HM Treasury

Technical Explanation of the Directions

<u>The Public Service Pensions (Valuations and Employer Cost Cap) Directions 2023 ("the 2023 Directions")</u>

<u>STRUCTURE OF THE 2023 DIRECTIONS</u>

Part	**Purpose**
1	<u>General</u> 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	<u>Valuations and Cost Cap Valuations</u> 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[1], before the application of the economic check.
2A	<u>Calculating the Employer Cost Cap</u> 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 previously been calculated.

[1] 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.

	The new judges 2022 scheme also needs to set an employer cost cap[2]. 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 1	This Schedule sets out the historic record of notional asset values for the 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

[2] 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

	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[3] 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 recommended by the Independent Public Service Pensions Commission in 2011[4]. 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

[3] https://www.gov.uk/government/consultations/public-service-pensions-cost-control-mechanism-consultation
[4] https://www.gov.uk/government/publications/independent-public-service-pensions-commission-final-report-by-lord-hutton

	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 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[5]. For subsequent years a long-term rate is used. This is set as 2.0%, which is the Bank of England’s target rate.

[5] https://obr.uk/efo/economic-and-fiscal-outlook-march-2023/

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[6].
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[7]; • 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 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.

[6] https://obr.uk/frs/fiscal-risks-and-sustainability-july-2022/
[7] https://questions-statements.parliament.uk/written-statements/detail/2023-03-30/hcws697

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[8] 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 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.

[8] 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.

<table>
<tr><td>30-32</td><td>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.</td></tr>
<tr><td colspan="2"><u>Calculation of Core Cost Cap Cost of the Scheme</u></td></tr>
<tr><td>33</td><td>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.</td></tr>
<tr><td>33A</td><td>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.</td></tr>
<tr><td>34-48</td><td>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</td></tr>
</table>

	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.

<u>PART 2A: Calculating the Employer Cost Cap</u>

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).[9] • 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). 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)

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

	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.

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

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.