HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

The Rt Hon Nicky Morgan MP
Chair of the Treasury Committee
House of Commons, Committee Office
London
SW1A 0AA

12 November 2018

Dear Nicky,

PUBLIC SERVICE PENSION SCHEME VALUATIONS 2016 – DRAFT AMENDING DIRECTIONS

1. Thank you for your letter of 9 October on the draft amending directions for public service pension schemes which I published on 6 September. Valuations of the public service pension schemes are underway.

2. Public service pensions were reformed in 2015 to make them more affordable. In making the changes, the coalition government established a statutory process that is intended to maintain the value of the pension schemes to employees at the reformed levels. As part of the reforms, the Government implemented changes to the discount rate used in the valuations. The Government said that if there was a significant change in the Office for Budget Responsibility's (OBR's) long-term growth forecasts, it may be necessary to review the discount rate to ensure public service pensions remain affordable.

3. In the 2018 Fiscal Sustainability Report the OBR changed its long-term growth forecasts. The Government therefore confirmed a change in the discount rate at Budget 2018 to reflect those changes.

4. Provisional results suggest that change in the discount rate used in the valuations will increase the amount employers pay towards the schemes. The Economic and Fiscal Outlook 2018 identified expected costs of £4.7 billion for 2019/20, above the £2 billion additional employer cost that was anticipated at Budget 2016.

5. The Government is acting to ensure that these additional costs do not jeopardise the front-line delivery of public services or put undue pressure on public employers, with Treasury supporting departments with unforeseen costs for 2019-20. The Spending Review next year will settle the funding for costs beyond 2019-20 arising from the valuations.

6. Provisional results suggest that the valuations will also lead to improved pension benefits for public sector workers from April 2019. Pension schemes are an important part of the reward offer to public service workers, and improvements to pension benefits from April 2019 will ensure these schemes remain amongst the very best available.

7. You also asked about the review of the cost control mechanism, which I will be asking the Government Actuary to undertake. When the mechanism was introduced, the Government explicitly stated it would need to be kept under review, and it was not expected that it would be triggered unless extraordinary unpredictable events occurred. Given that the process has been triggered at the first examination, and in the absence of any extraordinary event, it is right to consider whether the mechanism has been implemented in a way that delivers the Government's policy objectives.

Best wishes,

RT HON ELIZABETH TRUSS MP