

**Written Ministerial Statement : Elizabeth Truss : Chief Secretary to the Treasury : 6<sup>th</sup> September 2018****Quadrennial valuation of public service pension schemes**

We undertake valuations of the public service pension schemes every four years. This is the first time that a full assessment of the pension schemes has been undertaken since the government introduced reformed schemes in 2015. The reform of the schemes addressed the rising cost of pensions, rebalancing taxpayer and member costs to ensure that public pensions were put on to an affordable and sustainable footing. The valuations are important as they ensure that the full costs of the schemes are understood and fully recognised by government.

Today I am publishing a document that sets out how the valuations are to be conducted this year. The document sets a range of assumptions that departments and the Scottish and Welsh governments must use in finalising their valuations of public service pension schemes. Our initial results show that the protections in the new cost cap mechanism mean public sector workers will get improved pension benefits for employment over the period April 2019 to March 2023. This test, known as the cost control mechanism, was introduced to offer taxpayers and employees protection from unexpected changes in pension costs. Where the value of the pension scheme to employees has changed from the levels set when reformed pension schemes were introduced in 2015, steps must be taken to return costs to that level.

There are currently more than 5 million active members of the public service pensions schemes, which cover the NHS, teachers, the armed forces, the police, firefighters, local government workers, judiciary and civil servants. The outcome of the valuations and the cost control mechanism will be confirmed later this year. Secretaries of State, and Scottish and Welsh Ministers, will then consult the appropriate Scheme Advisory Board, which consist of member and employer representatives for each of the pension schemes, to reach agreement on the steps to be taken to return costs to their target level. Where it is not possible to reach agreement, the legislation provides that remedy will be delivered by increasing the rate at which pension benefits accrue. Changes will be implemented with effect from April 2019. An additional process operates in the Local Government Pension Scheme (LGPS) (England and Wales) run by the LGPS England and Wales Scheme Advisory Board. In accordance with stated policy, this will be allowed to complete before the HM Treasury cost control mechanism is tested.

We committed to keep the cost control mechanism under review. I will therefore be asking the Government Actuary to undertake a review of the mechanism to check whether it is working as intended and delivering government's objective to protect taxpayers and workers from unforeseen

changes in pension costs. We are committed to fairly remunerating public sector workers and to implementing the results of the valuations, but it is right that we examine whether the mechanism is operating appropriately and in line with the original policy intentions. The scope of the review will be limited to the design of the cost cap mechanism. The review will conclude in time for the next four-yearly round of valuations.

In addition, early indications are that the amount employers pay towards the schemes will need to increase. This is because of proposed changes to the discount rate, which is used to assess the current cost of future payments from the schemes, to reflect the Office for Budget Responsibility's long-term growth forecasts. Further details will be known later this year. Some increase in costs was anticipated at Budget 16, which departments and the devolved administrations will need to meet in full. Treasury will be supporting departments with any unforeseen costs for 2019/20. Further discussions will be taken forward as part of the Spending Review.

The document is being published in draft form to allow employee representatives, public service employers and departments time to comment. Decisions will be confirmed later in the autumn, following statutory consultation with the Government Actuary.