

Fiona Dunsire, Government Actuary
By email only

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Dear Fiona

Subject: Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2026

1. In accordance with section 11(4) of the Public Service Pensions Act 2013 (the “2013 Act”), I am formally writing to you for your professional opinion on the draft Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions 2026 (the “Amending Directions”).
2. Section 11(2) of the 2013 Act enables HM Treasury to make Directions regarding valuations of the public service pension schemes that have been made under the 2013 Act, together with relevant connected schemes. Section 12(3) of the 2013 Act also enables HM Treasury to make Directions setting out how the employer cost caps will be set, and how the changes in the cost are to be measured for schemes made under the 2013 Act.
3. HM Treasury made such Directions, the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2023 on 30 August 2023 (the “2023 Directions”). These 2023 Directions replaced the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2014 (“2014 Directions”), which were revoked and removed following the significant changes required to the 2014 Directions for the valuations of the public service pension schemes with an effective date of 31 March 2020 (“the 2020 valuations”).
4. HM Treasury has considered the changes needed to the 2023 Directions for the current valuations of the public service schemes with an effective date of 31 March 2024 (“the 2024 valuations”). Our legal advisors have prepared the necessary Amending Directions (set out in Annex A of this letter).
5. We have shared drafts and taken advice from your department in considering the necessary amendments to the Directions, and I am grateful to your officials for all their work. I am now writing formally to ask for your professional opinion on the proposed final Amending Directions. Annex B of this letter includes a more detailed technical explanation of the proposed Amending Directions.
6. We are amending the Directions to primarily achieve the following five aims:
 - a. To change the SCAPE discount rate from 1.7% a year above CPI to the proposed rate of 2.0% a year above CPI. This proposed rate is based on the assumed GDP

growth rate information published alongside the OBR's Financial Risks and Sustainability report published in July 2025¹.

- b. To update the assumptions that the Directions require schemes to use in completing their valuations to current best estimates (i.e. without any adjustment for prudence or optimism);
 - c. To improve consistency between schemes by specifying that the payroll should be assumed to grow in line with the directed pay increase assumption (i.e., the assumption that is used to project each individual's pay growth, excluding promotional increases) rather than permitting a scheme-specific approach;
 - d. To improve efficiency by clarifying that scheme actuaries can use their judgement to determine which assumptions do not merit an analysis of how experience compares to assumptions;
 - e. To make technical changes to ensure the valuations operate as intended and removing any aspects that are no longer required – for example removing references to the “reconstructed first cost cap valuations”. These are no longer needed because the 2024 valuation is not the first valuation where the revised cost cap mechanisms are in place.
7. Our objectives for the valuations remain the same as for the 2020 valuations, other than objective f) which has been updated for the effective date of the current valuation. The objectives are:
- a. Completeness – employer and employee contributions, taken together, reflect the full costs of the benefits provided by public service pension schemes, including any past service effects that arise between valuations;
 - b. No bias – assumptions used to assess costs should be best estimates, with no margin for prudence or optimism;
 - c. Discount rate – the discount rate will be 2.0% a year above CPI, in line with the information available alongside the Office for Budget Responsibility's long-term growth forecasts, as set out in their July 2025 Fiscal Risks and Sustainability Report;
 - d. Consistency – valuations of all public service schemes should be consistent, allowing for comparisons to be made across schemes, including over time. Where different scheme workforces have different characteristics, then there should be consistency in the way that assumptions are set;
 - e. Clarity – the Directions should lead to valuation reports that include sufficient information to allow those who are technically competent to understand how the valuation has been carried out. Valuation reports should provide clear and transparent assessments of schemes' costs, and reports should include information that may be helpful to scheme members and stakeholders in understanding the cost of providing benefits;
 - f. Cost control – the Directions ensure that the 2024 valuation report includes valuation results that measure changes in the costs of the schemes against the employer cost

¹ [Fiscal risks and sustainability – July 2025 - Office for Budget Responsibility](#)

cap (in line with Section 12(4)(b) of the Act and as required by Section 12(5) of the Act);

- g. Sustainability – for each scheme, the measurement of changes in the costs of the scheme against the employer cost cap includes effects of scheme experience and future valuation assumptions differing from the assumptions used to set the employer cost cap;
 - h. Stability – for each scheme, the measurement of changes in the costs of the scheme against the employer cost cap exclude:
 - Costs of the scheme which relate to the benefits accrued in legacy schemes i.e. those introduced prior to the introduction of the 2013 Act;
 - Costs of the schemes which relate to the benefits associated with the remedy of the McCloud and Sargeant litigation;
 - Changes in the costs of the reformed schemes which arise due to the effects of members having service in those legacy schemes.
 - i. Technical immunity – the core measurement of changes in the costs of the schemes against the employer cost cap excludes effects caused by changes to the discount rate, the long-term earnings assumptions or changes in the actuarial methodology used in the valuations; and
 - j. Validation – the Directions ensure that a breach of the cost control mechanism will be implemented only if it would have still occurred had the measurement of changes in the costs of the scheme against the employer cost cap included effects caused by changes to the discount rate, the long-term earnings assumptions or changes in the actuarial methodology used in the valuations.
8. In its response² to the 2021 SCAPE methodology review³ the Government set out a commitment to consider options for monitoring any divergence between actual GDP experience and the SCAPE discount rate. This is intended to ensure that actual changes in the size of the economy are being given proper consideration.
9. Under past practice, actual GDP growth has not been allowed for within the valuation results, nor reported on as an informational item. This approach has been retained for the 2024 valuations.
10. HM Treasury continues to consider options for monitoring any divergence between actual GDP experience and the SCAPE discount rate, including whether it is appropriate to do so outside of the valuation process.
11. As has been noted in previous correspondence, HM Treasury recognises that it is important that the Directions are kept under review in order to ensure that they deliver the Government's objectives. In particular, it was stated that HM Treasury would review these Directions before each valuation round to ensure they remain fit for purpose.

² [Response_SCAPE_discount_rate_methodology_FINAL.pdf](#)

³ [GA to HMT - SCAPE methodology response letter FINAL_3 .pdf](#)

12. I would be grateful if you could offer your professional opinion on these proposed Amending Directions (as set out in Annex A). In particular, I would welcome your views on the extent to which they meet the Government's aims and objectives and are technically complete and coherent, and your views on how to monitor any divergence between actual GDP experience and the SCAPE discount rate.

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