



Government Actuary's Department

Parliamentary Contributory Pension Fund

Valuation as at 1 April 2014

Report by the Government Actuary

PARLIAMENTARY CONTRIBUTORY PENSION FUND VALUATION AS AT 1 APRIL 2014

Report by the Government Actuary

Presented to the House of Commons pursuant to paragraph 10(3) of
Schedule 6 to the Constitutional Reform and Governance Act 2010

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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 2014. 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 (including an allowance for future expenses) is assessed as £528.1 million. The market value of the assets on the same date is £520.5 million. The deficit at 1 April 2014 is accordingly £7.6 million, as set out below:

	Value at 1 April 2011 (£ million)	Value at 1 April 2014 (£ million)
Liabilities	474.2	528.1
Assets	418.3	520.5
Deficit	55.9	7.6
Funding level (= assets / liabilities)	88.2%	98.6%

Future Service assessment

1.3 Based on the method and assumptions adopted, and allowing for the new benefit structures coming into force in May 2015, the cost of benefits accruing in the PCPF for each year of membership (MPs and officeholders combined) is assessed as 23.2% of scheme payroll.

1.4 Members' contributions to the Fund, including those paid by officeholders, are expected to average 11.5% of scheme payroll. The Exchequer's share of the cost of accruing benefits is therefore assessed as 11.7% 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 £7.6m over a 15-year period results in an addition of 1.2% to the Exchequer's share of the cost.



Recommended Exchequer contribution rate

- 1.6 Taking account of the Exchequer share of future service costs (11.7% of pay) and of the additional contributions needed to meet the deficit (1.2% of pay), I recommend that the rate of Exchequer contribution to be paid from 1 April 2015 until 31 March 2018 should be 12.9% of pensionable salaries in respect of MPs' and officeholders' benefits.

Volatility

- 1.7 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 9.14 to 9.20.

Third parties reliance and liability

- 1.8 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.
- 1.9 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

- 1.10 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.



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 the Constitutional Reform and Governance Act 2010. The Scheme is not subject to the requirements of the Pensions Act 2004.
- 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) as amended. The benefit provisions for MPs and office holders within IPSA's remit are now contained within 'The MPs' Pension Scheme' which was laid before Parliament on 8 December 2014, and the benefit provisions for Ministers are now contained within the Rules of the PCPF (the Ministerial etc Pension Scheme 2015), which was laid before Parliament on 17 December 2014.
- 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. Currently the main benefit provided to MPs is a pension to members from the age of 65, defined as $\frac{1}{40}^{\text{th}}$, $\frac{1}{50}^{\text{th}}$ or $\frac{1}{60}^{\text{th}}$ of final pensionable pay for each year of service, with members' contributions currently payable at the rate of 13.75%, 9.75% or 7.75% of pay respectively. Spouses' pensions are generally payable at a rate equal to five-eighths of the member's pension.
- 2.4 New benefit structures for MPs and Ministers are due to come into force in May 2015, with the main benefit to MPs and officeholders within IPSA's remit being a Career Average Revalued Earnings (CARE) pension revalued in line with CPI whilst an active member and payable from State Pension Age (SPA), defined as $\frac{1}{51}^{\text{st}}$ of pay for each year of service, with members' contributions payable at the rate of 11.09% of pay. The main benefit structure for Ministers is a CARE pension revalued in line with CPI whilst an active member and payable from SPA, defined as 1.775% of pay for each year of service, with members' contributions payable at the rate of 11.1% of pay.
- 2.5 Summaries of the current and future benefit provisions of the Scheme are given in Appendices B to D.
- 2.6 **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.



- 2.7 The previous report by the Government Actuary related to the position as at 1 April 2011 and this report (the fourteenth report) relates to my assessment as at 1 April 2014.
- 2.8 **Consultation with all parties** In order to prepare this valuation, I have consulted with the Trustees, Cabinet Office, IPSA and HM 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 continued ability of the sponsor to fund the Scheme and this 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 the adoption of 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 which, if achieved, should improve the Fund's ongoing funding level, and hence reduce the contributions required from the Exchequer.
- 2.9 **Previous actuarial valuation** The previous actuarial valuation was carried out as at 1 April 2011 by Trevor Llanwarne.
- 2.10 At the previous valuation the liabilities were assessed as being £474.2m and the market value of the assets was £418.3m; this equated to a funding level of 88.2%.
- 2.11 The recommended rate of exchequer contributions was 29.0%. Subsequent to the valuation report being signed, member contributions for Ministers were increased from 1 April 2013 and 1 April 2014.
- 2.12 The effect of the increase to the member contribution rate for Ministers was to reduce the recommended rate of Exchequer contributions to 28.8% from 1 April 2013 and to 28.7% from 1 April 2014.



3 Contributions and developments since the 2011 valuation

- 3.1 **Member contributions** During the period from April 2011 to March 2012, 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 Since April 2012, contributions from MPs and officeholders within IPSA's remit have been paid at the rate of 13.75% of pay for members who had opted for 1/40th accrual, 9.75% of pay for members who had opted for 1/50th accrual, and 7.75% of pay for members who had opted for 1/60th accrual.
- 3.3 Since April 2012, member contribution rates for Ministers within the remit of the Minister for the Civil Service (MCS) have been dependent on the post held, as follows:
- > Group A – Secretaries of State, Leader of the Opposition in the Commons and Speaker in the House of Lords;
 - > Group B – 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 – Parliamentary Under Secretaries, Government Whips and Opposition Whips.
 - > Offices which are the responsibility of IPSA – Speaker, Commons' Deputy Speakers and other officeholders in the House of Commons (for example Select Committee Chairmen).
- 3.4 The table below shows the contributions payable by members from 1 April 2012 to 31 March 2013.

Post held	Accrual rate		
	1/40 th	1/50 th	1/60 th
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%



- 3.5 The table below shows the contributions payable by members from 1 April 2013 to 31 March 2014.

Post held	Accrual rate		
	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	16.7%	12.7%	10.7%
Office which is the responsibility of MCS – Group B	15.1%	11.1%	9.1%
Office which is the responsibility of MCS – Group C	13.9%	9.9%	7.9%

- 3.6 The table below shows the contributions payable by members from 1 April 2014.

Post held	Accrual rate		
	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	17.9%	13.9%	11.9%
Office which is the responsibility of MCS – Group B	15.9%	11.9%	9.9%
Office which is the responsibility of MCS – Group C	14.4%	10.4%	8.4%

- 3.7 The member contribution rate under the new benefit structures will be 11.09% of pay for MPs and officeholders within IPSA's remit, and 11.1% of pay for Ministers.



- 3.8 **Exchequer contributions** The recommendation following the actuarial valuation in 2011 was that the rate of contributions payable by the Exchequer should be 29.0% of pensionable salaries from 1 April 2012 adjusted to take account of any increase in members' contributions and/or benefit reductions which the Government or IPSA announces. From 1 April 2011 to 31 March 2012, Exchequer contributions were paid at the previous recommended rate of 28.7% of pensionable salaries. From 1 April 2012 to 31 March 2013, Exchequer contributions were paid at the recommended rate of 29.0% of pensionable salaries. Member contributions for Ministers were increased from 1 April 2013 and 1 April 2014, and so Exchequer contributions were reduced to 28.8% of pensionable salaries from 1 April 2013 to 31 March 2014, and to 28.7% of pensionable salaries from 1 April 2014.
- 3.9 **Developments since the 2011 valuation** The main changes have been:
- (i) Schedule 6 of the Constitutional Reform and Governance Act 2010, transferring responsibility from 24 October 2011 for MPs' and certain officeholders' 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;
 - (ii) Member contributions for MPs increased by 1.85% from 1 April 2012, and member contributions for Ministers increased on 1 April 2012, 1 April 2013 and 1 April 2014;
 - (iii) New Rules of the MPs Pension Scheme were laid before Parliament on 8 December 2014, and Rules of the PCPF (The Ministers etc Pension Scheme 2015) were laid before Parliament on 17 December 2014. These sets of rules introduce new CARE benefit structures for MPs (and officeholders within IPSA's remit) with effect from the day after the date of the first General Election occurring after 1 April 2015, and for Ministers with effect from the day after the day on which Her Majesty first appoints a Prime Minister following the first General election occurring after 1 April 2015. Full details of the new benefit structures are contained in Appendices C and D.



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 E summarises the membership of the Scheme at the valuation date, and the changes in membership since 2011. Comments on the main changes in membership during the period from 1 April 2011 to 1 April 2014 are given below.
- 4.3 **Members of Parliament** On 1 April 2014, there were 624 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, some MPs have opted out of 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) increased from 11.3 years at the 2011 valuation to 14.6 years at this current valuation. This is because there has been no General Election during the inter-valuation period, so the make-up of the membership is largely the same as at the previous valuation, and members have accrued further service during the inter valuation period.
- 4.5 **Office holders** On 1 April 2014, there were 176 officeholders, comprising 108 Ministers, and 68 officeholders within IPSA's remit, who were actively participating in the supplementary scheme.
- 4.6 **Salaries** In the three-year period since the 2011 valuation, the annual salary for Members of Parliament increased by 2% from £65,738 as at 1 April 2011 to £67,060 as at 1 April 2014. The pensionable payroll for MPs (excluding any additional salary received as an office holder) was £41.8 million at the valuation date. The pensionable payroll for office holders (on top of the basic salary received as an MP) was £5.6 million, giving a total pensionable payroll for active members of the Scheme of £47.5 million at the valuation date.
- 4.7 **Deferred members** On 1 April 2014 there were 188 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 249 deferred members as at 1 April 2011. The average amount of deferred pension decreased from approximately £19,800 a year to £19,400 a year, including cost of living increases up to the valuation date.



- 4.8 In addition to the current office holders, there were 138 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 965 to 988. 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 15 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 £17.8 million to £19.9 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 £22,900 a year on 1 April 2014 to former MPs and office holders, and £14,200 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 2011 to 31 March 2014 is summarised in Appendix F. On the basis of the market value of the investments, the Scheme's assets increased over the period by £102.5 million, from £421.0 million to £523.5 million, including members' Additional Voluntary Contributions. The table below shows a breakdown of the increase:

Increase in assets 2011-2014

	£ million	£ million
(1) Start amount at 1 April 2011	421.0	
(2) Contributions (including transfer payments received by the fund)		62.9
(3) Benefits paid (including transfer payments out of the fund)		(67.7)
(4) Management expenses incurred (excluding investment management expenses)		(1.7)
(5) Net cash income = (2) - (3) - (4)		(6.4)
(6) Return on investments (net of investment management expenses)		108.9
(7) Total increase in fund = (5) + (6)	102.5	102.5
(8) End amount 31 March 2014	523.5	

- 5.2 The amount of the assets of £523.5 million shown in Appendix F include investments of £3.0m 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 £520.5 million.
- 5.3 **Investments** A summary of the investments actually held by the PCPF at 31 March 2014 is shown below. This shows a majority of the investments (about 70% by market value) in equities.



Type of Asset	Market value at 31 March 2014 £000	Percentage of assets by market value (excluding AVCs)
Equities	365,220	70%
Bonds	116,378	22%
Property	37,583	7%
Cash deposits	(5,020)	<1%
Other investment balances	1,643	<1%
Net current assets	4,723	<1%
Total assets (excluding AVCs)	520,527	100%

5.4 The equity holding of 70% 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 June 2013). 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 8.0% 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 2011 to 31 March 2012	+2.1%
1 April 2012 to 31 March 2013	+14.4%
1 April 2013 to 31 March 2014	+8.0%

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 2014.



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 2011. 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 the membership has been projected to after the May 2015 General Election. 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. The introduction of the new benefit structures from May 2015 leads to a significant decrease in the Standard Contribution Rate.
- 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 one year younger than their actual age at the valuation date, to reflect their age around the mid-point of the Parliamentary term. When pensions accrued as an officeholder come into payment, 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 discontinuance 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 G and discussed in the following paragraphs.

Principal financial assumptions

	1 April 2011	1 April 2014
Gross rate of return	6.6%	5.8%
Real rate of return, net of earnings increases	1.25%	1.5%
Real rate of return, net of pension increases	3.5%	3.5%

Principal demographic assumptions

Mortality	1 April 2014
Males (retirements in normal health and dependants)	80% of SAPS (normal health males amounts) U=2014
Females (retirements in normal health and dependants)	85% of SAPS (normal health males amounts) U=2014
Male (ill-health pensioners)	80% of SAPS (ill-health males amounts) U=2014
Females (ill-health pensioners)	85% of SAPS (ill-health females amounts) U=2014

- 7.2 The principal approach adopted in the selection of assumptions is to start from the Funding Principles Consensus Statement, and 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. Changes to the demographic assumptions compared to those adopted at the 2011 valuation are described below.

Mortality

- 7.5 The PCPF is a small scheme and the number of pensioner deaths is not large enough to draw statistically robust conclusions about future mortality rates.
- 7.6 For the 2011 valuation, the baseline mortality assumptions adopted were based on mortality tables published in 2008 relating to the experience of self-administered pension schemes in the UK, known as 'SAPS' tables. The particular set of tables used for the 2011 valuation are known as 'SAPS light', and relate to the experience of members of such schemes with large pensions, who exhibit lighter mortality. The longevity assumptions reflected (then) current expectations of rates of future mortality improvement, in line with the principal projection in the Office for National Statistics' (ONS') 2010-based UK population projections.
- 7.7 For the 2014 valuation, we have considered whether we could refine the approach used to consider the characteristics (particularly socio-economic) of the PCPF membership and their similarity with other large public service pension schemes. On this basis, I have used the mortality assumptions which were also adopted for the valuation of the NHS Pension Scheme in England and Wales¹ (NHSPS), for the reasons described below.
- 7.8 There are differences in longevity in different socio-economic groups, and so we have considered the ONS report *Age specific mortality rates by National Statistics socio-economic classification*² published in February 2013. There are seven socio economic classes in the National Statistics socio-economic classification. PCPF members would be considered to fall into class 1 'higher managerial and professional'. NHS employees will fall into a range of classes including class 1 which includes medical practitioners.
- 7.9 As the NHS membership has a high proportion of professional staff with characteristics likely to be comparable to PCPF members, I have adopted the NHSPS assumptions for the valuation of the PCPF. The mortality assumptions adopted for the NHSPS 2012 valuation are aligned to 80% of the standard S1NMA SAPS table for males, and 85% of the standard S1NFA SAPS table for females.

¹ <https://www.gov.uk/government/publications/nhs-pension-scheme-actuarial-valuation>

² http://www.ons.gov.uk/ons/dcp171778_301162.pdf



- 7.10 This is a different approach to the previous valuation, when standard mortality tables were adopted without adjustment. The standard mortality table adopted is based on mortality rates from a wide range of self-administered pension schemes, however as there are differences in longevity in different socio-economic groups, we feel it is more appropriate to consider the mortality assumptions based on experience in a scheme with a similar membership than that underlying the standard table.
- 7.11 I have assumed future improvement in accordance with the assumptions made for the latest, 2012-based population projections of the UK. The table below compares the life expectancy of a 65 year old pensioner using assumptions adopted for the previous PCPF valuation, and those adopted for the 2012 valuation of the NHSPS, that have been adopted for the 2014 valuation.

Expectations of life at normal retirement at age 65

	Valuation date	
	2011	2014
Current Pensioners		
Male	24.8	25.4
Female	25.9	27.3
Future Pensioners (Actives & Deferreds currently aged 50)		
Male	26.4	27.1
Female	27.6	29.0

- 7.12 These assumptions are consistent with paragraphs 11-12 of the Funding Principles Consensus Statement.
- 7.13 **Parliamentary terms** At the previous valuation, General Elections were assumed to take place every five years, with the next election taking place in May 2015. I have retained this assumption for the 2014 valuation.
- 7.14 **Career patterns** There has been no General Election since the last valuation, so there is no further evidence for us to analyse. However we have amended the assumptions to reflect likely changes in MPs' future decisions regarding when to step down from Parliament which may result from the change in benefit from 8 May 2015. In particular the linkage of Normal Retirement Age (NRA) to State Pension Age (SPA) is likely to affect MPs' decisions regarding when to step down from Parliament. This will also have an impact on the value of the benefits they have accrued in the existing scheme.



- 7.15 The current assumptions have a step up at age 63, with 80% of members age 63 to 75 assumed to leave Parliament at each election. This is two years below the Scheme's current normal retirement age of 65, and so for the new benefit structure we have updated the assumption so that age 63 is replaced with 'SPA minus 2'.
- 7.16 Members aged 55 or above on 1 April 2013 will be protected and will continue to accrue benefits under the existing scheme, and so would not be affected by the proposals. Around half of current MPs will be eligible for protection, and I have retained the existing turnover assumption for those members.
- 7.17 For members not entitled to the protection described above, I have divided these members into two groups, whereby those who would be expected to have the majority of total service in the new scheme move to the revised turnover assumption, and those who would be expected to have the majority of their service under the existing scheme would retain the current turnover assumption.
- 7.18 The table below summarises the turnover assumptions for the valuation for members entitled to protection, and members not entitled to protection who would be expected to have the majority of total service on the existing final salary benefit structure.

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

- 7.19 The table below summarises the turnover assumptions for the valuation for members not entitled to protection who would be expected to have the majority of total service on the revised benefit structure, and for new joiners from May 2015 onwards.

Age at election date	Proportion of new joiners who leave Parliament
Under 'SPA minus 2'	25%
'SPA minus 2' to 75	80%
75	100%

- 7.20 The table below shows the assumed age of leaving Parliament. The main reason for the change is that the previous valuation was only one year into the Parliamentary term, whereas the current valuation is four years into the Parliamentary term, and so the next election is three years closer than was the case at the previous valuation.



Assumed age at leaving Parliament

Age at valuation date	Average expected age of leaving Parliament	
	2011 valuation Next election assumed to be 4 years later	2014 valuation Next election assumed to be 1 year later
40	55	53
50	61	60
60	65	66
70	74	72

- 7.21 **State Pension Age** Under the revised benefit structures to be implemented for MPs and ministers from May 2015, Normal Retirement Age will be linked to State Pension Age. I have adopted the assumptions for State Pension Age that have been adopted for valuations of other public service pension schemes as at 31 March 2012, as set out in The Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014 issued by HM Treasury³.
- 7.22 These follow State Pension Age as set out in legislation up to and including changes introduced by Pensions Act 2014 but do not allow for any further changes under the review mechanism set out in that Act.
- 7.23 **Commutation** Under the existing benefit structure, members have the option to commute pension for a lump sum at retirement on terms which are actuarially equivalent, and so no explicit allowance is needed or made for commutation. Under the revised benefit structures, members have the option to commute pension for a lump sum at a fixed rate of 12:1 (members will receive a lump sum of £12 for each £1 per annum of pension given up).
- 7.24 Because the new terms are not cost neutral, we need to make an assumption about the degree to which members commute their pensions for cash. There is very little evidence available as to what proportion of their pension members will choose to commute under these terms, and so I have assumed that members will commute 15% of their pension under the revised benefit structure for a lump sum, as set out in HM Treasury's Directions referred to above.
- 7.25 It should be noted that the HM Treasury Directions are primarily for valuations of unfunded public service pension schemes, and for cost capping valuations for certain funded public service pension schemes, but not for funding valuations of funded schemes, such as the PCPF. We have therefore drawn information from the Directions where relevant, but in particular the financial assumptions adopted for this valuation are different to those set out in HM Treasury's Directions, due to the different purpose of this valuation.

³ <https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations-and-the-employer-cost-cap-mechanism>



Financial assumptions

- 7.26 The financial assumptions adopted for this valuation are summarised in paragraph 7.1, together with those adopted at the previous valuation.
- 7.27 **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 investment return and inflation rates necessarily relate to this very long period in the future.
- 7.28 **Discount rate** The discount rate is based on the assumed returns expected from the PCPF's investments. On this basis, the 2011 valuation used a discount rate of 3½% a year (in excess of CPI).
- 7.29 The table below shows the strategic investment benchmark for the fund as set out in the fund's latest Statement of Investment Principles dated June 2013, together with the return in excess of CPI that would be expected to be achieved on those asset classes as at the valuation date.

Strategic investment benchmark for the fund

Asset class	Total fund benchmark	Expected return in excess of CPI at 1 April 2014
Equities	66%	4.5%
Property	12.5%	3.5%
Bonds	21.5%	1.05%*

* This is the expected return on index-linked gilts. Different return expectations would apply for nominal gilts and corporate bonds.

- 7.30 Both equities and property are expected to provide returns in excess of inflation over the long term and our expectation of the return for these asset classes has been determined based on assumed performance in excess of inflation. The bond holdings include index-linked gilts, which are assumed to be relatively risk free and provide a yield in excess of RPI. The return shown in the table reflects the market yield available on long term index linked gilts at the valuation date, adjusted for our view of the long term difference between RPI and CPI inflation as described in paragraph 7.33.



- 7.31 Considering the Scheme's current investment strategy and the return expected on those assets at the valuation date, the expected return on the Scheme's investments is just over 3½% a year in excess of CPI. An assumption of 3½% a year above CPI remains an appropriate best estimate assumption, as set out in the draft Funding Principles Consensus Statement, for the PCPF as at 1 April 2014. This is also consistent with the approach adopted to setting the financial assumptions for the previous valuation, and so reflects the requirement in the Funding Principles Consensus Statement that the actuarial basis and approach does not change greatly from one valuation to the next.
- 7.32 **Price inflation** The assumed rate of future RPI inflation is determined by comparing the yields on fixed-interest gilts with the yields on index-linked gilts and allowing for any inflation risk premium in the price of index linked gilts (the premium that investors are willing to pay for the inflation protection provided by these gilts). As at 1 April 2014, the difference in yields, over a period consistent with the duration of the PCPF liabilities, was 3.65% per annum. We have assumed that a deduction of 0.25% to this difference is representative of the inflation risk premium that applied at that time. Therefore, our best estimate of future RPI inflation as at 1 April 2014 is 3.4% per annum.
- 7.33 The PCPF provides benefits linked to CPI inflation and, as there is no significant market in CPI linked securities, it is therefore necessary to estimate future CPI inflation by adjusting assumed RPI inflation. Historically CPI inflation has been lower than RPI inflation as a result of the methods used to calculate the statistics and variations in the components included within each calculation. Based on historic analysis and analysis by ONS and other commentators, our current best estimate of the long term difference between RPI and CPI inflation is 1.15% a year. Allowing for an RPI assumption of 3.4% per annum, this makes the CPI assumption 2.25% per annum.
- 7.34 **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 2.25% 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.
- 7.35 **Nominal investment return** The combination of a return in excess of CPI of 3.5% and CPI inflation of 2.25% produces a nominal rate of investment return of 5.8% pa.
- 7.36 The nominal return has a 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 CPI 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 CPI inflation.



- 7.37 **Pay increases** The benefits currently 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% pa in excess of CPI. This is a slight reduction from the assumption used in 2011 that salaries would increase by 2.25% pa in excess of CPI. The reduction in real salary growth reflects the effect of recent pay restraint on the observed rates of real salary growth over the long-term.
- 7.38 The analysis above reflects long term changes in national average earnings. In my view, this is an appropriate measure to use for expected growth in MPs' pay, noting that IPSA's Final Report on MPs' Pay and Pensions stated that MPs' pay will in future be increased in line with average earnings for the whole economy, and as such I have adopted this assumption for long-term salary growth for MPs.
- 7.39 **Expenses** Administration expenses incurred by the Scheme during the three-year inter-valuation period were around £1.7 million, excluding investment management costs, which has reduced from £2.3 million over the previous period. A capital reserve of £9.0 million was set aside at the 2011 valuation to meet expenses expected to arise in future. At the previous valuation the expense reserve was increased in line with inflation, however in light of the reduction in expenses compared to the previous three years, I have retained the expense reserve at this level and not increased it in line with inflation. This assumption is consistent with paragraphs 11-12 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 2014 – Past service

		Value at 1 April 2014 (£ million)
	Actuarial Liability	
	Current members – service up to 1 April 2014:	
(1)	(a) Members of Parliament	173.0
(2)	(b) Office holders	7.3
	Members with deferred benefits:	
(3)	(a) Former members	51.9
(4)	(b) Former office holders who are still MPs	10.0
	Pensions in payment:	
(5)	(a) Pensioners	228.3
(6)	(b) Surviving dependants of former members	48.6
(7)	Total liabilities for benefits = (1) to (6)	519.1
(8)	Reserve for administration expenses	9.0
(9)	Actuarial liability = (7) + (8)	528.1
(10)	Value of assets	520.5
(11)	Shortfall of assets to liabilities = (9) – (10)	7.6
	Funding Level	
(12)	Ratio of assets to liabilities = (10) / (9)	98.6%



- 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 £180.3 million (rows (1) and (2) above, is significantly smaller than the liability in respect of former members and dependants in receipt of pension at £276.9 million (total of rows (5) and (6) above). The aggregate liability for accrued benefits of current members is now 35% of the total liability, whereas 65% relates to former MPs and office holders, including deferred members, (53% pensioners and 12% deferreds). The liability profile is expected to continue to mature if life expectancy continues to improve, and due to the lower value of benefits that members will accrue in the future under the revised benefit structures.
- 8.4 **Analysis of deficit** The result of the valuation shows a reduction in the deficit over the three-year period to the valuation date from £55.9 million to £7.6 million. The key factors influencing the change in the deficit are shown below both in cash terms and as a percentage of the 2014 liabilities.

Summary of change in deficit 2011-2014

	£ million	Percentage of liabilities
Deficit at 1 April 2011	56	11%
Interest on 2011 deficit	10	2%
Additional contributions	(13)	(2%)
Investment returns higher than assumptions	(21)	(4%)
Salary growth lower than assumptions	(25)	(5%)
Other experience different to assumptions	(2)	(0%)
Changes to financial assumptions from those adopted at previous valuation	(2)	(0%)
Changes to mortality assumptions from those adopted at previous valuation	6	1%
Changes to turnover assumptions from those adopted at previous valuation	(1)	(0%)
Deficit at 1 April 2014	8	1%*

* Does not sum due to rounding



9 Valuation result – Contribution requirement

9.1 **Projection of membership** The table below shows the make-up of the membership as at 1 April 2014, split into:

- (a) Full protection - members who will be fully protected and remain on the existing benefit structure until retirement (members who were aged 55 or above at 1 April 2013);
- (b) Tapered protection - members who will be entitled to taper protection, and will have the option to remain on the existing benefit structure for a period (members who were aged 51½ to 55 at 1 April 2013);
- (c) No protection - members who will move to the new benefit structure from May 2015 (members who were under age 51½ at 1 April 2013).

Breakdown of membership at 1 April 2014

	Number of MPs	Average age at 1 April 2014
Full protection	255	62.5
Tapered protection	78	54.2
No protection	291	44.2
Total membership	624	52.9

9.2 A number of these members will be expected to leave at the 2015 General Election, and we have used the turnover assumptions adopted for the valuation to estimate how many members in each group will leave. We have assumed that those members will be replaced by new joiners to retain the same total number of members following the General Election, and that the age profile of the new joiners will be the same as those members who joined at the 2010 General Election.



- 9.3 The table below shows the projected membership following the May 2015 General Election.

Breakdown of membership following May 2015 General Election

	Number of MPs	Average age May 2015
Full protection	116	61.2
Tapered protection	59	55.3
No protection	218	45.3
New joiners	231	42.8
Total membership	624	48.3

- 9.4 **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 and using the split of membership in paragraph 9.3 above is 23.2% for MPs, officeholders within IPSA's remit and Ministers combined.
- 9.5 Contributions are payable by members at the rate set out in Section 3. Protected members will continue to pay their current contribution rate of 13.75%, 9.75% or 7.75% of salary depending on their chosen accrual rate, whilst MPs accruing benefits under the new benefit structure will pay 11.09% of salary and Ministers will pay 11.1% of salary. On the basis of the projected membership, members' contributions are expected to average 11.5% of the Scheme's total pensionable payroll from May 2015 to March 2018. At the 2011 valuation members' contributions were expected to average 12.1% of the Scheme's pensionable payroll from April 2012 to March 2015. The reduction is due to the introduction of the new benefit structures in May 2015.
- 9.6 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 11.7% of pensionable salaries (being 23.2% less 11.5%).
- 9.7 For this valuation the Standard Contribution Rate has been assessed assuming members are the age they will be around the mid-point of the 2015 to 2020 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. The change in benefit structure leads to a significant reduction in the Standard Contribution Rate.



- 9.8 We have estimated that the Exchequer's share of the Standard Contribution Rate once all protected members have retired and all members are accruing benefits on the revised benefit structures, will be around 10.7% of pensionable salaries. This has been calculated using the assumptions adopted for this valuation, and assuming the membership profile in future is broadly the same as that at 1 April 2014, but with the age profile adjusted to the age of members at the mid-point of the Parliamentary term.
- 9.9 **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.
- 9.10 As shown in the Valuation Statement at paragraph 8.2, there is a small shortfall of assets to liabilities of £7.6 million. It is appropriate that Exchequer contributions should remain at a higher level than the Standard Contribution Rate in order to amortise the deficit.
- 9.11 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 1.2% to the Exchequer share of the Standard Contribution Rate.
- 9.12 On this approach, the contribution rate required to be paid from 1 April 2015 to 31 March 2018 to meet the cost of benefits accruing in the Scheme over that period, and by the Exchequer to cover the deficit, is 12.9% of the pensionable salaries of scheme members.



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

	1 April 2011 (%)	1 April 2014 (%)
Standard Contribution Rate	32.5	23.2
Average member contribution rate ⁴	12.1	11.5
Exchequer's share of the Standard Contribution Rate	20.4	11.7
Deficit Contributions	8.6	1.2
Recommended Exchequer contribution after deficit contributions	29.0	12.9

9.14 **Analysis of change in total required rate** The change to the total required rate of contributions – from 41.1% to 24.4% of scheme payroll – is mainly because of the introduction of the new benefit structures from May 2015, and the elimination of the majority of the deficit over the inter-valuation period. The table below summarises the main factors that account for the change to the required rate of contributions.

⁴ The report on the 2011 valuation showed the average member contribution rate to be 12.1%, and the Exchequer's share of the Standard Contribution Rate of 20.4%. Subsequent increases to member contributions for ministers increased the average member contribution rate to 12.4%, and reduced the Exchequer's share of the Standard Contribution Rate to 20.1%.



**Increase to required contribution rate (Exchequer and members combined)
(% of salary)**

Required contribution rate following 2011 valuation (28.7% employer plus 12.4% member)	41.1%
<i>Future service change</i>	
Introduction of new benefit structure	-9.4%
Changes to financial assumptions from those adopted at previous valuation	-0.1%
Changes to mortality assumptions from those adopted at previous valuation	+0.2%
Change to withdrawal assumptions from those adopted at previous valuation	-0.0%
	-9.3%
<i>Past service change</i>	
Deficit contributions paid and deficit re-spreading	-0.4%
Investment returns higher than assumed	-3.2%
Salary growth lower than assumed	-4.0%
Other experience different to assumptions	-0.4%
Changes to financial assumptions from those adopted at previous valuation	-0.3%
Changes to mortality assumptions from those adopted at previous valuation	+1.0%
Change to withdrawal assumptions from those adopted at previous valuation	-0.1%
Additional cost of amortising increased deficit	-7.4%
Required contribution rate following 2014 valuation	24.4%

9.15 **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 2014 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.)



- 9.16 **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 (£7.6 million)	+0.5% ie 4.0% per year	-0.5% ie 3.0% per year
Surplus (deficit) at 1 April 2014	(£7.6 million)	£28.6 million	(£47.9 million)
Deficit contribution Rate	1.2%	(4.5%)	7.5%
Exchequer share of Standard Contribution rate	11.7%	9.2%	14.4%
Total Exchequer contribution Rate	12.9%	4.7%	21.9%

- 9.17 **Salary Growth** For the purposes of the valuation I have assumed that salary growth will be 2% 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 (£7.6 million)	+0.5%	-0.5%
Surplus (deficit) at 1 April 2014	(£7.6 million)	(£12.2 million)	(£3.1 million)
Deficit contribution Rate	1.2%	1.9%	0.5%
Exchequer share of Standard Contribution rate	11.7%	11.8%	11.5%
Total Exchequer contribution Rate	12.9%	13.7%	12.0%



- 9.18 **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 G. 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
Surplus (deficit) at 1 April 2014	(£7.6 million)	(£20.5 million)	£5.7 million
Deficit contribution Rate	1.2%	3.2%	(0.9%)
Exchequer share of Standard Contribution rate	11.7%	12.0%	11.3%
Total Exchequer contribution Rate	12.9%	15.2%	10.4%

- 9.19 **Election turnover** The assumptions made for the turnover of members at General Elections are described in paragraph 7.13 – 7.19 of the report. The sensitivity of the result to the turnover assumption being 5% higher or lower is illustrated in the table below:

	Election turnover amongst younger members		
	Valuation assumption	+5%*	-5%**
Surplus (deficit) at 1 April 2014	(£7.6 million)	(£10.1 million)	(£4.6 million)
Deficit contribution Rate	1.2%	1.6%	0.7%
Exchequer share of Standard Contribution rate	11.7%	11.9%	11.5%
Total Exchequer contribution Rate	12.9%	13.5%	12.2%

* rates increased from 25% and 80% to 30% and 85% respectively

** rates reduced from 25% and 80% to 20% and 75% respectively



9.20 **Sensitivity to market value changes** We have considered how the valuation results may look as at 1 April 2017, on three scenarios of investment performance in the inter-valuation period:

- > Investment return of +50% from 31 March 2014 to 31 March 2017
- > Investment return in line with the valuation assumptions (5.8% pa)
- > Investment return of -20% from 31 March 2014 to 31 March 2017.

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 by 50%			Markets in line with assumptions			Assets fall by 20%		
	4%	3.5%*	3%	4%	3.5%*	3%	4%	3.5%*	3%
Net discount rate	4%	3.5%*	3%	4%	3.5%*	3%	4%	3.5%*	3%
Surplus (Deficit) (£m)	200	160	115	45	(5)	(55)	(165)	(200)	(245)
Surplus/ Deficit Contribution Rate	(29%)	(23%)	(16%)	(7%)	1%	8%	24%	29%	34%
Exchequer share of Standard Contribution Rate	9%	12%	14%	9%	12%	14%	9%	12%	14%
Total Exchequer Contribution Rate	-	-	-	2%	13%	22%	33%	41%	48%

*This is the valuation assumption.

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

- > Other than investment return, all of the other assumptions are those adopted for the 2014 valuation and experience over the inter-valuation period is assumed to be in line with those assumptions
- > Exchequer contributions are assumed to be 12.9% of pay with effect from 1 April 2015 to 31 March 2017
- > Any surplus or deficit as at 1 April 2017 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 2017, rather we have rolled forward the results as at 1 April 2014 in an approximate manner. In doing so we have assumed that the membership profile as at 1 April 2017 is as set out in paragraph 9.3.



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 2014, 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 2015 should be at the rate of **12.9% of pensionable pay**.

Martin Clarke FIA
Government Actuary

10 March 2015



Appendix A: Funding principles Consensus Statement

Actuarial Valuation at 1 April 2014

Purpose of this document

- A.1 This document sets out the objectives and approach to be taken by the Government Actuary in undertaking the actuarial funding valuation of the Parliamentary Contributory Pension Fund (PCPF) as at 1 April 2014 as required under the Constitutional Reform and Governance Act 2010. The valuation report is to be addressed to four parties, namely the Trustees of the Fund, IPSA, the Minister for the Civil Service and HM Treasury, and this Funding Principles Consensus Statement has been agreed to by all four parties.

Status of PCPF

- A.2 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, Government Ministers and other Officeholders. The PCPF is established by statute, the main primary legislation being the Constitutional Reform and Governance Act 2010. The rules of the Scheme for MPs and Ministers are laid before Parliament by IPSA and the Minister for the Civil Service respectively.

Requirements of legislation

- A.3 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.



Frequency of valuations

- A.4 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.

Consultation

- A.5 This Statement reflects the outcome of consultations between the Trustees of the PCPF, 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

- A.6 The benefits provided to MPs and Officeholders are described in detail in the Scheme 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. As required under the Constitutional Reform and Governance Act (and reproduced in paragraph A.3 above) 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

- A.7 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.

Funding objectives

Principal objective

- A.8 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 and the administrative expenses associated with the Fund.



Subsidiary objective

- A.9 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.

Changes from May 2015

- A.10 Revised benefit structures are due to come into force from May 2015 for both MPs and ministers, and these will continue to be defined benefits. There are cost capping arrangements in both the MPs and ministerial sections of the Scheme, though for both sections of the Scheme such arrangements do not take account of investment performance or the assets actually held by the Scheme. Cost capping valuations will be undertaken separately from the funding valuation required under the Constitutional Reform and Governance Act, and are not covered by this statement.

Funding strategy

- A.11 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 reflect the 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.
- A.12 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 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

- A.13 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 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.



- A.14 New benefit structures for MPs and officeholders are due to come into force following the General Election in May 2015, and allowance will be made for these.
- A.15 A number of MPs will be protected and remain on the current benefit structure either until retirement, or for a period of time. The recommendation for the Exchequer contribution rate to apply from 1 April to 31 March 2018 will be based on a projection of the membership of the Scheme during that period, and the benefits that each member will be accruing during that period.

Investment strategy

- A.16 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.
- A.17 The investment strategy is set out in some detail in the Statement of Investment Principles dated June 2013. The long-term strategic benchmark asset allocation set out in that Statement is summarised below.

Strategic asset distribution (SIP of June 2013)

Asset class	Proportion of fund
Equities	
(UK and overseas equities)	66%
Property	12½%
Bonds	21½%
Total assets	100%

- A.18 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 and 2011 actuarial valuations 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

- A.19 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, and has been so for the past four valuations of the Scheme. This is also the period used in valuations of other public service pension schemes; in private sector schemes the Pensions Regulator prefers a shorter period, whereas in Local Government Pension Scheme funding valuations the period is usually longer.

Valuation assumptions

- A.20 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 to the extent that statistically robust conclusions can be drawn from this.

Position of the members

- A.21 In view of the fact that this report is addressed to Government, 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.



Appendix B: Summary of the main provisions of the Scheme as at 1 April 2014

B.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.

B.2 Member contributions payable from 1 April 2014 are as shown in the table below:

Post held	Contribution rate payable from 1/4/2014 Accrual rate		
	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	17.9%	13.9%	11.9%
Office which is the responsibility of MCS – Group B	15.9%	11.9%	9.9%
Office which is the responsibility of MCS – Group C	14.4%	10.4%	8.4%

Group A – Secretaries of State, Leader of the Opposition in the Commons and Speaker in the House of Lords;

Group B – 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 – Parliamentary Under Secretaries, Government Whips and Opposition Whips;

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

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



- B.4 Members have a choice to pay contributions at one of three different rates, as shown in paragraph B.2 and to accrue pension at the rate of $1/40^{\text{th}}$, $1/50^{\text{th}}$ or $1/60^{\text{th}}$ 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.
- B.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.
- B.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.
- B.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.
- B.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.
- B.9 Pensions and deferred pensions are increased annually in line with CPI.
- B.10 The Scheme is contracted out of the earnings-related additional pension of the State Pension Scheme.



Appendix C: Summary of the main provisions of the Scheme for MPs and officeholders within IPSA's remit from May 2015

- C.1 From the day after the date of the first General Election occurring after 1 April 2015, all serving Members of Parliament and officeholders within IPSA's remit who are not entitled to transitional or tapered protection will accrue benefits as described below.
- C.2 Member contributions are payable at a rate of 11.09% of pay.
- C.3 Exchequer contributions are paid at a rate recommended from time to time by the Government Actuary.
- C.4 Members accrue pension on a Career Average Revalued Earnings (CARE) basis at the rate of 1/51st of pensionable salary.
- C.5 Pensions are revalued in line with CPI whilst an active member.
- C.6 Retirement pensions are payable from State Pension Age (SPA) to those who are no longer MPs. Abated pensions may be payable from earlier ages to members aged 55 or over.
- C.7 An ill-health retirement pension may, subject to medical evidence, be awarded at any age. For members who retire on the upper tier, an enhanced pension is payable.
- C.8 Members may, on retirement, commute part of their pension for a lump at a rate of 12:1.
- C.9 Pensions are also payable to spouses and other qualifying partners of deceased scheme members at the rate of three-eighths of the deceased member's pension. Children's pensions are also payable. In the case of members who die in service, an enhanced spouse's or partner's pension is payable. A lump sum equal to two times pensionable salary is also paid on the death in service of a scheme member.
- C.10 Pensions and deferred pensions are increased annually in line with CPI.
- C.11 The Scheme is contracted out of the earnings-related additional pension of the State Pension Scheme.



Appendix D: Summary of the main provisions of the Scheme for Ministers from May 2015

- D.1 From the day after the day on which Her Majesty first appoints a Prime Minister following the first General Election after 1 April 2015, all Ministers will accrue benefits as described below.
- D.2 Member contributions are payable at a rate of 11.1% of pay.
- D.3 Exchequer contributions are paid at a rate recommended from time to time by the Government Actuary.
- D.4 Members accrue pension on a Career Average Revalued Earnings (CARE) basis at the rate of 1.775% of pensionable salary.
- D.5 Pensions are revalued in line with CPI whilst an active member.
- D.6 Retirement pensions are payable from State Pension Age (SPA) to those who are no longer Ministers. Abated pensions may be payable from earlier ages to members aged 55 or over.
- D.7 An ill-health retirement pension may, subject to medical evidence, be awarded at any age. For members who retire on the upper tier, an enhanced pension is payable.
- D.8 Members may, on retirement, commute part of their pension for a lump at a rate of 12:1.
- D.9 Pensions are also payable to spouses and other qualifying partners of deceased scheme members at the rate of three-eighths of the deceased member's pension. Children's pensions are also payable. In the case of members who die in service, an enhanced spouse's or partner's pension is payable. A lump sum equal to two times pensionable salary is also paid on the death in service of a scheme member.
- D.10 Pensions and deferred pensions are increased annually in line with CPI.
- D.11 The Scheme is contracted out of the earnings-related additional pension of the State Pension Scheme.



Appendix E: Membership at 1 April 2014

TABLE 1 - Members of Parliament participating in the Scheme

Number of MPs participating in PCPF at 1 April 2011	634
<i>New members 2011-2014:</i>	
MPs elected	12
<i>(1)Members leaving active status 2011-2014:</i>	
Leaving with deferred entitlement	
Retirements ⁽²⁾	8
Deaths	7
Transfer-out	4
	3
Number of MPs participating in PCPF at 1 April 2014	624
<i>Other statistics at 1 April 2014</i>	
Average age	52.9 years
MPs' pensionable pay (p.a.)	£67,060
Total of accrued pensions [†] (p.a.)	£13.1m
Average accrued pension [†] (p.a.)	£21,000
Average length of pensionable service *	14.6 years
Average length of pensionable service **	11.2 years
Number of MPs who have opted for 1/40 th accrual	538
Number of MPs who have opted for 1/50 th accrual	43
Number of MPs who have opted for 1/60 th accrual	43

[†]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 2014 of participating members at 1 April 2011

(2) Including current MPs aged over 75 with abated pensions



TABLE 2 – Office holders participating in the Scheme

Number of office holders participating in PCPF at 1 April 2011	181
<i>New members 2011-2014:</i>	
Office holders appointed	50
<i>Members leaving active status 2011-2014⁽¹⁾:</i>	
Retirements ⁽²⁾	7
Deferred pension entitlement only	3
Deferred pension entitlement but still an MP	45
Deaths	0
Number of office holders participating in PCPF at 1 April 2014	176
<i>Other statistics at 1 April 2014</i>	
Average age	55.3 years
Aggregate pensionable salaries of office holders (p.a.)	£5.6m
Total of accrued pensions [†] (p.a.)	£0.5m
Average accrued pension [†] (p.a.)	£2,900
Number of office holders accruing benefits at 1/40 th	151
Number of office holders accruing benefits at 1/50 th	15
Number of office holders accruing benefits at 1/60 th	10

[†] Not including benefits earned in respect of service as an MP

(1) Movements relate to the status as at 1 April 2014 of participating members at 1 April 2011

(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 2011 with deferred entitlement to office holder benefits	108
<i>Members joining category 2011-2014:</i>	
MPs leaving office holder status	45
<i>Members leaving category 2011-2014⁽¹⁾:</i>	
Resumed active office holder status	4
Stepped down as an MP	10
Retirements ⁽²⁾	1
Transfer-out	0
Number of serving MPs at 1 April 2014 with deferred entitlement to office holder benefits	138
<i>Other statistics at 1 April 2014</i>	
Average age	57.7 years
Total of accrued pensions [†] (p.a.)	£0.7m
Average accrued pension [†] (p.a.)	£5,200



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 2011	249
<i>Members joining category 2011-2014:</i>	
Members leaving active membership	10
<i>Members leaving category 2011-2014⁽¹⁾:</i>	
Resumed active MP status	1
Resumed active Office-holder status	0
Awards of pension	67
Transfers to other schemes	3
Deaths	0
Number of deferred members at 1 April 2014⁽²⁾	188
<i>Other statistics at 1 April 2014⁽³⁾:</i>	
Average age	56.7 years
Total of deferred pensions (p.a.)	£3.6m
Average deferred pension (p.a.)	£19,400

(1) Movements relate to the status as at 1 April 2014 of participating members at 1 April 2011

(2) Excludes deferred females aged over 60 who are receiving a GMP pension



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 2011:	665	284	9	7	965
New pensioners 2011-2004	88	52	8	3	151
Pensions ceasing 2011-2014	84	42	2	0	128
Number of pensioners at 1 April 2014:	669	294	15	10	988
<i>Other statistics at 1 April 2014:</i>					
Average age (years)	73.8	76.7	70.7	80.0	74.7
Total of pensions in payment (p.a.)	£15.34m	£4.18m	£0.08m	£0.33m	£19.93m
Average pension in payment (p.a.)	£22,900	£14,200	£5,400	£33,400	£20,200



Appendix F: Consolidated revenue account for the period 1 April 2011 to 31 March 2014

	£'000	£'000
Fund at 1 April 2011		420,977
Income		
Contributions:		
MPs' and office holders' ordinary contributions	16,587	
Members' contributions for the purchase of AVCs and added years	1,171	
Exchequer contributions	40,767	
Transfer values received	4,399	
Interest income from investments	25,632	
Realised and unrealised net gains on investments	89,126	
Total income		177,682
Expenditure		
Benefits payable:		
Pensions	55,834	
Lump sums paid on retirement	7,014	
Death gratuities	1,317	
Transfer values paid	3,412	
AVC annuity purchase	99	
Management expenses (excluding investment management expenses)	1,668	
Investment management expenses	5,818	
Total expenditure		75,162
Fund at 31 March 2014		523,497



Appendix G: Assumptions

Demographic assumptions

Members	Mortality table
Males (retirements in normal health and dependants)	80% of SAPS (normal health males amounts) U=2014
Females (retirements in normal health and dependants)	85% of SAPS (normal health males amounts) U=2014
Male (ill-health pensioners)	80% of SAPS (ill-health males amounts) U=2014
Females (ill-health pensioners)	85% of SAPS (ill-health females amounts) U=2014

Note: The S1NFA-12 and S1NMA-12 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.

- G.1 The 'S1NA-12 table is the published S1NA table with future improvements broadly in line with population improvements to 2012 and in line with the 2012-based principal population projections thereafter.

Parliamentary terms

- G.2 General Elections are assumed to take place every five years, with the next election taking place in May 2015.

Career Patterns

- G.3 Members entitled to protection, and members not entitled to protection who would be expected to have the majority of total service on the existing final salary benefit structure:-

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

- G.4 Members not entitled to protection who would be expected to have the majority of total service on the revised benefit structure, and for new joiners from May 2015 onwards:-



Age at election date	Proportion of members who leave Parliament
Under "SPA minus 2"	25%
"SPA minus 2" to 75	80%
75	100%

Assumed age at leaving Parliament

Age at valuation date	Average expected age of leaving Parliament
40	53
50	60
60	66
70	72

Commutation

- G.5 No allowance has been made for the possibility of members commuting part of their final salary pension for a cash lump sum at retirement, as the Scheme's commutation factors are assumed to be cost-neutral on the valuation basis. Under the revised benefit structure, it is assumed that members will commute 15% of their pension for a lump sum.

State Pension Age

- G.6 State Pension Age is assumed to be as adopted for valuations of other public service pension schemes as at 31 March 2012, as set out in The Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014 issued by HM Treasury.

Marital statistics

- G.7 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 2014	1 April 2011
Gross rate of return	5.8%	6.6%
Real rate of return, net of earnings increases	1.5%	1.25%
Real rate of return, net of price/pension increases	3.5%	3.5%

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