

For the attention of HMT

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4 July 2023

Draft directions for the Public Service Pensions (Valuations and Employer Cost Cap) Directions 2023

The [Firefighters Pensions \(England\) Scheme Advisory Board](#) (the Board) submits its response to the publication of the draft Directions.

We thank HMT and the Government Actuary's Department (GAD) for arranging a consultation session on the Directions. This gave the Board a greater understanding of the directions and an opportunity to question some of the methodology being applied. However, the SAB retains serious concerns about the methodology choices being made by HMT and the less than complete nature of the consultation undertaken.

The consultation on the SCAPE rate was first undertaken on 24 June 2021. At that time real yields on government bonds were around -2.1%.

The consultation at that time noted:

This consultation proposes that 'stability' should be a key objective for the SCAPE discount rate, with equal weighting to the other objectives of 'fair reflection of costs' and 'reflect future risks to Government income.' This proposal reflects the importance of stability when deciding the methodology used to set the SCAPE discount rate.

It is clear from the original consultation that priority was being given to the stability objective. This is an approach that we supported in our consultation response, noting that stability is the one objective that can be tangibly measured.

By early 2022 the consultation responses had been evaluated and the Government was set on retaining the current methodology (a method that it describes as being based on expected long term GDP growth). The consultation noted:

Meanwhile, the Government will consider other measures to address the impact of this decision on stakeholders' interests captured by the 'stability' objective.

At this time real yields were still around the -2% level. At the start of 2023 when real yields were around 0.2%, HMT did ask GAD if it wished to add anything to its previous

exchange, given the change in economic conditions. GAD noted the challenges for the stability objective of these changes.

We note that since this advice was received real interest rates have moved from + 0.2% to around + 1.0% at the current date.

Hence the unfunded public service pension schemes are looking at a net reduction of 0.7% pa in the discount rate at a time when real discount rates have increased for funded schemes (including the funded public service schemes) by a net rate of around 3% pa. This variation is enormous and it is not clear to us that the measures being considered are either adequate or long term enough to be able to meet the stability objectives noted.

Whilst the argument is advanced that enshrining the OBR's projections in the actuarial valuations is necessary to protect the future taxpayers, we note the SCAPE discount rate changes capitalise the lower expected growth over the next 50 years whereas it is proposed to spread this compounded effect over only the next 15 years.

We believe that the suitability of the current period used for spreading deficits needs to be considered. We note that spreading the deficit over the same 50-year period would improve the stability of the current approach, and help ensure that short-term contribution rates are not unduly impacted by changes to long-term financial projections. This would apply equally when/if future changes to these long-term assumptions show an improved position, ensuring that any short-term "gains" are spread over a suitable period of time.

We also believe that aligning the SCAPE discount rate and surplus/deficit spreading periods would be a significant improvement to the methodology being used and request that GAD are asked to comment on this. In particular we request that GAD be asked to advise on the following aspects:

- How has the duration of the past service liabilities increased as a result of the changes in the SCAPE discount rate since the 15-year period was selected for amortising public service pension scheme deficits during the 2015 reforms?
- Is it actuarially appropriate to ignore this increase?
- If the spreading period is not intended to relate to the duration of the liabilities, then should it be chosen to deliver the various objectives, eg by linking to the period used to project the interest rates?

Put another way, the 15-year spreading period was deemed to be suitable when long-term economic growth was 3.0% above inflation. Now that real growth has nearly halved to 1.7% above inflation, we ask whether a longer period is required to spread any deficit.

Whilst spreading in a more consistent manner might reduce the deficit element of the contributions, we still expect the Fire Scheme to face numerous cost pressures as a result

of the valuation Directions and we note the short-term nature of the commitments given regarding increased funding. This comes on top of the cost pressures from the Matthews and McCloud members.

We would welcome considerably more clarity on the long-term proposals to address stability, and on whether this will continue to be a “key objective” going forwards.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Joanne Livingstone', written in a cursive style.

Joanne Livingstone
Chair of the Firefighters' (England) Pension Scheme Advisory Board