Parliamentary Contributory Pension Fund
Valuation as at 1 April 2011

Report by the Government Actuary

GOVERNMENT ACTUARY'S DEPARTMENT

PARLIAMENTARY CONTRIBUTORY PENSION FUND
VALUATION AS AT 1 APRIL 2011

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1 Summary

To: The Trustees of the Parliamentary Contributory Pension Fund
The Minister for the Civil Service
The Independent Parliamentary Standards Authority
HM Treasury

1.1 I have carried out the actuarial valuation of the Parliamentary Contributory Pension Fund (PCPF) as at 1 April 2011. The key conclusions from the valuation are:

Past Service Assessment

1.2 Based on the method and assumptions adopted for this assessment, the value of liabilities accrued up to the valuation date is assessed as £474.2 million. The market value of the assets on the same date is assessed as £418.3 million. The deficit at 1 April 2011 on the market value method is accordingly £55.9 million, as set out below:

	Value at 1 April 2008 (£ million)	Value at 1 April 2011 (£ million)
Liabilities	418.1	474.2
Assets	367.2	418.3
Deficit	50.9	55.9
Funding level (= assets / liabilities)	87.8%	88.2%

Future Service Assessment

1.3 Based on the assumptions made, the cost of benefits accruing in the PCPF for each year of membership (MPs and Ministers combined) is assessed as 32.5% of scheme payroll.

1.4 Allowing for increases to member contributions that are due to take effect from 1 April 2012, members' contributions to the Fund, including those paid by Ministers, are expected to average 12.1% of the scheme payroll. The Exchequer's share of the cost of accruing benefits is therefore assessed as 20.4% of payroll.

Cost of amortising the deficit

1.5 Exchequer contributions need to be at a higher level than the Exchequer's share of the cost of accruing benefits in order to amortise the deficit. Amortising the deficit of £55.9m over a 15-year period results in an addition of 8.6% to the Exchequer's share of the cost.

Recommended Exchequer Contribution Rate

1.6 Taking account of the Exchequer share of future service costs (20.4% of pay) and of the additional contributions needed to meet the deficit (8.6% of pay), I recommend that the rate of Exchequer contribution to be paid from 1 April 2012 should be 29.0% of pensionable salaries in respect of MPs' and Minsters' benefits.

Changes to scheme before next valuation

1.7 It is possible that changes may be made to the benefit structure or member contribution rates before the next actuarial valuation of the scheme. To allow for any such changes to be reflected in the Exchequer contribution rate, the contribution rate recommended to be paid by the Exchequer from 1 April 2012 is expressed as 29.0% of pensionable pay adjusted to take account of any increase in members' contributions and/or any benefit reductions which the Government or IPSA announces.

Volatility

1.8 This report is produced, in accordance with the Funding Principles Consensus Statement which requests that I ignore post-valuation events in most circumstances. This is considered acceptable, in view of the need for consistency and the Exchequer guarantee, provided parties understand the consequences. I have considered how sensitive the results are to changes in the assumptions, and to experience differing from the assumptions, and these are discussed in paragraphs 9.12 to 9.16.

1.9 In carrying out this work I have followed our normal quality processes for work conducted on public service pension matters.[1]

Third parties reliance and liability

1.10 This report has been prepared for the use of the parties named at the beginning of this section and must not be reproduced, distributed or communicated in whole or in part to any other person without GAD's prior written permission.

1.11 Other than the named parties, 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.

Data provision and limitations

1.12 In preparing this report, GAD has relied on data and other information supplied by RPMI 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.

[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 Introduction

2.1 **Governing Legislation** The Parliamentary Contributory Pension Fund ("the scheme") is the pension scheme for Members of Parliament, Government ministers and other Parliamentary office holders. The primary legislation under which the scheme is constituted is now the Constitutional Reform and Governance Act 2010 (previous it was the Parliamentary and other Pensions Act 1987).

2.2 **Benefit Provisions** Previously, the main legislative provisions containing the rules of the scheme were consolidated in the Parliamentary Pensions (Consolidation and Amendment) Regulations 1993 (SI 1993 No. 3253). A number of changes to the benefit provisions took place since 1993, with the most recent changes taking place at various dates in 2009, as set out in the Parliamentary Pension (Amendment) (No 2) Regulations 2009 (SI 2009 No. 3154). The benefit provisions for MPs and IPSA controlled office holders are now contained within 'The MPs' Pension Scheme' which was laid before Parliament on 19 March 2012. Increases to office holder contributions with effect from 1 April 2012 are described in The Parliamentary Pensions (Consolidated and Amendment) Regulations 1993 (Ministers' etc Pension Scheme)(Amendment) Scheme 2012, which was laid before parliament on 15 March 2012.

2.3 The legislation prescribes the level of benefits and the circumstances in which the benefits will be payable to former members and their dependants. The legislation also prescribes the rate of contributions payable by persons who participate in the scheme. The main benefit provided is a pension to members from the age of 65, defined as $1/40^{th}$, $1/50^{th}$ or $1/60^{th}$ of final pensionable pay for each year of service, with members' contributions currently payable at the rate of 11.9%, 7.9% or 5.9% of pay respectively. Member contributions are due to increase from 1 April 2012, details of which are given in paragraph 3.3. Spouses' pensions are generally payable at a rate equal to five-eighths of the member's pension. A summary of the benefit provisions of the scheme at the valuation date is given in Appendix B.

2.4 **Requirement for a valuation** Paragraph 10 of Schedule 6 of the Constitutional Reform and Governance Act 2010 requires the Government Actuary to make a report to the Trustees, the Minister for the Civil Service, IPSA and HM Treasury, at three-year intervals on;

- the general financial position of the Fund and
- make a recommendation as to the rate at which Exchequer contributions should be paid into the Fund in respect of any financial year beginning after the report is made.

2.5 The previous report by the Government Actuary related to the position as at 1 April 2008 and this report (the fourteenth report) relates to my assessment as at 1 April 2011.

2.6 **Consultation With All Parties** In order to prepare this valuation, I have consulted with the Trustees, Cabinet Office, IPSA and the Treasury to determine how each party views the objectives of the funding of the scheme. The outcome of the consultation is that I have been able to put together a Funding Principles Consensus Statement which I attach as Appendix A. This statement has been seen in draft by the parties and I am content that all parties subscribe to the views expressed. In addition, I have reviewed the statement and consider it to be a reasonable statement (of objectives and approaches to assumptions) for this particular scheme to work to in preparing this valuation. In particular the following emerge as consequences from the consultation as set out in Appendix A:

- As a general principle, the existence of the Exchequer guarantee has meant that there is less need to be concerned about the ability of the sponsor to fund the scheme which enables a return seeking investment policy to be adopted (as set out in the Funding Principles Consensus Statement) to a greater degree than some more traditional schemes might now be adopting and a funding approach linked to expected returns on such assets.

- In deciding the Fund's investment strategy, the Trustees have taken a long-term view with respect to the Fund which, if achieved, should improve the Fund's ongoing funding level, and hence reduce the contributions required from the Exchequer.

2.7 **Previous actuarial valuation** The previous actuarial valuation was carried out as at 1 April 2008 by myself.

2.8 At the previous valuation the liabilities were assessed as being £418.1m and the market value of the assets was £367.2m; this equated to a funding level of 87.8%.

2.9 The recommended rate of exchequer contributions was 31.6%. Subsequent to the valuation report being signed, changes were made (and backdated to 1 April 2009) to the scheme's benefit limits and member contributions. Benefit accrued after age 65 for Members and Office Holders who were either elected to the House of appointed prior to 1 June 1989 and who had reached the maximum pension limit of two thirds of salary ceased, and this reduced the required Exchequer contribution rate by 1.2%. Member contributions were increased by 1.9%, which reduced the required Exchequer contribution rate by 1.7%.

2.10 The combined effect of these two changes reduced the Exchequer contribution rate by 2.9% from 31.6% to 28.7%. This comprised an ongoing contribution rate of 20.2% and a deficit recovery rate of 8.5% to be payable by the Exchequer.

3 Contributions and Developments since the 2008 valuation

3.1 **Member Contributions** During the period from April 2008 to March 2009, contributions from members were paid at the rate of 10% of pay for members who had opted for 1/40th accrual, 6% of pay for members who had opted for 1/50th accrual, and 5.5% of pay for members who had opted for 1/60th accrual. During the period from April 2009 to March 2011, contributions from members were paid at the rate of 11.9% of pay for members who had opted for 1/40th accrual, 7.9% of pay for members who had opted for 1/50th accrual, and 5.9% of pay for members who had opted for 1/60th accrual.

3.2 Member contribution rates are due to be increased from 1 April 2012. Contributions by MPs are due to increase by 1.85% of pay (on members' MP salary only). Contributions on officeholder's salaries (in excess of any salary as an MP) are to increase by 1%, 1.6%, 1.85% or 2.4% depending on the post held and whether responsibility for the pension provision of the post lies with IPSA or the Minister for the Civil Service (MCS), as follows:-

- Group A (increase of 2.4%) – Secretaries of State, Leader of the Opposition in the Commons and Speaker in the House of Lords;
- Group B (increase of 1.6%) – Ministers of State, Government Chief Whip, Leader of the Opposition in the Lords, Opposition Chief Whip, Chairman of Committees of the House of Lords and Deputy Chairman of Committees of the House of Lords;
- Group C (increase of 1%) – Parliamentary Under Secretaries, Government Whips and Opposition Whips.
- Offices which are the responsibility of IPSA (increase of 1.85%) – Speaker, Commons' Deputy Speakers and other officeholders in the House of Commons (for example Select Committee Chairmen).

3.3 The table below shows the contributions payable by members from 1 April 2012.

		Accrual rate		
Post held	**Contribution rate increase**	**1/40th**	**1/50th**	**1/60th**
MP	1.85%	13.75%	9.75%	7.75%
Office which is the responsibility of IPSA	1.85%	13.75%	9.75%	7.75%
Office which is the responsibility of MCS – Group A	2.4%	14.3%	10.3%	8.3%
Office which is the responsibility of MCS – Group B	1.6%	13.5%	9.5%	7.5%
Office which is the responsibility of MCS – Group C	1%	12.9%	8.9%	6.9%

3.4 **Exchequer Contributions** The recommendation following the actuarial valuation in 2008 was that the rate of contributions payable by the Exchequer should be 31.6% of pensionable salaries from 1 April 2009 adjusted to take account of any increase in members' contributions and/or benefit reductions which the Government announces as a consequence of cost-sharing or cost-capping. From 1 April 2008 to 31 March 2009, Exchequer contributions were paid at the previous recommended rate of 26.8% of pensionable salaries. Changes were made to the member contributions and benefit limits effective from 1 April 2009, and from 1 April 2009 to 31 March 2011, Exchequer contributions were paid at the revised recommended rate of 28.7% of pensionable salaries, following the changes to benefit limits and member contributions described in paragraph 2.9.

3.5 **Developments since the 2008 valuation** Several changes were made to the scheme, mainly in 2009 and introduced by SI 2009 Nos. 1920 and 3154. The main changes were:

(i) A normal retirement age of 65 for benefits accrued after 6 May 2010. Some members with long service have an option to draw their pension benefits accrued up to 6 May 2010 without any reduction being applied for early payment, subject to certain conditions described in Appendix B.

(ii) Introduction of a two tier ill-health pension for new awards with effect from 1 September 2009 and a facility for the Trustees to review ill-health pensions granted to all current and future MPs;

(iii) Responsibility for setting the discount rate for calculating transfer values paid from the Fund has passed from the Trustees to HM Treasury.

(iv) Removal of the one year restriction (from the later of 6 April 2006 and the date of election as an MP) on Members transferring benefits into the PCPF from a private pension plan or a free standing additional voluntary contribution (AVC) scheme. Members may now transfer at any time, subject to not having paid into the personal pension or AVC scheme since the later of 6 April 2006 and date of election as an MP;

(v) Pension benefits built up under personal pensions and free standing AVC schemes whilst serving as an MP and/or Minister/Office Holder and, which have been financed from non-parliamentary earnings, are no longer to be treated as a retained benefit;

(vi) An increase in the member contribution rates, backdated to 1 April 2009, as described in paragraph 3.1;

(vii) The introduction of a new pension accrual rate ($1/60^{th}$) with a corresponding member contribution rate of 5.9% and a one-off opportunity for members to switch to a different accrual rate;

(viii) The cessation of pension build-up after age 65 for Members and Office Holders who were either elected to the House or appointed prior to 1 June 1989 and who had reached the maximum pension limit of two thirds of salary;

(ix) Following the Chancellor's Budget announcement on 22 June 2010, pension increases from public service pension schemes (including PCPF) are to be in line with CPI rather than the Retail Price Index (RPI);

(x) The Constitutional Reform and Governance Act 2010 was enacted, transferring responsibility for MPs' pensions from the Government to IPSA, and responsibility for ministers' pensions from the Leader of the House of Commons to the Minister for the Civil Service;

(xi) Member contributions are due to increase from 1 April 2012, as shown in the table in paragraph 3.3.

4 Membership Data

4.1 The data for the actuarial valuation was provided by the secretariat to the Trustees of the scheme and the scheme's administrators (RPMI). In performing this valuation I have relied on the accuracy of the information provided to me. I have carried out reasonableness checks on the data provided and had discussions with the secretariat to establish the validity of the data. I have further checked the data for consistency with information shown in the accounts and other publicly available sources and I consider the data is sufficient for the purposes on this assessment.

4.2 Appendix C summarises the membership of the scheme at the valuation date, and the changes in membership since 2008. Comments on the main changes in membership during the period from 1 April 2008 to 1 April 2011 are given below.

4.3 **Members of Parliament** On 1 April 2011, there were 634 MPs who were active members of the scheme. The number of active scheme members is fewer than the number of Parliamentary seats because MPs who have not taken up their seats in the House of Commons are not eligible to join the scheme, and because members over the age of 75 have ceased to accrue further benefits. Such members had the option to take their lump sum retirement benefit immediately before reaching their 75th birthday (or 6 April 2006 if later) and abating the pension until they leave the House.

4.4 The average pensionable service for MPs (including service credited from transfers in from other pension schemes and additional years of service purchased by members) decreased from 15.4 years at the 2008 valuation to 11.3 years at this current valuation. This has fallen due to the large turnover of members at the 2010 General Election, and due to this valuation being only one year into the Parliamentary term, whereas the previous valuation was three years into the term.

4.5 **Office Holders** On 1 April 2011, there were 181 ministers and other office holders who were actively participating in the supplementary scheme.

4.6 **Salaries** In the three-year period since the 2008 valuation, the annual salary for Members of Parliament increased by just under 4% from £63,291 as at 1 April 2008 to £65,738 as at 1 April 2011. The pensionable payroll for MPs (excluding any additional salary received as an office holder) was £41.7 million at the valuation date. The pensionable payroll for office holders (on top of the basic salary received as an MP) was £6.0 million, giving a total pensionable payroll for active members of the scheme of £47.7 million at the valuation date.

4.7 **Deferred Members** On 1 April 2011, there were 249 former MPs and office holders who were not yet in receipt of pension, but who retained an interest in the scheme in the form of an entitlement to deferred benefits, generally coming into payment at age 65. This compares with 186 deferred members as at 1 April 2008. The average amount of deferred pension increased from approximately £13,500 a year to £19,800 a year, including cost of living increases up to the valuation date.

4.8 In addition to the current office holders, there were 108 former office holders, who were still Members of Parliament, who had actively participated in the supplementary scheme in the past. Those MPs will be entitled to a supplementary pension when they leave the House of Commons.

4.9 **Pensioners** In the inter-valuation period, the number of pensioners increased from 846 to 965, including the new pensions coming into payment as a consequence of the 2010 General Election. These figures include pensions payable to dependants of deceased former members and pension payments that are required to be made to some current MPs.

4.10 Pension schemes such as PCPF, which are contracted out of the earnings-related additional pension of the State Pension Scheme (known as S2P), are generally required to start paying a statutory level of pension when a member who has been a member before 1997 and attains the age of GMP Pension Age plus five years (i.e. age 70 for men, age 65 for women), even where the member is continuing to accrue benefits under the scheme. However, serving MPs and Ministers are given the option to defer payment of the statutory level of pension for a further period until they reach age 75. At the valuation date there were 16 serving MPs receiving pension payments at the level of this statutory Guaranteed Minimum Pension.

4.11 The total amount of pensions in payment increased over the inter-valuation period from £13.5 million to £17.8 million. This reflects the increased number of pensioners and the annual pension increases awarded under the Pensions (Increase) Acts. The average amount of pension in payment was approximately £21,000 a year on 1 April 2011 to former MPs and office holders, and £12,100 a year to dependants.

5 Financial Data and Accounts

5.1 **Accounts** Taken from the published accounts, the income and expenditure of the scheme in the three-year period from 1 April 2008 to 31 March 2011 is summarised in Appendix C. On the basis of the market value of the investments, the scheme's assets increased over the period by £51.2 million, from £369.8 million to £421.0 million, including members' Additional Voluntary Contributions. The table below shows a breakdown of the increase:

Increase in Assets 2008-2011

	£ million	£ million
(1) Start amount at 1 April 2008	369.8	
(2) Contributions (including transfer payments received by the fund)		57.8
(3) Benefits paid (including transfer payments out of the fund)		(65.0)
(4) Management expenses incurred (excluding investment management expenses)		(2.3)
(5) Net cash income = (2) - (3) - (4)		(9.5)
(6) Return on investments (net of investment management expenses)		60.7
(7) Total increase in fund = (5) + (6)	**51.2**	**51.2**
(8) End amount 31 March 2011	**421.0**	

5.2 The amount of the assets of £421.0 million shown in Appendix D include investments of £2.7m relating to Additional Voluntary Contributions (AVCs) paid by members on a money-purchase basis. As these AVC assets exactly match the liability to members in respect of AVCs, the AVC assets and liabilities are excluded from this valuation. Accordingly, the assets to be taken into account for this assessment amount to £418.3 million.

5.3 **Investments**. A summary of the investments actually held by the PCPF at 31 March 2011 is shown below. This shows a majority of the investments (about 71% by market value) in equities.

Type of Asset	Market value at 31 March 2011 £000	Percentage of assets by market value (excluding AVCs)
Equities	296,905	71%
Bonds	86,218	21%
Property	30,822	7%
Cash deposits	315	<½%
Other investment balances	1,686	<½%
Net current assets	2,381	1%
Total assets (excluding AVCs)	418,327	100%

5.4 The equity holding of 71% of the total portfolio is somewhat in excess of the equity allocation of 66% in the long-term strategic objective set out in the scheme's Statement of Investment Principles (as per the latest Statement of Investment Principles adopted by the Trustees in January 2011). That long-term objective incorporates an allocation of 21½% to bonds, with the remainder of the asset allocation (78½%) being split between equities (66%) and property (12½%).

5.5 The investment return achieved on the scheme's assets on a market value basis over the three years since the last valuation was an average of 5.1% a year. However, there was considerable variation within the three-year period, with the percentage return achieved in each year since the last valuation being as follows:

Period	Investment Return
1 April 2008 to 31 March 2009	-21.8%
1 April 2009 to 31 March 2010	+38.4%
1 April 2010 to 31 March 2011	+7.4%

5.6 The value to be placed on the investments of the scheme for the purpose of the present valuation is the market value of the assets as at 1 April 2011.

6 Funding Objective and Valuation Method

6.1 **Funding Objective** The principal objective is to maintain a fund of assets which is expected to be sufficient to provide the benefits promised to members and their beneficiaries. This objective is as advised by the Trustees of the scheme, having consulted with Cabinet Office and IPSA, taking into account advice from the Government Actuary. A Funding Principles Consensus Statement reflecting the outcome of consultations between the Trustees of the PCPF, Cabinet Office, IPSA, HM Treasury and the Government Actuary, has been drawn up and is attached as Appendix A.

6.2 Another important aim as advised is to ensure that accruing benefits are paid for during members' participation in the PCPF and that the charges borne by the Exchequer for accruing benefits are reasonably stable over time. These objectives are addressed by determining a contribution rate expressed as a level percentage of pensionable salary called the *Standard Contribution Rate*. This standard rate is such that it would be just sufficient to finance the benefits under the scheme, provided that experience is in accordance with the actuarial assumptions made. Depending on the size of the accumulated fund and the actual experience of the scheme as disclosed at each three-yearly actuarial valuation, larger or smaller contributions may have to be paid for a period to allow, in particular, for amortising surpluses and deficits.

6.3 **Valuation Method** For this valuation, I have retained the same valuation method as was adopted for the previous valuation as at 1 April 2008. This is the projected unit method, which is the most commonly used method in actuarial valuations of occupational pension schemes in the United Kingdom. Under the projected unit method, the *Standard Contribution Rate* is the cost of the benefits that are expected to accrue in the immediate future (e.g. over a one or three-year period), allowing for future salary increases to retirement. Under this method, the value of the assets held in the fund is compared directly to the "*Actuarial Liability*" which is the value of pension liabilities accrued in respect of service prior to the valuation date as below.

6.4 **Actuarial Liability** Under the Projected Unit Method, the *Actuarial Liability* is the sum of the liabilities in respect of pensions already in payment, deferred pensions for former members, and the value of benefits accrued for sitting Members of Parliament and office holders in respect of service prior to the date of the valuation. These liabilities include the value of any pension rights transferred into the PCPF from other pension arrangements. The liability in respect of active members is assessed by summing the discounted present value of the benefits accrued to the valuation date, based on earnings projected to retirement, or earlier exit, and taking account of pension increases thereafter. For pensions-in-payment and deferred pensions, a similar calculation is made, which takes into account the provision for future cost of living pension increases in line with changes in the CPI.

6.5 In addition to the liability in respect of benefits for members and beneficiaries, account must also be taken of any reserves required for other purposes, such as a reserve for future administration expenses. The value of the assets held in the fund can then be compared directly with this *Actuarial Liability*.

6.6 **Standard Contribution Rate** The *Standard Contribution Rate* is the rate of contributions which would need to be paid in order to meet the cost of pension benefits accruing over a defined period ("the control period"), if there were no surplus or deficiency in the scheme. A one-year control period has been used and members are assumed to be two years older than their actual age at the valuation date, to reflect their age around the mid-point of the Parliamentary term. The *Standard Contribution Rate*, expressed as a percentage of pensionable payroll, is obtained as the discounted value of the pension benefits accruing during the control period, divided by the value of the pensionable earnings of members during the same period. If the actuarial assumptions are borne out in practice, the *Standard Contribution Rate* should be just sufficient to meet the cost of benefits accruing.

6.7 This rate should remain reasonably stable, provided that members who leave service are replaced by new entrants so that the distribution of active members by age and sex does not change significantly, and provided the proportion of members on each rate of benefit accrual remains broadly unchanged. If, in practice, the average age of the active membership rises over time, the *Standard Contribution Rate* could be expected to increase slightly. If the average age of the active membership falls, then the *Standard Contribution Rate* could be expected to fall. This might happen, for example, following a General Election if a number of older members retiring were to be replaced by younger members.

6.8 **Recommended Contribution Rate** The recommended contribution rate is obtained by reducing (or increasing) the Standard Contribution Rate to reflect any surplus (or deficiency) between the value of the assets and the value of the Actuarial Liability. The period over which the contribution rate should be adjusted would depend on a number of factors including the extent of the surplus (or deficiency). In accordance with the Funding Principles Consensus Statement for this valuation, a period of 15 years will be adopted to amortise any surplus or deficit.

6.9 **Office Holders** Office holders who participate in the supplementary scheme pay supplementary contributions on their pensionable salary as an office holder (ie salary on top of the basic salary received as an MP. Some office holders sit in the House of Lords and as such do not receive an MPs' salary.) In most cases, MPs will be office holders for only part of their service as an MP. The valuation method adopted for office holders is again the projected unit method. The *Actuarial Liability* is calculated for benefits in respect of service given before the valuation date, and the *Standard Contribution Rate* is calculated as sufficient to cover the liabilities accruing in respect of future service. A one-year control period has been used and members are assumed to be two years older than their actual age at the valuation date, to reflect their age around the mid-point of the Parliamentary term. When pensions come into payment under the supplementary scheme for office holders, they are aggregated with pensions accrued as a Member of Parliament (where applicable), and so are not shown separately in the valuation results.

6.10 **Discontinuance** The valuation method described above deals with the position of the scheme on the basis that it will continue. I have not considered the position on winding up the scheme as the benefit levels are effectively guaranteed by the legislation and do not depend specifically on the amount of accumulated assets. The governing legislation contains no provisions to determine *the wind up or dis*continuance of the scheme. The Parliamentary Contributory Pension Fund is exempt from the *Statutory Funding Objective* which was introduced for private sector occupational pension schemes by the Pensions Act 2004.

7 Actuarial Assumptions

7.1 The principal financial and demographic assumptions used to assess the funding level of the scheme, the level of Exchequer contributions and the amortisation of the deficit are set out below. Full details are set out in Appendix E and discussed in the following paragraphs.

Principal Financial Assumptions

	1 April 2008	1 April 2011
Gross rate of return	6.5%	6.6%
Real rate of return, net of earnings increases	2.0%	1.25%
Real rate of return, net of pension increases	3.5%	3.5%
Index for pension increases	RPI	CPI

Principal Demographic Assumptions

Mortality	1 April 2011
Males (active and deferred)	SAPS light (normal health males amounts) C=2035
Females (active and deferred)	SAPS light (normal health males amounts) C=2035
Male (age) pensioners	SAPS light (normal health males amounts) U=2011
Widows	SAPS light (dependant females amounts) U=2011

7.2 The principal approach adopted in the selection of assumptions is to start from the Funding Principles Consensus Statement, consider an appropriate assumption to fit the objective taking into account the factors described in this report. At that point I have then considered whether, in my opinion, the assumption is reasonable. Also, I consider whether the overall assumption set is reasonable and fit for purpose. The assumptions I have adopted for this valuation have all been tested individually and in aggregate on this basis and I am content that the tests are satisfied.

7.3 A number of changes have been made to the assumptions compared with those adopted at the previous valuation and these are discussed below.

Demographic Assumptions

7.4 Assumptions are needed on such factors as rates of mortality, retirement and withdrawal from Parliament. Where possible, the past experience of the scheme is used as a guide. In considering the appropriateness of the assumptions for an actuarial valuation, it is important to have regard to the long-term, taking account of the likely incidence of General Elections. My report of 15 September 2011 date described the analysis undertaken of the scheme experience observed since the previous valuation and should be read in conjunction with this report. Changes to the demographic assumptions compared to those adopted at the 2008 valuation are described below.

7.5 **Mortality**

I have adopted mortality assumptions, called SAPS light tables, which are based on the most up to date information published by the Continuous Mortality Investigation. Improvements in mortality from the year 2002 to the date of the valuation have been assumed to be in line with the improvement in longevity observed in the UK population and published by the Office of National Statistics (ONS). Based on the mortality experience of the scheme over the intervaluation period, no age rating has been applied. This is the Baseline Mortality.

7.6 Allowance has also been made for assumed future improvement in mortality rates from the level of “Baseline Mortality”, using the improvement factors adopted for the ONS 2010-based projections of the UK population.

7.7 The resulting expectation of life at normal retirement adopted for this valuation for male/female members at age 65 is shown in the table below, together with the rates adopted at the previous valuation. Heavier rates of mortality are assumed for members who are retired or expected to retire on grounds of ill-health. These rates have been chosen in the light of the differences observed and assumed between ‘age’ and ‘ill-health’ pensioners in similar larger schemes.

7.8 The mortality assumptions adopted for the 2008 valuation were based on an analysis of the mortality for males (predominantly former MPs) and females (predominantly widows of former MPs), which showed that mortality amongst males was in line with the standard tables, but for females the scheme’s experience was slightly heavier than that shown by the standard tables. As such, at the 2008 valuation no age adjustment was made to the male tables and an age adjustment of +1.5 years was made to the female tables.

7.9 At this valuation, the mortality analysis undertaken for females again showed that the mortality experience in PCPF was heavier than that shown by the standard tables. However the sample size is very small and predominantly widows, and the characteristics of current female MPs may be quite different to those of widows (of former MPs) who have recently died. As the Consensus Statement requires me to adopt assumptions on the prudent side of best estimate, I believe it would now be imprudent to adopt an age rating for females based on the observed experience. I have therefore made no age adjustment to the female mortality tables (current female MPs or widows) at this valuation. As at the 2008 valuation, no age adjustment has been adopted for males.

7.10 This results in a larger increase in life expectancy at this valuation for females than males compared to that adopted for the 2008 valuation, as can be seen in the table below.

Expectations of Life at Normal Retirement at Age 65

	Valuation Date	
	2008	**2011**
Current Pensioners		
Male Female	23.8 24.2	24.8 25.9
Future Pensioners (Actives & Deferreds currently aged 50)		
Male Female	25.7 26.0	26.4 27.6

7.11 These assumptions are consistent with paragraphs 15-16 of the Funding Principles Consensus Statement. They are derived as being the best fit to the experience exhibited over recent years and are not out of line with what one might expect from this population.

7.12 **Parliamentary terms** At the previous valuation, General Elections were assumed to take place every four years. Following the introduction of fixed five year Parliamentary terms, for the 2011 valuation I have assumed General Elections will take place every five years, with the next election taking place in May 2015.

7.13 **Career Patterns** The table below shows the proportion of MPs assumed to leave Parliament at each election. This assumption used at the last valuation, which itself was determined following an exercise of looking at past experience over several elections, has been updated to allow for fixed five year Parliamentary terms, and as such the turnover rate for members under age 63 has been respread over the longer Parliamentary term. I consider the assumption to be consistent with paragraphs 15-16 of the Funding Principles Consensus Statement.

Age at election date	**Proportion of members who leave Parliament at each election assuming a five year term (at 2011) and four year term (at 2008)**	
	2008 valuation	**2011 valuation**
Under 63	20%	25%
63 to 75	80%	80%
75	100%	100%

7.14 The main reason for the change is that the previous valuation was three years into the Parliamentary term, whereas the current valuation is only one year into the Parliamentary term, and so the next election is further away than was the case at the previous valuation.

Assumed Age at Leaving Parliament

Age at valuation date	Average expected age of leaving Parliament	
	2008 valuation Next election assumed to be 1 year later	**2011 valuation Next election assumed to be 4 years later**
40	53	55
50	59	61
60	65[2]	65
70	72	74

Financial Assumptions

7.15 The financial assumptions adopted for this valuation are summarised in paragraph 7.1, together with those adopted at the previous valuation.

7.16 **Value of Liabilities** For the valuation, the liabilities, which comprise the future outgo on benefits and expenses, need to be compared with the value of the scheme's assets. In order to compare the value of these items, the liabilities have been capitalised as at the valuation date, by discounting the future streams of outgo with allowance for interest and the probability of payment. As the outgo will occur over a very long period in the future (as much as sixty years or more in the case of current contributing members) the assumptions which have to be made as to interest and inflation rates necessarily relate to this very long period in the future.

7.17 At the last valuation, the increases in pension benefits were linked to increases in the Retail Prices Index (RPI). The Chancellor announced in his Budget Statement on 22 June 2010 that pensions payable from public service pension schemes would in future be increased in line with the Consumer Prices Index (CPI) rather than RPI. (The scheme's governing regulations contain no provision for further discretionary increases to benefits and so none have been allowed for in this assessment.)

[2] A 60 year old at 2008 would be less than 63 years old per para7.13 at the next election

7.18 The switch from RPI to CPI would be expected, other things being equal, to reduce the allowance that needs to be made for future pension increases in placing a value on scheme benefits. On a historical basis, the evidence suggests that, on average, RPI has exceeded CPI by around 0.75% pa. However, during 2010 there were improvements made to the measurement methods of both RPI and CPI. These improvements have increased the measured level of RPI and CPI and resulted in the gap between the two increasing by an average of around 0.65% pa according to a November 2011 report by the Office for Budget Responsibility (OBR) which revised its forecast of the gap between RPI and CPI to 1.4% pa.

7.19 Benefits awarded at retirement are related to the level of members' salaries at that time, and contributions are defined as a percentage of salaries. In general, high rates of salary increases and price increases are associated with high investment yields, and the differences between investment yields and inflation are more important in the valuation than their absolute values. The investment returns actually achieved by the scheme in the inter-valuation period were slightly below the level of return that was assumed at the 2008 valuation. However, undue weight should not be given to short-term factors.

7.20 **Discount rate** - The discount rate can be viewed as a weighted average between the expected investment return on the strategic long-term return-seeking assets (equities and property) and on bonds. The expected return on bonds is taken to be the real yield on index-linked gilts, though this is a yield net of RPI inflation, so needs to be adjusted to give a yield net of CPI. The expected return on equities is the expected return on bonds plus the equity risk premium. As at the valuation date, the equity risk premium has been estimated as 3% in excess of the return on gilts.

7.21 As discussed in paragraph 7.18, RPI is expected to be higher than it was historically due to changes in the index methodology. However, at the valuation date, that expected increase had apparently not yet been fully taken into account by the market in terms of yields on index-linked gilts. Since the valuation date, such yields have fallen from around 0.65% pa to levels below 0% pa, part of which may be due to recognition within the markets of the expected change to RPI measurement.

7.22 In deriving financial assumptions for the valuation, it does not seem appropriate to take account of the expected increase to the gap between RPI and CPI (which would increase the net discount rate) without also allowing for the subsequent reduction in gilt yields, which would reduce the net discount rate. Using yields at the valuation date and a gap of 0.75% between RPI and CPI, the discount rate is derived as follows:-

7.23 Based on the real yield on index-linked gilts at the valuation date, the expected rate of return on the strategic long-term allocation of 21½% of the scheme's assets to bonds can be taken as 0.65% a year in excess of RPI, or 1.4% in excess of CPI. The expected rate of return on the strategic long-term allocation of 66% of the scheme's investments which are in equities (as per the latest Statement of Investment Principles adopted by the Trustees in January 2011) can be taken as 3% in excess of returns on gilts (the equity risk premium), or 4.4% in excess of CPI. The expected return on the strategic long-term allocation of 12½% of the scheme's investments which are in property can be taken as 2% in excess of returns on gilts. This gives a discount rate for valuing the liabilities of 3.5% a year in excess of CPI inflation.

7.24 A similar analysis using gilt yields at a more recent date (when these had fallen below 0% pa) and a gap between RPI and CPI of 1.4% pa would also give an overall discount rate of 3.5% pa. As such, for this valuation, the discount rate for valuing the liabilities is taken as 3.5% a year in excess of CPI inflation.

7.25 **Price inflation** - The rate of inflation implied by comparing the yields on fixed-interest gilts with the yields on index-linked gilts was 3.0% as at 1 April 2011. The price inflation assumption is combined with the net discount rate described in the previous paragraph to give the gross discount rate assumption. Using assumptions of 3.0% a year for price inflation and 3.5% a year for the net discount rate would give a gross discount rate assumption of 6.6% a year.

7.26 **Pension increases** - Pension increases on pensions in payment and in the deferred period are generally in line with increases to the Consumer Prices Index. Hence, this assumption is taken to be 3.0% per annum. This is consistent with market yields and what I need to adopt to be consistent with a market value approach for valuing the scheme's assets. It therefore represents an average, long-term assumption.

7.27 **Nominal Investment Return** - The combination of a real return of 3.5% and price inflation of 3.0% produces a nominal rate of investment return of 6.6% pa.

7.28 The assumptions in paragraphs 7.25 to 7.27 have limited impact on the valuation result. Virtually all the benefits of the scheme are increased in line with salary growth (whilst members are accruing benefits) and price inflation (once a member has left service), with only increases applicable to Guaranteed Minimum Pensions (which relate to part of the benefits accrued between 1978 and 1997 as a result of the scheme being contracted out of the State Earnings Related Pension Scheme) not being in line with price inflation.

7.29 **Pay increases** - The benefits accruing during service are linked to increases in members' pay, and it is therefore necessary to consider what increases in future pay levels might reasonably be anticipated. Real salary inflation has been assumed to be 2.25% pa over CPI, which results in a real discount rate in excess of pay increases of 1.25% pa. This is based on historical experience which shows that National Average Earnings have increased at a higher rate than price inflation. This assumption is consistent with paragraphs 15-16 of the Funding Principles Consensus Statement.

7.30 **Expenses** Administration expenses incurred by the scheme during the three-year inter-valuation period were around £2.3 million, excluding investment management costs. A capital reserve of £9.0 million is set aside to meet expenses expected to arise in future. This is £0.8 million higher than the reserve set aside at the previous valuation, which has been increased in line with price inflation over the inter-valuation period. This assumption is consistent with paragraphs 15-16 of the Funding Principles Consensus Statement. The costs of investment management are implicitly taken into account in determining the rate of return on investments assumed for this valuation.

8 Valuation Result – Funding Level

8.1 The results of the valuation are considered in two parts. The first part deals with the liabilities that have already accrued for current and former members in respect of service given before the valuation date (the *Actuarial Liability*), and the results for this aspect are set out at paragraph 8.2 below. The second part of the valuation deals with the liabilities expected to accrue in respect of future service for current members (the *Standard Contribution Rate*), and this is discussed in section 9.

8.2 **Past Service Assessment** The liabilities for past service and the assets of the scheme have been determined on the methodology set out in section 6 of this report, using the actuarial assumptions described in section 7. The results of the valuation in relation to past service liabilities are set out below:

Valuation Statement as at 1 April 2011 – Past Service

		Value at 1 April 2011 *(£ million)*
	Actuarial Liability	
	Current members – service up to 1 April 2011:	
(1)	(a) Members of Parliament	134.0
(2)	(b) Office holders	6.9
	Members with deferred benefits:	
(3)	(a) Former members	69.5
(4)	(b) Former office holders who are still MPs	7.6
	Pensions in payment:	
(5)	(a) Pensioners	207.0
(6)	(b) Surviving dependants of former members	40.3
(7)	**Total liabilities for benefits = (1) to (6)**	465.3
(8)	Reserve for administration expenses	9.0
(9)	**Actuarial liability = (7) + (8)**	**474.2**
(10)	**Value of assets**	**418.3**
(11)	**Shortfall of assets to liabilities = (9) – (10)**	**55.9**
	Funding Level	
(12)	**Ratio of assets to liabilities = (10) / (9)**	**88.2%**

8.3 The figures in the Valuation Statement show that the scheme has a relatively mature liability profile. The liability for the past service of current members, at around £140.9 million (rows (1) and (2) above, is significantly smaller than the liability in respect of former members and dependants in receipt of pension at £247.3 million (total of rows (5) and (6) above). The aggregate liability for accrued benefits of current members is now 30% of the total liability, whereas 70% relates to former MPs and office holders, including deferred members, (53% pensioners and 17% deferreds).

8.4 **Analysis of Deficit** The result of the valuation shows a small increase in the deficit over the three-year period to the valuation date from £50.9 million to £55.9 million. The key factors influencing the change in the deficit are shown below both in cash terms and as a percentage of the 2011 liabilities.

Summary of Change in Deficit 2008-2011

	£ million	*Percentage of liabilities*
Deficit at 1 April 2008	**51**	**12%**
Interest on 2008 deficit	11	3%
Additional contributions in 1st inter-valuation years	(3)	(1%)
Additional contributions in 2nd and 3rd inter-valuation years	(9)	(2%)
Divergence of scheme's experience from actuarial assumptions (investment net of pension and salary increases)	1	0%
Divergence of scheme's experience from actuarial assumptions (demographic)	(11)	(2%)
Change in pension indexation from RPI to CPI	(39)	(8%)
Changes to financial assumptions from those adopted at previous valuation	47	10%
Changes to mortality assumptions from those adopted at previous valuation	13	3%
Change to withdrawal assumptions from those adopted at previous valuation	(4)	(1%)
Deficit at 1 April 2011	**56**	**12%**

9 Valuation Result – Contribution Requirement

9.1 **Future Service Assessment** The cost of benefits accruing for future service is assessed by means of the *Standard Contribution Rate*, as described at paragraph 6.6 of this report. The *Standard Contribution Rate* calculated on the actuarial assumptions set out in section 7 of this report is 32.4% for MPs, 33.1% for office holders, and 32.5% for MPs and office holders combined.

9.2 Contributions are payable by members at the rate set out in the table in paragraph 3.3. On the basis of current members' chosen accrual rates, members' contributions are expected to average 12.0% for MPs, 13.0% for office holders, and 12.1% of the scheme's total pensionable payroll for the duration of the current Parliament. At the 2008 valuation members' contributions were expected to average 10.8% of the scheme's pensionable payroll after allowing for the increases to member contributions that took effect from 1 April 2009. The increase of 1.3% in contributions from members since the last valuation is attributable to the increase in member contributions due to take effect from 1 April 2012, offset slightly by the introduction of the 1/60th accrual option, which 30 members opted for, which has a lower level of member contributions. Members were not able to opt for 1/60th accrual prior to January 2010 (backdated to April 2008 or 2009).

9.3 The overall Exchequer's share of the *Standard Contribution Rate*, which is the balance of costs that would fall to be met by the Exchequer in the absence of any surplus or deficiency, is assessed as 20.4% of pensionable salaries (being 32.5% less 12.1%). The table below shows this for MPs and office holders separately:-

	MPs (%)	**Office holders (%)**	**Combined (%)**
Standard Contribution Rate	32.4	33.1	32.5
Average member contribution rate	12.0	13.0	12.1
Exchequer's share of the Standard Contribution Rate	20.4	20.1	20.4

9.4 For this valuation the Standard Contribution Rate has been assessed assuming members are two years older than their actual age at the valuation date, to reflect their age around the mid-point of the Parliamentary term. The Standard Contribution Rate can be expected to remain broadly stable if the distribution of the membership by age, salary, length of service and each member's chosen accrual rate remain broadly constant, and if there is no change in actuarial assumptions.

9.5 **Recommended Rate of Exchequer Contributions** Under Paragraph 10 of Schedule 6 of the Constitutional Reform and Governance Act 2010, I am required to determine the rate of Exchequer contributions needed to meet the balance of the cost of the scheme, having regard to the benefits and to the contributions payable by members.

9.6 As shown in the Valuation Statement at paragraph 8.2, a further shortfall of assets relative to liabilities has arisen since the previous actuarial valuation. The shortfall is now assessed as £55.9 million in total. It is appropriate that Exchequer contributions should remain at a higher level than the Standard Contribution Rate in order to amortise the deficit.

9.7 Taking into account the statutory backing to the PCPF, the objective set out in the Funding Principles Consensus Statement of amortising the deficit over a 15-year period reflects a reasonable approach to funding where there is a desire to keep to a relatively low level the impact of surpluses/deficits. Amortising the deficit over this period results in an addition of 8.6% to the Exchequer share of the Standard Contribution Rate.

9.8 On this approach, the contribution rate required to be paid from 1 April 2012 to meet the cost of benefits currently accruing in the scheme, and by the Exchequer to cover the deficit, is 29.0% of the pensionable salaries of scheme members. No allowance has been made for any further shortfall that has arisen between the valuation date and the date the revised contribution rate becomes payable.

9.9 These rates, and the comparable rates at the previous valuation are shown in the table below.

	1 April 2008 (%)	**1 April 2011 (%)**
Standard Contribution Rate	31.0	32.5
Average member contribution rate	10.8	12.1
Exchequer's share of the Standard Contribution Rate	20.2	20.4
Deficit Contributions	8.5	8.6
Recommended Exchequer contribution after deficit contributions	28.7	29.0

9.10 It is quite possible that there may be changes to the benefit structure or member contributions before the next actuarial valuation of the scheme is finalised. In order to allow for this possibility, the contribution rate recommended as the formal recommendation in 10.2 to be paid by the Exchequer from 1 April 2012 is expressed as 29.0% of pensionable pay adjusted to take account of any increase in members' contributions and/or any benefit reductions which the Government or IPSA announces. The value for the purposes of such adjustment of any benefit reductions will be as assessed by the Government Actuary using the same assumptions as in this report.

9.11 **Analysis of Change in Total Required Rate** The change to the total required rate of contributions – from 39.5% to 41.1% of scheme payroll – is mainly because of the increase in the Standard Contribution Rate. The change to the additional contributions needed to make up the deficit of the scheme's assets relative to its liabilities has a minor impact. The table below summarises the main factors that account for the change to the required rate of contributions.

Increase to Required Contribution Rate (Exchequer and members combined) (% of salary)

Required contribution rate following 2008 valuation (28.7% employer plus 10.8% member)		**39.5%**
Future service change		
Impact of changes to membership	0.2%	
Change in pension indexation from RPI to CPI	-3.3%	
Changes to financial assumptions from those adopted at previous valuation	5.0%	
Changes to mortality assumptions from those adopted at previous valuation	0.2%	
Change to withdrawal assumptions from those adopted at previous valuation	0.6%	
		1.5%
Past service change		
Deficit contributions paid and deficit re-spreading	-0.9%	
Divergence of scheme's experience from 2008 valuation assumptions	-1.5%	
Change in pension indexation from RPI to CPI	-6.0%	
Changes to financial assumptions from those adopted at previous valuation	7.1%	
Changes to mortality assumptions from those adopted at previous valuation	2.1%	
Change to withdrawal assumptions from those adopted at previous valuation	-0.7%	
Additional cost of amortising increased deficit		**0.1%**
Required contribution rate following 2011 valuation		**41.1%**

9.12 **Sensitivity** I have considered how sensitive the results are to changes in the assumptions, and to the scheme experience differing from the assumptions.

The table below illustrates the sensitivity of the liabilities and contribution rate as at 1 April 2011 to variations of individual 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.)

9.13 **Investment Return** For the purposes of the valuation I have assumed that the scheme's investments will produce returns of 3.5% a year above the level of price inflation over the long term. The results that would have been obtained using investment yield assumptions of 0.5% per year more than or less than this are shown in the table below.

	Investment returns net of price inflation		
	Valuation assumption	**+0.5% ie 4.0% per year**	**-0.5% ie 3.0% per year**
Deficit at 1 April 2011	£55.9 million	£22.7 million	£93.4 million
Deficit contribution Rate	8.6%	3.6%	13.8%
Exchequer share of Standard Contribution rate	20.4%	17.0%	24.4%
Total Exchequer contribution Rate	29.0%	20.6%	38.2%

9.14 **Salary Growth** For the purposes of the valuation I have assumed that salary growth will be 2.25% a year above the level of CPI. The results that would have been obtained using salary growth assumption of 0.5% per year more than or less than this are shown in the table below.

	Salary Growth		
	Valuation assumption	**+0.5%**	**-0.5%**
Deficit at 1 April 2011	£55.9 million	£61.3 million	£50.8 million
Deficit contribution Rate	8.6%	9.1%	8.1%
Exchequer share of Standard Contribution rate	20.4%	21.8%	19.1%
Total Exchequer contribution Rate	29.0%	30.9%	27.2%

9.15 **Longevity** The assumptions made for longevity are described in paragraph 7.5 -7.11 of the report and further details can be found in appendix E. The sensitivity of the valuation result to a change in the longevity assumptions of around one year is illustrated in the table below.

	Life expectancy from age 65		
	Valuation assumptions	**1 year more**	**1 year less**
Deficit at 1 April 2011	£55.9 million	£44.7 million	£66.9 million
Deficit contribution Rate	8.6%	6.8%	10.2%
Exchequer share of Standard Contribution rate	20.4%	19.8%	21.0%
Total Exchequer contribution Rate	29.0%	26.6%	31.2%

9.16 **Sensitivity to Market Value Changes** We have considered how the valuation results may look as at 1 April 2014, on three scenarios of investment performance in the inter-valuation period:

- Investment return of +50% from 31 March 2011 to 31 March 2014;
- Investment return in line with the valuation assumptions (6.6% pa);
- Investment return of -20% from 31 March 2011 to 31 March 2014.

We have combined each of these three scenarios with the variant assumptions on the long-term investment return described earlier in this report, to give nine indicative valuation results as at 1 April 2014. These are shown in the table below.

Return in inter-valuation period	Assets up to 50%			Markets in line with assumptions			Assets fall by 20%		
Net discount rate	**4%**	**3.5%***	**3%**	**4%**	**3.5%***	**3%**	**4%**	**3.5%***	**3%**
Surplus (Deficit)	105	65	25	(10)	(55)	(105)	(190)	(230)	(270)
Surplus/ Deficit Contribution Rate	-15%	-9%	-3%	1%	8%	14%	27%	31%	36%
Exchequer share of Standard Contribution Rate	17%	20%	24%	17%	20%	24%	17%	20%	24%
Total Exchequer Contribution Rate	2%	11%	21%	18%	28%	38%	44%	52%	61%

*This is the valuation assumption.

In calculating the figures above we have made a number of assumptions as follows:

- We have assumed that no changes are made to the benefit structure of the scheme or to the member contribution rates described in Appendix B.
- Other than investment return, all of the other assumptions are those adopted for the 2011 valuation and experience over the inter-valuation period is assumed to be in line with those assumptions.
- Exchequer contributions are assumed to be 29% of pay with effect from 1 April 2012 to 31 March 2014.
- Any surplus or deficit as at 1 April 2014 valuation is assumed to be re-amortised over a period of 15 years.
- We have not attempted to carry out a full valuation of the scheme as at 1 April 2014, rather we have rolled forward the results as at 1 April 2011 in an approximate manner. In doing so we have assumed that the membership profile as at 1 April 2014 is the same as that as at 1 April 2011.

10 Recommendation

10.1 Paragraph 10 of Schedule 6 of the Constitutional Reform and Governance Act 2010 requires that, at each actuarial valuation, the Government Actuary shall recommend the rate of contribution that should be paid by the Exchequer in respect of any financial year beginning after this report is made. I have completed the actuarial valuation of the PCPF as at 1 April 2011, using the methodology and actuarial basis described in this report, and the recommendation I am required to give by Statute is set out in paragraph 10.2 below.

10.2 I recommend that the Exchequer's contributions payable from 1 April 2012 should be at the rate of **29.0% of pensionable pay** adjusted to take account of any increase in members' contributions and/or any benefit reductions which the Government or IPSA announces. For the avoidance of doubt, the figure of 29.0% already takes into account the increases announced by IPSA on 19 March 2012 and the Government on 15 March 2012, and so no adjustment should be made in respect of those changes. The value for the purposes of such adjustment of any benefit reductions will be as assessed by the Government Actuary using the same assumptions as in this report.

Trevor Llanwarne FIA
Government Actuary

22 March 2012

11 APPENDIX A: FUNDING PRINCIPLES CONSENSUS STATEMENT

Actuarial Valuation at 1 April 2011

Status of PCPF

1. The Parliamentary Contributory Pension Fund (the PCPF) is a defined benefit occupational pension scheme established to provide pension and related benefits for members of the UK Parliament and Officeholders. The PCPF is established by statute, the main primary legislation now being the Constitutional Reform and Governance (CRaG) Act 2010 (previously this was the Parliamentary and Other Pensions Act 1987).

2. Following the enactment of Schedule 6 of the CRaG Act on 24 October 2011, responsibility for oversight of MPs' and certain officeholders' pensions was transferred to the Independent Parliamentary Standards Authority (IPSA) and responsibility for ministers' pensions passed to the Minister for the Civil Service (MCS).

3. There are two sets of rules of the PCPF, both of which are currently set out in regulations (the main regulations being statutory Instrument No. 3253 of the year 1993). The regulations have been amended from time to time to reflect changing circumstances and the development of pensions legislation in the UK.

4. IPSA may amend the Rules in respect of MPs and certain officeholders; the MCS may change the Rules in respect of ministers.

Requirements of Legislation

5. Under Paragraph 10 of Schedule 6 of the Constitutional Reform and Governance Act 2010, the Government Actuary is required to carry out an actuarial valuation every third year. The key requirements are:

   (5) The report is to be made to-

      (a) the Trustees of the Fund,

      (b) the IPSA,

      (c) the Minister for the Civil Service;

      (d) the Treasury.

   (6) The report must-

      (a) report on the general financial position of the Fund at the beginning of the period of three years in which the report is made, and

      (b) make a recommendation as to the rate at which (subject to any subsequent report under this paragraph) Exchequer contributions should be paid into the Fund in respect of any financial year beginning after the report is made.

Consultation

6. This Statement reflects the outcome of consultations between the Trustees of the PCPF (on behalf of the Minister for the Civil Service), the Cabinet Office, IPSA, the Treasury and the Government Actuary. It represents a summary of what are believed to be consensus views of all of the first four parties referred to, in terms of how the scheme is and should be funded, invested and controlled. This statement has been seen by all parties in draft and all are content with the summary as described.

Nature of Scheme

7. The benefits provided to MPs and Officeholders are described in detail in two sets of Rules, which also specifies the rate (or rates) of contributions payable by members of the scheme. The balance of the cost of providing the promised benefits is met by contributions from the Exchequer. One of the main purposes of the periodic actuarial valuation is to determine the rate of contribution that should be paid by the Exchequer from time to time.

Exchequer Guarantee

8. Under the Statutes currently in force, the Exchequer effectively guarantees the benefits prescribed for members, as it is obliged to pay whatever rate of contribution is recommended by the Government Actuary including any deficit contributions to meet a shortfall subject to a provision for a lower Exchequer contribution rate if consent is given by all of the Treasury, the Minister for the Civil Service and the Trustees of the Fund. IPSA could make provision for a higher Exchequer contribution rate provided consent is given by the Treasury and the Minister for the Civil Service. As the security of members' benefits is not in doubt, the Trustees might not need to be concerned about short-term volatility in funding levels or in contribution rates, and can take a long-term approach to investment. This position, including the Exchequer commitment to financing shortfalls, may change depending on the context of cost-sharing and cost-capping, as outlined in paragraphs 9, 10 and 11 below.

Cost-Sharing and Cost-Capping

9. The Senior Salaries Review Body (SSRB), in their report of January 2008, recommended that a form of cost sharing should be introduced into the PCPF, so that member contributions partly reflected the changing cost of the benefits being provided. The SSRB report also recommended the introduction of 'cost-capping', so that the Exchequer contribution was effectively limited to a specified figure (20% of pay, plus the 2005 deficit contributions, was recommended). These recommendations of the SSRB were endorsed, in principle, by the House of Commons in a vote of the House on 24 January 2008.

10. The actuarial valuation as at 1 April 2008 indicated that Exchequer contributions were required in excess of the cap proposed by the SSRB. The House subsequently agreed to a package of benefit changes and member contribution increases, which were applied with backdated effect from 1 April 2009, such that the rate of Exchequer contributions required was equal to the cap proposed by the SSRB.

11. There is no formalised mechanism for implementing cost-sharing/cost-capping following the 2011 valuation. However, the continued application of cost-sharing or cost-capping would alter the balance of risk between members and the Exchequer, with some risk being transferred from the Exchequer to the members. Depending on the details of the implementation of cost-sharing and cost-capping, the transfer of risk from the Exchequer to the members could be considerable.

12. Statutory responsibility for setting the terms of MPs' and certain officeholders' pensions has recently passed from the Government to the Independent Parliamentary Standards Authority (IPSA), and statutory responsibility for setting the terms of ministers' pensions has recently passed to the Minister for the Civil Service. This may be followed by a full review of MPs' and officeholders' pension arrangements. The funding principles relating to the PCPF may need substantial review when the detailed arrangements for the future have been settled.

Funding Objectives

Principal Objective

13. The key funding objective for the PCPF is that the combination of contribution income (including both member contributions and Exchequer contributions) and the income from the assets held in the fund (including interest payments, dividends, and sale proceeds) should be just sufficient (and not excessive) to meet the benefit expenditure to MPs and Officeholders in accordance with the rules of the PCPF.

Subsidiary Objective

14. A subsidiary objective, for as long as the scheme remains open to future accrual and to new members, is that the PCPF benefits should be financed on a consistent basis during members' participation in the scheme by regular contributions, which are hoped to remain a substantially level percentage of pay over time, using an actuarial basis and approach that does not change greatly from one valuation to the next. This objective of broad consistency over time should help to deliver inter-generational fairness both to members and to taxpayers. It is accepted that, to the extent that actual experience (or views on future experience) deviates from the assumptions made in assessing funding, actual contribution rates may need to be temporarily higher or lower to meet the long-term funding objectives.

Funding Strategy

15. In order to minimise the risk of excessive funding, the quantum of assets to be built up in the PCPF will be targeted as just sufficient to cover the value of the PCPF liabilities in respect of service completed by members prior to the date of the actuarial valuation. The assessment of these liabilities will be determined using actuarial assumptions which are considered to be, overall, on the prudent side of a 'best estimate' of future investment returns and other financial factors affecting the calculation of the liabilities, and consistent with the assumptions used by a number of other funded schemes for contribution rates (including public sector schemes) who are following a similar long-term investment strategy.

16. Each actuarial valuation will take account of the observed experience in the scheme prior to the valuation date, both in respect of demographic features (such as retirements, leavers, and new entrants), and in respect of financial features (such as inflation and investment returns). The actuarial basis for carrying out the valuation will reflect a basis on the prudent side of the best estimate of financial conditions that can be made effective from the valuation date, taking into account market conditions at that time.

Allowance for Post-Valuation Events

17. In relation to any valuation, there is always a time delay between the effective date of the valuation and the date the report on the valuation is signed. In view of the Exchequer guarantee and in line with the approach taken at the last valuation it is envisaged that post-valuation events will generally be ignored. However, if there are major changes in expectations such as legislative developments or changes in the scheme's coverage these would likely be allowed for. One such possible event is the possible reduction to the number of MPs at the next General Election, which could affect the level of contributions (when expressed as a percentage of payroll) required to amortise any deficit over a defined period. For the 2011 valuation, allowance will be made for the increases to member contributions which are due to take effect from 1 April 2012.

Format of Actuarial Conclusion on Contribution

18. The recommendation on contributions should allow a reduction in Exchequer contribution if the Government or IPSA announces any increase in members' contributions or reduction in benefits, without any need for a further valuation before 2014, but ensure the full amount is paid if it does not.

Investment Strategy

19. The PCPF is financed by contributions from members and the Exchequer which are invested in a fund of real assets. The investment strategy adopted for managing this fund is reviewed by the Trustees, from time to time, and reflects the Exchequer commitment to the financing of the PCPF. The investment strategy is a mixture of return-seeking assets (mainly equities and property) and broadly matching assets (such as bonds), with some diversification into other asset classes.

20. The investment strategy is set out in some detail in the Statement of Investment Principles dated January 2011, which was prepared, in consultation with the Leader of the House of Commons. The long-term strategic benchmark asset allocation set out in that Statement is summarised below.

Strategic Asset Distribution (SIP of January 2011)

Asset Class	Proportion of Fund
Equities (UK and Overseas Equities)	66%
Property	12½%
Bonds	21½%
Total Assets	**100%**

21. The assets will be brought into account at their market value on the valuation date. For consistency a market value approach will also be taken to valuing the liabilities. This is the same approach as for the 2008 actuarial valuation of PCPF and is in line with the general approach used by funded pension schemes in the private sector, which are required to follow this approach by the Pensions Act 2004. (These Pensions Act 2004 requirements do not apply to the PCPF).

Period over which Contributions are Adjusted to Meet Funding Objectives

22. When experience differs from the valuation assumptions made, the result of the valuation will be either a surplus or a shortfall of assets relative to past service liabilities. Future contributions will accordingly be reduced for a period when there is a surplus (or increased for a period when there is a deficiency), in order to bring the assets and liabilities back into balance. As security of members' benefits is not an issue, and in order to keep contribution rates reasonably stable, a relatively long period will be selected for the period over which contributions are adjusted. Typically, this might be 15 years.

Valuation Assumptions

23. For the purposes of the actuarial valuation, it is necessary to make assumptions about the financial and demographic aspects relevant to the PCPF. The general approach to be adopted is to use the experience of the scheme as a base provided this is reasonable.

Policy on reduction of cash equivalent transfer values (CETVs)

24. It is permissible under pensions legislation for cash equivalent transfer values (CETVs) to be reduced by the trustees below their preferred level, if the value of the liabilities calculated on the CETV basis exceeds the value of the assets available to pay those transfer values. In the circumstances of the Exchequer guarantee, the Trustees consider that it is not appropriate to reduce the CETVs below their full recommended level and this should be assumed to the extent it is relevant for any valuation.

Frequency of valuations

25. The statutory provisions relating to the PCPF require an actuarial valuation to be carried out every three years. Accordingly, the next actuarial valuation of the PCPF is due to be carried out with effect from 1 April 2014.

Position of the members

26. In view of the fact that this report is addressed to the Minister for the Civil Service, Treasury, IPSA and the Trustees jointly, as required under law, it has not been felt appropriate or necessary, to consult more widely given that the Trustee body is made up of the other relevant party, the members.

12 APPENDIX B: SUMMARY OF THE MAIN PROVISIONS OF THE SCHEME

1. All serving Members of Parliament may participate in the Parliamentary Contributory Pension Fund. Ministers and certain other office holders (in both the House of Lords and House of Commons) may participate in a supplementary section of the scheme and qualify for a supplementary pension on a similar basis to MPs, except that benefits accrue by reference to salary in each year of office holder membership, rather than by reference to final pay.

2. Up until 31 March 2012, member contributions are payable at the rate of 11.9%, 7.9% or 5.9% of salary from scheme members, and pensions accrue at the rate of 1/40th, 1/50th or 1/60th of final pensionable salary respectively per year of reckonable service. Member contributions payable from 1 April 2012 are as shown in the table below:-

	Contribution rate payable from 1/4/2012 Accrual rate		
Post held	**1/40th**	**1/50th**	**1/60th**
MP	13.75%	9.75%	7.75%
Office which is the responsibility of IPSA	13.75%	9.75%	7.75%
Office which is the responsibility of MCS – Group A	14.3%	10.3%	8.3%
Office which is the responsibility of MCS – Group B	13.5%	9.5%	7.5%
Office which is the responsibility of MCS – Group C	12.9%	8.9%	6.9%

Group A (increase of 2.4%) – Secretaries of State, Leader of the Opposition in the Commons and Speaker in the House of Lords;

Group B (increase of 1.6%) – Ministers of State, Government Chief Whip, Leader of the Opposition in the Lords, Opposition Chief Whip, Chairman of Committees of the House of Lords and Deputy Chairman of Committees of the House of Lords;

Group C (increase of 1%) – Parliamentary Under Secretaries, Government Whips and Opposition Whips;

Offices which are the responsibility of IPSA (increase of 1.85%) – Speaker, Commons' Deputy Speakers and other officeholders in the House of Commons (for example Select Committee Chairmen).

3. Exchequer contributions are paid at a rate recommended from time to time by the Government Actuary.

4. Members may instead opt to pay contributions at a rate of 7.9% or 5.9% of salary and to accrue pension at the rate of 1/50th or 1/60th of final pensionable salary respectively per year of reckonable service. Serving members who have reached the limits for maximum benefit accrual in the scheme do not pay contributions.

5. Retirement pensions are payable from age 65 to those who are no longer MPs or office holders. Pensions in respect of service up to 6 May 2010 may be paid before age 65 in the following circumstances, though only service up to 6 May 2010 will count towards the qualifying period:

   - Accrued pensions in respect of service up to 6 May 2010 may be paid from age 60 where service up to 6 May 2010 exceeds 20 years, and from an age between 60 and 65 where service up to 6 May 2010 is between 20 and 15 years.
   - Abated pensions may be payable from earlier ages to members aged 55 or over.

6. An ill-health retirement pension may, subject to medical evidence, be awarded at any age. For members who retire on the upper tier, ill-health pensions are calculated by reference to potential service to age 65.

7. Members may, on retirement, commute part of their pension for a lump sum that is actuarially equivalent to the part of the pension forgone.

8. Pensions are also payable to spouses and other qualifying partners of deceased scheme members at the rate of five-eighths of the deceased member's pension. Children's pensions are also payable. In the case of members who die in service, the spouse's or partner's pension is based on the pension that would have been payable to the member had upper tier ill-health retirement taken place at the date of death. On death in service, a member's salary continues to be paid to a surviving spouse or partner for a further three months. A lump sum equal to four times pensionable salary is also paid on the death in service of a scheme member. Benefits in respect of serving members on or after 3 November 2004 include survivor pensions payable to qualifying unmarried partners, as well as to widows and widowers, upon the death of a member. Those survivor pensions no longer cease upon the subsequent marriage, civil partnership or cohabitation of the surviving spouse or partner. From December 2005, survivors' pensions became payable to legal civil partners.

9. Pensions and deferred pensions are increased annually in line with CPI.

10. The scheme is contracted out of the earnings-related additional pension of the State Pension Scheme.

13 APPENDIX C: MEMBERSHIP AT 1 APRIL 2011

TABLE 1 - MEMBERS OF PARLIAMENT PARTICIPATING IN THE SCHEME

Number of MPs participating in PCPF at 1 April 2008	**634**
New members 2008-2011:	
MPs elected	238
[(1)]*Members leaving active status 2008-2011:*	
Leaving with deferred entitlement	(117)
Retirements[(2)]	(117)
Deaths	(3)
Transfer-out	(1)
Number of MPs participating in PCPF at 1 April 2011	**634**
Other statistics at 1 April 2011	
Average age	50.5 years
MPs' pensionable pay (p.a.)	£65,738
Total of accrued pensions[†] (p.a.)	£10.5m
Average accrued pension[†] (p.a.)	£16,600
Average length of pensionable service *	11.3 years
Average length of pensionable service **	8.9 years
Number of MPs who have opted for 1/40th accrual	563
Number of MPs who have opted for 1/50th accrual	41
Number of MPs who have opted for 1/60th accrual	30

[†]Not including any benefits earned in respect of service as an office holder
* Including transferred-in service and added years contracts
** Excluding transferred-in service and added years contracts
(1)Movements relate to the status as at 1 April 2011 of participating members at 1 April 2008
(2)Including current MPs aged over 75 with abated pensions

APPENDIX C (CONT'D)

TABLE 2 – OFFICE HOLDERS PARTICIPATING IN THE SCHEME

Number of office holders participating in PCPF at 1 April 2008	**176**
New members 2008-2011:	
Office holders appointed	167
Members leaving active status 2008-2011(1):	
Retirements(2)	(42)
Deferred pension entitlement only	(48)
Deferred pension entitlement but still an MP	(71)
Deaths	(1)
Number of office holders participating in PCPF at 1 April 2011	**181**
Other statistics at 1 April 2011	
Average age	54.7 years
Aggregate pensionable salaries of office holders (p.a.)	£6.0m
Total of accrued pensions† (p.a.)	£0.5m
Average accrued pension† (p.a.)	£2,700
Number of office holders accruing benefits at 1/40th	160
Number of office holders accruing benefits at 1/50th	15
Number of office holders accruing benefits at 1/60th	6

† Not including benefits earned in respect of service as an MP
(1)Movements relate to the status as at 1 April 2011 of participating members at 1 April 2008
(2)Includes previous office-holders aged over 75 with an abated pension

TABLE 3 – FORMER OFFICE HOLDERS STILL SERVING AS MPs

Number of serving MPs at 1 April 2008 with deferred entitlement to office holder benefits	**114**
Members joining category 2008-2011:	
MPs leaving office holder status	77
Members leaving category 2008-20011(1):	
Resumed active office holder status	(17)
Stepped down as an MP	(19)
Retirements(2)	(45)
Transfer-out	(2)
Number of serving MPs at 1 April 2011 with deferred entitlement to office holder benefits	**108**
Other statistics at 1 April 2011	
Average age	56.2 years
Total of accrued pensions† (p.a.)	£0.6m
Average accrued pension† (p.a.)	£5,600

APPENDIX C (CONT'D)

TABLE 4 - MEMBERS WITH DEFERRED PENSION ENTITLEMENT

(NOT INCLUDING DEFERRED OFFICE HOLDER ENTITLEMENTS WHERE MEMBER IS STILL SERVING AS AN MP)

Number of deferred members at 1 April 2008	**186**
Members joining category 2008-2011:	
Members leaving active membership	132
Members leaving category 2008-2011[1]:	
Resumed active MP status	(4)
Resumed active Office-holder status	(2)
Awards of pension	(57)
Transfers to other schemes	(5)
Deaths	(1)
Number of deferred members at 1 April 2011[2]	**249**
Other statistics at 1 April 2011[3]:	
Average age	55.8 years
Total of deferred pensions (p.a.)	£4.9m
Average deferred pension (p.a.)	£19,800

(1)Movements relate to the status as at 1 April 2011 of participating members at 1 April 2008
(2)Excludes deferred females aged over 60 who are receiving a GMP pension

APPENDIX C (CONT'D)

TABLE 5 - PENSIONERS

	Former members	Surviving dependants of former members (including children)	Active members in receipt of statutory Guaranteed Minimum Pension	Members aged over 75 with an abated Pension	Total
Number of pensioners at 1 April 2008:	**538**	**285**	**16**	**7**	**846**
New pensioners 2008-2001	181	46	5	4	236
Pensions ceasing 2008-2011	55	47	12	4	117
Number of pensioners at 1 April 2011*:	**665**	**284**	**9**	**7**	**965**
Other statistics at 1 April 2011:					
Average age (years)	73.2	74.6	71.2	78.6	73.6
Total of pensions in payment (p.a.)	£14.03m	£3.42m	£0.05m	£0.26m	£17.76m
Average pension in payment (p.a.)	£21,100	£12,100	£5,900	£36,500	£18,400

14 APPENDIX D: CONSOLIDATED REVENUE ACCOUNT FOR THE PERIOD 1 APRIL 2008 TO 31 MARCH 2011

	£'000	*£'000*
Fund at 1 April 2008		**369,788**
Income		
Contributions:		
MPs' and office holders' ordinary contributions	14,296	
Members' contributions for the purchase of AVCs and added years	989	
Exchequer contributions	39,393	
Transfer values received	3,074	
Interest income from investments	25,688	
Realised and unrealised net gains on investments	40,655	
Total income		**124,095**
Expenditure		
Benefits payable:		
Pensions	43,093	
Lump sums paid on retirement	16,908	
Death gratuities	1,061	
Transfer values paid	3,794	
AVC annuity purchase	137	
Management expenses (excluding investment management expenses)	2,270	
Investment management expenses	5,644	
Total expenditure		**72,907**
Fund at 31 March 2011		**420,977**

15 APPENDIX E: ASSUMPTIONS

Demographic Assumptions

Members	Mortality table
Male active and deferred members	S1NMA_L-10(C=2035)
Female active and deferred members	S1NFA_L-10(C=2035)
Male pensioners (not ill health)	S1NMA_L-10(U=2011)
Female pensioners (not ill health)	S1NFA_L-10(U=2011)
Male pensioners (retired on grounds of ill health)	S1NMA_L-10(U=2011) (q_x+0.01)
Female pensioners (retired on grounds of ill health)	S1NFA_L-10(U=2011) (q_x+0.01)
Widowers and other partners of female members	S1NMA_L-10(U=2011)
Widows and other partners of male members	S1DFA_L-10(U=2011)
Male active and deferred members	S1NMA_L-10(C=2035)

Note: The S1NFA_L-10 and S1NMA_L-10 mortality tables (for males and females respectively) are published by Continuous Mortality Investigation Bureau (CMIB) of the Institute and Faculty of Actuaries. They are based on the experience of pensioners in UK occupational pension schemes.

The 'S1NA-10 table is the published S1NA table with future improvements broadly in line with population improvements to 2010 and in line with the 2010-based principal population projections thereafter.

Parliamentary terms

At the previous valuation, General Elections were assumed to take place every four years. Following the introduction of fixed five year Parliamentary terms, for the 2011 valuation I have assumed General Elections will take place every five years, with the next election taking place in May 2015.

Career Patterns

Age at election date	Proportion of members who leave Parliament
Under 63	25%
63 to 75	80%
75	100%

Assumed Age at Leaving Parliament

Age at valuation date	Average expected age of leaving Parliament
40	55
50	61
60	65
70	74

Commutation

No allowance has been made for the possibility of members commuting part of their pension for a cash lump sum at retirement, as the scheme's commutation factors are assumed to be cost-neutral on the valuation basis.

Marital Statistics

Up to age 60, all members are assumed to be married or have a civil partner or qualifying partner. Thereafter, the proportion of members with a spouse or partner reduces in line with the mortality of the spouse or partner. Male members are assumed to be three years older than their spouse or partner; female members are assumed to be three years younger than their spouse or partner.

Financial Assumptions

	1 April 2011	1 April 2008
Gross rate of return	6.6%	6.5%
Real rate of return, net of earnings increases	1.25%	2.0%
Real rate of return, net of price/pension increases	3.5%	3.5%
Index for pension increases	CPI	RPI

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