

60-second summary



The impact of the change in SCAPE rate on the LGPS
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Background

The SCAPE rate is the discount rate used for the valuation of the unfunded public service pension schemes in the UK. It's based on the Office for Budget Responsibility's (OBR's) forecast of long-term GDP growth in the UK and is reviewed periodically. On 19 May 2026, the government [announced](#) a change to the SCAPE discount rate from 1.7% p.a. above CPI inflation to 2.0% p.a. above CPI (in line with the OBR's expected long-term GDP growth figures in July 2025).

The main impact of this change applies to the unfunded schemes such as the NHS, Teachers' and Police and Fire. The results of their 31 March 2024 valuations are expected this year, with the higher discount rate leading to lower employer contributions. However, the magnitude of this fall will vary by scheme.

In the LGPS, employer contribution rates are not linked to the SCAPE rate. As the LGPS is funded, the discount rate is determined locally, based on future expected returns from each fund's asset mix. This news therefore will not impact the recently issued 2025 valuation results. However, secondary impacts do affect the LGPS.

Impact 1 – Administration factors

The factors that are used daily to administer the LGPS are based on the SCAPE rate and produced by the Government Actuary's Department (GAD). We have summarised the impact on two key areas - CETVs and early retirements - below.

Cash Equivalent Transfer Value (CETV) factors

HM Treasury announced on 19 May 2026 that the calculation of all transfer values should be suspended immediately for all public service pension schemes, including the LGPS. However, the government were aware of the potential administration resource headaches caused by a backlog of transfer value quotations. CETV factors were therefore the first set of factors to be reviewed, with new factors released on 2 June 2026.

As a result of the increase in the SCAPE rate, CETVs based on the new factors are reduced in comparison to those that rely on the old factors. The impact of the new factors varies depending on member age. The following table summarises the impact at different ages:

Age	Impact of new factors on CETVs
20	-16%
30	-13%

40	-10%
50	-7%
60	-4%

It's worth noting that, despite the reductions above, CETVs remain higher in value than the liabilities based on typical 2025 ongoing valuation assumptions.

Early retirement factors and strain costs

With the 2025 valuations complete, LGPS funds in England and Wales will have reviewed (or be in the process of reviewing) the factors used to calculate early retirement strain costs. These are provided by your actuary and are based on your own local funding assumptions (and not the SCAPE rate). Therefore this news doesn't affect these strain factors, and you should continue with the review.

However, the calculated strain costs rely on both your actuary's local factors and GAD's factors. The increase in the SCAPE rate will increase the new GAD factors and reduce the benefits that members receive in these circumstances. Funds should be cautious when providing early retirement quotations to members as strain costs and benefits may change because of the new factors. The new GAD factors are expected to be released during July 2026.

Impact 2 - Cost control mechanisms

The SCAPE rate is used in HM Treasury's cost control mechanism which applies to the LGPS. Results from the valuation of the mechanism at 2024 are due soon. A higher SCAPE rate reduces the assessed costs of each public sector pension scheme, potentially resulting in a breach of the cost control 'corridor'. Any breach should then lead to a change in benefits.

However, the cost control mechanism has been built such that changes in the discount rate are not allowed to lead to a change in benefits. Instead, it's only 'member costs', such as longevity and ill-health retirement rates, that matter. Therefore, we don't expect the SCAPE rate change itself to be a contributing factor to any breach of the cost control mechanism.

That said, it's possible for the SCAPE rate to have a secondary impact on the mechanism. Following a consultation in 2021, an 'economic check' was introduced. This check takes place after the results of the cost control valuation are known. It seeks to avoid the perverse outcome of the 2016 valuation when the contribution rates for the unfunded schemes increased (due to a previous reduction in the SCAPE rate) whilst the cost control valuation indicated a reduction in costs (because member costs were lower than expected), requiring an increase in benefits.

This economic check means that the cost control mechanism allows for the impact of a change in the SCAPE rate by offsetting it against any member cost savings identified (the economic check is not allowed to result in benefit reductions). Given the magnitude of the increase in SCAPE rate for the 2024 valuations, we'd expect the economic check to offset any breach of the cost control corridor. This reduces the likelihood of the 2024 cost control valuation leading to any benefit improvements.

Finally, we don't expect the SCAPE rate change to affect the outcome of the Scheme Advisory Board's separate cost management process.

If you wish to discuss any of the areas covered in this note, please contact your usual Hymans Robertson consultant.



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