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To: Fiona Dunsire, Government Actuary

By email: Fiona.dunsire@gad.gov.uk

30 June 2026

Dear Fiona

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

1. In accordance with section 11(4) of the Public Service Pensions Act (Northern Ireland) 2014 (the “2014 Act”), I am formally writing to you for your professional opinion on the draft Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions (Northern Ireland) 2026 (the “2026 Directions”).

2. Section 11(2) of the 2014 Act enables the Department of Finance to make Directions regarding valuations of the public service pension schemes that have been made under the 2014 Act, together with relevant connected schemes. Section 12(3) of the 2014 Act also enables the Department of Finance 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 2014 Act.

3. The Department of Finance made such Directions, the Public Service Pensions (Valuations and Employer Cost Cap) Directions (Northern Ireland) 2023 on 3 October 2023 (the “2023 Directions”). These 2023 Directions replaced the Public Service Pensions (Valuations and Employer Cost Cap) Directions (Northern Ireland) 2014 (the “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. The Department of Finance has considered the changes needed to the 2023 Directions for the current valuations of the public service pension 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 five things:

    a. To implement the UK government’s decision to change the SCAPE discount rate from 1.7% a year above CPI to the proposed rate of 2.0% a year above CPI, which was confirmed in May 2026[1].

    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; and

    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. The Department of Finance Directions have been drafted with reference to the equivalent Directions issued by HM Treasury on 19 May 2026 for the public service pension schemes in Great Britain. We have also noted your letter of 12 May 2026 to Marcus Mason, HM Treasury Director of Public Spending, which was published alongside the HM Treasury Directions. This letter set out your professional opinion on the HM Treasury Directions to cater for the current valuations of the public service pension schemes in Great Britain. As such, we request that you focus on any relevant areas of difference between these draft Amending Directions and the HM Treasury Amending Directions.

8. Our objectives for the valuations continue to be broadly aligned with those of HM Treasury, and are as follows:

[1] https://questions-statements.parliament.uk/written-statements/detail/2026-05-19/hcws37

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 included in 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 pension 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. Included within this principle is the need to ensure that the assumptions explicitly specified in the Directions and, in particular, those financial assumptions set out in Directions 15 to 19(a) are the same as, or consistent with, those set out in the HM Treasury Directions[2] . For clarity, this principle applies to both the assumptions that are used to calculate the cost cap and employer contribution rate;

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 cap (in line with Section 12(4)(b) of the 2014 Act and as required by Section 12(5) of the 2014 Act);

g. Sustainability – for each scheme, the measurement of changes in the cost 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 2014 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.

[2] The principle of 'consistency' additionally requires consistency with the directions issued by HM Treasury and applied to schemes in Great Britain.

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.

k. Review - the Department of Finance will keep these Directions under review. Reviews will take account of any developments relevant to the public service pension schemes, cost measurement and control, including those which may be caused by demographic changes, and changes in methodology and assumptions. The Department of Finance will review the Directions before each valuation round to ensure that they remain fit for purpose. In particular, we will consider whether further amendments to the Directions are needed once scheme managers have identified the steps they wish to take in remedying any cost cap breaches identified.

Differences to HM Treasury Objectives

9. The principles noted above differ slightly to those considered by HM Treasury. The main differences are:

    a. The Department of Finance has an additional objective of ‘review’, compared to the objectives set out in HM Treasury’s letter dated 11 May 2026. However, in HM Treasury’s letter to the Government Actuary dated 11 May 2026, they have committed to review the Directions before each valuation round to ensure they remain fit for purpose, even if not explicitly stated as an objective.

    b. The Department of Finance’s consistency principle additionally requires consistency with the Directions issued by HM Treasury and applied to schemes in Great Britain. We are aware that there will be occasions when these principles will be in conflict, and in particular that different aspects of achieving consistency with Great Britain may be in conflict. In general, we believe that the process should be consistent with that set out in HM Treasury’s Public Service Pensions (Valuations and Employer Cost Cap) Directions 2023 (as amended), in the first instance.

10. In its response[3] to the 2021 SCAPE methodology review[4] the UK 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.

11. 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.

12. The Department of Finance continues to monitor the UK Government’s consideration of options for monitoring any divergence between actual GDP experience and the SCAPE

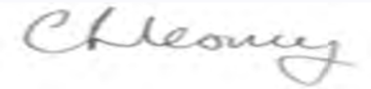
[3] Response_SCAPE_discount_rate_methodology_FINAL.pdf
[4] GA_to_HMT_-_SCAPE_methodology_response_letter_FINAL__3_.pdf

discount rate, including whether it is appropriate to do so outside of the valuation process, and notes the recommendations to HMT Treasury within your letter of 12 May 2026.

13. The Department of Finance has discussed these Amending Directions with the Departments responsible for the devolved public service pension schemes in Northern Ireland, and with other interested stakeholders, including trade unions.

14. 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 Department of Finance's objectives and are technically complete and coherent.

Yours sincerely



Colette Heaney
Director of Pensions Division