



Government Actuary's Department

Nick Donlevy, Director, Public Spending
HM Treasury
By email only

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22 April 2025

Dear Nick

The Public Service Pensions (Exercise of Powers, Compensation and Information) (Amendment) Directions 2025 - Calculation and Payment of Interest

1. Thank you for your letter of 14 April 2025¹, asking for my professional opinion on the proposed amendments to the Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022 and in particular asking for my professional opinion on the amendments which affect the calculation of interest.
2. I have considered the proposed amendments to the interest provisions and it is my opinion that:
 - the revised Directions should deliver the underlying policy intention described in your letter and
 - making these amendments to the Directions will not affect that the overall approach to choosing interest rates is reasonable.
3. The only change which is not an amendment to better meet the underlying policy intent is the one to allow schemes to aggregate payments across tax years rather than scheme years when calculating some interest payments. You have explained that the purpose of this amendment is instead to allow schemes to calculate interest more efficiently. An aggregation approach will have a broadly neutral effect on interest calculations compared to the other approach available to schemes of taking into account the actual payment dates, providing that the payments were made steadily over the aggregation period. This is usually expected to be the case here as the underlying payments are either pensions or contributions and not lump sums. In my view this is worthwhile given the efficiencies in administrative calculations which schemes would be able to achieve.

¹ Your letter is set out in the Appendix to this letter.

Navigating risk | Cutting through complexity

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Compliance, limitations, and third-party disclaimer

4. This letter has been prepared in accordance with the applicable Technical Actuarial Standards: TAS 100 and TAS 300 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.
5. This letter is addressed to HM Treasury. The purpose of this letter is to give my professional opinion on the proposed amendments to the Directions. The assessment contained within this letter is based on my technical analysis of the proposals and the circumstances in which they have been applied. I have not considered any legal risks or risks of creating wider precedents.
6. I understand that HM Treasury may publish this letter. Other than HM Treasury, no person or third party is entitled to place any reliance on the contents of this letter. GAD has no liability to any person or third party for any action taken or for any failure to act, either in whole or in part, on the basis of this letter.

Yours sincerely

A handwritten signature in black ink, reading "F Dunsire", followed by a period. The signature is written in a cursive, flowing style.

Fiona Dunsire
Government Actuary

Appendix – copy of HM Treasury letter sent to the Government Actuary on 14 April 2025



HM Treasury

Nick Donlevy
Director, Public Spending
1 Horse Guards Road
London
SW1A 2HQ

By email to: Fiona Dunsire
Government Actuary

14 April 2025

Dear Fiona,

**The Public Service Pensions (Exercise of Powers, Compensation and Information)
(Amendment) Directions 2025 - Calculation and Payment of Interest**

1. Thank you for your letter of 15 March 2024 which set out your views on some proposed amendments to the Treasury Directions on the public service pensions remedy. As you know the directions were made on 20 March 2024.
2. I am writing to consult you again under section 27(4) of the Public Service Pensions and Judicial Offices Act 2022 in relation to some further amendments to the interest provisions of the Treasury Directions.
3. As schemes have started to administer the remedy, a number of technical issues have come to light which necessitate additional amendments to the Directions. The amendments which relate to interest make changes to directions 14 and 15. The other amendments to the directions affect matters other than interest and I am not consulting you on those.
4. The effect of the amendments is as follows:
 - Provide a flexibility for schemes to aggregate payments across tax years instead of scheme years when they have chosen to calculate interest using an interest calculation method which aggregates payments across years. These payments are in respect of overpaid pension and both over- and under-paid contributions. This is a minor technical amendment which is expected to allow the schemes taking up the option to improve the efficiency of their interest calculation.
 - Provide a flexibility for schemes to calculate interest on pension overpayments that is based on the overpaid amount net of a deduction representing the tax that would have been paid on the overpayment. This is expected to be used by schemes which amend their regulations to reduce the overpayment reclaimed from the member by this tax amount. These two changes will allow schemes to achieve the policy intent which is that overpayments of pension should be reclaimed net of tax.

- Clarify that when the interest rate changes from the 8% tribunal rate to the NS&I rate, that the NS&I rate interest is calculated on the sum of the initial amount owed and the interest calculated at the 8% tribunal rate. This most closely reflects the interest that might be accrued if an individual were to receive a payment including interest in respect of a tribunal judgment and then invest the total payment in an NS&I direct saver account.
 - Clarify that where a mid-point calculation is used and there has been a stream of under- and over-payments but in aggregate the scheme owes the member money, the start of the mid-point period is the first payment (regardless of whether this was an under or overpayment) rather than the first underpayment. This approach awards higher interest than using the first underpayment in the calculation. There is some uncertainty in the approach that a tribunal might take in this situation but the overall amounts are not expected to be significant as this scenario is expected to be quite unusual. One example of when this situation might arise is if a member's legacy scheme retirement was before their CARE scheme minimum retirement age so they had to retire later in their CARE scheme.
 - Ensure that the calculation of interest on underpayments of pension which occur after 28 days after the Remediable Service Statement is first issued meets policy intent. The directions currently set out a calculation which would award interest on these underpayments that is higher than the interest which would be accrued if the amounts were invested in an NS&I Direct saver account.
 - Ensure that the mid-point calculation of interest on underpayments of pension if the interest is paid within 28 days of the Remediable Service Statement being first issued meets policy intent. This changes the end of the mid-point period to be the date of payment instead of the date 28 days after the Remediable Service Statement was issued. This minor change brings this interest calculation closer to that which would apply if interest were awarded by a tribunal.
5. As such, the Treasury proposes to bring forward the amending Directions at Annex A of this letter to make the changes I have listed above.
 6. There are no proposed amendments to the directions which govern the calculation of interest paid to judicial pension scheme members. The Treasury is considering with the Ministry of Justice whether any corresponding changes will be required to these provisions. I will write to you again if we decide that amendments to these provisions are required.
 7. I would be grateful if you could offer your professional opinion on the proposed amendments to the determination of interest payments as set out in this letter, particularly whether the revised Directions will deliver our policy intention. I look forward to receiving your views in respect of this statutory consultation.

Yours sincerely

Nick Donlevy
Director, Public Spending Group, HM Treasury

Annex A: The Draft Public Service Pensions (Exercise of Powers, Compensation and Information) (Amendment) Directions 2025



The Public Service Pensions (Exercise of Powers, Compensation and Information) (Amendment) Directions 2025

Made - - - - - *[] 2025*

Coming into force - - - *[] 2025*

The Treasury make the following Directions in exercise of the powers conferred by sections 23(3)(b), 27(1), (3) and (4), and 129(9) of the Public Service Pensions and Judicial Offices Act 2022⁽¹⁾.

In accordance with section 27(4) of that Act, directions 6 and 7 of these Directions are made after consultation with the Government Actuary.

Citation, commencement, extent and application

—(1) These Directions may be cited as the Public Service Pensions (Exercise of Powers, Compensation and Information) (Amendment) Directions 2025.

(2) These Directions come into force on *[] 2025*.

These Directions extend to England and Wales, Scotland and Northern Ireland.

These Directions apply in relation to Chapter 1 schemes⁽²⁾.

Terms used in these Directions are defined as in the Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022.

Amendment of the Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022

The Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022⁽³⁾ are amended as follows.

Amendment of Part 2: Chapter 1 schemes (schemes other than judicial schemes and local government schemes)

In direction 4, in paragraph (7)(b)(ii)—

for “no” substitute “a”; and

after “made” insert “at the discretion of the scheme manager”.

⁽¹⁾ 2022 c. 7.

⁽²⁾ As defined in section 33(1) of the Public Service Pensions and Judicial Offices Act 2022.

⁽³⁾ The Public Service Pensions (Exercise of Powers, Compensation and Information) Directions 2022 were amended by the Public Service Pensions (Exercise of Powers, Compensation and Information) (Amendment) Directions 2024.

In direction 9, after paragraph (6)(ca) insert—

“(cb) where, by reason of the operation of section 2(1) of PSPJOA 2022, a member has—

incurred an unauthorised payment charge or an unauthorised payment surcharge pursuant to section 208 or 209 of FA 2004; and

where an unauthorised payment surcharge has been incurred, that surcharge has not been discharged under section 268 of FA 2004,

the amount of the unauthorised payment charge and any unauthorised payment surcharge.”

In direction 12, in paragraph (5)(b)—

for “no” substitute “a”; and

after “made” insert “at the discretion of the scheme manager”.

In direction 14, in paragraph (4)—

after “15(3)(b),” insert “or (3A),”;

at the end of subparagraph (a) omit “and”;

at the end of subparagraph (b) omit “.” and insert “, and”; and

after subparagraph (b) insert—

“(c) in respect of direction 15(3)(b), (6)(b), (7)(b), (15)(b) or (17)(b) the amount on which interest is to be calculated must include any interest already accrued under direction 15(3)(a), (6)(a), (7)(a), (15)(a) or (17)(a) respectively.”.

In direction 15—

in paragraph (1)—

before “Where” insert “Subject to paragraphs (1A) and (2),”; and

after “overpaid” insert “or underpaid”;

after paragraph (1) insert—

“(1A) For the purposes of paragraph (1), in calculating the amount on which interest is to be paid the scheme manager may first deduct any income tax amount (or, where such income tax amount is unknown, may estimate the income tax amount and make a deduction accordingly).”;

in paragraph (2), after “overpaid” insert “or underpaid”;

in paragraph (2)(a)—

after “pension year” in each instance insert “or tax year”; and

after “overpaid” in each instance it occurs insert “or underpaid”;

in paragraph (2)(b) —

after “overpaid” insert “or underpaid”; and

after “overpayment” insert “or underpayment”;

in paragraph (3), for “on that amount” substitute “on such amount falling due on or before the date 28 days after a remediable service statement is first issued”;

after paragraph (3) insert—

“(3A) Where the scheme manager is required to pay an amount to a beneficiary under section 14(4) of PSPJOA 2022, interest must be calculated on such amount falling due after the date 28 days after a remediable service statement is first issued from the dates that the pension benefits were underpaid or overpaid to the date of payment.”;

in paragraph (4)—

after “first underpaid” insert “(or first overpaid, in the event that there has been a sequence of overpaid pension benefits then underpaid pension benefits resulting overall in the beneficiary having been underpaid pension benefits)”; and

at the end insert “(or the date of payment if earlier)”; and

in paragraph (8)—

after “first overpaid” insert “(or first underpaid, in the event that there has been a sequence of underpaid contributions then overpaid contributions resulting overall in the relevant member having overpaid contributions)”; and

at the end insert “(or the date of payment if earlier)”;

in paragraph (9), before “Where” insert “Subject to paragraph (10A),”;

in paragraph (10), before “For” insert “Subject to paragraph (10A),”;

in paragraph (10)(a), after “pension year” in each instance insert “or tax year”;

after paragraph (10) insert—

“(10A) any reference in paragraph (9) or (10) to underpaid contributions should be taken to include overpaid contributions where there has been a sequence of overpaid contributions and underpaid contributions resulting overall in the relevant member having underpaid contributions.”;

in paragraph (11), after “Where” insert “Subject to paragraph (12A),”;

in paragraph (12), before “For” insert “Subject to paragraph (12A),”;

in paragraph (12)(a), after “pension year” in each instance insert “or tax year”;

after paragraph (12) insert—

“(12A) any reference in paragraph (11) or (12) to overpaid contributions should be taken to include underpaid contributions where there has been a sequence of underpaid contributions and overpaid contributions resulting overall in the relevant member having overpaid contributions”;

in paragraph (13), before “Where” insert “Subject to paragraph (14A),”;

in paragraph (14), before “For” insert “Subject to paragraph (14A),”;

in paragraph (14)(a), after “pension year” in each instance insert “or tax year”;

after paragraph (14) insert—

“(14A) any reference in paragraph (13) or (14) to underpaid contributions should be taken to include overpaid contributions where there has been a sequence of overpaid contributions and underpaid contributions resulting overall in the relevant member having underpaid contributions”;

in paragraph (16)—

after “first overpaid” insert “(or first underpaid, in the event that there has been a sequence of underpaid contributions then overpaid contributions resulting overall in the relevant member having overpaid contributions)”; and

at the end insert “(or the date of payment if earlier)”;

in paragraph (18)—

after “first overpaid” insert “(or first underpaid, in the event that there has been a sequence of underpaid voluntary contributions then overpaid voluntary contributions resulting overall in the relevant member having overpaid voluntary contributions)”; and

at the end insert “(or the date of payment if earlier)”;

in paragraph (21)—

after subparagraph (a) insert—

“(aa) “income tax amount” means the amount by which any income tax that would have been levied on the beneficiary pursuant to the Income Tax Acts (as defined in section 831 of the Income and Corporation Taxes Act 1988) had that beneficiary not been underpaid pension benefits is greater than the amount of any income tax that was levied, and estimated “income tax amounts” should be construed accordingly;”

after subparagraph (c) insert—

“(d) “relevant tax year” has the same meaning as in section 16(9) of PSPJOA 2022.”.

Signed

2025

Two of the Lords Commissioners of His Majesty's Treasury