



HM Treasury

Annex B: Technical Explanation of the Proposed Directions

The Draft Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2026

1 Update of actuarial assumptions

Pension increase assumptions – Amending directions 8 and 9

- Future annual increases in CPI are taken from the relevant Office for Budget Responsibility (OBR) forecast – in this case the Economic and Fiscal Outlook (EFO) published in November 2025. Because of the need for certainty and finality in relation to valuation results calculations, these provisions will not be updated to reflect any further EFO published by the OBR until the 2024 valuations are completed.
- The inflation assumption will only be based on pension increase orders made before 1 April 2026. This ensures consistency between schemes even if any were to complete their valuation after the 2027 pension increase order is made.

Earnings assumptions – Amending directions 10,11 and 12

- Future annual increases in average weekly earnings and public service earnings are taken from the relevant Office for Budget Responsibility (OBR) forecast – in this case the Economic and Fiscal Outlook (EFO) published in November 2025. Because of the need for certainty and finality in relation to valuation results calculations, these provisions will not be updated to reflect any further EFO published until the 2024 valuations are completed.
- The assumption for earnings-based indexation of CARE pension will only be based on revaluation orders made before 1 April 2026. This ensures consistency between schemes even if any were to complete their valuation after the 2027 public service pensions revaluation order is made.

SCAPE rate change – Amending directions 13 and 16

- These amendments make the technical changes required to ensure that the change in the SCAPE rate from 1.7% to 2.0% (a figure that will be confirmed in due course and formally announced at a later date), is factored into 2024 valuation calculations.
- The use of the date 1 April 2026 for the rate increase to 2.0% reflects that the valuation modelling is generally based on annual (rather than monthly, weekly or daily) cash-flows so allows simplicity in the valuation calculations; and assumes that the SCAPE rate change will occur by that date.

Change in mortality improvement assumption – Amending direction 13

- As per previously stated policy, this amending direction aligns assumptions for future improvements in life expectancy to those in the Office for National Statistics (ONS)'s 2022-based principal population projection. Because of the need for certainty and finality in relation to valuation results calculations, these will not be updated to reflect any further projections published by the ONS until the 2024 valuations are completed.

Specification of method of projecting future payroll – Amending direction 13

- The projection of future payroll for the purpose of spreading deficits or surplus is required to be in line with the assumed increase in public service earnings. Previously each scheme would take advice from their actuary before deciding what assumption to use.

Actuarial judgment on analysis of experience – Amending direction 14

- This amendment allows the scheme actuary to omit the analysis of any of the aspects of the scheme's demographic experience listed in direction 22 if, in the actuary's opinion, this would not be appropriate or relevant to the valuation. This improves the overall efficiency of the valuation process without compromising the quality of the reporting. Since this removes the need to report something which does not provide any information to the reader it will also improve the clarity of the reporting.

McCloud remedy notional cashflow – Amending directions 4 and 16

- These amendments allow schemes to include as income a notional amount payable to the scheme on the cancellation due to the McCloud remedy of a scheme pays debit. A scheme pays debit is created when the member asks the scheme to pay their annual allowance tax charge to HMRC. HMRC pays a refund to the scheme if the tax charge relates to one of the tax years 2019/20 to 2021/22 inclusive. The notional amount is credited for earlier tax years which HMRC do not pay a refund for.

2 Technical amendments

Removal of provisions regarding valuation calculations only done at 2020 valuations – Amending directions 4, 17 to 23, 25, 28, 29, 40 to 46

- The 2020 valuations included a "reconstructed first cost cap valuation" and one-off calculations of the prior value of the "economic cost cap fund" and the "economic cost cap past service cost". These calculations were needed because of the changes made to the cost cap. These calculations will not be done again so the provisions specifying them can be removed from the directions.

Remove directions that allowed delayed implementation of the 2020 valuations – Amending directions 6 and 7

- The 2020 valuations had an implementation date four years after their effective date of 31 March 2020. The intention is that the implementation date should be three years after the valuation effective date and these amendments remove the provisions that varied the timetable for the 2020 valuations.

Typographical corrections – Amending directions 14, 15, 26 and 43

- These directions correct some minor typographical errors in the 2023 directions

Consequential amendments – Amending directions 24 and 27

- The past service technical immunity adjustment calculation is set out in original direction 40. It is the difference in cost cap liabilities due to a change in the long-term economic assumptions since the previous valuation. At the 2024 valuation context, this amount is the extent to which the cost cap liabilities are lower due to an increase in the SCAPE discount rate. Amending direction 24 updates the assumptions for this calculation and is intended to be appropriate for the 2024 and later valuations without the need for future amendments.
- The cost cap future service cost calculation is set out in original direction 44. It is the expected cost of benefits to be accrued over the cost cap implementation period but with some assumptions different from those used for the calculation of the employer contribution rate. This includes 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). This maintains consistency with the way the employer cost cap was set.

Amending direction 27 amends the long-term earnings indexation assumption used to calculate the cost cap future service cost to be appropriate for the 2024 and later valuations without the need for future amendments.

3 Scheme-specific amendments

Security Services – Amending directions 4, 5 and 31 to 34

- These amendments remove provisions relating to the supplemental valuation of the pension scheme for employees of the security service or secret intelligence service which has now been completed and makes necessary consequential additions.

Judicial Pension Scheme – Amending directions 31 and 35 to 39

- These amendments remove provisions relating to the 2016 and 2020 valuations of the judicial pension scheme which have now been completed and insert new provisions for the 2024 valuations.

LGPS – Amending directions 4, 13, 30, 44 and 47

- These amendments consolidate LGPS-specific provisions to a new direction 69.