



## HM Treasury

# The Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2018

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

### Citation and entry into force

1. These Directions may be cited as the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2018, and come into force the day after they are signed.

### Amendment of the 2014 Directions

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

### Interpretation

3. In direction 2 (interpretation), at the appropriate place insert—

““commuted portion” has the meaning given by rule B7(2) of the Firefighters’ Pension Scheme Order 1992 or is within the meaning of rule B7(2) of the Police Pensions Regulations 1987, as appropriate;”.

### Effective date, from 2018

4. In direction 6(1) (effective date), after sub-paragraph (a) insert—

“(aa) in relation to a scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, 31st March 2020;”.

5. For direction 6(2), substitute—

“(2) In relation to a scheme providing benefits to local government workers in Scotland—

(a) the second valuation of a scheme must have an effective date of 31st March 2020; and

(b) each subsequent valuation must have an effective date four years later than the effective date of the second (or last preceding) valuation.

(3) The second, and each subsequent, valuation of a new public body pension scheme must have an effective date which is fixed by the public authority responsible for the scheme.

(4) The second, and each subsequent, valuation of any other scheme must have an effective date which is four years later than the effective date of the first (or last preceding) valuations.”.

### **Implementation period**

6.-(1) In direction 8(a) (implementation period)—

(a) after “workers” insert “in Scotland”;

(b) after “date” insert “for the valuation with an effective date of 31 March 2017”;

(c) omit “and”.

(2) After paragraph (a), insert—

“(ab) in the case of a new public body pension scheme, a period fixed by the public authority responsible for the scheme; and”.

### **Pension increase assumptions**

7. In direction 14(2) (assumed rate of pension increases where rate not set by order), for sub-paragraphs (a) to (d) substitute—

"(a) 2.2% on 8th April 2019;

(b) 1.8% on 6th April 2020; and

(c) 2% on the first Monday in each tax year subsequently”.

### **Earnings assumptions**

8. In direction 16 (earnings measure), for sub-paragraphs (a) to (e) substitute—

“(a) 2.7% on the 1st April 2019;

(b) 2.4% on the 1st April 2020;

(c) 2.5% on the 1st April 2021;

(d) 2.8% on the 1st April 2022;

(e) 3% on the 1st April 2023; and

(f) 4.2% on 1st April in each year from 1st April 2024.”.

9. In direction 17 (public earnings growth), for sub-paragraphs (a) to (h) substitute—

“(a) 1.2% during the calendar year ending on 31st March 2017;

(b) 2.2% during the calendar year ending on 31st March 2018;

(c) 2.1% during the calendar year ending on 31st March 2019;

(d) 2.3% during the calendar year ending on 31st March 2020;

(e) 2.6% during the calendar year ending on 31st March 2021;

(f) 2.8% during the calendar year ending on 31st March 2022;

(g) 3% during the calendar year ending on 31st March 2023; and

(h) 4.2% during each calendar year from 1st April 2023.”.

### **SCAPE discount rate**

10. In direction 18(a), for “3%” substitute “2.8% from 1<sup>st</sup> April 2016 to 31<sup>st</sup> March 2019 and compounded with 2.4% from 1<sup>st</sup> April 2019”.

### **Assumed mortality rate**

11. In direction 18(b), for “2012” substitute “2016”.

### **Commutation assumption**

12. In direction 18(e), for “15%” substitute “17.5%”.

## Contents of valuation report

13. For direction 21 (contents of the valuation report: information about the scheme and data), substitute—

“21.—(1) The valuation report prepared by the scheme actuary must include—

- (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 or projections made to 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 by 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 by these Directions;
- (f) a summary of the regulations, directions, and professional standards relating 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 connected scheme);
- (h) an analysis of the demographic experience carried out in accordance with direction 20;
- (i) a statement of the assumptions used by the scheme actuary in preparing the report, including—
  - (i) a summary of the assumptions determined by the responsible authority under direction 19;
  - (ii) a statement of how regard has been had to the matters listed in direction 19(d) in making assumptions under direction 19(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 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 the main sensitivities to—

- (a) the number of years specified in direction 13(2) (period contribution rates payable); and
- (b) the assumptions specified in directions 14 (pension increases), 15 (price measure revaluations), 16 (earnings measure revaluations), 17 (earnings growth), 18(a) (SCAPE discount rate), 18(d) (state pension age), 18(e) (surrendered pension).

## **Contents of the valuation report: cost cap**

### **14. In direction 23(a) (contents of the valuation report: cost cap)—**

- (a) after “42” omit “and”;
- (b) at the appropriate place insert—
  - “(xiv) the cost cap difference calculated in accordance with direction 42A; and”.

## **Notional assets**

### **15. For direction 25(2) (notional assets) substitute—**

- “(2) The income received by the scheme for the purpose of the calculation at paragraph (1) must—
  - (a) include, but is not limited to, employer contributions, employee contributions and incoming transfer values;
  - (b) exclude payments received from the Consolidated Fund for the payment of—
    - (i) interim payment amounts, within the meaning of regulation 49 of the Judicial Pensions (Fee-Paid Judges) Regulations 2017 and any interest and compensation paid on those amounts; and
    - (ii) commuted portions required to be paid following revisions of the tables produced under rule B7(3) of the Firefighters’ Pension Scheme Order 1992 or rule B7(7) of the Police Pensions Regulations 1987 that took effect on 1<sup>st</sup> December 2001 or 1<sup>st</sup> December 2004, any interest and compensation paid in respect of members as a result of those revisions.

### **16. For direction 25(3), substitute—**

- “(3) The benefits paid by the scheme for the purpose 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;
    - (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; and
    - (iv) commuted portions required to be paid following revisions of the tables produced under rule B7(3) of the Firefighters’ Pension Scheme Order 1992 or rule B7(7) of the Police Pensions Regulations 1987 that took effect from 1<sup>st</sup> December 2001 or 1<sup>st</sup> December 2004 and interest paid in respect of members as a result of those revisions;
  - (b) exclude compensation paid to members as a result of Part 7 of the Judicial Pensions (Fee-Paid Judges) Regulations 2017 or those revisions.

### **17. In direction 25(4)—**

- (a) at the end of sub-paragraph (a), omit “and”;
- (b) for sub-paragraph (b) substitute—
  - “(b) for each calendar year ending on 31st March from the calendar year ending on 31st March 2011 to the calendar year ending 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%;

- (c) for each calendar year ending on 31<sup>st</sup> March from the calendar year starting on 1<sup>st</sup> April 2016 to the calendar year ending on 31<sup>st</sup> 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%; and
- (d) for each calendar year ending on 31<sup>st</sup> March from the calendar year starting on 1<sup>st</sup> April 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 2.4%.”.

#### **Prior value of the cost cap fund**

**18.** In direction 30 (prior value of the cost cap fund), at the end of paragraph (1)(b)(ii) for “; and” substitute “except—

(aa) for direction 16 (earnings measure) a percentage figure of 4.2% applies from 1st April 2020;

(bb) for direction 17 (public earnings growth) a percentage figure of 4.2% applies during the calendar year starting on 1st April 2019 and each subsequent calendar year;

(cc) for direction 18(a) (SCAPE discount rate) the percentage figure is 2.4%; and”.

#### **Cost cap fund contribution rate**

**19.** In direction 32(2) (cost cap fund contribution rate), after “Directions” insert “except with the assumptions that—

(a) for direction 16 (earnings measure) a percentage figure of 4.2% applies from 1st April 2020;

(b) for direction 17 (public earnings growth) a percentage figure of 4.2% applies during the calendar year starting on 1st April 2019 and each subsequent calendar year; and

(c) for direction 18(a) (SCAPE discount rate) the percentage figure is 2.4%”.

**20.** In direction 32(4), after “scheme” insert “except with the assumption that for direction 18(a) the percentage figure is 2.4%”.

#### **Cost cap net leavers liabilities**

**21.** In direction 35(2) (cost cap leavers liabilities)—

(a) at the end of sub-paragraph (c) omit “and”;

(b) at the end of sub-paragraph (d) for “.” substitute “;”;

(c) at the appropriate place insert—

“(e) for the first valuation, calculate A and B in paragraph (1) using the methodology and assumptions that were used to calculate the employer contribution rate in accordance with direction 29 for the preliminary valuation, save that—

(i) for direction 16 (earnings measure) a percentage figure of 4.2% applies from 1st April 2020;

(ii) for direction 17 (public earnings growth) a percentage figure of 4.2% applies during the calendar year starting on 1st April 2019 and each subsequent calendar year; and

(iii) for direction 18(a) (SCAPE discount rate) the percentage figure is 2.4%; and

(f) for the second and subsequent valuations, calculate A and B in paragraph (1) using the methodology and assumptions that were used to calculate the employer contribution rate in accordance with direction 29 for the previous valuation save that for direction 18(a) the percentage figure is 2.4%.”

#### **Cost cap notional investment returns**

22. In direction 36(2) (cost cap notional investment returns) in sub-paragraph (b) for “3%” substitute “2.4%”.

#### **Cost cap liabilities**

23. In direction 39 (cost cap liabilities), at the appropriate place insert—

“(3) For the purpose of calculating A and B, the percentage figure for direction 18(a) (SCAPE discount rate) is 2.4% from 1<sup>st</sup> April 2016.”

#### **Cost cap future service cost**

24. In direction 40(2) (cost cap future service cost) for the words “on 11<sup>th</sup> April 2016” substitute “from the first Monday in each tax year from 8<sup>th</sup> April 2019”.

25. In direction 40(3) for the words from “is” to the end of the paragraph substitute “is 4.2% from 1st April 2019.”

#### **Cost cap past service cost**

26. In direction 41 (cost cap past service cost) at the end insert—

“For the purpose of calculating this cost, the percentage figure for direction 18(a) (SCAPE discount rate) is 2.4% from 1<sup>st</sup> April 2016.”

#### **Cost cap and cost cap difference**

27. For direction 42 (cost cap cost of the scheme) substitute—

##### **“Cost cap cost of the scheme**

42. The 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 40;

B is the cost cap past service cost calculated in accordance with direction 41;

C is the cost cap contribution yield calculated in accordance with direction 31;

D is the cost cap difference calculated in accordance with direction 42A.

##### **Cost cap difference**

42A. The cost cap difference must be calculated as—

$$A - B$$

where—

A is the proposed employer cost cap set at the time of the preliminary valuation (“the preliminary cost cap”) in accordance with direction 53 but re-calculated as though at that time—

- (i) for direction 16 (earnings measure) a percentage figure 4.2% applied from 1st April 2020;
- (ii) for direction 17 (public earnings growth) a percentage figure of 4.2% applied during the calendar year starting on 1st April 2019 and each subsequent calendar year;
- (iii) for direction 53(4)(a) to (d) (proposed employer cost cap: earnings measure) a percentage figure of 4.2% applied in each instance;
- (iv) for direction 18(a) (SCAPE discount rate) the percentage figure was 2.4%; and

B is the preliminary cost cap.”.

### **Cost cap analysis**

**28.** In direction 43(b)(iv)(hh) (cost cap analysis) for “2019” substitute “2023”.

### **Application of Part 2 to new public body pension schemes**

**29.** After direction 47(3) (application of Part 2 to new public body pension schemes) insert—

“(4) In relation to a valuation of the National Assembly for Wales Members’ Pension Scheme, Part 2 of these Directions applies with the following modifications—

- (a) the modifications provided in paragraph (1) of this direction;
- (b) directions 13, 21(2)(a), 22 and 24 to 29 do not apply;
- (c) direction 23(i), (iii)-(x) and (xii) do not apply;
- (d) directions 30, 32 to 39 and 41 do not apply;
- (e) for direction 40 the average age of the membership is adjusted to reflect the average age of the membership during the term of the National Assembly for Wales that was in session at the effective date of the valuation; and
- (f) in direction 42, the cost cap cost of the scheme must be calculated as—

$$(A - C) - D.”.$$

### **Certification**

**30.** After direction 49 insert—

#### **“Certification**

**49A.** Where—

- (a) a notification has been issued under direction 49(2); and
- (b) the responsible authority has provided the scheme actuary with the decision made under section 12(6) of the Public Service Pensions Act 2013 as to the steps to be taken to achieve the target cost for the scheme;

the scheme actuary must issue a certificate within three months of receiving the decision.

**49B.** The certificate must state—

- (a) the steps to be taken to achieve the target cost for the scheme;
- (b) the 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
- (c) the employer contribution rate that would result from implementation of the steps to be taken to achieve the target cost for the scheme.

**49C.** The cost cap cost of the scheme calculated for the purpose of direction 49B(b) must be calculated in accordance with direction 42, except that the calculation should assume that the steps to be taken to achieve the target cost for the scheme are in force.

**49D.** The employer contribution rate calculated for the purpose of direction 49B(c) must be calculated in accordance with direction 29, except that the calculation should assume that the steps to be taken to achieve the target cost for the scheme are in force.”.

### **Preliminary valuation**

**31.** In direction 50(d) (preliminary valuation), for the words “the data” to the end, substitute—

“the following data, methodology and assumptions, so far as they are applicable to directions 24 to 29 and 44 to 46—

(i) direction 14, save that the percentage figures are 2.7% for 7th April 2014, 2.2% for 6th April 2015, 2.1% for 11th April 2016 and 2% for the first Monday in each subsequent tax year;

(ii) direction 15 subject to the modification provided by this sub-paragraph;

(iii) direction 16, save that the percentage figures are 3.4% for 11th April 2016, 3.6% for 10th April 2017, 3.7% for 9th April 2018, 3.7% for 8th April 2019 and 4.75% for the first Monday in each subsequent tax year;

(iv) direction 17, save that the percentage figures in the sub-paragraphs are 1.8% for 31st March 2013, 0.5% for 31st March 2014, 1.5% for 31st March 2015, 2% for 31st March 2016, 2.5% for 31st March 2017, 3% for 31st March 2018, 3% for 31st March 2019 and 4.75% for each calendar year from 1st April 2019;

(v) direction 18, save that—

(a) the percentage figures in sub-paragraph (a) are 3%;

(b) the principal population projections for the UK in sub-paragraph (b) are those of 2012; and

(c) the percentage figure in sub-paragraph (e) is 15%;

(vi) the data, methodology and assumptions applied by direction 19 must be those that were applied in all previous preliminary valuation reports;”.

**32.** In direction 50(f)(ii), after paragraph (bb) insert—

“(bc) in relation to an existing scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, 31<sup>st</sup> March 2015;”.

**33.** In direction 50(f)(iii), after paragraph (bb) insert—

“(bc) in relation to an existing scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, 1<sup>st</sup> April 2017;”.

**34.** In direction 50(f)(iv), after “direction 8” insert “or, in the case of a scheme providing benefits to employees of the Secret Intelligence Service or the Security Service, calculated as the period of six years from the implementation date”.

### **Application of Part 3**

**35.** After direction 54 (application of Part 3 to schemes for members of the security agencies) insert—

#### **“Application of Part 3 to schemes for the National Assembly for Wales**

**55.** In relation to the National Assembly for Wales Members’ Pension Scheme, Part 3 applies with the following modifications—

(a) directions 49B(c), 49D, 50(f) and 52(5) do not apply;

(b) for direction 53—



- (i) A is the contribution rate required to cover the expected cost of benefits accrued by members of the relevant old scheme during the implementation period and where the average age of the membership is adjusted to reflect the average age of the membership during the term of the National Assembly for Wales that was in session at the effective date of the valuation;
- (ii) the effective date is the date fixed by the public authority responsible for the scheme as the effective date for the valuation;
- (iii) the implementation date is the date fixed by the public authority responsible for the scheme as the implementation date of the valuation; and
- (iv) the implementation period is a period fixed by the public authority responsible for the scheme.”.

**Schedules**

**36.** In schedule 1 (connected schemes) to the Directions, after the entry for Civil servants, insert—

Other civil servants	<p>The pension schemes made under section 1 of the Superannuation Act 1972 for employees of the Secret Intelligence Service or Security Service which came into operation on 1<sup>st</sup> June 1972, 1<sup>st</sup> December 1998 or 1<sup>st</sup> October 2002.</p> <p>The pension scheme established for certain employees of the Secret Intelligence Service which came into operation on 1<sup>st</sup> January 1946, as amended on 1<sup>st</sup> September 1957 and 1<sup>st</sup> July 1964.</p>
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**37.** In schedule 2 (notional assets for first valuation) to the Directions—

- (i) In the entry for “Civil servants”, in the column headed “Notional Asset Value” for “£97,700,000,000” substitute “£95,400,000,000”;
- (ii) after the entry for Civil servants, insert—

Other civil servants	£1,877,000,000	31 <sup>st</sup> March 2015
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**38.** In schedule 3 (preliminary valuation) to the Directions, after the entry for Civil servants, insert—

Other civil servants	<p>The pension schemes made under section 1 of the Superannuation Act 1972 for employees of the Secret Intelligence Service or Security Service which came into operation on 1<sup>st</sup> June 1972, 1<sup>st</sup> December 1998 or 1<sup>st</sup> October 2002.</p> <p>The pension scheme established for certain employees of the Secret Intelligence Service which came into operation on 1<sup>st</sup> January 1946, as amended on 1<sup>st</sup> September 1957 and 1<sup>st</sup> July 1964.</p>	The Civil Service (Other Crown Servants) Pension Scheme Regulations 2016	1 <sup>st</sup> April 2016
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Signed



23rd November 2018

*Conrad Smewing*  
Director, Public Spending  
for Her Majesty’s Treasury