



House of Commons Members' Fund

Actuarial Assessment as at 30 September 2011

Report by the Government Actuary



GOVERNMENT **ACTUARY'S** DEPARTMENT



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Presented to the House of Commons Pursuant to Subsection (5)
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1 Introduction

Purpose of the report

- 1.1 Subsection (5) of Section 3 of the House of Commons Members' Fund Act 1939 requires the Government Actuary to report to the Trustees of the Fund on the general financial position of the Fund at intervals of not more than five years. The last report related to the position as at 30 September 2006.
- 1.2 I now submit my report on the position as at 30 September 2011. This report is addressed to the Trustees of the Fund.

Third parties reliance and liability

- 1.3 This report has been prepared for the use of the Trustees of the Fund and must not be reproduced, distributed, or communicated in whole or in part to any other person without GAD's prior written permission.
- 1.4 Other than the Trustees, no person or third party is entitled to place any reliance on the contents of this report, except to any extent explicitly stated herein, and GAD has no liability to any person or third party for any act or omission taken, either in whole or part on the basis of this report.

Compliance with relevant guidance

- 1.5 In carrying out this work, I have followed our normal quality processes for work conducted on public service pension matters¹.

Data provision and limitations

- 1.6 In preparing this report, GAD has relied on data and other information supplied by the House of Commons Pensions Unit as described in the report. Any checks that GAD has made on this information are limited to those described in the report, including any checks on the overall reasonableness and consistency of the data. These checks do not represent a full independent audit of the data supplied. In particular, GAD has relied on the general completeness and accuracy of the information supplied without independent verification.

Consultation

- 1.7 In order to prepare this report, I have consulted with the Trustees to determine how they view the objectives of funding of the scheme. The outcome of the consultation is that the Trustees retained the objective of there being sufficient assets at the valuation date to be expected to meet the future liabilities in respect of awards made up to that date and future discretionary lump sum grants on the basis of the continuation of the current level for the next 20 years.

¹ *The GAD Statement of Understanding*
http://www.gad.gov.uk/Documents/Occupational%20Pensions/GAD_Statement_of_Understanding_v_1.1_Dec_2011.pdf sets out the standards which the Department currently applies for any work carried out in this area.

2 Provisions of the Fund

- 2.1 The Fund was set up by the House of Commons Members' Fund Act 1939, which provides for discretionary grants to be made by the Trustees to former Members of Parliament who have attained 60 years of age, to their widows, and to orphan children under 16 years of age. A subsequent Act of 1948, which was amended in 1991 (see paragraph 2.3 below), provides for the Trustees to authorise grants to any former Members or their dependants having regard to their circumstances.
- 2.2 The House of Commons Members' Fund and Parliamentary Pensions Act 1981 introduced a further category of award, payable as of right to former Members, or their dependants, who satisfy certain conditions. To be eligible for an award under this provision, former Members must normally have attained the age of 65, with no service after 15 October 1964. I understand that there are no more possible beneficiaries in this category who are not already in receipt of an award.
- 2.3 Section 7 of the Ministerial and other Pensions and Salaries Act 1991 amended the 1948 Act as follows:
- (a) It widened the powers of the Trustees to make payments under the 1948 Act. Instead of making payments for the purpose of alleviating special hardship, the Trustees may now have regard to the circumstances of the person to whom payments are to be made.
 - (b) It is no longer a requirement for payments under the 1939 and 1948 Acts that the former Member must have served for at least 10 years.
- 2.4 The Trustees used these powers to make payments to a new class of beneficiary: widows of former Members of Parliament who were members of the Parliamentary Contributory Pension Fund before 6 April 1988 (the "pre-1988 widows"). The payments from the Members' Fund were such as to increase the total pension to the widow from one-half of the relevant Member's pension to five-eighths (an uplift of 25%).
- 2.5 In recent years, the level of grants has been increased on each 1 April. These increases have been similar to those awarded each year under the Pensions (Increase) Acts. At the date of this assessment, 30 September 2011, the amounts payable under the 1981 Act were set at the level of £5,491.56 a year for former Members and £3,432.24 a year for widows and widowers. An award payable under the legislative provisions other than the 1981 Act has no specific limit.
- 2.6 Income to the Fund is derived partly from statutory contributions from Members under the 1939 Act, which since 1961 have been £24 a year, and partly from Grants in Aid. The amount of the Grant in Aid is determined by the Treasury under the Members' Fund Act 1957 "having regard to the amount for the time being of the payments to be made out of the fund and of the income of the fund from other sources".

3 Changes since the 2006 Report

Pension Increases

- 3.1 Since the last report, following the Chancellor's Budget announcement on 22 June 2010, pension increases awarded under the Pensions Increase Act 1971 are to be in line with the Consumer Prices Index (CPI) rather than the Retail Price Index (RPI). Grants payable from the Fund are not directly linked to the Pensions Increase Act, however from April 2012 grants were increased in line with CPI rather than RPI. There have been no other amendments to the legislation governing the Fund.

Annual Exchequer Contribution (Grant in Aid)

- 3.2 A review of the Fund and its governing legislation was undertaken during 2006 and 2007, sponsored by the Members Estimate Audit Committee (MEC) and the Trustees. The ensuing report was endorsed by the MEC in November 2007. The MEC concluded, among other things, that the Trustees pass responsibility for paying annual grants to a Government body, and in exchange, return a sum of money to the Treasury, as well as no longer accepting the annual Exchequer contribution of £215,000. However, implementation of the changes required changes to primary legislation and it was not possible to secure time for a Bill to be laid before the House.
- 3.3 Since May 2011, the Trustees have agreed not to pursue a restructuring of the Fund, and to continue to operate the Fund in line with the existing legislation. As the Trustees were not able to return funds to the Treasury, they decided instead to appropriate a reduced Treasury contribution compared to previous years.
- 3.4 The amount of Grant in Aid payable from the Exchequer during the inter-valuation period was £215,000 a year. Five such payments were made by the Exchequer during the period since the last report
- 3.5 For the year commencing 1 October 2011, the Trustees decided to draw down £148,000, instead of £215,000, as the annual Treasury contribution. This amount covers the monies required for the annual grants only. In future years, the Trustees expect that lower amounts will be drawn as this is an ageing group of beneficiaries. However, should demand on the Fund increase, the Trustees would seek a return to a higher Treasury contribution, up to the maximum permitted, if necessary.

Increase in Awards

- 3.6 As part of the review of the Fund, the Trustees used their discretionary powers to increase the 1981 Act payments, with effect from 1 December 2008. Payments were increased to £5,000 per year (from £3,037.38 per year) to former members and £3,125 per year (from £1,889.24 per year) to spouses of former members.

4 Statistics and Accounts

- 4.1 Appendix A summarises the changes in the number of beneficiaries during the period since the last report. 46 beneficiaries died during the period since the last report. Four new awards of regular payments have been made since the last report, totalling £7,052 a year. A number of awards have been made in the form of one-off lump sum gratuities, totalling £123,037.
- 4.2 The total number of beneficiaries receiving payments decreased from 100 to 58 over the five-year period. In total, the 59 regular awards in payment at the reporting date (including one beneficiary who was in receipt of two separate awards) totalled £144,930 a year.
- 4.3 The income and expenditure of the Fund from 1 October 2006 to 30 September 2011 is summarised in Appendix B. During this period the amount of the Fund, as shown in the accounts, increased from £4,604,116 to £5,050,864. This increase in the Fund was mainly attributable to the fact that Exchequer Grant in Aid payments continued to be made.
- 4.4 The income and expenditure figures are summarised from the annual accounts prepared by the Trustees and audited by the Comptroller and Auditor General. I have relied on the audited accounts as proof of the existence of the assets. (The 2010/11 accounts on which I have relied have not yet been published but have been signed by the Chairman of the Managing Trustees.)
- 4.5 The assets held at the reporting date were as follows:

	Market value as at 30 September 2011 (£)
UK Index Trust	3,615,239
All Stocks Index Linked Gilt Trust	1,383,432
Cash and other current assets	52,193
Total	5,050,864

5 Funding Objective and Assessment Method

- 5.1 The funding objective is that there should be sufficient assets at the reporting date to be expected to meet the future liabilities in respect of awards made up to that date, including future awards to the surviving spouses and civil partners of former Members currently receiving payments.
- 5.2 Other than future beneficiaries described in para 5.1, we have assumed that no new beneficiaries will be created, or if new future beneficiaries are created, that Grants in Aid or the surplus Fund will be sufficient to meet the benefits paid.
- 5.3 The assessment method is to compare the capitalised value of future liabilities with the value of the assets at the reporting date. In order to compare the value of the liabilities, comprising future outgo on grants awarded to beneficiaries, with the value of assets, it is necessary to discount the expected future liability payments with interest. Assumptions as to future interest rates, mortality rates and rates of annual increase to grants must be made, as described in section 6 below.
- 5.4 This report assumes the Fund will continue in its current form.

6 Actuarial Assumptions

- 6.1 In order to compare the value of the liabilities, comprising future outgo on grants awarded to beneficiaries, with the value of assets, comprising future contributions and investment income (and other proceeds) from the assets held in the Fund, it is necessary to discount these items at interest.
- 6.2 As the level of grants is reviewed annually, provision must be made for future increases. In recent years the annual increases have been similar to those awarded each year under the Pensions (Increase) Act. I have assumed that this practice will continue in the future and that grants will increase annually in line with the increase in CPI. There is a broad correlation between the levels of interest rates and inflation, and the difference between them is more important than their absolute value when valuing liabilities linked to price inflation.
- 6.3 For the current assessment, I have adopted a market-related approach such that the interest rate used to discount the liabilities falling due in future years is based on the real yield available in the open market, on the reporting date, on investment in a medium-dated index-linked gilt portfolio. Accordingly, a discount rate of 0.85% a year net of CPI has been used to value the Fund's liabilities. This is based on yields on index-linked gilts of equivalent term to the Fund's liabilities of around -0.3% net of RPI at the valuation date, and an assumption of increases in CPI being lower than increases in RPI by around 1.15% a year. For consistency with the approach taken to valuing the liabilities, it is appropriate to take the assets into account at their market value.
- 6.4 It is assumed that all awards will continue for life and that, on the death of a married former Member, an allowance will be paid to a surviving spouse. The longevity of the Fund's beneficiaries is the main demographic assumption. The mortality experience of the HCMF is too small to be statistically significant enough to be used as a guide in setting the mortality assumption. At the 2006 valuation, regard was given to the most recently published mortality experience of a similar fund - the PCPF. I have adopted the same approach for this valuation. The most recent valuation of the PCPF was as at 1 April 2011 and a report of the valuation was laid before parliament on 27 March 2012. I have adopted the mortality assumptions listed in that report for this valuation.
- 6.5 Over the four years leading up to the reporting date, administration expenses have averaged around £47,000 a year (the costs in 2006/07 were significantly higher at just over £100,000 due to the review of the fund described in paragraph 2.2, which are understood to have been exceptional). Taking account of the lower level of expenses over the four years prior to my report and the outstanding term of the liabilities, I have included a reserve of £700,000 to cover the future administration costs in respect of the Fund's existing liabilities (previously £800,000). This reserve is a provision for the purposes of this actuarial investigation. It should not be taken as a formal estimate or quotation of the cost of an external administrator carrying out the administration work.

7 Results of the Assessment

- 7.1 The liabilities and assets of the Fund have been assessed on the actuarial assumptions described in section 6 above. The results are set out below:

Position as at 30 September 2011

Liabilities	£000	£000
Capitalised value of benefits to:		
1948 Act former Members and widows	197	
1948 Act pre-1988 widows	618	
1981 Act former Members	68	
1981 Act widows	<u>393</u>	
		1,275 ¹
Reserve for future administration expenses		<u>700</u>
Total liabilities		<u>1,975</u>
Assets		
Market value of investments held at 30.9.2011		5,051
Result		
Excess of assets over liabilities		3,076

¹ numbers may not add due to rounding

- 7.2 This statement does not allow for income from Members' contributions payable after 30 September 2011 nor for Grants in Aid made after that date.
- 7.3 The results show that the Fund remains in a very strong financial position, with an assessed surplus of around £3.1 million as at 30 September 2011. This surplus is equivalent to around 150% of the assessed value of the liabilities.
- 7.4 A reserve of around £0.5million may be required, in addition to the assets needed to cover the total liabilities set out in 7.1 above, to cover discretionary lump sum gratuities which might be made over the next 20 years, totalling around £25,000 per year. Such payments may be met on an annual basis from Members' contributions or Grant in Aid, if these are large enough.

Analysis of Surplus

- 7.5 The result of the valuation shows an increase in the surplus over the five year period since the September 2006 valuation from £2.3 million to £3.1 million. This increase in surplus is primarily attributable to the fact that Exchequer Grant in Aid payments of £1,075,000 were made during the period since the previous assessment, though this was partly offset by lower than expected investment returns. The key factors influencing the change in the surplus are shown below. However, there is significant potential for the surplus to fluctuate from valuation to valuation because of the high proportion of the assets that is invested in equities.

	Surplus (deficit) £m
2006 Surplus	2.3
Investment return on surplus	0.3
Change in Pension Increase Act indexation	0.1
Mortality assumption change	0
Financial assumption change	(0.2)
Grant in Aid	1.3
Increase to grants in payment	(0.2)
Lump Sum awards paid	(0.1)
Expense experience	0
Membership experience	0.1
Investment experience	(0.6)
2011 Surplus	3.1¹

¹ numbers may not add due to rounding

Sensitivity

- 7.6 I have considered how sensitive the results are to changes in the assumptions, and to the scheme experience differing from the assumptions. The paragraphs below illustrate the sensitivity of the liabilities as at 30 September 2011 to the key assumptions. (If more than one assumption is varied the combined effect may be different than the sum of the impact of the individual assumptions.)
- 7.7 A ½% increase in the discount rate will tend to decrease the value of the liabilities by around 4%. A ½% decrease in the discount rate will tend to increase the value of the liabilities by around 4%.
- 7.8 If members are assumed to be one year older than their actual age (ie applying an age rating to the mortality tables of plus one year), the liabilities will be just over 6% lower.

8 Results of the Assessment

Conclusion

- 8.1 Based on the method and assumptions set out in sections 5 and 6 of this report, the value of the liabilities and expense reserve as at 30 September 2011 were assessed as being £1.975 million. The market value of the assets held by the House of Commons Members' Fund as the same date is assessed as £5.051 million. The disclosed surplus was £3.1 million or 150% of the scheme liabilities. The assets were therefore more than sufficient to meet the liabilities in respect of existing commitments, including future awards to surviving spouses of former Members receiving benefit, and future administration expenses as at the valuation date.
- 8.2 A reserve of around £0.5 million may be required, in addition to the assets needed to cover the total liabilities set out in 8.1 above, to cover discretionary lump sum gratuities which might be made over the next 20 years, totalling around £25,000 per year. Such payments may be met on an annual basis from Members' contributions or Grant in Aid, if these are large enough.



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4 September 2012

Appendix A

Changes in Number of Beneficiaries

	1939 Act Beneficiaries	1948 Act Beneficiaries		1981 Act Beneficiaries		All Beneficiaries
	Widows	Former Members and Widows	Pre-1988 Widows (1991 Act)	Former Members	Widows	
Numbers receiving payments at 30 September 2006	2	7	64	3	25	101
New awards	0	0	3	0	1	4
Deaths of beneficiaries	2	2	30	2	10	46
Numbers receiving payment at 30 September 2011	0	5	37	1	16	59
Average annual grant in payment at 30 September 2011	-	£5,227	£1,578	£5,492	£3,432	£2,456
Average age	-	81	82	-	88	84

Note: One Member is in receipt of two separate awards and so is counted under both the 1948 Act Former Members and Widows and the 1981 Act Widows.

Where there is only one member in a category we have not included their age so as not to identify the individual.

Appendix B

Consolidated Revenue Account for the Period 1 October 2006 to 30 September 2011

	£	£
Fund at 1 October 2006		<u>4,604,116</u>
INCOME		
	76,986	
Members' contributions	1,075,000	
Exchequer Grant in Aid	683,208	
Investment income	(160,106)	
Net gains (losses) in asset values		1,675,088
Total income		
EXPENDITURE		
	13,770	
Grants paid (1939 Act)	367,755	
Grants paid (1981 Act)	433,140	
Grants paid (1948 Act)	123,037	
Lump sum gratuities (1948 Act)	290,638	
Administration costs		<u>1,228,340</u>
Total expenditure		
Fund at 30 September 2011		<u>5,050,864</u>



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