Government Actuary's Department

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Dear Colette,

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

1. Thank you for your letter of 30 June 2026 requesting my professional opinion on the draft Public Service Pensions (Valuations and Employer Cost Cap) (Amendment) Directions (Northern Ireland) 2026 (the “Amending Directions”), which amend the Public Service Pensions (Valuations and Employer Cost Cap) Directions (Northern Ireland) 2023 (the “2023 Directions”). This request has been made in accordance with section 11(4) of the Public Service Pensions Act (Northern Ireland) 2014 (the “2014 Act”), which requires the Department of Finance to consult the Government Actuary before issuing or revising valuation directions under section 11(2).

2. You asked me to consider those specific areas where these Amending Directions differ from the Amending Directions made by HM Treasury (“HMT Amending Directions”). I have therefore focused my response to areas where this set of Amending Directions differ from the HMT Amending Directions and areas where specificities in Northern Ireland may require the consideration of different issues.

Equivalent process in Great Britain

3. On 19 May 2026, HM Treasury published Directions under the parallel legislative framework which applies to public service pension schemes in Great Britain, together with my letter of 12 May 2026 to HM Treasury, in which I set out my professional opinion on those proposed Directions. In doing so, I had regard to HM Treasury's stated objectives, which are broadly aligned with those of the Department of Finance.

4. **This letter must be read in conjunction with my letter and report of 12 May 2026 which is referred to in the previous paragraph.** When doing so, references to Great Britain legislation should be read as referring to the corresponding Northern Ireland legislation (although the numbering of the relevant Directions may differ between these Amending Directions and the HMT Amending Directions).

5. The analysis and conclusions set out in my letter and report of 12 May 2026 are equally relevant to the efficacy of the actuarial valuations and employer cost cap framework specified for public service pension schemes in Northern Ireland. In particular, Appendix B and Appendix D to that letter comments on the impact on valuation outcomes of actuarial assumptions and the material risks arising from unreliable valuation data respectively.

Professional opinion

6. Actuarial valuations of the public service pension schemes governed by the Public Service Pensions Act (Northern Ireland) 2014, with an effective date of 31 March 2024, are currently being undertaken (the "2024 valuations"). The 2023 Directions as amended by the Amending Directions, attached to your letter, will set out the framework for these valuations.

7. The previous valuations had an effective date of 31 March 2020. The results of these 2024 valuations will inform the Employer Contribution Rate (the "ECR") payable from 1 April 2027 for each of the unfunded schemes.

8. As part of the 2024 valuations process, scheme costs as measured by the Cost Control Mechanism (the "CCM") will be compared to the employer cost caps for the public service schemes, including LGPS, in the same way as for the 2020 valuations.

9. Alongside the valuation, responsible authorities for the schemes will also test whether member contributions are expected to achieve the target yield over the implementation period from 1 April 2027 to 31 March 2031. Where the expected yield is above or below the target, there may be changes made to the member contributions.

10. The 2023 Directions followed major changes to public service pension schemes resulting from the reforms to the CCM and implementation of the McCloud and Sargeant remedy. The 2023 Directions therefore substantively revised the prior directions. By contrast, the draft Amending Directions make only a small number of changes to the 2023 Directions.

11. As well as updating the directed financial and demographic assumptions, these amendments are intended to improve the efficiency of the valuations by streamlining processes which are not expected to lead to a material impact on the valuation results, and removing any aspects of the 2023 Directions that are no longer required.

12. In my opinion, as a whole, the 2023 Directions as amended by the Amending Directions will deliver results for the 2024 valuations that largely meet the stated objectives (listed in paragraph 8 of your letter), with some better met than others. In my opinion, the Amending Directions are technically complete and coherent when taken as a whole.

13. In forming my opinion, I specifically note the Department of Finance's stated intention to implement the UK Government's decision to change the SCAPE discount rate from 1.7% a year above CPI to the rate of 2.0% a year above CPI. My letter of 12 May 2026 confirmed that it considered the level of the SCAPE discount rate only and did not review the underlying SCAPE methodology, as previously consulted on by the UK Government. It is my understanding that the Department of Finance would similarly consider any such future review of SCAPE methodology as a UK Government decision to be applied in Northern Ireland, as required.

14. I note that there would be more than one way to reasonably meet the objectives and that another set of Directions and assumptions may do so as sufficiently.

15. There are areas of conflict between some of the stated objectives (in particular, between no bias and consistency) noted in my letter to HM Treasury of 12 May 2026, which mean not all can be met in full and there are some trade-offs between them. This was also the case for the 2023 Directions.

16. Further, there are certain practical challenges specific to Northern Ireland that could arise as a consequence of the Directions. I have therefore commented later in this letter on areas where specificities in Northern Ireland require the consideration of different issues in relation to the stated objectives.

Assessment against objectives

17. The letter from the previous Government Actuary to the Department of Finance of 26 September 2023 in relation to the 2023 Directions set out some specific Northern Ireland considerations against the Department of Finance objectives.

18. The letter considered the consistency objective. It was noted that while both sets of Directions specified a consistent process, assumptions and outcomes would not necessarily be the same, to the extent that factors specific to Northern Ireland may lead to different assumptions and different contribution rates, as an example.

19. The letter also considered the sustainability objective. It was highlighted that schemes in Northern Ireland generally have fewer members than those in Great Britain and hence this might result in greater fluctuations in assessing the cost of the schemes. Further, the employer cost caps calculated at the 2012 valuation were based on relatively limited evidence relating to recent experience for some schemes in Northern Ireland and so other sources of information were considered to set assumptions. Where those assumptions are then not borne out in the future, this might lead to breaches of the cost control mechanism that do not reflect actual, underlying changes in cost.

20. I note the Department of Finance continues to include valuation objectives in relation to consistency and clarity. The Department of Finance consistency objective is also in relation

to consistency with the valuations carried out in Great Britain under the Public Service Pensions Act 2013.

Consistency with the HM Treasury Directions

21. As noted earlier, although these Directions do specify a process and assumptions that are the same as, or consistent with, those set out in the HM Treasury directions, this does not necessarily mean that the outcomes will be the same as those in Great Britain.

22. Amending direction 13 clarifies that the scheme actuary can use their professional judgement to determine which assumptions warrant an analysis of how experience compares to assumptions. It also removes the associated reporting requirement where such analysis is not undertaken.

23. This makes it clear that the scheme actuary may decide not to analyse particular elements of the experience where, in their judgement, it is not appropriate or relevant to the valuation.

24. The relatively smaller membership of the schemes in Northern Ireland, compared to the larger equivalent workforces in Great Britain, might mean that this judgement is more likely to be exercised in Northern Ireland compared to corresponding schemes in Great Britain.

25. This amendment should improve the clarity objective, by improving the clarity of valuation reports since it removes the need to include analysis which is not useful to the reader. This might also contribute to some differences in reporting between schemes in Northern Ireland and Great Britain and hence reduce the consistency of reporting. However, these differences are expected to largely reflect genuine differences in schemes' design and experience.

Observations on specific differences between the Amending Directions and HMT Amending Directions

26. The letter from the previous Government Actuary to the Department of Finance of 26 September 2023 in relation to the 2023 Directions also set out comments regarding the specific differences between the Department of Finance and HM Treasury 2023 Directions.

27. The letter noted differences in relation to the deficit spreading period adopted for the purpose of setting ECRs for schemes in Northern Ireland providing benefits to health workers and teachers. It further noted that the Department of Finance 2023 Directions did not require the calculation of an ECR for the Local Government Pension Scheme in Northern Ireland and that references to the Judicial Pension Scheme 2022 had been removed.

28. Accordingly, the draft Amending Directions continue to refer to a 25-year deficit spreading period for the purpose of setting ECRs for schemes in Northern Ireland providing benefits to health workers and teachers. The previous Government Actuary noted that this was a policy matter and there were no significant comments from an actuarial standpoint. I note this continues not to be strictly consistent with the process set out in the 2023 HMT Directions and might contribute to different outcomes for schemes in Northern Ireland. However, the Amending Directions only include reference to this with respect to confirming how pensionable payroll must now be projected forward.

29. The draft Amending Directions also exclude references to the Judicial Pension Schemes. This is appropriate given the Northern Ireland Judicial Pension Scheme closed to future accrual from April 2022 and all members moved to the Judicial Pension Scheme (2022). This is consistent with the approach for the 2023 Directions.

30. Further, the draft Amending Directions refer only to the local government pension scheme providing benefits to local government workers in Northern Ireland and hence excludes references to other local government pension schemes in Great Britain and any scheme-specific definitions that were required for those other schemes previously.

Impact of Amending Directions on provisional results

31. My letter of 12 May 2026 to HM Treasury considered the provisional results of the 2024 valuations from the four largest schemes in Great Britain. These provisional results, for both the ECR and CCM, were included to help provide context for the potential impact of the draft Amending Directions on the valuation results.

32. It is possible the results for schemes in Northern Ireland will differ to the extent the schemes have underlying differences (for example, in relation to the membership profile or past scheme experience differing). While I would not expect a different directional impact on headline results relating to the ECR and economic cost cap cost (both expected to reduce), it is possible the magnitude of any changes might differ due to underlying differences of schemes. For the four largest schemes in Great Britain, my letter also noted that the weighted average core cost cap cost reduced compared to the 2020 valuations, but the change is small, and some individual schemes may experience increases relative to the last valuation. However, I do not expect there to be an overall difference in CCM outcomes.

33. My letter of 12 May 2026 to HM Treasury noted that lower employer contributions would be expected to be offset by higher funding to meet benefit outgoings and would therefore score as higher Annually Managed Expenditure. The Department of Finance should consider associated impacts in Northern Ireland including any effects of the Barnett formula mechanism on block grants. Further, it is possible that changes in ECR for workforces in GB and Northern Ireland might not be the same, given the possible differences in the underlying profile of schemes, hence there might be a difference between changes in ECRs and funding available through the block grant due to this.

Compliance and limitations

34. This letter is addressed to the Department of Finance and sets out my professional opinion on the Amending Directions. I understand that the Department of Finance may publish this letter. Other than the Department of Finance, no person or third party is entitled to place any reliance on the contents of this report. 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 report.

35. 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.

36. Public service pension schemes also use discount rates for other purposes, including individual and bulk transfers into and out of schemes, calculation of the value of pension benefits in divorce proceedings, and the production of various actuarial factors for member options, such as actuarially reduced early retirement benefits and the setting of commutation factors in a minority of schemes. In some cases, the SCAPE discount rate is used as the discount rate for these purposes. These uses and impacts are not in the scope of this letter.

37. Work on the 2024 valuations shows that, as for previous valuations, data quality remains an issue in some areas. This could require adjustments to ECRs in future to correct any over- or under-payments from April 2027 resulting from data deficiencies found at future valuations.

Yours sincerely

Fiona Dunsire
Government Actuary