



Technical Bulletin

Public Service Pension Scheme Valuations

14 March 2014

On 13 March the Chief Secretary to the Treasury, Danny Alexander, set out the Government's policy on valuations of the main public service pension schemes and plans for an employer cost cap. Treasury Directions and regulations which set out the legal framework for the valuations and cost cap were [published](#) alongside a policy paper. This Bulletin provides an overview of the announcements.

Background

Following the recommendations of the Independent Public Service Pensions Commission (IPSPC), chaired by Lord Hutton, new career average re-valued earnings (CARE) schemes for the public service are being introduced. The Public Service Pensions Act 2013 (the Act) provides the legislative framework for the introduction of these new schemes (see GAD's [Technical Bulletin](#) for further detail). The new Local Government Pension Scheme for England and Wales (LGPS) will be introduced in April 2014 with the other major schemes following in April 2015. New schemes for staff of other public bodies are also expected to follow the IPSPC's recommendations.

One of the key aspects of the reforms is to ensure that the costs of the schemes remain sustainable on an ongoing basis, particularly against a background of increasing life expectancy. The Act therefore requires schemes to carry out actuarial valuations and states that they must be carried out in accordance with Treasury Directions (referred to throughout the remainder of this bulletin simply as "the Directions"). The valuations are expected to inform the contribution rates to be paid into the schemes by employers. The Act also provides for an employer cost cap, to be set in scheme regulations, based on the results of the valuations.

The Policy Paper

The policy paper 'Public Service Pensions: Actuarial valuations and the employer cost cap mechanism' sets out more detail on the government's policy regarding the valuations. It also explains how the employer cost cap will be set, and how the cap mechanism will operate to control costs. Further guidance on the operation of the Directions and Regulations are also included.

The paper explains the key role of the valuations in the scheme reforms noting that the valuations will:

- measure the full costs of paying pension benefits
- inform the future contributions to be paid into the schemes by employers, to ensure that these costs are fully recognised by employers in the future
- ensure costs are measured on a transparent and consistent basis across all of the schemes
- provide the framework to establish an employer cost cap mechanism in the new schemes

The policy paper also explains that the Treasury will keep the Directions under review with reviews before each future round of scheme valuations expected.

The Directions

The Act sets the structure for the valuations and gives the Treasury powers to make the Directions which specify details of how schemes should carry out the valuations. It also imposes a statutory requirement on the Treasury to consult the Government Actuary on the Directions. The correspondence constituting the Treasury's consultation with the Government Actuary has also been [published](#). The Act also provides for the Directions to determine how the employer cost cap should be set, and how scheme costs will be measured against the cost cap at future valuations.

The Directions, published alongside the policy paper, set out details of how valuations should be carried out including:

- the date for the preliminary valuations (used to set the employer cost cap). Generally this is 31 March 2012 but is aligned to existing valuation cycles for local government schemes
- a four yearly valuation cycle (three years for local government schemes)
- the economic and financial assumptions to be used (these are based on the economic forecasts produced independently by the OBR)
- the actuarial methodology and assumptions for future changes in life expectancy
- the pattern of future State Pension Ages to be used in the valuations
- provision for other assumptions to be set on a scheme specific basis, with a requirement that the Minister responsible for their scheme set these assumptions as best estimates, without margins for prudence or optimism

As some regulations relating to the new schemes are still to be made, the Directions specify that valuations should assume that the new scheme benefits are as specified in the Proposed Final Agreement (or equivalent document) for each of the schemes.

The Valuations

GAD is currently undertaking the work to complete the preliminary valuations for the main public service schemes. For each category of public service workers these value the benefits in the new scheme and existing schemes. The results of the valuations will be used to inform the employer contribution rates and set the employer cost cap, but will not have any direct impact on scheme members.

The final results for the NHS Pension Scheme (England and Wales), Teachers Pension Scheme (England and Wales) and Principal Civil Service Pension Scheme will be published later in the spring. In a [written ministerial statement](#) on 13 March, Mr Alexander noted that from provisional valuation results for these schemes it is already clear that, if current employer contribution rates were to continue, these would be insufficient to meet the full costs of the schemes in the future with the shortfall expected to be around £1 billion a year.

If a future valuation shows that the costs of a scheme have deviated by more than 2% of pensionable pay from the cap, the employer cost cap mechanism requires corrective action to return costs to the employer cost cap. This action could include adjustments to member benefits accruing in respect of future service, or adjustments to member contributions.

If you would like to discuss any of these issues in more detail or have any other questions please get in touch with your usual GAD contact.