Parliamentary Contributory Pension Fund

Valuation as at 1 April 2017

Date: 8 March 2018

Author: Martin Clarke, Government Actuary

Contents

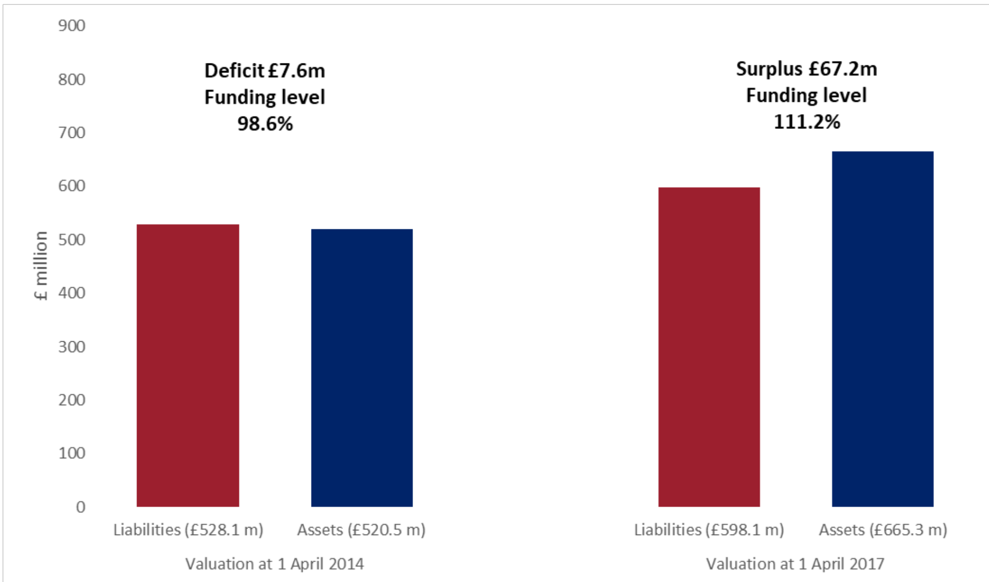
1 Summary

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 2017. The key conclusions from the valuation are:

1.2 **Past service assessment** Based on the method and assumptions adopted for this assessment, the value of liabilities accrued up to the valuation date, known as Technical Provisions (including an allowance for future expenses) is assessed as £598.1 million. The market value of the assets on the same date is £665.3 million. The surplus at 1 April 2017 is accordingly £67.2 million, as set out in figure 1.1 below.

Figure 1.1 – Past service funding position



1.3 **Future service assessment** Based on the method and assumptions adopted, the cost of benefits accruing in the PCPF for each year of membership (MPs and officeholders combined) is assessed as 27.4% of scheme payroll.

1.4 Members' contributions to the Fund, including those paid by officeholders, are expected to average 10.6% of scheme payroll. The Exchequer's share of the cost of accruing benefits is therefore assessed as 16.8% of payroll.

1.5 **Allowance for surplus** The surplus in the scheme enables Exchequer contributions to be at a lower level than the Exchequer's share of the cost of accruing benefits. Having consulted with the four parties to whom this report is addressed there was no consensus amongst the parties on whether to use the surplus, and if so how much, to reduce the Exchequer contribution rate. Taking all their views into account, I have decided that just under half of the surplus should be used to reduce the Exchequer contribution rate over a 15-year period. This results in a reduction of 3.9% to the Exchequer's share of the cost for 15 years.

1.6 **Recommended Exchequer contribution rate** Taking account of the Exchequer share of future service costs (16.8% of pay) and of the reduction to contributions to remove just under half of the surplus (3.9% of pay), I recommend that the rate of Exchequer contribution to be paid from 1 April 2018 until 31 March 2021 should continue to be 12.9% of pensionable salaries in respect of MPs' and officeholders' benefits. Appendix B sets out how I came to this decision.

1.7 **Volatility** I have allowed for the turnover of members at the June 2017 General Election, which occurred after the valuation date, however I have otherwise ignored post-valuation events. 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 8.12 to 8.18.

1.8 **Cost cap valuations** The rules of both the MPs' and ministerial pension schemes contain provisions for cost capping, and require the Government Actuary to undertake cost cap valuations for both schemes. This report relates only to the funding valuation of the PCPF required under the Constitutional Reform and Governance Act 2010. It is anticipated that the cost cap valuations will be completed during 2018, with any changes taking effect from1 April 2019.

1.9 **Third parties reliance and liability** 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.

1.10 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.

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

1.12 This work has been carried out in accordance with the applicable Technical Actuarial Standards TAS 100 and TAS 300 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

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** The benefit provisions for MPs and office holders within IPSA's remit are contained within 'The MPs' Pension Scheme' which was laid before Parliament on 8 December 2014, and the benefit provisions for Ministers are 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 scheme rules prescribes the level of benefits and the circumstances in which the benefits will be payable to former members and their dependants. The rules also prescribe the rate of contributions payable by persons who participate in the Scheme. Summaries of the current benefit provisions of the Scheme are given in Appendices D to F.

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

> the general financial position of the Fund and

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

2.5 The previous report by the Government Actuary related to the position as at 1 April 2014 and this report (the fifteenth report) relates to my assessment as at 1 April 2017.

2.6 **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 the parties agreed on most aspects of the approach to the valuation, with the exception being whether to use, and if so how much of, the surplus in the Scheme to reduce the Exchequer contribution rate below the Exchequer's share of the Standard Contribution Rate (SCR). The statement in Appendix A sets out the principles under which I have carried out the valuation, and this has been shared with all parties. I 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 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.

2.7 Appendix B sets out how I have reached my conclusion on the recommended Exchequer contribution rate to be payable from 1 April 2019 in the absence of a consensus amongst the four parties.

2.8 **Cost cap valuations** The rules of both the MPs' and ministerial pension schemes contain provisions for cost capping, and require the Government Actuary to undertake cost cap valuations for both schemes. This report relates only to the funding valuation of the PCPF required under the Constitutional Reform and Governance Act 2010. It is anticipated that the cost cap valuations will be completed during 2018, with any changes taking effect from 1 April 2019.

3 Developments since the 2014 valuation

3.1 **Developments since the 2014 valuation** The main changes have been:

(i) 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 introduced new CARE benefit structures for MPs (and officeholders within IPSA's remit) with effect from 8 May 2015 (the day after the May 2015 General Election), and for Ministers with effect from 9 May 2015 (the day after the day on which Her Majesty appointed a Prime Minister following the May 2015 General Election). Full details of the new benefit structures are contained in Appendices E and F.

(ii) Prior to 6 April 2016 the Scheme was contracted out of the State Second Pension (S2P). This meant that employers and members both paid lower National Insurance contributions, and did not accrue S2P benefits. From 6 April 2016 contracting out ceased with the introduction of the new Single State Pension.

3.2 **Exchequer contributions** The recommendation following the actuarial valuation in 2014 was that the rate of contributions payable by the Exchequer should be 12.9% of pensionable salaries from 1 April 2015, and this took account of the changes to the benefit structure that took effect from May 2015. From 1 April 2014 to 31 March 2015, Exchequer contributions were paid at the previous recommended rate of 28.7% of pensionable salaries. This was lower than the rate of 29.0% recommended at the actuarial valuation in 2011 following increases to member contribution rates for Ministers in April 2013 and April 2014.

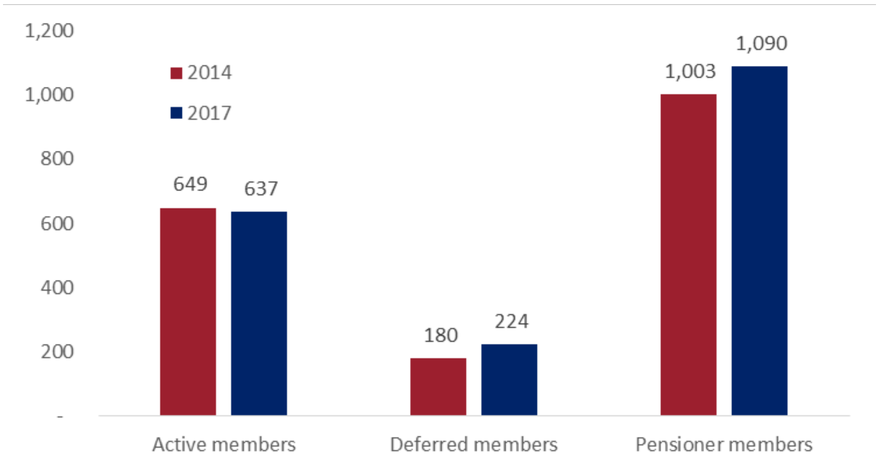
3.3 **Member contributions** Details of the members contribution rates paid are included in Appendices D to F.

4 Membership data

4.1 The data for the actuarial valuation were 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 are sufficient for the purposes on this assessment.

4.2 Figure 4.1 below summaries the membership numbers as at 1 April 2014 and 1 April 2017. Appendix G provides further details of the membership of the Scheme at the valuation date, and the changes in membership since 2014.

Figure 4.1 – Membership numbers



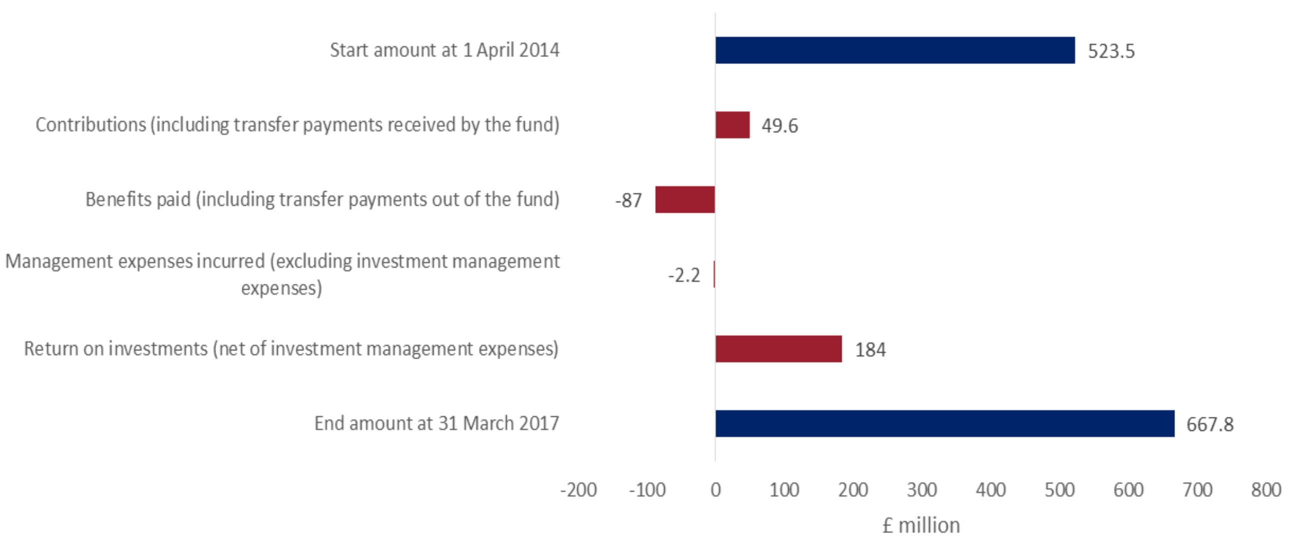
4.3 The numbers of active members include both MPs and ministers in the House of Lords. The number of active scheme members is fewer than the number of Parliamentary seats because MPs who have not taken up their seats in the House of Commons are not eligible to join the Scheme, some MPs have opted out 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 Pension schemes such as PCPF, which were 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. Such members may be counted as both active and pensioner members.

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 2014 to 31 March 2017 is summarised in Appendix H. On the basis of the market value of the investments, the Scheme's assets increased over the period by £144.3 million, from £523.5 million to £667.8 million, including members' Additional Voluntary Contributions. Figure 5.1 below shows a breakdown of the increase:

Figure 5.1 - increase in assets 2014-2017



5.2 The amount of the assets of £667.8 million shown in Appendix H include investments of £2.5m 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 £665.3 million, and are taken at market value.

5.3 **Investments** A summary of the investments held by the PCPF at 31 March 2017 is shown in table 5.2 below. This shows a majority of the investments (about 70% by market value) in equities.

Table 5.2 – investments held at 31 March 2017

Type of Asset	Market value at 31 March 2017 £000	Percentage of assets by market value (excluding AVCs)	Allocation set out in Statement of Investment Principles
Equities	468,879	70%	66%
Bonds	161,538	24%	24%
Property	54,903	8%	10%
Cash deposits	(22,582)	-3%	
Other investment balances	1,289	<1%	
Net current assets	1,310	<1%	
Total assets (excluding AVCs)	**665,337**	100%	100%

5.4 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 10.9% 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 shown in table 5.3 below.

Table 5.3 – investment returns achieved 2014-17

Period	Investment Return
1 April 2014 to 31 March 2015	+12.9%
1 April 2015 to 31 March 2016	-0.8%
1 April 2016 to 31 March 2017	+21.9%

6 Actuarial assumptions

6.1 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 in Appendix I and discussed in the following paragraphs.

6.2 **Demographic assumptions** 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 2014 valuation are described below.

6.3 **Mortality** 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.

6.4 For the 2014 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 2014 valuation was those adopted for the 2012 valuation of the NHS Pension Scheme in England & Wales (NHSPS), which were aligned to 80% of the standard S1NMA SAPS table for males, and 85% of the standard S1NFA SAPS table for females. 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') 2012-based UK population projections.

6.5 For the 2017 valuation, I have adopted the same mortality assumptions as proposed for the latest valuation of the NHSPS as at 31 March 2016. The mortality assumptions proposed for the NHSPS 2016 valuation are aligned to 83% of the standard S2NMA SAPS table for males, 85% of the standard S2NFA SAPS table for female members, and 100% of the standard S2NFA SAPS table for widows.

6.6 I have assumed future improvement in accordance with the assumptions made for the latest, 2016-based population projections of the UK. Table 6.1 below compares the life expectancy of a 65 year old pensioner using assumptions adopted for the previous PCPF valuation, and those adopted for the 2017 valuation. This shows a decrease in life expectancy as a result of the latest NHSPS mortality assumptions and the latest ONS population projections.

Table 6.1 - expectations of life at normal retirement at age 65 – current pensioners

	Valuation date	
	2014	2017
Male	25.4	24.3
Female members	27.3	25.7
Widows	27.3	24.5

Table 6.2 - expectations of life at normal retirement at age 65 – actives and deferreds currently age 50

	Valuation date	
	2014	2017
Male	27.1	25.8
Female members	29.0	27.2
Widows	29.0	25.9

6.7 **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. For the 2017 valuation I have taken account of the turnover of members at the June 2017 General Election, and have assumed that subsequent General Elections will take place every five years, with the next election after June 2017 taking place in May 2022.

6.8 **Career patterns** I have adopted the same assumptions as for the previous valuation. Appendix I contains full details of the assumptions adopted.

6.9 **State Pension Age** Under the CARE benefit structures, Normal Retirement Age is to be linked to State Pension Age. I have adopted the assumptions for State Pension Age as set out The Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014 issued by HM Treasury[1].

6.10 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.

[1] https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations-and-the-employer-cost-cap-mechanism

6.11 **Commutation** Under the final salary 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 CARE 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).

6.12 Because the CARE terms are not cost neutral, I 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 CARE benefit structure for a lump sum, as set out in HM Treasury's Directions referred to above.

6.13 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.

6.14 **Financial assumptions** For the valuation, the liabilities which comprise the future outgo on benefits and expenses, known as Technical Provisions, need to be compared with the value of the Scheme's assets. In order to compare the value of these items, the technical provisions 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.

6.15 The main financial assumptions adopted for the current and previous valuations are set out in table 6.3 below.

Table 6.3 – financial assumptions

	1 April 2014	1 April 2017
Gross rate of return (or discount rate)	5.8%	4.65%
Earnings increases	4.25%	4.1%
Price/pension increases (CPI)	2.25%	2.1%
Real rate of return, net of earnings increases	1.5%	0.5%
Real rate of return, net of price/pension increases	3.5%	2.5%

6.16 **Discount rate** The discount rate is the interest rate that is used to place a current value on future cashflows out of the Scheme. The discount rate is based on the assumed returns expected from the PCPF's investments. On this basis, the 2014 valuation used a discount rate of 3½% a year (in excess of CPI).

6.17 Table 6.4 below shows the strategic investment benchmark for the fund as set out in the fund's latest Statement of Investment Principles dated January 2017, together with the return in excess of CPI that would be expected to be achieved on those asset classes as at the current and previous valuation dates. These represent GAD's view of the best estimate returns on the different asset classes invested in by the Scheme at the valuation date.

Table 6.4 - Strategic investment benchmark for the fund

Asset class	Total fund benchmark	Expected return in excess of CPI at 1 April 2014	Expected return in excess of CPI at 1 April 2017
Equities	66%	4.5%	3.75%
Property	10%	3.5%	2.75%
Bonds	24%	1.05%*	-0.55% *

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

6.18 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 6.24.

6.19 Over the inter-valuation period, interest rates have fallen to historically low levels, with the yield on Government bonds falling by over 1½% pa, and so the expected return to be achieved by investment in bonds has also fallen by over 1½% pa.

6.20 The expected returns on equities and property have fallen by ¾% pa. Equity returns have been high during the inter-valuation period, however with the yield on Government bonds falling, and equity prices being currently at very high levels, the expected future return on equities (and property) has fallen over the inter-valuation period.

6.21 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 2½% a year in excess of CPI. An assumption of 2½% a year above CPI is an appropriate best estimate assumption for the PCPF as at 1 April 2017. This is also consistent with the approach adopted to setting the financial assumptions for the previous valuation.

6.22 **Price inflation** The Scheme provides benefits linked to Consumer Prices Index (CPI) inflation. However, there is no significant market in CPI linked securities from which to derive an assumption for CPI. It is therefore necessary to estimate future CPI inflation by deriving an assumption for Retail Price Index (RPI) inflation and to consider the expected gap between RPI and CPI.

6.23 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 2017, the difference in yields, over a period consistent with the duration of the PCPF liabilities, was 3.25% per annum. Therefore, our best estimate of future RPI inflation as at 1 April 2017 is 3.25% per annum.

6.24 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 3.25% per annum, this makes the CPI assumption 2.1% per annum.

6.25 **Pension increases** Pension increases on pensions in payment and in the deferred period, and revaluation of CARE benefits whilst members are in active service, are generally in line with increases to the Consumer Prices Index. Hence, this assumption is taken to be 2.1% 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.

6.26 **Nominal investment return** The combination of a return in excess of CPI of 2.5% and CPI inflation of 2.1% produces a nominal rate of investment return of 4.6% pa.

6.27 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 with final salary benefits remain active members) and CPI inflation (once a member has left service and for CARE benefits), 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.

6.28 **Pay increases** The benefits accruing under the final salary benefit structure 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, which is the same assumption as adopted for the 2014 valuation.

6.29 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.

6.30 **Expenses** Administration expenses incurred by the Scheme during the three-year inter-valuation period were around £2.2 million, excluding investment management costs. Administration expenses have increased from £1.7 million over the previous period, however the increase was largely due to higher expenses in 2014/15 in the lead up to the CARE benefit structures being introduced in May 2015, before reducing the following year. A capital reserve of £9.0 million was set aside at the 2014 valuation to meet expenses expected to arise in future, and I have retained this reserve for the current valuation. The costs of investment management are implicitly taken into account in determining the rate of return on investments assumed for this valuation.

7 Valuation result – Funding level

7.1 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 *Technical Provisions*), and the results for this aspect are set out at paragraph 7.2 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 8.

7.2 **Past service assessment** The technical provisions and the assets of the Scheme have been determined on the methodology set out in Appendix C of this report, using the actuarial assumptions described in section 6 and Appendix I. The results of the valuation in relation to the technical provisions are set out below:

Table 7.1 - valuation statement as at 1 April 2017 – past service

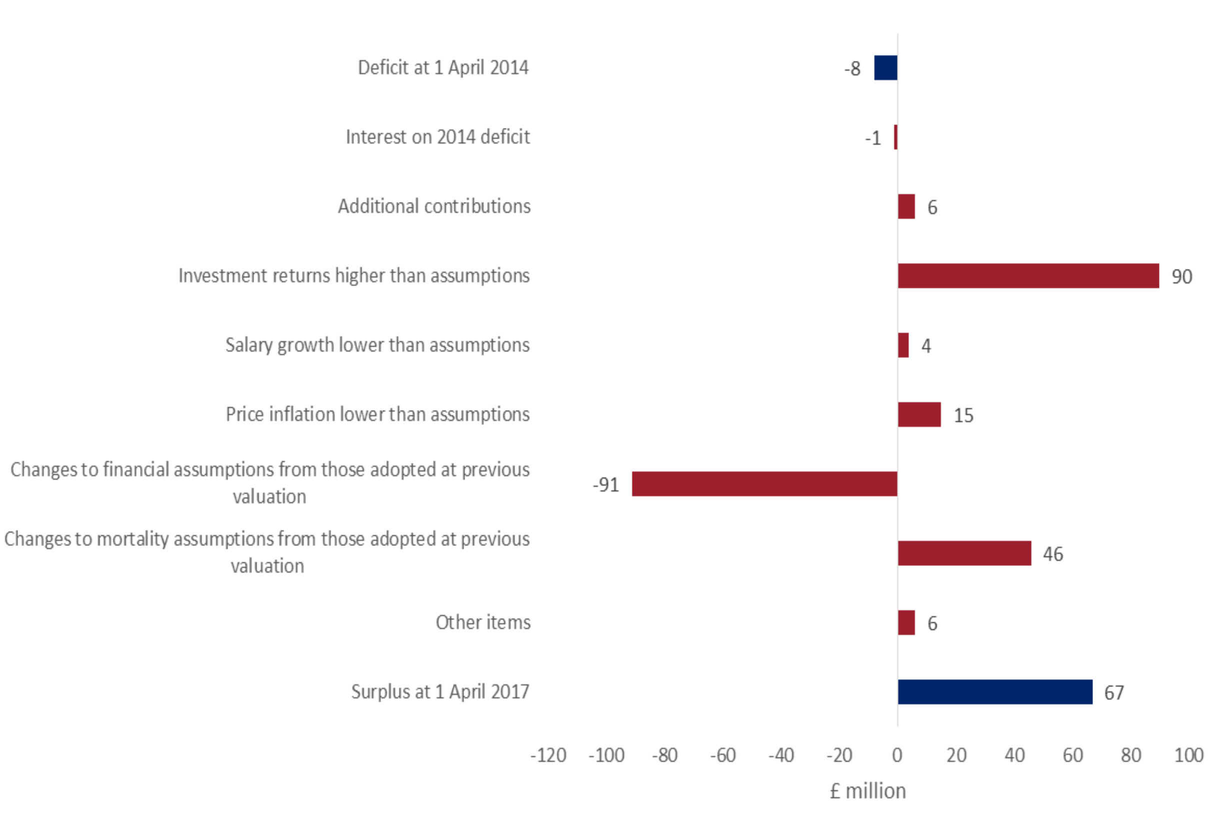
		Value at 1 April 2017 *(£ million)*
	Technical Provisions	
	Current members – service up to 1 April 2017:	
(1)	(a) Members of Parliament	158.0
(2)	(b) Office holders	8.0
	Members with deferred benefits: *	
(3)	(a) Former members	91.7
(4)	(b) Former office holders who are still MPs	7.3
	Pensions in payment: *	
(5)	(a) Pensioners	271.4
(6)	(b) Surviving dependants of former members	52.6
(7)	**Total liabilities for benefits = (1) to (6)**	589.1
(8)	Reserve for administration expenses	9.0
(9)	**Technical provisions = (7) + (8)**	**598.1**
(10)	**Value of assets**	**665.3**
(11)	**Excess of assets to technical provisions = (10) – (9)**	**67.2**
	Funding Level	
(12)	**Ratio of assets to technical provisions = (10) / (9)**	**111.2%**

* Including members who left at the June 2017 General Election

7.3 The figures in the Valuation Statement show that the Scheme has a relatively mature liability profile. The technical provisions of current members, at around £166.0 million (rows (1) and (2) above), is significantly smaller than the technical provisions in respect of former members and dependants in receipt of pension at £324.0 million (total of rows (5) and (6) above). The aggregate technical provisions of current members is now 28% of the total technical provisions, whereas 72% relates to former MPs and office holders, including deferred members, (55% pensioners and 17% deferreds). The liability profile is expected to continue to mature due to the lower value of benefits that members are now accruing in the future under the CARE benefit structures.

7.4 **Analysis of surplus** The result of the valuation shows a change over the three-year period to the valuation date from a deficit of £7.6 million to a surplus £67.2 million. The key factors influencing the change in the deficit are shown in figure 7.2 below in cash terms.

Figure 7.2 - summary of change in surplus 2014-2017



8 Valuation result – Contribution requirement

8.1 **Future service assessment** The cost of benefits accruing for future service is assessed by means of the *Standard Contribution Rate*, as described at paragraph C.6 in Appendix C of this report. The *Standard Contribution Rate* calculated on the actuarial assumptions set out in section 6 and Appendix I of this report and using the membership allowing for changes at the June 2017 General Election is 27.4% for MPs, officeholders within IPSA's remit and Ministers combined.

8.2 Contributions are payable by members at the rate set out in Appendices D to F, and as shown in table 8.1 below.

Table 8.1 – member contributions payable

Category *	Protection status	Accrual rate option	Member contribution rate
MP	unprotected	n/a	11.09%
Minister	n/a	n/a	11.1%
MP	protected	1/40th	13.75%
MP	protected	1/50th	9.25%
MP	protected	1/60th	7.25%

* MP includes officeholders under IPSA's remit.

8.3 Protected members whose pensions have reached the limit of two-thirds of final salary pay no contributions. Members' contributions are expected to average 10.6% of the Scheme's total pensionable payroll from April 2018 to March 2021.

8.4 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 16.8% of pensionable salaries (being 27.4% less 10.6%).

8.5 For this valuation the Standard Contribution Rate has been assessed assuming members are the age they will be around the mid-point of the 2017 to 2022 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 Standard Contribution rate is expected to decrease over the next few years as protected members, who are still accruing final salary benefits, retire and are replaced by members accruing CARE benefits.

8.6 **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.

8.7 As shown in the Valuation Statement at paragraph 7.2, there is a surplus of assets to technical provisions of £67.2 million. It is therefore possible for the Exchequer contribution rate to be set at a lower level than the Standard Contribution Rate in order to remove some of the surplus in the scheme.

8.8 Having consulted with the four parties to whom the report is addressed on whether to use the surplus, and if so how much, to reduce the Standard Contribution Rate, there was no consensus amongst the parties. Taking the views of the four parties into account, I have determined that just under half of the surplus should be used to reduce the Exchequer contribution rate over a 15-year period. This results in a reduction of 3.9% to the Exchequer's share of the cost for 15 years, with my reasons set out in Appendix B

8.9 Taking account of the Exchequer share of future service costs (16.8% of pay) and of the reduction to contributions to remove just under half the surplus (3.9% of pay), I recommend that the rate of Exchequer contribution to be paid from 1 April 2018 until 31 March 2021 should continue to be 12.9% of pensionable salaries in respect of MPs' and officeholders' benefits.

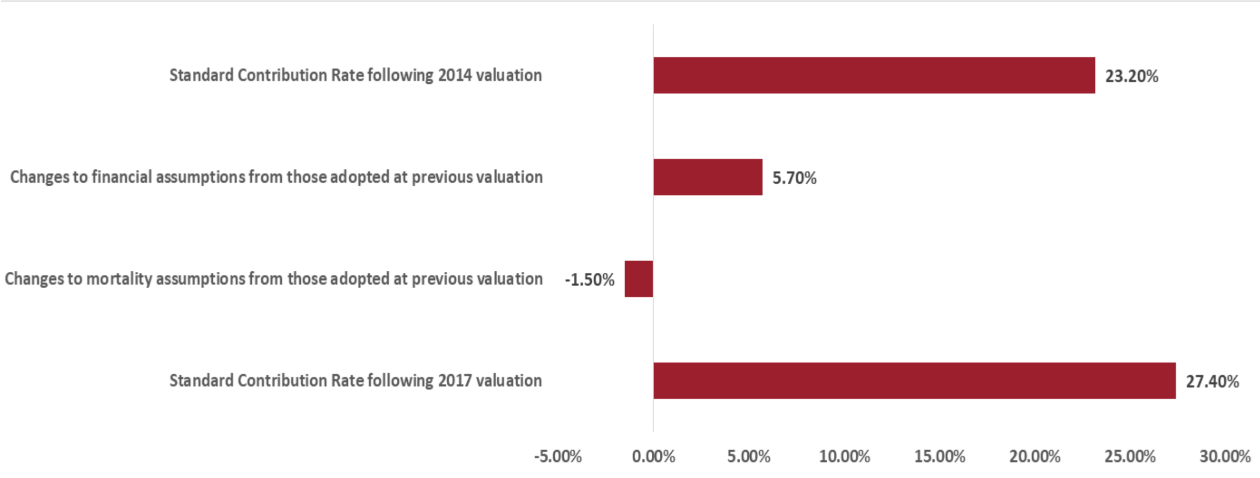
8.10 These rates, and the comparable rates at the previous valuation are shown in table 8.2 below.

Table 8.2 – contribution rates at 2014 and 2017 valuations

	1 April 2014 (%)	1 April 2017 (%)
Standard Contribution Rate	23.2	27.4
Average member contribution rate	11.5	10.6
Exchequer's share of the Standard Contribution Rate	11.7	16.8
Deficit (surplus) Contributions	1.2	(3.9)
Recommended Exchequer contribution after deficit (surplus) contributions	12.9	12.9

8.11 **Analysis of change in Standard Contribution Rate** Table 8.3 below summarises the main factors that account for the change to the Standard Contribution Rate. The standard contribution rate calculated at the 2014 valuation took account of the benefit changes made in May 2015.

Table 8.3 - change to Standard Contribution Rate (% of salary)



8.12 **Sensitivity** I have considered how sensitive the results are to changes in the assumptions, and to the Scheme experience differing from the assumptions. Table 8.4 below illustrates the sensitivity of the technical provisions and contribution rate as at 1 April 2017 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.)

8.13 **Investment return** For the purposes of the valuation I have assumed that the Scheme's investments will produce returns of 2.5% 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 table 8.4 below.

8.14 **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 table 8.4 below.

8.15 **Longevity** The assumptions made for longevity are described in paragraph 6.3 to 6.6 of the report and further details can be found in Appendix I. The sensitivity of the valuation result to a change in the longevity assumptions of around one year is illustrated in table 8.4 below.

Table 8.4 – sensitivities to main valuation assumptions

Assumption	Adjustment made	Surplus at 1 April 2017	Exchequer share of standard contribution rate
Valuation assumptions adopted	n/a	£67m	16.8%
Investment returns net of price inflation	+0.5% -0.5%	£110m £19m	14.0% 20.0%
Salary growth	+0.5% -0.5%	£61m £73m	17.0% 16.5%
Longevity	1 year more 1 year less	£52m £83m	17.3% 16.2%

8.16 **Sensitivity to market value changes** We have considered how the valuation results may look as at 1 April 2020, on three scenarios of investment performance in the inter-valuation period:

- Investment return of +50% from 31 March 2017 to 31 March 2020
- Investment return in line with the valuation assumptions (4.6% pa)
- Investment return of -20% from 31 March 2017 to 31 March 2020.

8.17 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 2020. These are shown in table 8.5 below.

Table 8.5 – sensitivity to result of 2020 valuation

Return in inter-valuation period	Assets up by 50%			Markets in line with assumptions			Assets fall by 20%		
Net discount rate	**3%**	**2.5%***	**2%**	**3%**	**2.5%***	**2%**	**3%**	**2.5%***	**2%**
Surplus (Deficit) (£m)	340	295	245	125	65	5	(110)	(155)	(205)
Exchequer share of Standard Contribution Rate	14%	17%	20%	14%	17%	20%	14%	17%	20%
Deficit Contribution Rate	-	-	-	-	-	-	13%	19%	25%

*This is the valuation assumption

8.18 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 2017 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 2018 to 31 March 2020

> Any deficit as at the 1 April 2020 valuation is assumed to be amortised over a period of 15 years

> We have not attempted to carry out a full valuation of the Scheme as at 1 April 2020, rather we have rolled forward the results as at 1 April 2017 in an approximate manner.

9 Recommendation

9.1 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 2017, 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 9.2 below.

9.2 I recommend that the Exchequer's contributions payable from 1 April 2018 should be at the rate of **12.9% of pensionable pay**, adjusted to take account of any change to member contributions and/or benefits which IPSA or the Minister for the Civil Service announces as a result of the cost cap valuations of the MPs' and ministerial; pension schemes. The reasons for making this recommendation, having consulted with all parties, are set out in Appendix B.

Martin Clarke FIA **8 March 2018**
Government Actuary

Appendix A: Principles under which valuation has been undertaken

A.1 **Actuarial Valuation at 1 April 2017** 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 2017 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 statement sets out the principles that have been agreed to by all four parties.

A.2 **Status of PCPF** 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.

A.3 **Requirements of legislation** 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.

A.4 **Frequency of valuations** 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 2020.

A.5 **Consultation** 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.

A.6 **Nature of scheme** The benefits provided to MPs and Officeholders are described in detail in the Scheme rules, which also specify the 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.

A.7 **Exchequer guarantee** 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 can take a long-term approach to investment.

A.8 **Funding objectives - Principal objective** 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.

A.9 **Funding objectives - Subsidiary objective** 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.

A.10 **Changes from May 2015** Revised benefit structures came into force from May 2015 for both MPs and ministers, and these 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.

A.11 **Funding strategy** 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, known as technical provisions. The assessment of the technical provisions will be determined using actuarial assumptions which reflect the best estimate of future investment returns and other financial factors affecting the calculation of the technical provisions, 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.

A.13 **Allowance for post-valuation events** In relation to any valuation, there is always a time delay between the effective date of the valuation and the date the report on the valuation is signed. In view of the Exchequer guarantee and in line with the approach taken at the last valuation it is envisaged that post-valuation events will generally be ignored. However, if there are major changes in expectations such as legislative developments or changes in the Scheme's coverage these would likely be allowed for.

A.14 A General Election was held in June 2017, just over two months after the valuation date, and allowance has been made for the actual turnover of members at that election.

A.15 **Investment strategy** 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.16 The investment strategy is set out in some detail in the Statement of Investment Principles (SIP) dated January 2017. The long-term strategic benchmark asset allocation set out in that Statement is summarised in table A1 below, along with the actual allocation of assets at the valuation date.

Table A1 - strategic asset distribution (SIP of January 2017)

Type of Asset	Percentage of assets by market value (excluding AVCs)	Allocation set out in Statement of Investment Principles
Equities	70%	66%
Bonds	24%	24%
Property	8%	10%
Cash deposits	-3%	-
Other investment balances	<1%	-
Net current assets	<1%	-

A.17 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 calculating the technical provisions. This is the same approach as for the previous three 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.)

A.18 **Period over which contributions are adjusted to meet funding objectives** 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 technical provisions. This valuation shows a surplus in the scheme, however there was no consensus amongst the four parties to whom the valuation report is addressed on whether to use the surplus, and if so how much, to reduce the Standard Contribution Rate. Details of how I came to my conclusion are set out in Appendix B.

A.19 **Valuation assumptions** 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.

A.20 **Position of the members** 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: Determination of Exchequer contribution rate

B.1 Paragraph 10 of Schedule 6 of the Constitutional Reform and Governance (CRaG) 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;

(a) the general financial position of the Fund and

(b) 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.

B.2 Under the CRaG Act, there is a provision for a lower Exchequer contribution rate to be paid than that recommended by the Government Actuary if consent is given by all of HM 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 HM Treasury and the Minister for the Civil Service.

B.3 As I have consulted all four parties on the approach to be taking in undertaking the valuation, and on whether any, and if so how much, of the surplus should be used to reduce the Exchequer contribution rate from the full share of the Standard Contribution Rate. A summary of views received is provided in table B1 below.

Table B1 – summary of consultation responses

Stakeholder	Views
PCPF Trustees	The surplus should be retained in the fund as protection against uncertainty in future investment markets, to reduce the chance of deficits emerging in future and so fewer assets would need to be sold to meet benefit payments. It was understood that this would increase immediate costs to HM Government.
HM Treasury	Limit the cost to the Exchequer within the spirit of the (previous) funding principles consensus statement that sought to treat the surplus or deficit in a symmetrical way. Use the surplus to reduce the otherwise increased costs.
IPSA	Attracted to surplus retention whilst reducing the impact on costs for HM Treasury through adjustments to the valuation basis, accepting that this might reduce the surplus if investment returns were less than expected in the future.
Cabinet Office (on behalf of the Minister for the Civil Service)	Support the surplus being used to reduce the Exchequer contribution rate over the 15-year spreading period (the period that was previously used to make up deficits in the scheme). Understand the argument for retaining the surplus within the scheme, but believe that their preferred option would best support the general principle that Government funds are best retained in the Consolidated Fund rather than exposed to investment risk.

B.4 As there is no consensus amongst the four parties on the use of surplus, I have accordingly had to make my own recommendation on Exchequer contribution rate, taking account of the views of the four parties.

B.5 Based on the level of surplus disclosed within the fund, four possible options for the Exchequer contribution rate include:-

Option	Use of surplus	Exchequer contribution rate	Amount of surplus used	Surplus retained in fund
(a)	All surplus retained in fund	16.8%	£0m	£67m
(b)	Continue to pay current contribution rate for 15 years	12.9% for 15 years *	£31m	£36m
(c)	All surplus spread over 35 years	12.9% for 35 years *	£67m	£0m
(d)	All surplus spread over 15 years	8.3% for 15 years *	£67m	£0m

* Assuming that future conditions are in line with expectations the rate would revert to 16.8% at the conclusion of the spreading period.

B.6 Option (a) would align with the Trustees' wishes, in that all of the surplus would be retained in the fund. Option (d) would align with the wishes of HM Treasury and Cabinet Office, in that all of the surplus would be used up over a 15 year period, consistent with the period used to amortise previous deficits in the fund.

B.7 The option I have decided upon is option (b), which provides an outcome somewhere between those in options (a) and (d). This approach:-

(i) Avoids any increase, for the immediate future, in the Exchequer contribution rate, thus achieving a good measure of stability in the rate;

(ii) Allocates some, but not all, of the surplus, leaving just over half remaining in the fund as immediate protection against adverse experience during a period of increased uncertainty;

(iii) Spreads that allocated surplus over a period of 15 years, the same spreading period as for previous deficits in the scheme, thus maintaining some symmetry in approach.

Appendix C: Funding objective and valuation method

C.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 statement setting out the principles on which the valuation is undertaken is attached as Appendix A.

C.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.

C.3 **Valuation method** For this valuation, I have retained the same valuation method as was adopted for the previous valuation as at 1 April 2014. 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 on final salary benefits. Under this method, the value of the assets held in the fund is compared directly to the 'Technical Provisions' which are the value of pension liabilities accrued in respect of service prior to the valuation date as below.

C.4 **Technical provisions** Under the Projected Unit Method, the *Technical Provisions* are 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. The technical provisions include the value of any pension rights transferred into the PCPF from other pension arrangements. The technical provisions 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, for final salary benefits and price inflation for CARE benefits, 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.

C.5 In addition to the technical provisions 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 these *Technical Provisions*.

C.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 allowance has been made for the turnover of the membership at the June 2017 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.

C.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 effect of the membership ageing during a parliamentary term is allowed for, and members are valued at the age they will be at the mid-point for the parliamentary term starting in June 2017.

C.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 Technical Provisions. 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).

C.9 **Office holders** Office holders 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 *Technical Provisions* are 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 the age they will be at the mid-point of the Parliamentary term starting in June 2017. 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.

C.10 **Solvency** 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.

Appendix D: Summary of the main provisions of the Scheme as at 1 April 2017 for protected members

D.1 Serving Members of Parliament age 55 or above on 1 April 2013 continue to accrue final salary benefits as described in this section. Members aged 51½ to 55 on 1 April 2013 were given an option to continue to accrue final salary benefits for a period of time, as set out under the rules of the MPs' scheme. Non protected members accrue benefits as set out in Appendix E.

D.2 Member contributions payable are as shown in table D1 below:

Table D1 – member contribution rates payable

Accrual rate	1/40th	1/50th	1/60th
Contribution rate payable	13.75%	9.75%	7.75%

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

D.4 Members have a choice to pay contributions at one of three different rates, as shown in paragraph D.2 and to accrue pension at the rate of 1/40th, 1/50th or 1/60th of final pensionable salary respectively per year of reckonable service. Serving members who have reached the limits for maximum benefit accrual in the Scheme do not pay contributions.

D.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.

D.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.

D.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.

D.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.

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

Appendix E: Summary of the main provisions of the Scheme for MPs and officeholders within IPSA's remit (non protected members)

E.1 All serving Members of Parliament and officeholders within IPSA's remit who are not entitled to transitional or tapered protection accrue benefits as described below.

E.2 Member contributions are payable at a rate of 11.09% of pay.

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

E.4 Members accrue pension on a Career Average Revalued Earnings (CARE) basis at the rate of 1/51st of pensionable salary.

E.5 Pensions are revalued in line with CPI whilst an active member.

E.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.

E.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.

E.8 Members may, on retirement, commute part of their pension for a lump at a rate of 12:1.

E.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.

E.10 Pensions and deferred pensions are increased annually in line with CPI.

Appendix F: Summary of the main provisions of the Scheme for Ministers

F.1 All Ministers accrue benefits as described below.

F.2 Member contributions are payable at a rate of 11.1% of pay.

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

F.4 Members accrue pension on a Career Average Revalued Earnings (CARE) basis at the rate of 1.775% of pensionable salary.

F.5 Pensions are revalued in line with CPI whilst an active member.

F.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.

F.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.

F.8 Members may, on retirement, commute part of their pension for a lump at a rate of 12:1.

F.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.

F.10 Pensions and deferred pensions are increased annually in line with CPI.

Appendix G: Membership at 1 April 2017

Table G1 – Summary of membership as at 1 April 2017

Category	Number of members	Average age	Total pension (pa)	Average pension (pa)	Total salary (pa)
Active MPs	624	51.6	£11.9m	£19,000	£47.4m
Active officeholders	168	54.3	£0.6m	£3,300	£5.4m
Deferred officeholders who are still MPs	99	57.3	£0.5m	£4,800	-
Deferreds	224	55.2	£4.5m	£19,800	-
Pensioners	760	74.0	£17.7m	£23,300	-
Dependents	313	78.9	£4.8m	£15,200	-
Actives in receipt of GMP	17	75.3	£0.1m	£5,100	-

Some members appear in more than one category

Table G2 – Summary of benefits held by active MPs

Number of MPs participating in PCPF at 1 April 2017	624
Number of MPs with full protection	144
Number of MPs with tapered protection	52
Number of MPs with final salary and CARE benefits	246
Number of MPs with CARE benefits only	182

Table G3 – Movement of active members 2014-17

Number of active members participating in PCPF at 1 April 2014	**649**
New members 2014-2017:	
New entrants	199
Rejoiners	4
Members leaving active status 2014-2017:	
Leaving with deferred entitlement	113
Retirements	86
Deaths	4
Transfer-out	3
Opted out	7
Closed records	2
Number of MPs participating in PCPF at 1 April 2017	**637**

Table G4 – Movement of deferred members 2014-17

Number of deferred members at 1 April 2014	**180**
Members joining category 2014-2017:	
Members leaving active membership	113
Members leaving deferred status 2014-2017:	
Retirements	64
Deaths	2
Rejoiners	3
Number of deferred members at 1 April 2017	**224**

Table G5 – Movement of pensioners 2014-17

Number of pensioners at 1 April 2014	**1,003**
New pensioners 2014-2017:	
Retirements	153
New dependants	54
Pensions ceasing 2014-2017:	
Pensioner deaths	70
Dependant death	35
Closed	15
Number of pensioners at 1 April 2017	**1,090**

Appendix H: Consolidated revenue account for the period 1 April 2014 to 31 March 2017

Table H1 – consolidated revenue account

	£'000	£'000
Fund at 1 April 2014		**523,497**
Income		
Contributions:		
MPs' and office holders' ordinary contributions	16,966	
Members' contributions for the purchase of AVCs, added years, added pension and other member options	1,080	
Exchequer contributions	26,870	
Transfer values received	4,624	
Miscellaneous	15	
Interest income from investments	24,295	
Realised and unrealised net gains on investments	164,575	
Total income		**238,425**
Expenditure		
Benefits payable:		
Pensions	64,224	
Lump sums paid on retirement	16,444	
Death gratuities	625	
Transfer values paid	5,652	
AVC annuity purchase	44	
Management expenses (excluding investment management expenses)	2,204	
Investment management expenses	4,887	
Total expenditure		**94,080**
Fund at 31 March 2017		**667,842**

Appendix I: Assumptions

Demographic assumptions

Table I1 – mortality assumptions adopted for 2017 valuation

Members	Mortality table
Males (retirements in normal health and dependants)	83% of S2NMA SAPS (normal health males amounts) U=2017
Females (retirements in normal health)	85% of S2NFA SAPS (normal health females amounts) U=2017
Female dependants	100% of S2NFA SAPS (normal health females amounts) U=2017
Male (ill-health pensioners)	83% of S2IMA SAPS (ill-health males amounts) U=2017
Females (ill-health pensioners)	85% of S2IFA SAPS (ill-health females amounts) U=2017

Note: The SAPS S2 mortality tables 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.

I.1 The tables used are the published S2NA tables with future improvements broadly in line with population improvements to 2016 and in line with the 2016-based principal population projections thereafter.

I.2 **Parliamentary terms** Allowance has been made for turnover at the June 2017 General Election. Subsequent General Elections are assumed to take place every five years, with the next election after June 2017 taking place in May 2022.

I.3 **Career Patterns** Turnover assumptions 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 are shown in table I2 below.

Table I2 – Turnover assumptions for protected members

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

I.4 Turnover assumptions 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 are shown in table I3 below.

Table I3 – Turnover assumptions for unprotected members

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

Table I4 - Assumed age at leaving Parliament under assumptions above

Age at valuation date	Average expected age of leaving Parliament (having been re-elected in June 2017)
40	56
50	62
60	66
70	75

I.5 **Commutation** 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 CARE benefit structure, it is assumed that members will commute 15% of their pension for a lump sum.

I.6 **State Pension Age** State Pension Age is assumed to be as set out in The Public Service Pensions (Valuation and Employer Cost Cap) Directions 2014 issued by HM Treasury.

I.7 **Marital statistics** Up to age 60, all members are assumed to be married or have a civil partner or qualifying partner. Thereafter, the proportion of members with a spouse or partner reduces in line with the mortality of the spouse or partner. Male members are assumed to be three years older than their spouse or partner; female members are assumed to be three years younger than their spouse or partner.

I.8 **Financial assumptions** The financial assumptions adopted for the current and previous valuations are set out in table I5 below.

Table I5 – financial assumptions adopted for 2014 and 2017 valuations

	1 April 2014	1 April 2017
Gross rate of return	5.8%	4.6%
Earnings increases	4.25%	4.1%
Price/pension increases (CPI)	2.25%	2.1%
Real rate of return, net of earnings increases	1.5%	0.5%
Real rate of return, net of price/pension increases	3.5%	2.5%