

**Reference: LEA231109**

Mr Nick Leaton  
By Email (WhatDoTheyKnow.Com)

21 December 2009

Dear Mr Leaton

### **Freedom of Information Act**

Thank you for your e-mail of 23 November 2009 in which you requested information about the discount rate used to calculate the present value of liabilities in respect of state employee pensions and the state pension, and how the discount rate was established.

### **Discount rates – Public Sector workers' pensions**

The most recently published information concerns the total accrued liability of the Pay-As-You-Go public service occupational pension schemes as reported in published accounts as at 31 March 2008, estimated by the Government Actuary's Department (GAD) to have been £770 billion<sup>1</sup>. The discount rates used are disclosed in the published accounts. The rationale underlying these discount rates was published in a previous Long-term public finance report, as follows:

The key actuarial assumptions used to value the liabilities of individual schemes are set out in the relevant reports by the scheme actuary and have been reported in scheme resource accounts using the FRS17 accounting methodology, applied in accordance with guidance approved by the Financial Reporting Advisory Board (FRAB) for pension schemes funded directly by central Government; or the Chartered Institute of Public Finance and Accountancy (CIPFA) for the pension schemes for police and firefighters.<sup>2</sup>

The resource accounts of central government Pay-As-You-Go public service pension schemes are available from TSO<sup>3</sup>. The FRS17 is available from the Accounting Standards Board website<sup>4</sup>. The guidance approved by the Financial Reporting Advisory Board and associated documents are available from the HM Treasury website<sup>5</sup>.

### **Discount rates – State pensions**

In my letter of 20 November 2009 we disclosed that as at 31 March 2005, and based on the legislation then in force, the value of accrued rights to basic state pension was £1,020 billion and the value of accrued rights to additional pension, net of amounts given up as a result of

<sup>1</sup> Long-term public finance report: an analysis of fiscal sustainability December 2009 Box 6.B p49  
[http://www.hm-treasury.gov.uk/d/pbr09\\_publicfinances.pdf](http://www.hm-treasury.gov.uk/d/pbr09_publicfinances.pdf)

<sup>2</sup> Long-term public finance report: an analysis of fiscal sustainability March 2008 Box 4.3 p38  
[http://www.hm-treasury.gov.uk/d/bud08\\_longterm\\_586.pdf](http://www.hm-treasury.gov.uk/d/bud08_longterm_586.pdf)

<sup>3</sup> <http://www.official-documents.gov.uk/>

<sup>4</sup> <http://www.frc.org.uk/asb/technical/standards/pub0206.html>

<sup>5</sup> [http://www.hm-treasury.gov.uk/psr\\_reporting\\_centralgovernment.htm](http://www.hm-treasury.gov.uk/psr_reporting_centralgovernment.htm)

contracting out, was £330 billion. We also explained that the discount rate used in the calculation was 3.5% a year over price inflation, consistent with the rate used for pension liabilities in Government resource accounts as at 31 March 2005.

On a point of detail, it might be helpful to mention that the above figures relate to rights built up in the National Insurance Fund in Great Britain, Northern Ireland having separate arrangements in this regard.

### **Information requested exempt from release**

The information requested is therefore exempt from release under Section 21 of the Freedom of Information Act (Information available by other means). Section 21 is an absolute exemption, which means that no consideration of the public interest test is required to withhold information.

### **Review process**

If you are unhappy with the service you have received in relation to your request and wish to make a complaint or request a review of our decision, you should write to:

Kevin Down  
Director of Finance and Support Operations  
Government Actuary's Department  
Finlaison House  
15–17 Furnival Street  
London EC4A 1AB

If you are not content with the outcome of your complaint, you may apply directly to the Information Commissioner's Office (ICO) for a decision. Generally, the ICO cannot make a decision unless you have exhausted the complaints procedure provided by GAD. The Information Commissioner can be contacted at:

The Information Commissioner's Office  
Wycliffe House  
Water Lane  
Wilmslow  
Cheshire  
SK9 5AF

Yours sincerely

A handwritten signature in black ink that reads "George Russell". The signature is written in a cursive style and is positioned above a solid black horizontal line.

**George Russell**

Deputy Government Actuary