of demographic experience prepared in accordance with direction 22;

(iii) relevant data obtained or made available from any other source (including relevant data that becomes available after the effective date);

(iv) any emerging evidence about historic long term trends;

(v) any emerging evidence that may illustrate long term trends expected in the future;

(e) include assumptions about–

(i) new entrant profiles;

(ii) mortality rates;

(iii) age retirement rates;

(iv) commutation;

(v) rates of early and late retirements;

(vi) rates and severity of ill health retirements;

(vii) members' dependants;

(viii) resignations;

(ix) members opting out from and re-joining the scheme; and

(x) promotional earnings increases.

The Valuation Report: Contents

Analysis of the demographic experience

22.—(1) Where the scheme membership data are in the scheme actuary's opinion sufficient for the scheme actuary to carry out a robust analysis of the demographic experience of the scheme, then the scheme actuary must include in the valuation report a summary of that analysis of the demographic experience up to the effective date covering the following aspects–

(a) new entrant profiles;

(b) mortality rates;

(c) age retirement rates;

(d) rates of early and late retirements;

(e) rates and severity of ill health retirements;

(f) resignations and opt outs;

(g) rates of re-joining service;

(h) promotional earnings increases;

(i) members dependants;

(j) take up of commutation options; and

(k) any other aspects that the scheme actuary considers to be relevant.

(2) For each aspect listed at paragraph (1), where in the scheme actuary's opinion the scheme membership data are not sufficient for the scheme actuary to carry out a robust analysis of that aspect, the scheme actuary must include a statement to that effect in the valuation report.

(3) When carrying out an analysis of the kind referred to in paragraph (1), the scheme actuary must consider the demographic experience of the scheme over the inter-valuation period.

(4) When carrying out such an analysis, the scheme actuary may consider the demographic experience of the scheme over a period of time before the effective date of the valuation as specified by the responsible authority.

Information about the scheme and data

23.—(1) The scheme actuary must include in either the valuation report or the cost cap valuation report–

(a) information regarding the scheme membership used to carry out the valuation, including a summary of–

(i) scheme membership and other data used;

(ii) the checks carried out on the data by the scheme actuary, and the limitations of those checks; and

(iii) any adjustments made to, or projections made from the data by the scheme actuary, the approach used in making them, and the rationale for them;

(b) a statement of the average age of the scheme members in pensionable service at the effective date;

(c) a statement of the average expected future pensionable service of the scheme members in pensionable service at the effective date, calculated in accordance with the requirements as to data, assumptions and methodology specified in these Directions;

(d) a statement of the total projected pensionable payroll, in nominal terms, at each of–

(i) the effective date;

(ii) the implementation date; and

(iii) the last day of the implementation period;

(e) a statement that the valuation results have been calculated in accordance with the requirements as to data, assumptions, and methodology specified in these Directions;

(f) a summary of the regulations, directions, and professional standards applicable in relation to the valuation;

(g) a summary of the main provisions of the scheme (with a separate summary for the main provisions of the scheme made under section 1 of the 2013 Act and those of any legacy connected scheme, reformed closed connected scheme or reformed opening connected scheme);

(h) an analysis of the demographic experience, if carried out in accordance with direction 22;

(i) a statement of the assumption used by the scheme actuary in preparing the report, including–

(i) a summary of the assumptions determined by the responsible authority under direction 21;

(ii) a statement of how regard has been had to the matters listed in direction 21(d) in making assumptions under direction 21(e);

(iii) an illustration of the main sensitivities of the valuation results to the assumptions, including the sensitivities mentioned in paragraph (2);

(j) a summary of the any other liability of the scheme that the responsible authority has told the scheme actuary that it considers to be relevant; and

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

(2) The sensitivities to be illustrated must include what, in the scheme actuary's opinion are the main sensitivities to–

(a) the number of years specified in direction 14 (period contribution rates payable); and

(b) the assumptions specified in directions 15 (pension increases), 16 (price measure revaluations), 17 (earnings measure revaluations), 18 (public service earnings growth), 19(a) (SCAPE discount rate) and 19(d) (state pension age).

Employer contribution rate

24. The scheme actuary must include in the valuation report a statement of–

(a) the liabilities of the scheme as at the effective date calculated in accordance with direction 27;

(b) the notional assets of the scheme as at the effective date calculated in accordance with direction 28;

(c) the information about the notional assets of the scheme required by direction 29;

(d) the contribution rates calculated in accordance with direction 30;

(e) the contribution yields calculated in accordance with direction 31;

(f) the employer contribution rate calculated in accordance with direction 32.

The Cost Cap Valuation Report: Contents

Contents of the cost cap valuation report

25. The scheme actuary must include in the cost cap valuation report a statement of—

(a) the cost cap liabilities as at the effective date calculated in accordance with direction 34;

(b) the prior value of the core cost cap fund calculated in accordance with direction 35;

(c) the core cost cap fund contribution rate calculated in accordance with direction 36;

(d) the core cost cap income calculated in accordance with direction 37;

(e) the cost cap benefits paid calculated in accordance with direction 38;

(f) the core cost cap notional investment returns calculated in accordance with direction 39;

(g) the past service technical immunity adjustment calculated in accordance with direction 40;

(h) the value of the core cost cap fund as at the effective date calculated in accordance with direction 41;

(i) the change in value of the core cost cap fund calculated in accordance with direction 42;

(j) the core cost cap past service cost calculated in accordance with direction 43;

(k) the cost cap future service cost calculated in accordance with direction 44;

(l) the cost cap contribution yield calculated in accordance with direction 45;

(m) the future service technical immunity adjustment calculated in accordance with direction 46;

(n) the cumulative future service technical immunity adjustment calculated in accordance with direction 47;

(o) the core cost cap cost of the scheme calculated in accordance with direction 48;

(p) the prior value of the economic cost cap fund calculated in accordance with direction 60;

(q) the economic cost cap fund contribution rate calculated in accordance with direction 61;

(r) the economic cost cap income calculated in accordance with direction 62;

(s) the economic cost cap notional investment returns calculated in accordance with direction 63;

(t) the value of the economic cost cap fund as at the effective date calculated in accordance with direction 64;

(u) the change in value of the economic cost cap fund calculated in accordance with direction 65;

(v) the economic cost cap past service cost calculated in accordance with direction 66;

(w) the economic cost cap cost of the scheme calculated in accordance with direction 67;

(x) the total cumulative technical immunity adjustment calculated in accordance with direction 68;

(y) a statement that the core cost cap valuation results and economic cost cap valuation results have been calculated in accordance with the requirements as to data, methodology and assumptions specified by these Directions;

(z) a summary of the regulations, directions and professional standards applicable to the preparation of the cost cap valuation report;

(aa) a comparison of the core cost cap cost of the scheme identified in the cost cap valuation report with the employer cost cap, in accordance with direction 70(1);

(bb) where the core 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 comparison of the economic cost cap cost of the scheme identified in the cost cap valuation report with the employer cost cap;

(cc) where the core 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 and the economic cost cap cost of the scheme has also gone beyond that same margin, a statement to that effect to notify the responsible authority; and

(dd) an analysis of the difference between the employer cost cap and the core 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–
  1. new entrant profiles;

2. mortality rates;
3. rates of age retirement;
4. rates of early and late retirements;
5. rates and severity of ill health retirements;
6. resignations and opt-outs;
7. rates of rejoining service;
8. general earnings growth until 31st March 2027;
9. members' dependants;
10. take up of commutation options; and
11. any other factor or consideration which in the scheme actuary's opinion is relevant; and

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

The Valuation Report: Employer Contribution Rate

Interpretation of Directions 27 to 32

26. In relation to directions 27 to 32, any references to "scheme" should be taken to include any legacy connected scheme, reformed closed connected scheme, or reformed opening connected scheme for the payment of pensions and other benefits to or in respect of the same description of persons.

Liabilities as at effective date

27.—(1) The scheme actuary must, having applied the methodology and assumptions set out in these Directions, prepare a statement of the liabilities of the scheme as at the effective date (from the scheme membership and other data supplied to them).

(2) For the purposes of this direction, the liabilities of the scheme must include:

(a) any right or entitlement to present or future benefits that has accrued under the scheme rules to or in respect of a member of the scheme (including a pension credit member);

(b) any right or entitlement to present or future benefits that has accrued under the scheme rules to or in respect of any other person;

(c) any other liability of the scheme that the responsible authority considers to be relevant.

Notional assets

28.—(1) The value of the notional assets as at the effective date must be set as equal to:

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

where–

A is–

(i) for the first valuation of a scheme, the notional assets value set out in Schedule 1 with respect to the scheme;

(ii) for the second and subsequent valuation of a scheme, the notional assets value as at the effective date of the previous valuation of the scheme;

B is–

(iii) for the first valuation of a scheme, the income received by the scheme from the date set out in Schedule 1 to the effective date;

(iv) for the second and subsequent valuation of a scheme, the income received by the scheme during the inter-valuation period;

C is–

(v) for the first valuation of a scheme, the benefits paid from the scheme from the date set out in Schedule 1 to the effective date;

(vi) for the second and subsequent valuation of a scheme, the benefits paid from the scheme during the inter-valuation period;

D is–

(vii) for the first valuation of a scheme, notional investment returns on the notional assets of the scheme from the date set out in Schedule 1 to the effective date, including notional investment returns on income received less benefits paid from the date set out in Schedule 1 to the effective date;

(viii) for the second and subsequent valuation of a scheme, notional investment returns on the notional assets of the scheme during the inter-valuation period, including notional investment returns on income received less benefits paid during the inter-valuation period.

(2) The income received by the scheme for the purposes of the calculation at paragraph (1) must–

(a) include, but is not limited to, employer contributions, member contributions and incoming transfer values; and

(b) exclude payments received from the Consolidated Fund for the payment of interim payment amounts, within the meaning of regulation 49 of the Judicial Pensions (Fee-Paid Judges) Regulations 2017([16]) and any interest on and compensation paid in relation to those amounts.

(3) The benefits paid by the scheme for the purposes of the calculation at paragraph (1) must–

(a) include (but are not limited to)–

(i) benefits paid to pensioners and dependants;

(ii) outgoing transfer values; and

(iii) interim payment amounts, within the meaning of regulation 49 of the Judicial Pensions (Fee-Paid Judges) Regulations 2017 and any interest paid on those amounts.

(b) exclude compensation paid to members as a result of Part 7 of the Judicial Pensions (Fee-Paid Judges) Regulations 2017 or those revisions.

(4) The notional investment returns of the scheme for the purposes of the calculation at paragraph (1) must be calculated–

(a) for each calendar year ending on 31st March up to and including the calendar year ending on 31st March 2011, using the rate of increases awarded by order made under section 59 of the Social Security Pensions Act 1975 to official pensions within the meaning of the Pensions (Increase) Act 1971 in the April immediately following the year in question, compounded with 3.5%;

(b) for each calendar year ending on 31st March after the calendar year ending on 31st March 2011 to the calendar year ending on 31st March 2016, using the rate of increases awarded by order made under section 59 of the Social Security Pensions Act 1975 to official pensions within the meaning of the Pensions (Increase) Act 1971 in the April immediately following the year in question, compounded with 3.0%;

(c) for each calendar year ending on 31st March from the calendar year starting on 1st April 2016 to the calendar year ending on 31st March 2019, using the rate of increases awarded by order made under section 59 of the Social Security Pensions Act 1975 to official pensions within the meaning of the Pensions (Increase) Act 1971 in the April immediately following the year in question, compounded with 2.8%;

(d) for each calendar year ending on 31st March from the calendar year starting on 1st April 2019 to the calendar year ending on 31st March 2023, using the rate of increases awarded by

([16]) S.I. 2017/522.

order made under section 59 of the Social Security Pensions Act 1975 to official pensions within the meaning of the Pensions (Increase) Act 1971 in the April immediately following the year in question, compounded with 2.4%; and

(e) for each calendar year ending on 31st March from the calendar year starting on 1st April 2023, using the rate of increases awarded by order made under section 59 of the Social Security Pensions Act 1975 to official pensions within the meaning of the Pensions (Increase) Act 1971 in the April immediately following the year in question, compounded with 1.7%.

(5) For the purposes of paragraph (4), for any time when there is no increase awarded by order made under section 59 of the Social Security Pensions Act 1975 to official pensions within the meaning of the Pensions (Increase) Act 1971 as a result of the price inflation index used to calculate increases to official pensions being zero or a negative figure, the figure of the price inflation index must be used.

Information about the notional assets

29.—(1) The scheme actuary must also include in the valuation report a statement of the notional assets of the scheme–

(a) for the first valuation of the scheme, as at the date shown in Schedule 1 relevant to the scheme;

(b) for the second and subsequent valuations of the scheme, as at the effective date of the previous valuation.

(2) The scheme actuary must include in the valuation report an analysis of any change in the valuation of the notional assets–

(a) for the first valuation of a scheme, between the relevant date in Schedule 1 and the effective date;

(b) for the second and subsequent valuations of the scheme, during the inter-valuation period.

(3) The scheme actuary must include in the analysis referred to in paragraph (2)–

(a) income received during that period;

(b) benefits paid during that period; and

(c) notional investment returns during that period.

Contribution rates

30.—(1) The scheme actuary must state in the valuation report, to the nearest 0.1% of pensionable payroll–

(a) the contribution rate, payable from the implementation date, required to meet the difference between the liabilities of the scheme calculated in accordance with direction 27 and the notional assets calculated in accordance with direction 28;

(b) the contribution rate, payable from the effective date to the implementation date, required to cover the expected costs of benefits accrued and accruing by members between the effective date and the implementation date;

(c) the contribution rate, payable from the implementation date, required to meet the difference between–

(i) the contributions that would have been received from members and employers had they jointly paid the contribution rate referred to in sub-paragraph (b); and

(ii) the normal contributions expected to be paid by members and employers;

between the effective date and the implementation date; and

(d) the contribution rate required to cover the expected cost of benefits accrued by members during the implementation period.

(2) The scheme actuary must ignore, for the purposes of determining the contribution rate in paragraph (1)(a) for a scheme providing benefits to members of the armed forces, liabilities and

notional assets in relation to members of legacy connected schemes who began to draw their benefits before 1st April 2001, and the calculations under directions 27 and 28 must be adjusted accordingly.

Contribution yields

31. The scheme actuary must state in the valuation report, to the nearest 0.1% of pensionable payroll, the contribution yield expected from–

(a) member contributions to the scheme between the effective date and the implementation date;

(b) employer contributions to the scheme between the effective date and the implementation date; and

(c) member contributions to the scheme during the implementation period.

Employer contribution rate

32. The employer contribution rate must be calculated as–

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

where–

A is the contribution rate stated in accordance with direction 30(1)(a);

B is the contribution rate stated in accordance with direction 30(1)(c);

C is the contribution rate stated in accordance with direction 30(1)(d); and

D is the contribution yield expected from member contributions to the scheme stated in accordance with direction 31(c).

The Cost Cap Valuation Report: Core Cost Cap Cost of the Scheme

Interpretation of Directions 33A to 49

33. In relation to directions 33A to 49, any references to "scheme" should be taken to include any reformed closed connected scheme or reformed opening connected scheme but not any legacy connected scheme for the payment of pensions and other benefits to or in respect of the same description of persons, except where otherwise indicated.

Reconstructed first cost cap valuation

33A. The scheme actuary must perform the calculations pertaining to a reconstructed first cost cap valuation under directions 35 to 40 and 46 to 47 where the second cost cap valuation of a scheme has an effective date of 31st March 2020.

Cost cap liabilities as at the effective date

34. The scheme actuary must calculate the cost cap liabilities as the value of liabilities relating to benefits that have accrued in the scheme as at the effective date.

Prior value of the core cost cap fund

35.—(1) For the first cost cap valuation or reconstructed first cost cap valuation of a scheme, the scheme actuary must assume the prior value of the core cost cap fund is zero.

(2) Where the second cost cap valuation of a scheme has an effective date of 31st March 2020 the scheme actuary must calculate the prior value of the core cost cap fund as–

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

where–

B is the core cost cap income, calculated in accordance with direction 37 for the reconstructed first cost cap valuation;

C is the cost cap benefits paid, calculated in accordance with direction 38 for the reconstructed first cost cap valuation;

D is the core cost cap notional investment returns calculated in accordance with direction 39 for the reconstructed first cost cap valuation; and

E is the past service technical immunity adjustment calculated in accordance with direction 40 for the reconstructed first cost cap valuation.

(3) Subject to subparagraph (2), for each subsequent cost cap valuation of a scheme the scheme actuary must assume that the prior value of the core cost cap fund is the value of the core cost cap fund as at the effective date of the previous cost cap valuation, as calculated at that previous cost cap valuation.

Core cost cap fund contribution rate

36.—(1) For the first cost cap valuation or reconstructed first cost cap valuation of a scheme, the scheme actuary must calculate the core cost cap fund contribution rate, to the nearest 0.1% of pensionable payroll, as–

$$A – B$$

where–

A is the contribution rate required to cover the expected costs of the benefits accruing in the scheme to members of the scheme from the closing date of the legacy connected scheme to the effective date; and

B is the member contribution yield to the scheme between the closing date of the legacy connected scheme and the effective date in respect of those benefits.

(2) A and B in paragraph (1) must be calculated using the methodology, data and assumptions used to calculate the employer contribution rate in a preliminary valuation.

(3) For the second and subsequent cost cap valuations of the scheme, the core cost cap fund contribution rate must be calculated, to the nearest 0.1% of pensionable payroll, as–

$$(A + B) - C$$

where–

A is the contribution rate required to cover the expected costs of the benefits accruing to members of the scheme during the inter-valuation period;

B is the core cost cap past service cost calculated in accordance with direction 43 at, or as if it had been calculated at the previous cost cap valuation of the scheme; and

C is the member contribution yield to the scheme during the inter-valuation period made in respect of the benefits as calculated at A and accruing to members of the scheme.

(4) A and C in paragraph (3) must be calculated using the methodology, data and assumptions used to calculate the employer contribution rate in the previous valuation of the scheme.

(5) For B in paragraph (3), where a core cost cap past service cost was not calculated at a previous cost cap valuation, B must be the amount that would have been calculated at that previous cost cap valuation in accordance with direction 43 using the assumptions that would have applied in accordance with direction 43 at the time the previous cost cap valuation was carried out had direction 43 of these Directions been in force.

Core cost cap income

37.—(1) The scheme actuary must calculate the core cost cap income as–

(a) for the first cost cap valuation or reconstructed first cost cap valuation of a scheme, the income received between the closing date of the connected legacy scheme and the effective date of that first cost cap valuation or reconstructed first cost cap valuation;

(b) for the second and each subsequent cost cap valuation of a scheme, the income received during the inter-valuation period.

(2) The income received for the purposes of paragraph (1)–

(a) includes, but is not limited to, employer contributions, member contributions and incoming transfer values;

(b) excludes any income of a nature specified in subparagraph (a) that relates to benefits accruing to members of a scheme or a legacy connected scheme in connection with the transitional protection remedy (except that the exclusion in this subparagraph (2)(b) does not apply in the case of a scheme providing benefits to local government workers in England and Wales or Scotland); and

(c) in respect of employer contributions, must be adjusted to the amount that would have been received had all employers contributed at the core cost cap fund contribution rate during the period specified in paragraph (1)(a) or (1)(b), as applicable.

Cost cap benefits paid

38.—(1) The scheme actuary must calculate the cost cap benefits paid as–

(a) for the first cost cap valuation or reconstructed first cost cap valuation of a scheme, the benefits paid between the closing date of the legacy connected scheme and the effective date; and

(b) for the second and each subsequent cost cap valuation of a scheme, the benefits paid during the inter-valuation period.

(2) For the purposes of paragraph (1), the benefits paid must include, but are not limited to benefits paid to pensioners and dependants and outgoing transfer values.

Core cost cap notional investment returns

39.—(1) The scheme actuary must calculate the core cost cap notional investment returns–

(a) for the first cost cap valuation or reconstructed first cost cap valuation of a scheme, to represent the growth of the core cost cap fund between the closing date of the legacy connected scheme and the effective date;

(b) for the second and each subsequent cost cap valuation of a scheme, to represent the growth of the core cost cap fund during the inter-valuation period.

(2) For the purposes of paragraph (1), when calculating notional investment returns during a period–

(a) the scheme actuary must assume that core cost cap fund has been calculated taking account of the adjustments required by directions 35(1) and 35(2) where relevant;

(b) the scheme actuary must make allowance for the core cost cap income added to the core cost cap fund, and for the cost cap benefits deducted from the core cost cap fund; and

(c) the scheme actuary must calculate (1)(a) and (b) using the rates determined in accordance with directions 28(4) and 28(5), as appropriate.

Past service technical immunity adjustment

40.—(1) Subject to paragraph (2), the scheme actuary must calculate the past service technical immunity adjustment as—

$$A - B$$

where—

A is the cost cap liabilities as at the effective date calculated in accordance with direction 34, save that—

(i) except as directed by subparagraph (ii), the scheme actuary must calculate A using the same assumptions as were used in the previous valuation of the scheme or legacy connected scheme to calculate the liabilities under direction 27,

(ii) the scheme actuary must calculate A using the SCAPE discount rate in force at the current valuation in accordance with direction 19(a), a long-term earnings measure of revaluation of 3.8% on 1st April in each year from 1st April 2024, and long-term public service earnings growth assumption of 3.8% during each calendar year from 1st April 2023;

B is the cost cap liabilities as at the effective date calculated in accordance with direction 34, save that—

(iii) the scheme actuary must calculate B using the same assumptions as were used in the previous valuation of the scheme or legacy connected scheme to calculate the liabilities under direction 27.

(2) For a reconstructed first cost cap valuation the scheme actuary must calculate the past service technical immunity adjustment as—

$$A - B$$

where—

A is the cost cap liabilities as at the effective date calculated, subject to subparagraphs (i) and (ii), in accordance with direction 34—

(i) except as directed by subparagraph (ii), the scheme actuary must calculate A using the same assumptions as were used in the preliminary valuation to calculate the liabilities under direction 27;

(ii) the scheme actuary must calculate A using a percentage figure for direction 19(a) (SCAPE discount rate) of 2.8% from 1st April 2016 to 31st March 2019 and 2.4% from 1st April 2019, a long-term earnings measure of revaluation of 4.2% on 1st April in each year from 1st April 2020, and long-term public service earnings growth assumption of 4.2% during each calendar year from 1st April 2019.

B is the cost cap liabilities as at the effective date calculated, subject to subparagraph (i), in accordance with direction 34—

(iii) the scheme actuary must calculate B using the same assumptions as were used in the preliminary valuation to calculate the liabilities under direction 27.

Core cost cap fund

41. The value of the core cost cap fund as at the effective date is calculated as–

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

where–

A is the prior value of the core cost cap fund, calculated in accordance with direction 35:

B is the core cost cap income, calculated in accordance with direction 37;

C is the cost cap benefits paid, calculated in accordance with direction 38;

D is the core cost cap notional investment returns calculated in accordance with direction 39; and

E is the past service technical immunity adjustment calculated in accordance with direction 40.

Change in value of the core cost cap fund

42.—(1) The cost cap valuation report must include an analysis of the change in value of the core cost cap fund from the prior value of the core cost cap fund as calculated in direction 35–

(a) for the first cost cap valuation of a scheme, between the closing date of any legacy connected scheme and the effective date; and

(b) for the second and any subsequent cost cap valuation of a scheme, during the inter-valuation period.

(2) For the second cost cap valuation of a scheme that has a reconstructed first cost cap valuation, the cost cap valuation report must also include an analysis of the change in value of the core cost cap fund between the closing date of any legacy connected scheme and the effective date of that reconstructed first cost cap valuation.

(3) That analysis in (1) and (2) must include–

(a) the core cost cap income;

(b) the cost cap benefits paid;

(c) the core cost cap notional investment returns; and

(d) the past service technical immunity adjustment.

Core cost cap past service cost

43. The scheme actuary must calculate the core cost cap past service as–

$$A - B$$

where–

A is the cost cap liabilities as at the effective date calculated in accordance with direction 34; and

B is the core cost cap fund as at the effective date calculated in accordance with direction 41;

stated to the nearest 0.1% of pensionable payroll of the membership of the scheme at the relevant points in time, as a (negative or positive) contribution rate payable from the effective date.

Cost cap future service cost

44.—(1) The scheme actuary must calculate the cost cap future service cost, to the nearest 0.1% of pensionable payroll, as the contribution rate required to cover the expected cost of benefits accrued by members during the cost cap implementation period.

(2) For the purpose of calculating the contribution rate in paragraph (1), the assumptions specified in direction 15 must be adjusted so that the assumed rate of increase is 2% from the first Monday in each tax year commencing with the first tax year in the cost cap implementation period.

(3) For the purpose of calculating the contribution rate in paragraph (1), direction 16 must be adjusted so as to be subject to the modification made by subparagraph (2).

(4) For the purpose of calculating the contribution rate in paragraph (1), the assumptions specified in direction 17 must be adjusted so that the assumed earnings measure revaluations of career average re-valued earnings under section 9 of the 2013 Act is 3.8% in each year from the 1st April in the first year in the cost cap implementation period.

(5) For the purpose of calculating the contribution rate in paragraph (1), the assumptions specified in direction 21, apart from those made to determine the expected scheme membership over the cost cap implementation period, must be adjusted as if no members of the relevant scheme had any benefits accrued in any legacy connected scheme or any entitlement to savings provisions made under section 89 of the 2022 Act.

(6) For the purpose of calculating the contribution rate in paragraph (1), the expected cost of benefits accrued by members of the scheme during the cost cap implementation period should be determined as if no members of the scheme had any entitlement to savings provisions made under section 89 of the 2022 Act.

Cost cap contribution yield

45. For the first and each subsequent cost cap valuation of the scheme the scheme actuary must calculate the cost cap contribution yield, to the nearest 0.1% of pensionable pay, as the contribution yield expected from member contributions to the scheme during the cost cap implementation period.

Future service technical immunity adjustment

46.—(1) Subject to paragraph (2) the scheme actuary must calculate the future service technical immunity adjustment as—

$$C - D$$

where—

C is the cost cap future service cost calculated, subject to subparagraphs (i) and (ii), in accordance with direction 44 –

(i) Except as directed by subparagraph (ii), the scheme actuary must calculate C using the same assumptions as were used in the previous valuation of the scheme or legacy connected scheme to calculate the cost cap future service cost;

(ii) The scheme actuary must calculate C using the SCAPE discount rate and long-term earnings measure of revaluation assumptions at the current valuation in accordance with directions 19(a) and 44(4).

D is the cost cap future service cost calculated, subject to subparagraph (i), in accordance with direction 44 –

(iii) The scheme actuary must calculate D using the same assumptions as were used in the previous valuation of the scheme or legacy connected scheme to calculate the cost cap future service cost.

For C and D, where the cost cap future service cost was not calculated at the previous valuation of the scheme or legacy connected scheme because instead a proposed employer cost cap was calculated, the assumptions to be used are those that were used to calculate that proposed employer cost cap.

(2) For a reconstructed first valuation the scheme actuary must calculate the future service technical immunity adjustment as—

$$C - D$$

where—

C is the cost cap future service cost calculated, subject to subparagraphs (i) and (ii), in accordance with direction 44–

(i) Except as directed by subparagraph (ii), the scheme actuary must calculate C using the same assumptions as were used in the preliminary valuation to calculate the proposed employer cost cap;

(ii) The scheme actuary must calculate C using a percentage figure for direction 19(a) (SCAPE discount rate) of 2.8% from 1st April 2016 to 31st March 2019 and 2.4% from 1st April 2019 and using a percentage figure of 4.2% where direction 44(4) specified 3.8% for earnings measure revaluations;

D is the cost cap future service cost calculated, subject to subparagraph (i), in accordance with direction 44 –

(iii) The scheme actuary must calculate D using the same assumptions as were used in the preliminary valuation to calculate the proposed employer cost cap.

Cumulative future service technical immunity adjustment

47.—(1) The scheme actuary must calculate the cumulative future service technical immunity adjustment as–

$$A + B$$

where–

A is, subject to subparagraph (2) and (3), the cumulative future service technical immunity adjustment from the previous cost cap valuation of the scheme

B is the future service technical immunity adjustment calculated in accordance with direction 46.

(2) For a first cost cap valuation or reconstructed first cost cap valuation, A is zero.

(3) For a second cost cap valuation where the cumulative future service technical immunity adjustment was not calculated at the first cost cap valuation of the scheme, A is the cumulative future service technical immunity adjustment from the reconstructed first cost cap valuation of the scheme.

Core cost cap cost of the scheme

48. The core cost cap cost of the scheme must be calculated as–

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

where–

A is the cost cap future service cost, calculated in accordance with direction 44;

B is the core cost cap past service cost calculated in accordance with direction 43;

C is the cost cap contribution yield calculated in accordance with direction 45;

D is the cumulative future service technical immunity adjustment calculated in accordance with direction 47.

Scheme-Specific Applications

Application of Part 2 to local government workers

49.—(1) In relation to the second and subsequent valuations and cost cap valuations of a scheme providing benefits to local government workers, Part 2 of these Directions applies with the following modifications–

(a) references to employer contributions are to be applied by the scheme actuary subject to the assumption that the rate at which all employers had made employer contributions during the inter-valuation period had been at the employer contribution rate disclosed in the previous valuation report or cost cap valuation report, as applicable;

(b) directions 30(1)(b) and (c) do not apply;

(c) directions 31(a) and (b) do not apply; and

(d) in direction 32, B is zero.

(2) In relation to the valuation or cost cap valuation of a scheme providing benefits to local government workers, Part 2 of these Directions applies with the following modifications-

(a) in relation to any service before 1 April 2022 of members in scope of the transitional protection remedy, any references to benefits or liabilities in directions 34, 36, 38, and 40 for any period of service exclude those that relate to the increase in those benefits or liabilities as a result of the provision made in section 78(1) of the 2022 Act compared to those benefits or liabilities that would have accrued to them in relation to that same period of service but for that section; and

(b) in relation to directions 36(1) and 36(3), when the scheme actuary calculates the core cost cap fund contribution rate, it must reflect the actual experience over the inter-valuation period of elections made under regulation 10 of the Local Government Pension Scheme Regulations 2013 or regulation 10 of the Local Government Pension Scheme (Scotland) Regulations 2018, as applicable.

PART 2A: CALCULATING THE EMPLOYER COST CAP

Interpretation of Part

50.—(1) This Part applies to valuations and cost cap valuations of schemes made for the payment of pensions and other benefits to or in respect of persons specified in section 1 of the 2013 Act where the relevant scheme regulations do not include an employer cost cap equal to a proposed employer cost cap calculated in a preliminary valuation falling within subparagraph (c) of the definition of "preliminary valuation" (see direction 3(1)).

Setting the employer cost cap

50A. The responsible authority in relation to a scheme for employees of the Security Service or Secret Intelligence Service must instruct the scheme actuary to undertake a supplemental valuation with an effective date of 31 March 2015 and produce a supplemental valuation report accordingly.

51.—(1) The rate of the employer cost cap set in scheme regulations made under section 1 of the 2013 Act must be equal to the proposed employer cost cap calculated in a preliminary valuation of the relevant old scheme, carried out in accordance with directions 52 to 53.

(2) For the purpose of the directions in this Part—

(a) the "relevant old scheme" is the scheme or schemes that was or were open to future accrual of benefits as at the effective date of the preliminary valuation but which will be closed to future accrual of benefits before the start of the cost cap implementation period;

(b) the "relevant new scheme" is the scheme that is the reformed opening connected scheme as at the effective date of the preliminary valuation, or for the purposes of a supplemental valuation is the scheme prescribed by the Civil Service (Other Crown Servants) Pension Scheme Regulations 2016([17]).

Preliminary Valuation

52. For the purposes of these Directions—

(a) the responsible authority must ensure that the preliminary valuation is carried out by a person appointed by it to act as scheme actuary for the scheme;

(b) the responsible authority must direct the scheme actuary that the preliminary valuation is to be a valuation of the relevant old scheme (as defined in direction 51(2)(a); and

(c) the responsible authority must direct the scheme actuary in relation to the preliminary valuation to assume that the benefit structures set out in the relevant new scheme (as defined in direction 51(2)(b)) will be put into place by the start of the cost cap implementation period.

Proposed employer cost cap

53.—(1) The scheme actuary must set out in the cost cap valuation report , or the supplemental valuation report with an effective date of 31 March 2015 in the case of the Security Service and the Secret Intelligence service, the proposed employer cost cap for a preliminary valuation carried out in accordance with direction 52 to the nearest 0.1% of pensionable payroll, that being—

$$A - B$$

where--

A is the contribution rate required to cover the expected cost of benefits accrued by members of the relevant old scheme (as defined in direction 51(2)(a)) during the cost cap implementation period; and

([17]) S.I. 2016/326.

B is the contribution yield expected from normal contributions made by members of the relevant old scheme (as defined in direction 51(2)(a)) during the cost cap implementation period.

(2) For the purpose of calculating the proposed employer cost cap for a scheme for the Security Service or the Secret Intelligence Service (to be set out in the supplemental valuation report), the scheme actuary must calculate A and B in paragraph (1) as if—

(a) the assumptions set out in directions 15 to 17 and 19(a) and (b) as modified by this direction apply;

(b) unless otherwise stated in this direction, the data, methodology and assumptions were those that applied in the valuation report, or reports, with an effective date of 31 March 2015 (signed before these Directions came into force);

(c) the cost cap implementation period were a period of 6 years from 1 April 2017.

(3) Subject to subparagraphs (9) and (11), the scheme actuary must calculate A and B in paragraph (1) as if the "relevant old scheme" were subject to the assumptions in direction 52(c).

(4) For the purpose of calculating A in paragraph (1), the scheme actuary must adjust the assumptions specified in direction 15 so that the assumed rate of increase is 2% on the first Monday in each tax year.

(5) For the purpose of calculating A in paragraph (1), the scheme actuary must adjust direction 16 so as to be subject to the modification made by subparagraph (4).

(6) For the purpose of calculating A in paragraph (1), the scheme actuary must adjust the assumptions specified in direction 17 so that the assumed earnings measure revaluations of career average re-valued earnings under section 9 of the 2013 Act is 4.75% in April of each year.

(7) For the purpose of calculating A in paragraph (1), when a scheme member, in relation to the whole or part of a scheme–

(i) is entitled to choose to surrender pension for a pension commencement lump sum at a rate of £12 of lump sum for every £1 of pension surrendered; and

(ii) is not entitled to a pension commencement lump sum the amount of which is fixed by scheme regulations,

the scheme actuary must assume that the member will surrender 15% of their pension for a lump sum in the whole or any relevant part of the scheme as appropriate.

(8) For the purpose of calculating A in paragraph (1), when a scheme member is entitled in any part of a scheme to surrender pension for a pension commencement lump sum at a rate other than £12 of lump sum for every £1 of pension surrendered, paragraph (7) of this direction does not apply.

(9) For the purpose of calculating A in paragraph (1), the scheme actuary must adjust the assumptions specified in—

(a) direction 53(7)

(b) direction 53(8); and

(c) direction 21, apart from those made to determine the expected scheme membership over the cost cap implementation period,

as if no members of the "relevant old scheme" have any benefits accrued in any legacy connected scheme, including pursuant to section 89(2) of the 2022 Act.

(10) The scheme actuary must calculate A and B as if—

(a) the figures in direction 19(a) were 3%; and

(b) the changes in mortality rates published by the Office for National Statistics in direction 19(b) were those as part of the 2012 principal population projections for the United Kingdom

(11) For the purpose of calculating A in paragraph (1), the scheme actuary must determine the expected cost of benefits accrued by members of the "relevant old scheme" during the cost cap implementation period as if no members of the "relevant old scheme" have any entitlement to the transitional protection remedy.

PART 3: SETTING THE EMPLOYER COST CAP AND COST CAP VALUATIONS IN RELATION TO A NEW SCHEME FOR THE JUDICIARY

Interpretation of Part

54. This Part applies to valuations and cost cap valuations of a scheme made for the payment of pensions and other benefits to or in respect of persons specified in section 1(2)(b) of the 2013 Act and any reference to a "scheme", a "legacy connected scheme", a "reformed closed connected scheme" or a "reformed opening connected scheme" is to be construed accordingly.

54A. At a valuation or cost cap valuation in respect of JPS 2015 with an effective date of 31 March 2020, and at any valuation or cost cap valuation of JPS 2022, the Judicial Pensions Regulations (Northern Ireland) 2015([18]) ("JPS 2015 NI") is a connected scheme for the purposes of section 4(6) of the 2013 Act and the scheme actuary must treat it as if it had always been so.

Application of Part 1, Part 2, Part 2A and Part 4

55. Except where otherwise expressly modified or disapplied by this Part, Part 1, Part 2, Part 2A and Part 4 apply to valuations and cost cap valuations of a scheme made for the payment of pensions and other benefits to or in respect of persons specified in section 1(2)(b) of the 2013 Act.

Meaning of "First Valuation" Etc.

56. A valuation and a cost cap valuation in respect of the JPS 2022 with an effective date of 31 March 2024 is a third valuation for the purposes of direction 7 and at that third valuation JPS 2015 and JPS 2015 NI are "reformed closed connected schemes"; the first and second valuations and cost cap valuations (and the reconstructed first cost cap valuation) being valuations and cost cap valuations of JPS 2015 with effective dates of 31 March 2016 and 31 March 2020 respectively. At the second valuation, JPS 2022 is a "reformed opening connected scheme".

Modification of Part 2, Part 2A, Part 4, Part 5 and Part 6 in respect of the Second Valuation

57. Part 2, Part 2A and Part 4 apply in respect of a valuation or a cost cap valuation of the JPS 2015 with the following changes—

(a) directions 25(k) to 25(o), 25(w) to 25(x) and 25(aa) to 25(dd) are disapplied;

(b) any references to benefits, income or liabilities in directions 34, 35, 36, 37, 38, 40, 43, 61, 62 and 66 must exclude those associated with any 2015 scheme election made under section 44 of the 2022 Act;

(c) directions 44 to 48 are disapplied;

(d) directions 67 to 77 are disapplied;

(e) in direction 51(1) for "preliminary valuation of the relevant old scheme, carried out in accordance with directions 52 and 53" substitute "valuation of the relevant old scheme with an effective date of 31st March 2020, caried out in accordance with direction 53";

(f) in direction 51(2)(a) and 51(2)(b) for "effective date of the preliminary valuation" substitute "31st March 2020";

(g) direction 52 is disapplied;

(h) in direction 53(1) for "preliminary valuation carried out in accordance with direction 52" substitute "valuation of the relevant old scheme with an effective date of 31st March 2020";

(i) for direction 53(2) substitute—

([18]) S.R. 2015 No. 76.

"(2) for the purpose of calculating the proposed employer cost cap for the JPS 2022, A and B in paragraph (1) must be calculated as if—

(a) the assumptions set out in directions 15 to 17 and 19(a) and (b) as modified by this direction apply;

(b) unless otherwise stated in this direction, the methodology and assumptions were those that applied in the calculation of the proposed employer cost cap, as reported in the valuation report of the JPS 2015 (signed on 5 March 2019);

(c) the data are those which applied in the valuation of the relevant old scheme with an effective date of 31 March 2020; and

(d) the cost cap implementation period were a period of 4 years from 1 April 2023."

(j) in direction 53(3) for "the relevant old scheme were subject to the assumptions in direction 52(c)" substitute "the benefit structures set out in the relevant new scheme will be put into place by the start of the cost cap implementation period".

Modification of Part 2 and Part 2A in respect of the Third Valuation

58.—(1) Part 2 and Part 2A are modified or disapplied in respect of a valuation or a cost cap valuation of the reformed opening connected scheme as follows—

(a) in direction 47(1), A is zero.

PART 4: ECONOMIC CHECK

Interpretation of Part

59. (1) This Part applies to valuations and cost cap valuations of schemes made for the payment of pensions and other benefits to or in respect of persons specified in section 1 of the 2013 Act and any reference to a "scheme", a "legacy connected scheme", a "reformed closed connected scheme" or a "reformed opening connected scheme" is to be construed accordingly.

(2) In relation to directions 59A to 68, any references to "scheme" should be taken to include any reformed closed connected scheme or reformed opening connected scheme but not any legacy connected scheme for the payment of pensions and other benefits to or in respect of the same description of persons, except where otherwise indicated.

Reconstructed first cost cap valuation

59A. The scheme actuary must perform the calculations pertaining to a reconstructed first cost cap valuation under directions 60 to 63 where the second cost cap valuation of a scheme has an effective date of 31st March 2020.

Prior value of the economic cost cap fund

60.—(1) Subject to subparagraphs (2) and (3), the prior value of the economic cost cap fund must be equal to the value of the economic cost cap fund as at the effective date of the previous cost cap valuation as calculated at that previous cost cap valuation.

(2) For the first cost cap valuation or reconstructed first cost cap valuation of a scheme the prior value of the economic cost cap fund must be zero.

(3) Where the second cost cap valuation of a scheme has an effective date of 31st March 2020 the prior value of the economic cost cap fund must be calculated as—

$$(B - C) + D$$

where–

B is the economic cost cap income, calculated in accordance with direction 62 for the reconstructed first cost cap valuation;

C is the cost cap benefits paid, calculated in accordance with direction 38 for the reconstructed first cost cap valuation;

D is the economic cost cap notional investment returns calculated in accordance with direction 63 for the reconstructed first cost cap valuation.

Economic cost cap fund contribution rate

61.—(1) For the first cost cap valuation or reconstructed first cost cap valuation of a scheme, the scheme actuary must calculate the economic cost cap fund contribution rate, to the nearest 0.1% of pensionable payroll, as–

$$A – B$$

where–

A is the contribution rate required to cover the expected costs of the benefits accruing in the scheme to members of the scheme from the closing date of the legacy connected scheme to the effective date; and

B is the member contributions to the scheme between the closing date of the legacy connected scheme and the effective date in respect of those benefits.

(2) A and B in paragraph (1) must be calculated using the methodology, data and assumptions used to calculate the employer contribution rate in a preliminary valuation.

(3) Subject to paragraph (5)), for the second and subsequent cost cap valuations of the scheme, the economic cost cap fund contribution rate must be calculated, to the nearest 0.1% of pensionable payroll, as–

$$(A + B) - C$$

where–

A is the contribution rate required to cover the expected costs of the benefits accruing to members of the scheme during the inter-valuation period.

B is the economic cost cap past service cost calculated in accordance with direction 66 at the previous cost cap valuation of the scheme; and

C is the member contributions to the scheme during the inter-valuation period made in respect of the benefits as calculated at A and accruing to members of the scheme.

(4) A and C in paragraph (3) must be calculated using the methodology, data and assumptions used to calculate the employer contribution rate in the previous valuation of the scheme.

(5) In relation to B in paragraph (3), where an economic cost cap past service cost was not calculated at a previous cost cap valuation, B must be the amount that would have been calculated at that previous cost cap valuation in accordance with direction 66 using the assumptions that would have applied in accordance with direction 66 at the time the previous cost cap valuation was carried out had direction 66 of these Directions been in force at that time.

Economic cost cap income

62.—(1) The economic cost cap income must be calculated as—

(a) for the first cost cap valuation or reconstructed first cost cap valuation of a scheme, the income received between the closing date of the legacy connected scheme and the effective date;

(b) for the second and each subsequent cost cap valuation of a scheme, the income received during the inter-valuation period.

(2) The income received for the purposes of paragraph (1)–

(a) must include, but is not limited to, employer contributions, member contributions and incoming transfer values;

(b) excludes any income of a nature specified in subparagraph (a) that relates to benefits accruing to members of a scheme or a legacy connected scheme in connection with the transitional protection remedy

(except that the exclusion in (2)(b) does not apply in the case of a scheme providing benefits to local government workers in England and Wales or Scotland); and

(c) in respect of employer contributions, must be adjusted to the amount that would have been received had all employers contributed at the economic cost cap fund contribution rate during the relevant period.

Economic cost cap notional investment returns

63.—(1) The scheme actuary must calculate the economic cost cap notional investment returns—

(a) for the first cost cap valuation or reconstructed first cost cap valuation of a scheme, to represent the growth of the economic cost cap fund between the closing date of the legacy connected scheme and the effective date;

(b) for the second and each subsequent cost cap valuation of a scheme, to represent the growth of the economic cost cap fund during the inter-valuation period.

(2) For the purposes of paragraph (1), when calculating notional investment returns during a period–

(a) the scheme actuary must make allowance for the economic cost cap income added to the economic cost cap fund, and for the cost cap benefits deducted from the economic cost cap fund; and

(b) the scheme actuary must calculate (1)(a) and (b) using the rates specified in directions 28(4) and 28(5), as appropriate.

Economic cost cap fund

64. The scheme actuary must calculate the value of the economic cost cap fund as at the effective date as—

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

Where—

A is the prior value of the economic cost cap fund, calculated in accordance with direction 60;

B is the economic cost cap income, calculated in accordance with direction 62;

C is the cost cap benefits paid, calculated in accordance with direction 38; and

D is the economic cost cap notional investment returns, calculated in accordance with direction 63.

Change in value of the economic cost cap fund

65.—(1) The scheme actuary must set out in the cost cap valuation report an analysis of the change in value of the economic cost cap fund–

(a) for the first cost cap valuation of a scheme, between the closing date of any legacy connected scheme and the effective date; and

(b) for the second and any subsequent cost cap valuation of a scheme, during the inter-valuation period.

(2) For the second cost cap valuation of a scheme that has a reconstructed first cost cap valuation, the scheme actuary must set out in the cost cap valuation report an analysis of the change in value of the

economic core cost cap fund between the closing date of any legacy connected scheme and the effective date of that reconstructed first cost cap valuation.

(3) The scheme actuary must include in the analysis in paragraphs (1) and (2)–

(a) The economic cost cap income;

(b) the cost cap benefits paid; and

(c) the economic cost cap notional investment returns.

Economic cost cap past service cost

66. The scheme actuary must calculate the economic cost cap past service cost as—

$$A - B$$

Where—

A is the cost cap liabilities as at the effective date calculated in accordance with direction 34; and

B is the economic cost cap fund as at the effective date calculated in accordance with direction 64

stated to the nearest 0.1% of pensionable payroll of the membership of the scheme at the relevant points in time, as a (negative or positive) contribution rate payable from the effective date.

Economic cost cap cost of the scheme

67. The scheme actuary must calculate the economic cost cap cost of the scheme as—

$$(A + B) - C$$

Where—

A is the cost cap future service cost, calculated in accordance with direction 44;

B is the economic cost cap past service cost, calculated in accordance with direction 66; and

C is the cost cap contribution yield calculated in accordance with direction 45.

Total cumulative technical immunity adjustment

68. The scheme actuary must calculate the total cumulative technical immunity adjustment as—

$$A - B$$

where–

A is the core cost cap cost of the scheme calculated in accordance with direction 48.

B is the economic cost cap cost of the scheme calculated in accordance with direction 67.

Scheme-Specific Applications

Application of Part 4 to local government workers

69.—(1) In relation to the valuations or cost cap valuations of a scheme providing benefits to local government workers, Part 4 of these Directions applies with the following modifications–

(a) in relation to any service before 1 April 2022 of members in scope of the transitional protection remedy, any references to benefits or liabilities in direction 61 for any period of service must exclude those that relate to the increase in those benefits or liabilities as a result of the provision made in section 78(1) of the 2022 Act compared to those benefits or liabilities that would have accrued to them in relation to that same period of service but for that section; and

(b) in relation to directions 61(1) and 61(3), when the scheme actuary calculates the economic cost cap fund contribution rate, it must reflect the actual experience over the inter-valuation period of elections made under regulation 10 of the Local Government Pension Scheme

Regulations 2013 or regulation 10 of the Local Government Pension Scheme (Scotland) Regulations 2018, as applicable.

PART 5: COMPARISON WITH EMPLOYER COST CAP

Comparison with the employer cost cap

70.—(1) At the first and each subsequent cost cap valuation of a scheme, the scheme actuary must take the following steps—

(a) the scheme actuary must compare the core cost cap cost of the scheme identified in the cost cap valuation report with the employer cost cap;

(b) the scheme actuary must compare the economic cost cap cost of the scheme identified in the cost cap valuation report with the employer cost cap;

(c) subject to subparagraph (d) where both the core cost cap cost of the scheme and the economic cost cap cost of the scheme have breached either—

(i) the upper margin; or

(ii) the lower margin

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.

(d) where the core cost cap cost of the scheme and the economic cost cap of the scheme breach different margins (that is, where one breaches the upper margin and other the lower margin) of the employer cost cap, as specified in Regulations made under section 12(5) of the 2013 Act, the cost of the scheme for the purposes of section 12(5) of the 2013 Act is deemed to be between the upper margin and the lower margin, and the scheme actuary need not notify the responsible authority.

PART 6: CERTIFICATION AND RECTIFICATION

71. Where –

(a) a notification has been issued under direction 70(1)(c); and

(b) the responsible authority has provided the scheme actuary with a provisional decision having regard to section 12(6) of the 2013 Act as to the steps to be taken to achieve the target cost for the scheme,

the scheme actuary must issue a certificate.

72. The scheme actuary must state in the certificate to be issued under direction 71–

(a) the steps to be taken to achieve the target cost for the scheme including the time at which such steps will take effect;

(b) the core cost cap cost of the scheme that would result from implementation of the steps to be taken to achieve the target cost for the scheme;

(c) the economic cost cap cost of the scheme that would result from implementation of the steps to be taken to achieve the target cost for the scheme; and

(d) the employer contribution rate that would result from implementation of the steps to be taken to achieve the target cost for the scheme.

73. The scheme actuary must calculate the core cost cap cost of the scheme (calculated for the purpose of direction 72(b)) in accordance with direction 48, except that the calculation should assume that the steps to be taken to achieve the target cost for the scheme, as set out in accordance with direction 72(a), are in force.

74. The scheme actuary must calculate the economic cost cap cost of the scheme (calculated for the purpose of direction 72(c)) in accordance with direction 67, except that the calculation should assume that the steps to be taken to achieve the target cost for the scheme as set out in accordance with direction 72(a), are in force.

75. The scheme actuary must calculate the employer contribution rate (calculated for the purpose of direction 72(d)) in accordance with direction 32, except that the calculation should assume that the steps to be taken to achieve the target cost for the scheme as set out in accordance with direction 72(a), are in force.

76. Where the notification issued under direction 70(1)(c) indicates that the core cost cap cost of the scheme is closer to the breached margin than, or is the same as, the economic cost cap cost of the scheme, the scheme actuary must determine, for the purposes of a certificate issued under direction 71, that the target cost for a scheme is achieved if the core cost cap cost of the scheme that would result from implementation of the steps, as calculated in accordance with direction 72(b), is equal to the employer cost cap.

77. Where the notification issued under direction 70(1)(c) indicates that the economic cost cap cost of the scheme is closer to the breached margin than the core cost cap cost of the scheme, the scheme actuary must determine, for the purposes of a certificate issued under direction 71, that the target cost for a scheme is achieved if the economic cost cap cost of the scheme that would result from implementation of the steps, as calculated in accordance with direction 72(c), is equal to the employer cost cap.

[Signed]

Nicholas Donlevy

Director, Public Spending

[DD]/08/2023 for His Majesty's Treasury

SCHEDULES

SCHEDULE 1: NOTIONAL ASSETS FOR FIRST VALUATION

Scheme in respect of	**Notional Asset Value**	**Date**
Civil servants	£95,400,000,000	31st March 2007
Other civil servants	£1,877,000,000	31st March 2015
The judiciary	£1,170,000,000	31st March 2005
Teachers (England and Wales)	£115,782,000,000	31st March 2004
Teachers (Scotland)	£13,630,000,000	31st March 2005
Health service workers (England and Wales)	£123,713,000,000	31st March 2004
Health service workers (Scotland)	£14,492,000,000	31st March 2004
Fire and rescue workers (England)	£13,100,000,000	31st March 2007
Fire and rescue workers (Wales)	£724,000,000	31st March 2007
Fire and rescue workers (Scotland)	£1,891,000,000	31st March 2009
Members of police forces (England and Wales)	£59,400,000,000	31st March 2008
Members of police forces (Scotland)	£7,130,000,000	31st March 2009
Armed Forces	£66,035,000,000	31st March 2005

SCHEDULE 2: STATE PENSION AGE ASSUMPTIONS

1. For members born on or between the dates set out in the first column, the state pension age is assumed to be the age set out in the second column—

Born on	*State pension age*
6th April 1960 to 5th May 1960	66 years and 1 month
6th May 1960 to 5th June 1960	66 years and 2 months
6th June 1960 to 5th July 1960	66 years and 3 months
6th July 1960 to 5th August 1960	66 years and 4 months
6th August 1960 to 5th September 1960	66 years and 5 months
6th September 1960 to 5th October 1960	66 years and 6 months
6th October 1960 to 5th November 1960	66 years and 7 months
6th November 1960 to 5th December 1960	66 years and 8 months
6th December 1960 to 5th January 1961	66 years and 9 months
6th January 1961 to 5th February 1961	66 years and 10 months
6th February 1961 to 5th March 1961	66 years and 11 months
6th March 1961 to 5th April 1977	67

2. For members born on or between the dates set out in the first column, the state pension age is assumed to be attained on the date set out in the second column—

Born on	*Date state pension age attained*
6th April 1977 to 5th May 1977	6th May 2044
6th May 1977 to 5th June 1977	6th July 2044
6th June 1977 to 5th July 1977	6th September 2044
6th July 1977 to 5th August 1977	6th November 2044
6th August 1977 to 5th September 1977	6th January 2045
6th September 1977 to 5th October 1977	6th March 2045
6th October 1977 to 5th November 1977	6th May 2045
6th November 1977 to 5th December 1977	6th July 2045
6th December 1977 to 5th January 1978	6th September 2045

6th January 1978 to 5th February 1978	6th November 2045
6th February 1978 to 5th March 1978	6th January 2046
6th March 1978 to 5th April 1978	6th March 2046

Annex B: Technical Explanation of the Proposed Directions

The Draft Public Service Pensions (Valuations and Employer Cost Cap) Directions 2023 (“the 2023 Directions”)

STRUCTURE OF THE 2023 DIRECTIONS

Part	Purpose
1	General This part: • provides for how the 2023 Directions are cited and come into force; • sets definitions; • sets out the time periods of valuations; and • directs certain aspects regarding the data, methodology and some of the assumptions to be used.
2	Valuations and Cost Cap Valuations This part: • sets out how to set the assumptions not specified in Part 1; • sets out how the employer contribution rate is to be calculated; and • specifies the calculation of the “core cost cap cost of the scheme”. That is an assessment of the scheme costs for the purpose of carrying out a comparison with the employer cost cap[19], before the application of the economic check.
2A	Calculating the Employer Cost Cap This part sets out how an employer cost cap will be set for a new scheme at a “preliminary valuation”. This requirement only applies to schemes that have not already set an employer cost cap. In particular, the security services schemes need to produce a “supplemental valuation report” in addition to their preliminary valuation as at 31 March 2015. This is to disclose an employer cost cap as one has not

[19] A new scheme for judiciary opened in 2022, so their valuation will set a new employer cost cap at the 2020 valuation and not carry out the comparison until their 2024 valuation.

	previously been calculated. The new judges 2022 scheme also needs to set an employer cost cap[20]. This requires modifications to Part 2A that apply to their scheme, and this is achieved in Part 3 of the 2023 Directions, as detailed below).
3	<u>Setting the Employer Cost Cap and Cost Cap Valuations in relation to a New Scheme for the Judiciary</u> This part sets out how the Directions are modified in relation to the Judiciary. The modifications are required because their 2020 valuation will only be setting an employer cost cap, not testing it.
4	<u>Economic Check</u> This part sets out how to calculate the "economic cost cap cost of the scheme". This is required to enable a scheme to undertake an economic check if the core cost cap cost of the scheme is outside the margins. This measure of the cost includes the impact of a change in long-term economic assumptions. It is worth noting that the calculations for the economic cost cap cost of the scheme are undertaken for all schemes, even if an economic check is not required. This is because some elements of the calculation at one valuation will be needed to calculate the economic cost cap cost of the scheme at the next valuation, when it might be required, and so on for future valuations.
5	<u>Comparison with Employer Cost Cap</u> This part: • sets out how the core cost cap cost of the scheme and the economic cost cap cost of the scheme are compared to the employer cost cap; and • sets out that if both costs breach the same margin, the Scheme Actuary must notify the scheme's responsible authority. This ensures that a breach of the mechanism will only be implemented if it would still have occurred had any changes in the long-term economic assumptions been considered as per the previously stated design of the Economic Check.
6	<u>Certification and Rectification</u> This part sets out the requirements if a notification was made under Part 5. It directs whether it is the core cost cap cost of the scheme or the economic cost cap cost of the scheme that needs to be brought back to the target cost. It also sets out the actuarial certification requirements.
Schedule	This Schedule sets out the historic record of notional asset values for the

[20] https://www.gov.uk/government/publications/moj-statement-on-cost-control-mechanism-for-judicial-pension-scheme-2022/judicial-pension-scheme-2022-and-the-cost-control-mechanism

1	schemes that formed the starting point for the first set of valuations undertaken under the existing Directions.
Schedule 2	This Schedule contains tables setting out the State Pension Age to be assumed in the valuation for members depending on their dates of birth. This is for age ranges where the State Pension Age is changing gradually. The ages set out in the tables are the ages as set out in current (at the date of this letter) legislation.

PART 1: General

Direction(s)	**Purpose**
1,2	These Directions revoke and replace the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014. This enables the Directions to allow for the reform[21] of the cost control mechanism ("CCM") as well as other changes required for the 2020 valuations.
3	This Direction defines various terms that are used in these Directions. The following definitions in particular are concerned with the recent reforms to the CCM and the timing of the 2020 valuation outcomes: **Effective date, Implementation date and Implementation periods** • The effective date of a valuation is the date as at which the liabilities and notional assets are assessed. • The implementation period is the period over which the cost of benefits and contributions are calculated when assessing the employer contribution rate. For example, at the "2020 valuations" (i.e. valuations with effective date 31 March 2020) the implementation period is directed to be 1 April 2024 to 31 March 2027. This is the period over which the new employer contribution rate is expected to be paid for the unfunded schemes. • The implementation date is the start of the implementation period. • The cost cap implementation period and cost cap implementation date are the equivalent definitions for the CCM calculations. Having different definitions allows for the period of calculation being different between the employer contribution rate calculations and the CCM calculations. **Scheme definitions** • One workforce will have had a variety of pension schemes over time. These may be "reformed schemes", which were set up under the Public Service Pensions Act 2013 ("the 2013 Act") in line with the reforms

[21] https://www.gov.uk/government/consultations/public-service-pensions-cost-control-mechanism-consultation

	recommended by the Independent Public Service Pensions Commission in 2011[22]. These schemes are Career Average Revalued Earnings ("CARE") in nature and have higher normal pension ages than the schemes they replaced. They were introduced in 2014, 2015 or 2016. Then in 2022 a replacement reformed scheme for the Judiciary was introduced. Alternatively, they may be "legacy schemes", set up prior to the "reformed schemes", which were typically final salary schemes. • The "scheme" that is undertaking the valuation is the scheme that is open as at the effective date of the valuation. • The liabilities of earlier schemes that have already closed are included, to varying extents, in the valuation. Such an earlier scheme is referred to under these definitions as a "legacy connected scheme" if it is a legacy scheme. It is referred to as a "reformed closed connected scheme" if it is a reformed scheme. A legacy connected scheme is considered for determining the employer contribution rate but is excluded within the CCM. This is in line with a "reformed scheme only" mechanism. • For some valuations, the reformed scheme to be valued is not yet open at the effective date of the valuation. In such circumstances, it is defined as the "reformed opening connected scheme". **"Core" and "Economic" definitions for the CCM** • The core cost cap cost of the scheme is the assessed cost of the scheme under the CCM that is compared against the employer cost cap before an economic check is applied, if required. • The economic cost cap cost of the scheme is the assessed cost of the scheme that is compared to the employer cost cap as part of the economic check, if required (i.e. if the core cost cap cost is outside the margins). • Some intermediate results required to calculate the "core cost cap cost of the scheme" are different from the equivalent intermediate results of the calculation of the "economic cost cap cost of the scheme". If so, they are named accordingly. Examples are "core cost cap income" and "economic cost cap income". • Other intermediate results are the same for the two calculations. In that case they are not named "core" or "economic" – for example "cost cap benefits paid".
4-6	The Scheme Actuary must undertake a scheme valuation and prepare a valuation report that sets out the employer contribution rate results. A cost cap valuation report that sets out the CCM results is also required.
7	This Direction specifies the effective dates of valuations in a numbered progression of valuations. For most schemes, their "preliminary" valuations (at which their employer cost caps were set) were as at 31 March 2012. The original CCM was then

[22] https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton

	tested at their "first" valuations as at 31 March 2016. Those valuations were carried out under the old Directions that are now revoked. They will now undertake their "second" valuations with effective date 31 March 2020 and at four-yearly intervals thereafter, under these new Directions. Note that, as for the previous Directions, the valuation numbering differs from the valuation numbering in the 2013 Act (a "first valuation" in that Act is equivalent to a "preliminary valuation" in these Directions).
8,9	This Direction sets out that the 2020 valuations have an implementation period of 1 April 2024 to 31 March 2027. They have a cost cap implementation period of 1 April 2023 to 31 March 2027. This reflects the different periods over which the outcomes of the 2020 valuations will apply. Subsequent valuations will have their implementation periods and cost cap implementation periods aligned, both being 4-year periods starting immediately after the end of the previous period. Therefore, the 2024 valuations will have periods of 1 April 2027 to 31 March 2031 and so on.
10	This Direction sets out that the Scheme Actuary must specify the data needed for the purposes of carrying out the valuation. That data must then be provided by a person designated by the responsible authority.
11	This Direction sets out that the assumptions specified in Directions 12 to 19 are to be used in the valuation calculations, except to the extent that later Directions specify otherwise for some elements of the calculations.
12	This Direction specifies that the projected unit methodology must be used to carry out the valuations.
13	This Direction specifies that the contribution yields only allow for employer's and members' normal contributions, and not for any additional contributions that might be made to purchase additional benefits.
14	This Direction specifies that any past service deficit or surplus is spread over 15 years' worth of contributions. This applies to the constituent calculations for the employer contribution rate, the core cost cap cost of the scheme and the economic cost cap cost of the scheme.
15	This Direction specifies the pension increase assumptions that must be used. Where available, these are in line with the rates specified in published pension increase orders. Otherwise, the rates are as per the projected rates of increase to the Consumer Prices Index (CPI) in Table A.3 on page

	146 of the Office for Budget Responsibility's March 2023 Economic and Fiscal Outlook[23]. For subsequent years a long-term rate is used. This is set as 2.0%, which is the Bank of England's target rate.
16	This Direction specifies that where revaluations are CPI-based, the rate of increase of CPI must be assumed to be the same as the pension increases assumptions detailed in Direction 15.
17	This Direction specifies that where revaluations are earnings-based, the earnings growth assumptions must be in line with the rates specified in published revaluation orders where available. Otherwise, the rates are as per the projected rates of average earnings growth up to the preceding year's "Q3" in Table 1.6 of the supplementary economy tables published alongside the Office for Budget Responsibility's March 2023 Economic and Fiscal Outlook. For subsequent years a long-term rate is used. This is set as 3.8% p.a., which is the long-term projected average earnings growth in Table 4.2 on page 132 of the Office for Budget Responsibility's July 2022 Fiscal Risks and Sustainability Report[24].
18	This Direction specifies the rates to be assumed for public service earnings growth. These rates are as per the projected rates of "Assumed paybill per head growth" in Table 3.17 of the supplementary fiscal tables: expenditure published alongside the Office for Budget Responsibility's March 2023 Economic and Fiscal Outlook. For subsequent years a long-term rate is used. This is set as 3.8% p.a. as per the long-term projected public sector earnings growth in Table 4.2 on page 132 of the Office for Budget Responsibility's July 2022 Fiscal Risks and Sustainability Report.
19	This Direction sets out various other actuarial assumptions. These are: • The SCAPE discount rate net of assumed pension increases. This includes the historic rates as per existing Directions plus the new rate of 1.7% p.a. from 1 April 2023 as previously announced on 31 March 2023[25]; • How the post-retirement mortality rates will change over time. This is assumed to be in line with the Office for National Statistics 2020 principal population projections for the United Kingdom; • Calculations of the cost of future service and the yield from member contributions for local government workers must ignore the option for members to pay lower contributions and build up less pension. The assumption that they all pay the full amounts means that changes in costs as a result of a change to the take-up of the option will not affect the CCM

[23] https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/
[24] https://obr.uk/frs/fiscal-risks-and-sustainability-july-2022/
[25] https://questions-statements.parliament.uk/written-statements/detail/2023-03-30/hcws697

	outcomes. • State Pension Ages are set out (including by reference to Schedule 2). These are the ages as set out in current (at the date of this letter) primary legislation.

PART 2: Valuations and Cost Cap Valuations

Direction(s)	**Purpose**
20	This Direction specifies that the requirements of this part apply to schemes made under the 2013 Act (i.e. reformed schemes). Furthermore, it specifies that the definitions of a "legacy connected scheme", a "reformed closed connected scheme" or a "reformed opening connected scheme" are determined in relation to that scheme, as explained in the section on definitions above.
21	This Direction specifies the process by which assumptions (other than those specified in the Directions) are determined by the responsible authority. In particular, • They must be determined having had regard to advice provided by the Scheme Actuary and following discussions with such persons (or their representatives) as the responsible authority considers appropriate; • They must be a best estimate with no margins for prudence or optimism; • They must be set having had regard to previous assumptions and any analysis of past experience carried out in line with direction 22; and • Consideration must be given to relevant data and any emerging evidence about historic long-term trends and long-term trends expected in the future.
Valuation Report Contents	
22	This Direction specifies the items (for example rates of early or late retirement) for which the Scheme Actuary must carry out an analysis of experience. That analysis must be reported in the valuation report. It also specifies the period before the effective date for which it must be analysed.
23	This Direction specifies the content that the Scheme Actuary must include in either the valuation report or cost cap valuation report. This includes information regarding scheme data and provisions of the scheme (i.e. structure of benefits and member contributions). It also includes analysis of experience as well as valuation assumptions. It also directs how the Scheme Actuary must calculate and report on how the results would have differed had the assumptions been different ("the sensitivity analysis").
24	This Direction specifies that the Scheme Actuary must include in the valuation report the result of the calculation of the employer contribution rate. The report must also include the intermediate calculations that lead to

	that result (such as the notional assets and liabilities).
Cost Cap Valuation Report Contents	
25	This Direction specifies that the Scheme Actuary must include the following in the cost cap valuation report: • the core cost cap cost of the scheme (including intermediate calculations); • the economic cost cap cost of the scheme (including intermediate calculations; • a comparison of the core cost cap cost of the scheme to the employer cost cap; • a comparison of the economic cost cap cost of the scheme to the employer cost cap, if the core cost cap cost of the scheme is outside the margins (i.e. more than 3% above or below the employer cost cap); • if both the core cost cap cost of the scheme and the economic cost cap cost of the scheme have breached the same margin, a statement to that effect; and • an analysis of the difference between the core cost cap cost of the scheme and the employer cost cap. This direction specifies the items to be included in that analysis.
Calculation of Employer Contribution Rate	
26	This Direction ensures that any “legacy connected schemes”, “reformed closed connected schemes” or “reformed opening connected schemes” are included in the determination of the employer contribution rate. For example, this ensures that past service effects associated with the legacy schemes continue to be captured in the employer contribution rate.
27	This Direction concerns the liabilities for the purpose of determining the past service element of the employer contribution rate as at the effective date. It specifies that they must be calculated by the Scheme Actuary based on the methodology and assumptions in the Directions. It also sets out what the liabilities must include. Any liabilities arising from any entitlement under the scheme rules must be included. In addition, the calculation must include any other liability of the scheme, not set out in the scheme rules, that the responsible authority considers to be relevant.
28	This Direction sets out how to calculate the notional assets[26] at the effective date. In particular, the notional assets at the previous valuation are increased in line with income into the scheme (for example contributions) and notional investment returns (in line with the net SCAPE discount rate

[26] Typically, the public service pension schemes are unfunded. However, the valuations need to allow for situations where past contributions paid turn out to be too low or too high in light of later experience. Therefore, the valuations need to calculate notional funds.

	and actual inflation); and reduced according to benefits paid out.
29	This Direction specifies information that must be included in the valuation report regarding the notional assets. This must include an analysis of the change in the notional assets between valuations.
30-32	These Directions specify how the employer contribution rate is calculated and what information needs to be disclosed in the valuation reports. The employer contribution rate includes: • A "past service element", which is the difference between the liabilities calculated in direction 27 and the notional assets calculated in 28, spread over 15 years of pensionable payroll as per direction 14. For the Armed Forces this will exclude any members who began to draw their benefits before 1 April 2001. • A "lag period element", which relates to the period between the effective date and the implementation date, i.e. between 31 March 2020 and 1 April 2024 for the 2020 valuations. The Scheme Actuary calculates the difference between the expected costs of benefits accruing over that period and the total contributions paid in over the same period. This is then spread over 15 years of pensionable payroll as per direction 14. The calculation therefore captures any under or over payments in contributions from the effective date of the valuation to the point a new employer contribution rate can be implemented. • A "future service element", which is the expected cost of benefits to be accrued over the implementation period (i.e. from 1 April 2024 to 31 March 2027 for the 2020 valuations). • A deduction for expected member contributions during the implementation period. This ensures only the employer portion of the cost is calculated.
Calculation of Core Cost Cap Cost of the Scheme	
33	This Direction implements a reformed scheme only CCM by ensuring that any "reformed closed connected schemes" or "reformed opening connected schemes" are included in the CCM, with any "legacy connected schemes" excluded.
33A	This Direction requires the Scheme Actuary to calculate the items relating to a "reconstructed first cost cap valuation". This is to determine what the "core cost cap fund" (the notional asset values for purposes of the core CCM) would have been at the previous valuation had the reformed CCM been in place from the outset (the "prior value of the core cost cap fund" as per Direction 35). This is required because the actual cost cap fund amounts calculated at the previous valuation will include those of the legacy schemes. For the avoidance of doubt this does not mean that the actual 2016 valuations are being re-opened in any way.

34-48	These Directions specify how the core cost cap cost of the scheme is to be calculated, and the intermediate calculations that lead into that formula. The core cost cap cost of the scheme allows for both past service and future service elements as well as “technical immunity adjustments”. These adjustments work to remove the impact of a change in the long-term economic assumptions from the core cost cap cost of the scheme. Similar to the employer contribution rate, the past service element is determined by comparing the “cost cap liabilities” (determined in direction 34) with the core cost cap fund (determined in direction 41). Again, this difference is spread over 15 years of pensionable payroll as per direction 14. This is called the “core cost cap past service cost” and is determined in direction 43. The core cost cap fund is calculated by starting with the prior value of the core cost cap fund. It is then increased by the “core cost cap income” and “core cost cap notional investment returns”; and reduced by the “cost cap benefits paid”. The final element of the calculation is the “past service technical immunity adjustment”. These calculations are set out in more detail in the lines below.
34	This Direction directs the Scheme Actuary to calculate the cost cap liabilities.
35	This Direction sets out how to determine the prior value of the core cost cap fund. This includes reference to the reconstructed first cost cap valuation if relevant.
36, 37	The core cost cap income (determined in direction 37) adjusts received employer contributions as if they had been paid at the “core cost cap fund contribution rate”, determined in direction 36, instead. It also excludes any income in relation to the remedy associated with the McCloud litigation. This is because the corresponding liabilities are excluded from the CCM. The core cost cap fund contribution rate considers the expected costs of the benefits accruing between valuations (or in the case of a reconstructed first cost cap valuation, in the period from the introduction of the reformed scheme to the effective date). It also reflects the core cost cap past service cost at the previous valuation (or reconstructed first cost cap valuation).
38	The cost cap benefits paid are the benefits paid out of the scheme between valuations (or in the case of a reconstructed first cost cap valuation, in the period from the introduction of the reformed scheme to the effective date). As it refers to benefits paid out of the scheme i.e. the reformed scheme, it automatically excludes any benefits in relation to the remedy associated with the McCloud litigation and the legacy schemes.

39	The core cost cap notional investment returns are calculated using the historic SCAPE rates. This is consistent with the application of notional investment returns when calculating the notional assets. However, the rates of return are applied to different amounts, taking account of the prior value of the core cost cap fund, the core cost cap income and the cost cap benefits.
40,41	Direction 40 sets out how the "past service technical immunity adjustment" must be calculated. It is calculated as the difference in cost cap liabilities due to a change in the long-term economic assumptions since the previous valuation. In the 2020 valuation context, this amount is the extent to which the cost cap liabilities are greater due to a decrease in the SCAPE discount rate (offset somewhat by the lower rate of long-term earnings revaluation for certain schemes). This amount is then included in the calculation of the core cost cap fund, which is specified in direction 41. This ensures that a change in long-term economic assumptions does not have a direct impact on the past service element of the core cost cap cost of the scheme.
42	This Direction sets out that an analysis of the change in value of the core cost cap fund must be included in the cost cap valuation report
43	This Direction sets out how to determine the core cost cap past service cost. This calculation uses results from the intermediate calculations, as detailed in the table entry for Directions 34-48 set out above.
44	The "cost cap future service cost" is the expected cost of benefits to be accrued over the cost cap implementation period (1 April 2023 to 31 March 2027 for 2020 valuations). There are no liabilities building up in relation to the remedy associated with the McCloud litigation during the cost cap implementation period, and hence no need to exclude them. The assumptions differ from those used for the calculation of the employer contribution rate in the following ways: • only long-term assumptions are used for pension increases or revaluation rates. (i.e. ignoring where different rates are used for some earlier years) • the demographic assumptions (for example relating to when people retire) are to be set (with one exception) as if scheme members had no previous service in a legacy scheme. This includes ignoring service in legacy schemes that arose because of transitional protection or the remedy associated with the McCloud litigation. The exception is that the assumptions used to project the expected scheme membership do not have to assume members had no legacy past service. These differences are required to be consistent with how the employer cost cap is (or was) set. This avoids systematic changes in costs over time being present in the CCM, for example due to members in future having less legacy scheme service.

45	This Direction sets out that the “cost cap contribution yield” is the yield expected from member contributions into the scheme during the cost cap implementation period. Similar to the calculation of the cost cap future service cost, there is no need to exclude any contributions relating to the remedy associated with the McCloud litigation, as there are none.
46, 47	Direction 46 sets out how the future service technical immunity adjustment must be calculated. It is calculated as the difference in the cost cap future service cost due to a change in the long-term economic assumptions from the previous cost cap valuation. In the 2020 valuation context, this amount is the extent to which the future service cost is greater due to a decrease in the SCAPE discount rate. For certain schemes, this is offset somewhat by a lower rate of long-term earnings revaluation. This future service technical immunity adjustment is then combined with the equivalent adjustments made at previous valuations, in direction 47, to form the “cumulative future service technical immunity adjustment”. This ensures that the calculation of the core cost cap cost of the scheme excludes the impact of a change in long-term economic assumptions from the point that the employer cost cap was set.
48	This Direction sets out that the core cost cap cost of the scheme must be calculated as the cost cap future service cost and the core cost cap past service cost, minus cost cap contribution yield and minus the cumulative future service technical immunity adjustment.
<u>Application of Part 2 to local government workers</u>	
49	This Direction sets out some differences for local government schemes. The valuation approach set out in these Directions applies to the scheme at a national level. This is used to provide an aggregate measure of the costs of those schemes for the purposes of the CCM. The Directions do not apply to the valuations of individual funds, and therefore do not affect how costs will be measured at the local level or what contribution rates local employers will pay. The differences set out in direction 49 are required in order to: • reflect that actual contributions received will vary from those determined at an aggregate level under previous versions of these Directions; • ensure the “underpin” that is provided as part of the transitional protection remedy for local government workers is excluded from the CCM; • allow for the actual experience of those members who utilise the option to pay 50% of the normal contribution rate to build up only 50% of the normal pension. This is ignored for future service calculations in the CCM (to prevent changes in take-up of the option, which would not represent any fundamental change in the cost of the benefits offered, from directly affecting outcomes). However, the past service elements of the CCM calculations allow for actual experience. For the avoidance of doubt, the

	actual experience is captured in both the core cost cap funds and cost cap liabilities. Therefore, the core cost cap cost of the scheme is not directly impacted by changes in take-up of the option.

PART 2A: Calculating the Employer Cost Cap

Direction(s)	Purpose
50	This part is limited to only applying to reformed schemes for which an employer cost cap has not already been calculated. This currently applies to: • the Civil Service (Other Crown Servants) Pension Scheme, for which an employer cost cap was not calculated at their preliminary valuation as at 31 March 2015. This must now be retrospectively calculated in a supplemental valuation report (Direction 50A).[27] • The new Judicial pension scheme that opened in 2022. (Note that Part 3 modifies Part 2A in relation to the Judiciary). This part is also set up so that it applies if another reformed scheme were to open in future. However, in practice modifications would be required at that time as it is not possible to specify in advance the data and some aspects of the scheme-specific assumptions when the circumstances for setting up a scheme are not yet known.
51	This Direction sets out additional definitions. Essentially the “relevant new scheme” is the new scheme that needs an employer cost cap to be set. This is calculated at the last valuation of the “relevant old scheme”, which is the predecessor scheme or schemes.
52	This Direction requires that a preliminary valuation be undertaken.
53	This Direction sets out how the employer cost cap is calculated. This is the expected cost of benefits built up in the relevant new scheme less the member contribution yield, calculated over the cost cap implementation period. The assumptions that were directed for the equivalent calculations at the 2012 valuations - and for the 2015 valuation of the legacy schemes connected to the Civil Service (Other Crown Servants) Pension Scheme - are again directed to be used as set out in subparagraphs (4) – (8) and (10). Note that only long-term assumptions are used for pension increases or revaluation rates (i.e. ignoring where different rates are used for some earlier years in the employer contribution rate calculation).

[27] As part of the 2020 valuations this employer cost cap will then be tested for the first time.

	Subparagraph (9) ensures that the demographic assumptions (for example relating to when people retire) are to be set (with one exception) assuming that scheme members had no previous service in a legacy scheme. This is consistent with the Directions applicable for those earlier 2012 (or 2015) valuations. This now includes ignoring service in legacy schemes that arose because of transitional protection or the remedy associated with the McCloud litigation. The exception is that the assumptions used to project the expected scheme membership do not have to assume members had no legacy past service.
53(2)	This Direction sets out some details for a 2015 supplemental valuation that sets the employer cost cap for the Civil Service (Other Crown Servants) Pension Scheme. It specifies that the same data, methodology and assumptions must be used as were used in the existing, already published, valuation report with an effective date of 31 March 2015, except where direction 53 specifies otherwise. It also specifies the cost cap implementation period to be used.

<u>PART 3: Setting the Employer Cost Cap and Cost Cap Valuations in relation to a New Scheme for the Judiciary</u>

Direction(s)	**Purpose**
54	This Direction is the same as Direction 20, but in relation to this Part.
54A	This Direction sets out that the now closed Northern Ireland reformed scheme is connected to the main Judges schemes. This is the case both at the 2020 valuation (which is technically a valuation of the 2015 Judges scheme) and at future valuations (which will be valuations of the new 2022 Judges scheme). This means that Northern Ireland Judges are included in the data to determine the employer cost cap. Furthermore, their past service liabilities are included in the past service elements of the Employer Contribution Rate calculation and CCM calculations.
56	This Direction sets out which specific Judges schemes are considered as “reformed closed connected schemes” and “reformed opening connected scheme” and therefore included in CCM calculations as per direction 33.
57	This modifies or disapplies various parts of the Directions to achieve the following: • 57(a) – disapplies various reporting requirements due to the below points. • 57(b) - ensures any members subject to the remedy associated with the McCloud litigation who choose reformed scheme benefits, have those benefits excluded from the CCM. This is for consistency with all other

	unfunded schemes. Note that this is only required in respect of Judges because only for them can remedy benefits be paid out of the reformed scheme and therefore otherwise be subject to a "reformed scheme only mechanism". • 57(c) and (d) – disapply the determination of the core cost cap cost of the scheme, economic cost cap cost of the scheme and comparison with the employer cost cap. This ensures that the CCM is not "tested" for Judges at the 2020 valuation, given that the employer cost cap is being set at this valuation. Note, all past service related items are still calculated because they need to be tracked from one valuation to the next. • 57(e) to (h) – remove references to "preliminary valuation" for determination of the employer cost cap. This is because past service effects will include the previous reformed schemes introduced in 2015 and go back to 2015, therefore the "counting of valuations" cannot be reset for Judges. • 57(i) – sets out that the employer cost cap for the Judiciary is set on the same assumptions that applied for calculating the employer cost cap for the 2015 scheme (not just those directed in Part 2A). It further specifies that the calculation must use 2020 valuation data and considers a cost cap implementation period of 2023-2027.
58	This Direction sets the cumulative future service technical immunity adjustment to zero. This ensures that at the next valuation, when a core cost cap cost of the scheme will need to be calculated (in Part 2) and the CCM is tested for the first time, that only the difference in long-term economic assumptions from those used in setting the employer cost cap and those in force at the next valuation will be captured.

PART 4: Economic Check

Direction(s)	**Purpose**
59-67	These Directions set out how to calculate the economic cost cap cost of the scheme (in Direction 67) based on intermediate calculations (Directions 59 to 66). These are all calculated in the same way that Part 2 sets out how to calculate the core cost cap cost of the scheme, except that there are no technical immunity adjustments. Therefore, the impact of a change in long-term economic assumptions is included in the calculation of the economic cost cap cost of the scheme. The core cost cap fund contribution rate includes a past service element that in turn is influenced by the past service technical immunity adjustment. Therefore, an alternative "economic cost cap fund contribution rate" needs to be calculated. This flows through into the "economic cost cap income", the "economic cost cap notional investment returns" and the "economic

	cost cap fund". Any items from Part 2 which are not present in this part are unaffected by the technical immunity approach. These items can therefore be used in determining both the core cost cap cost of the scheme and economic cost cap cost of the scheme.
68	This Direction sets out how to calculate the "total cumulative technical immunity adjustment". This is calculated as the difference between the core cost cap cost of the scheme and the economic cost cap cost of the scheme (being a positive amount if the core cost is higher than the economic cost). This item is for disclosure purposes only.
69	This Direction sets out the same differences for local government schemes that are included in Direction 49 for Part 2 that are also relevant for this part.

PART 5: Comparison with Employer Cost Cap

Direction(s)	**Purpose**
70	This Direction specifies that both the core cost cap cost of the scheme and the economic cost cap cost of the scheme must be compared to the employer cost cap. If (and only if) both have breached the same margin (i.e. both are higher than 3% above the employer cost cap, or both are lower than 3% below the employer cost cap) then the Scheme Actuary must notify the responsible authority. As per the previously stated design of the economic check this ensures that a breach of the mechanism is only rectified if it were still to occur having allowed for the impact of a change in long-term economic assumptions.

PART 6: Certification and Rectification

Direction(s)	**Purpose**
71	This concerns the process that follows a notification being made under Part 5, where both the core cost cap cost of the scheme and the economic cost cap cost of the scheme have breached the same margin. It specifies that in that case, scheme changes to bring costs back to target can only be implemented if the Scheme Actuary has certified that those changes do achieve that, in accordance with calculations as specified in the Directions.
72	This Direction specifies the content of the certificate. It must state the steps to be taken (i.e. changes to be made to the scheme's provisions) to bring

	costs back to target. It must also set out the three revised results (the core cost cap cost of the scheme, the economic cost cap cost of the scheme and the employer contribution rate) assuming those steps are taken.
73-75	These Directions state that the three items mentioned in Direction 72 must be calculated in the same way as the original results in the relevant valuation, with the exception of the assumption that the steps are taken to bring the scheme back to the target cost.
76,77	These Directions state that where the core cost cap cost of the scheme was closer to the breached margin than the economic cost cap cost of the scheme, then the target cost is reached (for purposes of issuing the certificate) if the revised core cost cap cost of the scheme equals the target cost. Similarly, if the economic cost cap cost of the scheme is the closer to the breached margin then it is the revised economic cost cap cost of the scheme that needs to equal the target cost. This ensures that the impact of a change in long-term economic assumptions can only offset an initial breach and not contribute to one, as per the previously stated design of the economic check.